THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this prospectus or as to the action to be taken, you should consult your stockbroker or other registered securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

A copy of each of the Rights Issue Documents, together with the document specified in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix IV to this prospectus, has been registered by the Registrar of Companies in Hong Kong pursuant to section 342C of the Companies Ordinance. A copy of each of the Rights Issue Documents will be filed with the Registrar of Companies in Bermuda in compliance with the Companies Act. The SFC, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of any of the documents referred to above.

Dealings in the Shares and the Rights Shares in their nil-paid form and fully-paid form may be settled through CCASS and you should consult your stockbroker or other registered securities dealer, bank manger, solicitor, professional accountants or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

Hong Kong Exchanges and Clearing Limited, the Stock Exchange and HKSCC take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

CHAMPION TECHNOLOGY HOLDINGS LIMITED

(Continued in Bermuda with limited liability)

(Stock Code : 92)

RIGHTS ISSUE OF 1,990,826,245 RIGHTS SHARES AT HK$0.1 EACH ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY EXISTING SHARE HELD ON THE RECORD DATE

Financial adviser to Champion Technology Holdings Limited

Quam Financial Services Group **Quam Capital Limited**

The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Wednesday, 10 June 2009. The procedures for acceptance and transfer of the Rights Shares are set out in the paragraph headed "Procedure for acceptance and payment or transfer" on pages 9 to 10 of this prospectus.

The Shares have been dealt in on an ex-rights basis since Monday, 18 May 2009. Dealings in the Rights Shares in their nil-paid form are expected to take place from Friday, 29 May 2009 to Friday, 5 June 2009 (both days inclusive). It is expected that the conditions referred to in the section headed "Conditions of the Rights Issue" in this prospectus are to be fulfilled on or before 5:00 p.m. on Monday, 15 June 2009. If the conditions referred to in that section are not fulfilled or the Underwriting Agreement has been terminated in accordance with the terms thereof, the Rights Issue will not proceed. Any person contemplating buying or selling Shares from the date of this prospectus up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Friday, 29 May 2009 and Friday, 5 June 2009 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any persons contemplating dealing in the Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its/their own professional adviser.

Lawnside may rescind the Underwriting Agreement by notice in writing given to the Company on or before the Latest Time for Termination if:

(1) there develops, occurs or comes into force:

(a) any new law or government regulation or other occurrence of any nature whatsoever which in the absolute opinion of Lawnside adversely affects or may adversely affect the business of the Group or any part thereof to a material extent or is materially adverse in the context of the Rights Issue; or

(b) any change in local, national, international, financial, political or economic conditions which in the absolute opinion of Lawnside is materially adverse in the context of the Rights Issue; or

(c) any adverse change in market conditions which in the absolute opinion of Lawnside materially prejudicially affects the Rights Issue and makes it inadvisable or inexpedient to proceed therewith, or

(2) there comes to the notice of Lawnside any matter or event showing any of the representations and warranties contained in the Underwriting Agreement to be untrue or inaccurate in any respect which Lawnside considers to be material.

Upon the delivery of the notice of termination, all obligations of Lawnside under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to Lawnside the expenses in connection with the Rights Issue. If Lawnside exercises such right, the Rights Issue will not proceed.

26 May 2009

CONTENTS

	2009
First day of dealings in nil-paid Rights Shares	Friday, 29 May
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on Tuesday, 2 June
Last day of dealings in nil-paid Rights Shares	Friday, 5 June
Latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares	4:00 p.m. on Wednesday, 10 June
Latest time for the Rights Issue to become unconditional on or before	5:00 p.m. on Monday, 15 June
Announcement of results of acceptance of and excess applications for the Rights Issue	By 7:00 p.m. on Monday, 15 June
Despatch of refund cheques in respect of unsuccessful or partially unsuccessful excess applications for excess Rights Shares on or before	Tuesday, 16 June
Despatch of certificates for fully-paid Rights Shares on or before	Tuesday, 16 June
Commencement of dealings in fully-paid Rights Shares	Thursday, 18 June

All references to times and dates in this prospectus are references to Hong Kong local times and dates.

Dates or deadlines specified herein may be varied or extended by the Company and Lawnside and are therefore tentative and indicative only. Further announcement(s) will be made by the Company on any changes to the above expected timetable, if and when appropriate.

Note: The latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take effect if there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning:

(1) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; or

(2) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares does not take effect on the Acceptance Date, the dates mentioned above may be affected. An announcement will be made by the Company in such event as soon as practicable.

In this prospectus, unless the context requires otherwise, the following expressions have the following meanings:

"Acceptance Date"	10 June 2009, being the last day for acceptance of and payment for the Rights Shares, or such other date as the Company and Lawnside may agree in writing
"Announcement"	the announcement of the Company dated 17 April 2009 in relation to the Rights Issue and the Whitewash Waiver
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturdays) on which banks are generally open for business in Hong Kong
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Act"	the Companies Act 1981 of Bermuda
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Company"	Champion Technology Holdings Limited, a company continued in Bermuda with limited liability and whose securities are listed on the Main Board of the Stock Exchange
"DHK"	DIGITALHONGKONG.COM, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Growth Enterprise Market of the Stock Exchange
"Director(s)"	director(s) of the Company
"EAF(s)"	the form(s) of application for excess Rights Shares
"Excluded Shareholder(s)"	Overseas Shareholder(s) whom the Directors, after making enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges, consider necessary or expedient to be excluded from the Rights Issue
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Shareholders"	Shareholders other than (i) Lawnside, its associates and parties acting in concert with it; and (ii) those (if any) involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver
"Irrevocable Undertaking"	the irrevocable undertaking in the Underwriting Agreement given by Lawnside in favour of the Company
"Kantone"	Kantone Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange
"Last Trading Day"	15 April 2009, being the last trading day of the Shares prior to the release of the Announcement
"Latest Practicable Date"	22 May 2009, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion herein
"Latest Time for Termination"	5:00 p.m. on 15 June 2009, the Business Day immediately prior to the date of despatch of certificates for fully-paid Rights Shares
"Lawnside"	Lawnside International Limited, a company incorporated in the British Virgin Islands and beneficially wholly owned by Mr. Kan
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Kan"	Mr. Paul Kan Man Lok, the Chairman and an executive director of each of the Company, Kantone and DHK
"Outstanding Convertible Bond"	outstanding convertible redeemable bond in the principal amount of HK$188,553,096.27 issued by the Company to Lawnside
"Overseas Shareholder(s)"	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong

"PAL(s)"	the provisional allotment letter(s) for the Rights Shares
"PRC"	the People's Republic of China
"Qualifying Shareholder(s)"	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date, other than the Excluded Shareholders
"Record Date"	22 May 2009, the record date to determine entitlements under the Rights Issue
"Registrar"	Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
"Rights Issue"	the issue of 1,990,826,245 Rights Shares at the Subscription Price on the basis of one Rights Share for every existing Share held on the Record Date payable in full on acceptance
"Rights Issue Documents"	this prospectus, the PAL and the EAF
"Rights Share(s)"	new Share(s) to be allotted and issued under the Rights Issue
"SFC"	the Securities and Futures Commission
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company at which a resolution was duly passed by the Independent Shareholders approving the Rights Issue and the Whitewash Waiver
"Share(s)"	ordinary share(s) of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of HK$0.1 per Rights Share
"Takeovers Code"	the Code on Takeovers and Mergers
"UK"	United Kingdom of Great Britain and Northern Ireland
"Underwriting Agreement"	the underwriting agreement dated 16 April 2009 entered into between the Company and Lawnside in relation to the Rights Issue

"Underwritten Shares"	being 1,469,903,337 Rights Shares
"Whitewash Waiver"	a waiver granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of Lawnside to make a general offer for all the issued Shares not already owned or agreed to be acquired by Lawnside and parties acting in concert with it which may otherwise arise as a result of the subscription of the Rights Shares by Lawnside pursuant to the Underwriting Agreement
"%"	per cent

TERMINATION OF THE UNDERWRITING AGREEMENT

Lawnside may rescind the Underwriting Agreement by notice in writing given to the Company on or before the Latest Time for Termination if:

(1) there develops, occurs or comes into force:

(a) any new law or government regulation or other occurrence of any nature whatsoever which in the absolute opinion of Lawnside adversely affects or may adversely affect the business of the Group or any part thereof to a material extent or is materially adverse in the context of the Rights Issue; or

(b) any change in local, national, international, financial, political or economic conditions which in the absolute opinion of Lawnside is materially adverse in the context of the Rights Issue; or

(c) any adverse change in market conditions which in the absolute opinion of Lawnside materially prejudicially affects the Rights Issue and makes it inadvisable or inexpedient to proceed therewith, or

(2) there comes to the notice of Lawnside any matter or event showing any of the representations and warranties contained in the Underwriting Agreement to be untrue or inaccurate in any respect which Lawnside considers to be material.

Upon the delivery of the notice of termination, all obligations of Lawnside under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to Lawnside the expenses in connection with the Rights Issue. If Lawnside exercises such right, the Rights Issue will not proceed.

CHAMPION TECHNOLOGY HOLDINGS LIMITED

(Continued in Bermuda with limited liability)

(Stock Code : 92)

Executive Directors:
Paul Kan Man Lok *(Chairman)*
Leo Kan Kin Leung *(Chief Executive Officer)*
Lai Yat Kwong

Non-executive Director:
Shirley Ha Suk Ling

Independent non-executive Directors:
Terry John Miller
Francis Gilbert Knight
Ye Pei Da
Frank Bleackley

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal and head office:
3rd Floor
Kantone Centre
1 Ning Foo Street
Chaiwan
Hong Kong

26 May 2009

To the Qualifying Shareholders and,
for information only, the Excluded Shareholders and
the holder of the Outstanding Convertible Bond

Dear Sir or Madam,

RIGHTS ISSUE OF 1,990,826,245 RIGHTS SHARES AT HK$0.1 EACH ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY EXISTING SHARE HELD ON THE RECORD DATE

INTRODUCTION

It was announced on 17 April 2009 that the Company proposed to raise approximately HK$199.1 million before expenses by issuing 1,990,826,245 Rights Shares at the Subscription Price of HK$0.1 per Rights Share on the basis of one Rights Share for every existing Share in issue on the Record Date.

The Rights Issue is conditional on, among other things, the Whitewash Waiver being granted by the Executive and passing of the resolution to approve the Rights Issue and the Whitewash Waiver by the Independent Shareholders at the SGM. On 18 May 2009, the Executive granted the Whitewash Waiver which was subject to, among other things, the approval of the Independent Shareholders by way of poll at the SGM. At the SGM held on 22 May 2009, the resolution to approve the Rights Issue and the Whitewash Waiver was duly passed by the Independent Shareholders by way of poll.

The purpose of this prospectus is to provide you with, among other things, details of the Rights Issue.

RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	One Rights Share for every existing Share held on the Record Date
Number of Shares in issue as at the Record Date:	1,990,826,245 Shares
Number of Rights Shares:	1,990,826,245 Rights Shares
Aggregate nominal value of Shares to be issued:	HK$199,082,624.5
Subscription Price:	HK$0.1 per Rights Share

The Rights Shares to be issued pursuant to the terms of the Rights Issue represent 100% of the issued share capital of the Company as at the Latest Practicable Date and 50% of the enlarged issued share capital of the Company immediately upon completion of the Rights Issue (assuming no new Shares are issued except pursuant to the Rights Issue between the Latest Practicable Date and completion of the Rights Issue).

Conditions of the Rights Issue

The Rights Issue is conditional upon the following being fulfilled on or before the Latest Time for Termination, which is expected to be 5:00 p.m. on Monday, 15 June 2009:

(1) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject only to allotment) listings of and permission to deal in the Rights Shares, in nil-paid and fully-paid forms;

(2) the passing of the relevant resolution(s) by the Independent Shareholders approving the Rights Issue and the Whitewash Waiver in accordance with the Listing Rules and the Takeovers Code;

(3) the Executive granting to Lawnside and parties acting in concert with it the Whitewash Waiver and the fulfillment of the conditions thereof, if any; and

(4) the obligations of Lawnside under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

The Rights Issue will lapse if any of the above conditions is not satisfied. None of the above conditions can be waived by the Company or Lawnside. Items (2) and (3) of the above conditions have been fulfilled as at the Latest Practicable Date.

Subscription Price

The Subscription Price of HK$0.1 per Rights Share is payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 67.2% to the closing price of HK$0.305 per Share as quoted on the Stock Exchange on 15 April 2009, being the Last Trading Day;

(ii) a discount of approximately 64.8% to the average closing price of approximately HK$0.284 per Share for the five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 64.4% to the average closing price of approximately HK$0.281 per Share for the ten consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 50.7% to the theoretical ex-rights price of HK$0.203 per Share based on the closing price as quoted on the Stock Exchange on the Last Trading Day;

(v) a discount of approximately 95.5% to the unaudited consolidated net tangible asset value per Share of approximately HK$2.243 (based on the unaudited consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2008 as set out in Appendix II to this prospectus and 1,990,826,245 Shares in issue as at the Latest Practicable Date); and

(vi) a discount of approximately 66.1% to the closing price of HK$0.295 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and Lawnside with reference to the market prices of the Shares under the prevailing market conditions and each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date. The Directors consider the Subscription Price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Rights Shares

Save as disclosed below, the Rights Shares, when allotted, issued and fully paid, will rank pari passu with the then existing Shares in issue on the date of allotment of the Rights Shares in all respects. Holders of such Rights Shares will be entitled to receive all future dividends and distributions which are declared after the date of allotment and issue of the Rights Shares, except the interim dividend for the six months ended 31 December 2008 and the related scrip dividend scheme.

Rights of the Overseas Shareholders

The Rights Issue Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda. There were thirty Overseas Shareholders on the Record Date. The Directors, after making enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges, consider it necessary or expedient to exclude all Overseas Shareholders. The Company has sent a copy of this prospectus to each of the Excluded Shareholders for information only, but not PAL or EAF.

No action has been taken to permit the offering of the Rights Shares, or the distribution of this prospectus or any of the related application forms, in any territory or jurisdiction outside Hong Kong. Accordingly, no person receiving a copy of this prospectus or any of the related application forms in any territory or jurisdiction outside Hong Kong may treat it as an offer or invitation to apply for the Rights Shares, unless in the relevant jurisdiction such an offer or invitation could lawfully be made without compliance with any registration or other legal or regulatory requirements.

It is the responsibility of any person (including but without limitation to nominee, agent and trustee) receiving a copy of this prospectus or any of the related application forms outside Hong Kong and wishing to take up the Rights Shares to satisfy himself/herself/itself as to the full observance of the laws of the relevant territory including the obtaining of any governmental or other consents for observing any other formalities which may be required in such territory or jurisdiction, and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been complied with. If you are in any doubt as to your position, you should consult your professional advisers.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders in nil-paid form, to be sold as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of HK$100 or more will be paid pro rata to the relevant Excluded Shareholders in Hong Kong dollars. The Company will retain individual amounts of less than HK$100 for its own benefit. Any unsold Rights Shares to which the Excluded Shareholders would otherwise have been entitled will be available for applications for excess Rights Shares.

Fractional entitlement to the Rights Shares

The Company has not provisionally allotted fractions of Rights Shares. All fractions of Rights Shares will be aggregated and sold in the market, if a premium (net of expenses) can be achieved, and the Company will keep the net proceeds for its own benefit. Any unsold fractions of Rights Shares will be available for excess application.

Procedure for acceptance and payment or transfer

For each Qualifying Shareholder, a PAL is enclosed with this prospectus which entitles Qualifying Shareholders to subscribe for the number of Rights Shares shown therein. If Qualifying Shareholders wish to exercise their rights to subscribe for all the Rights Shares specified in the enclosed PALs, Qualifying Shareholders must lodge the PALs in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by not later than

4:00 p.m. on Wednesday, 10 June 2009. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and banker's cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "Champion Technology Holdings Limited – Rights Issue Account" and crossed "Account Payee Only".

It should be noted that unless the PAL, together with the appropriate remittance, have been lodged with the Registrar by no later than 4:00 p.m. on Wednesday, 10 June 2009, whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If Qualifying Shareholders wish to accept only part of their provisional allotment or transfer part of their rights to subscribe for the Rights Shares provisionally allotted to them, or to transfer their rights to more than one person, the entire PALs must be surrendered and lodged for cancellation by not later than 4:00 p.m. on Tuesday, 2 June 2009 to the Registrar which will cancel the original PALs and issue new PALs in the denominations required. The new PALs will be available for collection at the office of the Registrar after 9:00 a.m. on the second Business Day after the surrender of the original PALs. It should be noted that Hong Kong stamp duty is payable in connection with the transfer of the rights to subscribe for the Rights Shares.

The PAL contains the full information regarding the procedure to be followed if Qualifying Shareholders wish to accept only part of their provisional allotment or if they wish to renounce all or part of their provisional allotment.

All cheques and banker's cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies, if any, shall be retained for the benefit of the Company. Completion and return of the PAL together with a cheque or banker's cashier order in payment for the Rights Shares accepted will constitute a warranty by the subscriber that the cheque or banker's cashier order will be honoured on first presentation. If any cheque or banker's cashier order is dishonoured on first presentation, the PAL is liable to be rejected, and in that event the provisional allotment and all rights given pursuant to it will be deemed to have been declined and will be cancelled. No receipt will be issued in respect of any application received.

If the conditions of the Rights Issue are not fulfilled by the Latest Time for Termination, the Rights Issue will not proceed and the application monies, without interest, will be returned to the applicants by means of cheques crossed "Account Payee Only" to be despatched by post to their registered addresses and, in the case of joint applicants, to the registered address of the applicant whose name first appears on the register of members of the Company or the transfer form at the risk of such applicants on or before Tuesday, 16 June 2009.

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders, any unsold Rights Shares created by adding together fractions of the Rights Shares and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders.

Application may be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis mainly on the following principles: (1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to top up odd-lot holdings to whole-lot holdings; and (2) subject to availability of excess Rights Shares after allocation under principle (1) above, any further remaining excess Rights Shares will be allocated to applicants with reference to their respective shareholdings in the Company as at the Record Date.

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares will not be extended to ultimate beneficial owners individually.

Application for excess Rights Shares may be made by completing and signing the enclosed EAF in accordance with the instructions printed thereon and lodging it, together with a separate remittance for the full amount payable on application in respect of the excess Rights Shares applied for, with the Registrar by not later than 4:00 p.m. on Wednesday, 10 June 2009. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and banker's cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "Champion Technology Holdings Limited – Excess Application Account" and crossed "Account Payee Only".

If no excess Rights Shares are allotted to the Qualifying Shareholders, the amount tendered on application is expected to be returned to such Qualifying Shareholders in full by ordinary post at their own risk to their registered addresses on or before Tuesday, 16 June 2009. If the number of excess Rights Shares allotted to the Qualifying Shareholders is less than that applied for, the surplus application money is also expected to be returned to them by ordinary post at their own risk to their registered addresses on or before Tuesday, 16 June 2009. All cheques or banker's cashier orders will be presented for payment upon receipt and all interest earned on such monies, if any, will be retained for the benefit of the Company. Completion and return of the EAF together with a cheque or banker's cashier order in payment for the excess Rights Shares applied for will constitute a warranty by the applicant that the cheque or banker's cashier order will be honoured on first presentation. If the cheque or banker's cashier order is dishonoured on first presentation, the application for excess Rights Shares is liable to be rejected.

The EAF is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques or banker's cashier orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses by the Registrar.

If the conditions of the Rights Issue are not fulfilled by the Latest Time for Termination, the Rights Issue will not proceed and the monies received in respect of application for excess Rights Shares without interest will be returned to the applicants by means of cheques crossed "Account Payee Only" to be despatched by post to their registered addresses and, in the case of joint applicants, to the registered address of the applicant whose name first appears on the register of members of the Company at the risk of such applicants on or before Tuesday, 16 June 2009.

Application for listings

The Company has applied to the Listing Committee of the Stock Exchange for the listings of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchanges.

Subject to the granting of the listings of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms (both in board lots of 2,000 Shares) which are registered in Hong Kong will be subject to the payment of stamp duty in Hong Kong.

Share certificates for the Rights Shares and refund cheques

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares and refund cheques in respect of wholly or partly unsuccessful applications for excess Rights Shares (if any) are expected to be posted to those entitled thereto by Tuesday, 16 June 2009 at their own risk. One share certificate will be issued for all the Rights Shares allotted to an applicant.

Taxation

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the holding or disposal of, or dealings in the Rights Shares in both their nil-paid and fully-paid forms and, as regards the Excluded Shareholders (if any), their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares in both their nil-paid and fully-paid forms.

UNDERWRITING ARRANGEMENTS FOR THE RIGHTS ISSUE

Underwriting Agreement dated 16 April 2009

Issuer:	the Company
Underwriter:	Lawnside
Number of Underwritten Shares:	1,469,903,337 Rights Shares, being the total number of Rights Shares under the Rights Issue after deducting 520,922,908 Rights Shares undertaken to be subscribed by Lawnside pursuant to its Irrevocable Undertaking
Underwriting commission:	2.50% of the aggregate Subscription Price of the Underwritten Shares
Subscription Price:	HK$0.1 per Rights Share

Lawnside does not underwrite issues of securities in its ordinary course of business.

The terms of the Underwriting Agreement were determined after arm's length negotiations between the Company and Lawnside. The Directors are of the view that the terms of the Underwriting Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Irrevocable Undertaking from Lawnside

As at the Latest Practicable Date, Lawnside was interested in: (i) an aggregate of 520,922,908 Shares, representing approximately 26.17% of the existing issued share capital of the Company; and (ii) the Outstanding Convertible Bond carrying the right to convert into Shares at the higher of (a) HK$1.09 (subject to adjustment); and (b) the volume-weighted average price of Shares for the 10 dealing days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.8 during the period from 19 September 2008 to 19 September 2010, or at the option of the Company, to 19 September 2011.

Lawnside has irrevocably undertaken to the Company that (i) it will remain the beneficial and registered owner of at least 520,922,908 Shares until the Acceptance Date; (ii) it will take up and accept its rights entitlement in full under the Rights Issue in respect of the 520,922,908 Shares; and (iii) it will not exercise any of the conversion right under the Outstanding Convertible Bond held by it as at the date of the Underwriting Agreement on or before the Acceptance Date.

Payment of Rights Shares subscription by Lawnside

Lawnside has authorised the Company to set off the total Subscription Price of the Rights Shares to be taken up under the Irrevocable Undertaking and as underwriter under the Underwriting Agreement up to HK$188,553,096.27 against the principal amount of the Outstanding Convertible Bond, subject to the Rights Issue becoming unconditional. Lawnside will pay the balance, if any, in cash.

Amendment to the terms of the Outstanding Convertible Bond

Subject to the Rights Issue becoming unconditional, the terms and conditions of the Outstanding Convertible Bond shall be amended to the effect that Lawnside shall be deemed to have given written notice to the Company on the latest time for acceptance of the Rights Shares for the redemption of an amount of the principal amount of the Convertible Bond equal to the total amount due from it to the Company under the Underwriting Agreement up to HK$188,553,096.27.

Termination of the Underwriting Agreement

Lawnside may rescind the Underwriting Agreement by notice in writing given to the Company on or before the Latest Time for Termination if:

(1) there develops, occurs or comes into force:

  (a) any new law or government regulation or other occurrence of any nature whatsoever which in the absolute opinion of Lawnside adversely affects or may adversely affect the business of the Group or any part thereof to a material extent or is materially adverse in the context of the Rights Issue; or

  (b) any change in local, national, international, financial, political or economic conditions which in the absolute opinion of Lawnside is materially adverse in the context of the Rights Issue; or

  (c) any adverse change in market conditions which in the absolute opinion of Lawnside materially prejudicially affects the Rights Issue and makes it inadvisable or inexpedient to proceed therewith, or

(2) there comes to the notice of Lawnside any matter or event showing any of the representations and warranties contained in the Underwriting Agreement to be untrue or inaccurate in any respect which Lawnside considers to be material.

Upon the delivery of the notice of termination, all obligations of Lawnside under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to Lawnside the expenses in connection with the Rights Issue. If Lawnside exercises such right, the Rights Issue will not proceed.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE RIGHTS ISSUE

The shareholding structures of the Company as at the Latest Practicable Date and immediately upon completion of the Rights Issue are as follows (assuming no change in shareholding and no new Shares are issued except pursuant to the Rights Issue between the Latest Practicable Date and completion of the Rights Issue):

	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue			
			Nil acceptance by public Shareholders *(Note 1)*		100% acceptance by public Shareholders *(Note 2)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Lawnside (the underwriter) *(Note 3)*	520,922,908	26.17	2,511,749,153	63.08	1,041,845,816	26.17
Public Shareholders	1,469,903,337	73.83	1,469,903,337	36.92	2,939,806,674	73.83
Total	1,990,826,245	100.00	3,981,652,490	100.00	3,981,652,490	100.00

Notes:

1. Assuming none of the Rights Shares is accepted or applied for by the Qualifying Shareholders other than Lawnside.

2. Assuming all of the Rights Shares are accepted or applied for by the Qualifying Shareholders.

3. Details of the interests of Lawnside in the securities of the Company are set out in the section headed "Irrevocable Undertaking from Lawnside" above.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The recent global financial turmoil and the resulting slowdown in business activities across the board have affected the profitability and hence negatively impacted on the working capital of the Group. The Rights Issue will enhance the financial position and enlarge the capital base of the Company, thereby facilitating the long-term development of the Company. Thus, the Directors are of the view that the Rights Issue is in the interests of the Group and the Shareholders as a whole.

Based on the 1,990,826,245 Rights Shares to be issued, the gross proceeds from the Rights Issue are approximately HK$199.1 million. The minimum net proceeds from the Rights Issue after deducting (i) the related expenses; and (ii) the principal amount of the Outstanding Convertible Bond to be wholly set off against the total Subscription Price of the Rights Shares to be taken up and payable by Lawnside of an equal amount as explained in the section headed "Payment of Rights Shares subscription by Lawnside" (assuming none of the Rights Shares is accepted or applied for by the Qualifying Shareholders other than Lawnside), are estimated to be approximately HK$4.5 million. The maximum net proceeds that the Company would receive from the Rights Issue after deducting (i) the related expenses; and (ii) HK$52,092,290.8 to be set off against an equal amount of the principal amount of the Outstanding Convertible Bond for the 520,922,908 Rights Shares undertaken to be subscribed by Lawnside pursuant to its Irrevocable Undertaking, if all of the Rights Shares are accepted or applied for by the Qualifying Shareholders, are approximately HK$141.0 million. The subscription price per Rights

Share, net of expenses only, is expected to be approximately HK$0.097. The Company intends to use this amount as general working capital of the Group.

The setting off arrangements relating to the Outstanding Convertible Bond under the Underwriting Agreement as detailed in the section headed "Payment of Rights Shares subscription by Lawnside" above allow the Group to reduce its debt and so improve its gearing ratio.

FUND RAISING ACTIVITIES BY THE COMPANY DURING THE PAST 12 MONTHS

The Company had not conducted any equity fund raising exercise in the 12 months immediately preceding the Latest Practicable Date.

WARNING OF THE RISKS OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Shares have been dealt in on an ex-rights basis since Monday, 18 May 2009. Dealings in the Rights Shares in the nil-paid form will take place from Friday, 29 May 2009 to Friday, 5 June 2009 (both days inclusive). If the conditions of the Rights Issue are not fulfilled on or before 5:00 p.m. on Monday, 15 June 2009 (or such later time and/or date as the Company and Lawnside may determine in writing), or the Underwriting Agreement is terminated by Lawnside, the Rights Issue will not proceed and the Rights Issue will lapse.

Any persons contemplating buying or selling Shares from the date of this prospectus up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Friday, 29 May 2009 and Friday, 5 June 2009 (both days inclusive), bear the risk that the Rights Issue may not become unconditional and/or may not proceed.

Any Shareholders or other persons contemplating dealing in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this prospectus.

Yours faithfully,
On behalf of the Board
Paul Kan Man Lok
Chairman

1. SHARE CAPITAL

The authorised and issued share capitals of the Company as at the Latest Practicable Date were, and immediately after completion of the Right Issue (assuming no new Shares are issued except pursuant to the Rights Issue between the Latest Practicable Date and completion of the Rights Issue) will be, as follows:

		HK$
Authorised:		
30,000,000,000	Shares	3,000,000,000
Issued and to be issued, fully paid or credited as fully paid:		
1,990,826,245	Shares in issue as at the Latest Practicable Date	199,082,624.5
1,990,826,245	Rights Shares to be issued	199,082,624.5
3,981,652,490	Shares	398,165,249.0

All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and capital.

As at the Latest Practicable Date, save for the Outstanding Convertible Bond which carries the right to convert into Shares at the higher of (a) HK$1.09 (subject to adjustment); and (b) the volume-weighted average price of Shares for the 10 dealing days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.8 during the period from 19 September 2008 to 19 September 2010, or at the option of the Company, to 19 September 2011, and the scrip dividend scheme of the Company in respect of the interim dividend for the six months ended 31 December 2008, the Company had no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares.

Since 30 June 2008 up to the Latest Practicable Date, the Company had issued a total of 16,325,978 Shares pursuant to (i) the exercise of the subscription rights under the warrants of the Company; and (ii) the allotment of scrip dividend pursuant to the scrip dividend scheme for the year ended 30 June 2008. Save as aforesaid, there had been no alteration in the number of Shares issued since 30 June 2008, the date on which the latest audited financial statements of the Group were made up, up to the Latest Practicable Date.

2. FINANCIAL SUMMARY

The following is a summary of the consolidated income statements for each of the three years ended 30 June 2008 and six months ended 31 December 2008 as extracted from the respective annual reports and interim report of the Group.

CONSOLIDATED INCOME STATEMENTS

	Six months ended 31 December	**Year ended 30 June**		
	2008	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Turnover	1,442,978	3,635,049	3,164,287	2,996,668
Direct operating expenses	(1,074,414)	(2,346,833)	(2,033,154)	(2,027,671)
Gross profit	368,564	1,288,216	1,131,133	968,997
Other income	16,111	31,913	64,542	61,247
Distribution costs	(21,270)	(53,580)	(47,902)	(60,990)
General and administrative expenses	(99,323)	(262,104)	(215,019)	(197,004)
Impairment losses recognised for available-for-sale investments	–	(56,502)	(80,605)	(43,801)
Impairment losses recognised for development costs for systems and networks	–	(436,488)	–	–
Impairment losses recognised for deposits and prepaid development costs	(94,380)	(245,310)	–	–
Impairment loss recognised for interest in an associate	–	–	(312)	–
Gain/(loss) on disposal of development costs for systems and networks	–	–	23,140	(1,560)
(Loss)/gain on deemed disposal of subsidiaries	(932)	196	(465)	37,648
Loss on fair value change of convertible bonds	–	(2,282)	(32,829)	(50,411)
Finance costs	(3,167)	(6,781)	(9,614)	(9,780)
Profit before taxation	165,603	257,278	832,069	704,346
Taxation	62	(2,063)	(9,171)	(85)
Profit for the period/year	165,665	255,215	822,898	704,261
Attributable to:				
Equity holders of the Company	107,557	190,456	626,818	549,994
Minority interests	58,108	64,759	196,080	154,267
	165,665	255,215	822,898	704,261

	Six months ended 31 December	Year ended 30 June		
	2008	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Earnings per share				
– Basic	HK5.45 cents	HK11.31 cents	HK43.70 cents	HK43.08 cents
– Diluted	N/A	HK11.08 cents	HK43.42 cents	HK42.24 cents
Dividends	9,873	48,112	96,686	73,096
Dividend per Share	HK0.5 cents	HK2.7 cents	HK5.9 cents	HK5.5 cents

The following is a summary of the consolidated balance sheets as at 30 June 2006, 2007 and 2008 and as at 31 December 2008 as extracted from the respective annual reports and interim report of the Group.

CONSOLIDATED BALANCE SHEETS

	As at 31 December 2008	**As at 30 June 2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Non-current assets				
Property, plant and equipment	49,173	58,586	67,184	67,397
Development costs for systems and networks	2,848,616	2,743,823	2,137,057	1,694,548
Goodwill	36,795	36,795	36,795	36,795
Intangible assets	4,130	5,310	7,670	10,030
Available-for-sale investments	1,360,389	1,509,822	1,786,794	1,468,582
Interest in an associate	49,998	–	–	312
Deposits and prepaid development costs	2,858,507	2,563,105	2,041,260	1,330,871
	7,207,608	6,917,441	6,076,760	4,608,535
Current assets				
Inventories	23,626	25,464	30,449	28,056
Trade and other receivables	1,092,050	1,152,497	1,202,327	895,044
Taxation recoverable	16	29	349	301
Deposits, bank balances and cash	414,512	350,728	347,482	921,264
	1,530,204	1,528,718	1,580,607	1,844,665
Current liabilities				
Trade and other payables	75,877	248,931	87,291	77,404
Warranty provision	1,415	2,136	1,860	1,683
Customers' deposits	5,068	6,275	9,803	13,940
Taxation payable	1,777	2,009	20	13
Bank borrowings – amount due within one year	162,086	201,313	229,408	154,019
Other borrowings – amount due within one year	147	489	1,861	2,650
Convertible bonds	188,553	–	35,880	18,219
Bank overdrafts	–	27,816	–	–
	434,923	488,969	366,123	267,928
Net current assets	1,095,281	1,039,749	1,214,484	1,576,737
Total assets less current liabilities	8,302,889	7,957,190	7,291,244	6,185,272
Non-current liabilities				
Bank borrowings – amount due after one year	34,398	48,952	373	1,061
Other borrowings – amount due after one year	–	193	716	2,349
Retirement benefit obligations	62,785	92,283	95,985	88,014
Deferred taxation	149	157	149	206
	97,332	141,585	97,223	91,630
Net assets	8,205,557	7,815,605	7,194,021	6,093,642
Capital and reserves				
Share capital	197,450	197,450	160,362	131,420
Reserves	6,605,876	6,487,556	5,977,310	5,127,340
Equity attributable to equity holders of the Company	6,803,326	6,685,006	6,137,672	5,258,760
Subscription right reserve of a listed subsidiary	–	–	4,639	1,850
Minority interests	1,402,231	1,130,599	1,051,710	833,032
	8,205,557	7,815,605	7,194,021	6,093,642

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Set out below is the audited consolidated financial statements of the Group for the year ended 30 June 2008 as extracted from the annual report of the Group for the year ended 30 June 2008.

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
Turnover	*6*	3,635,049	3,164,287
Direct operating expenses		(2,346,833)	(2,033,154)
Gross profit		1,288,216	1,131,133
Other income	*7*	31,913	64,542
Distribution costs		(53,580)	(47,902)
General and administrative expenses		(262,104)	(215,019)
Impairment losses recognised for available-for-sale investments	*18*	(56,502)	(80,605)
Impairment losses recognised for development costs for systems and networks	*15*	(436,488)	–
Impairment losses recognised for deposits and prepaid development costs	*20*	(245,310)	–
Impairment loss recognised for interest in an associate		–	(312)
Gain on disposal of development costs for systems and networks	*8*	–	23,140
Gain (loss) on deemed disposal of subsidiaries		196	(465)
Loss on fair value change of convertible bonds		(2,282)	(32,829)
Finance costs	*9*	(6,781)	(9,614)
Profit before taxation	*10*	257,278	832,069
Taxation	*11*	(2,063)	(9,171)
Profit for the year		255,215	822,898
Attributable to:			
Equity holders of the Company		190,456	626,818
Minority interests		64,759	196,080
		255,215	822,898
Earnings per share	*13*		
- Basic		HK11.31 cents	HK43.70 cents
- Diluted		HK11.08 cents	HK43.42 cents

CONSOLIDATED BALANCE SHEET
at 30 June 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	14	58,586	67,184
Development costs for systems and networks	15	2,743,823	2,137,057
Goodwill	16	36,795	36,795
Intangible assets	17	5,310	7,670
Available-for-sale investments	18	1,509,822	1,786,794
Interest in an associate	19	–	–
Deposits and prepaid development costs	20	2,563,105	2,041,260
		6,917,441	6,076,760
Current assets			
Inventories	21	25,464	30,449
Trade and other receivables	22	1,152,497	1,202,327
Taxation recoverable		29	349
Deposits, bank balances and cash	23	350,728	347,482
		1,528,718	1,580,607
Current liabilities			
Trade and other payables	24	248,931	87,291
Warranty provision	25	2,136	1,860
Customers' deposits		6,275	9,803
Taxation payable		2,009	20
Bank borrowings – amount due within one year	26	201,313	229,408
Other borrowings – amount due within one year	27	489	1,861
Convertible bonds	28	–	35,880
Bank overdrafts	23	27,816	–
		488,969	366,123
Net current assets		1,039,749	1,214,484
Total assets less current liabilities		7,957,190	7,291,244
Non-current liabilities			
Bank borrowings – amount due after one year	26	48,952	373
Other borrowings – amount due after one year	27	193	716
Retirement benefit obligations	10	92,283	95,985
Deferred taxation	29	157	149
		141,585	97,223
Net assets		7,815,605	7,194,021
Capital and reserves			
Share capital	30	197,450	160,362
Reserves		6,487,556	5,977,310
Equity attributable to equity holders of the Company		6,685,006	6,137,672
Subscription right reserve of a listed subsidiary		–	4,639
Minority interests		1,130,599	1,051,710
		7,815,605	7,194,021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2008

	Attributable to equity holders of the Company												
	Share capital	Share premium	Dividend reserve	Capital redemption reserve	General reserve	Capital reserve	Merger reserve	Translation reserve	Retained profits	Total	Subscription right reserve	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2006	131,420	1,270,577	43,369	50	1,366,003	105,495	8,358	(4,520)	2,338,008	5,258,760	1,850	833,032	6,093,642
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	–	–	(4,580)	–	(4,580)	–	(3,880)	(8,460)
Profit for the year	–	–	–	–	–	–	–	–	626,818	626,818	–	196,080	822,898
Total recognised income and expense for the year	–	–	–	–	–	–	–	(4,580)	626,818	622,238	–	192,200	814,438
Issue of shares upon exercise of warrants	25,144	265,296	–	–	–	–	–	–	–	290,440	–	–	290,440
On issue of subscription rights	–	–	–	–	–	–	–	–	–	–	2,789	–	2,789
Conversion of convertible bonds	–	–	–	–	–	–	–	–	–	–	–	75,274	75,274
Dividends for the year													
– underprovision in prior year	–	–	2,556	–	–	–	–	–	(2,556)	–	–	–	–
– interim	–	–	38,003	–	–	–	–	–	(38,003)	–	–	–	–
– final	–	–	56,127	–	–	–	–	–	(56,127)	–	–	–	–
Dividends paid	–	–	(33,766)	–	–	–	–	–	–	(33,766)	–	–	(33,766)
Issue of shares as scrip dividend	3,798	46,364	(50,162)	–	–	–	–	–	–	–	–	–	–
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(24,809)	(24,809)
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(23,987)	(23,987)
	28,942	311,660	12,758	–	–	–	–	–	(96,686)	256,674	2,789	26,478	285,941
At 30 June 2007	160,362	1,582,237	56,127	50	1,366,003	105,495	8,358	(9,100)	2,868,140	6,137,672	4,639	1,051,710	7,194,021

	Attributable to equity holders of the Company												
	Share capital *HK$'000*	Share premium *HK$'000*	Dividend reserve *HK$'000*	Capital redemption reserve *HK$'000*	General reserve *HK$'000*	Capital reserve *HK$'000*	Merger reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Subscription right reserve *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 July 2007	160,362	1,582,237	56,127	50	1,366,003	105,495	8,358	(9,100)	2,868,140	6,137,672	4,639	1,051,710	7,194,021
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	–	–	1,402	–	1,402	–	2,011	3,413
Profit for the year	–	–	–	–	–	–	–	–	190,456	190,456	–	64,759	255,215
Total recognised income and expense for the year	–	–	–	–	–	–	–	1,402	190,456	191,858	–	66,770	258,628
Issue of shares upon exercise of warrants	5,933	75,935	–	–	–	–	–	–	–	81,868	–	223	82,091
Exercise of subscription rights	–	–	–	–	–	–	–	–	–	–	(2,310)	19,321	17,011
Conversion of convertible bonds	–	–	–	–	–	–	–	–	–	–	–	36,634	36,634
Subscription right of a subsidiary lapsed	–	–	–	–	–	–	–	–	1,188	1,188	(2,329)	1,141	–
Dividends for the year													
– underprovision in prior year	–	–	1,816	–	–	–	–	–	(1,816)	–	–	–	–
– interim	–	–	41,360	–	–	–	–	–	(41,360)	–	–	–	–
– final	–	–	4,936	–	–	–	–	–	(4,936)	–	–	–	–
Dividends paid	–	–	(41,140)	–	–	–	–	–	–	(41,140)	–	–	(41,140)
Issue of shares as scrip dividend	4,355	53,808	(58,163)	–	–	–	–	–	–	–	–	–	–
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(42,340)	(42,340)
Issue of shares as considerations for acquisition of subsidiaries	26,800	286,760	–	–	–	–	–	–	–	313,560	–	–	313,560
Deemed acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(2,860)	(2,860)
	37,088	416,503	(51,191)	–	–	–	–	–	(46,924)	355,476	(4,639)	12,119	362,956
At 30 June 2008	197,450	1,998,740	4.936	50	1,366,003	105,495	8,358	(7,698)	3,011,672	6,685,006	–	1,130,599	7,815,605

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 June 2008

	NOTE	**2008** *HK$'000*	**2007** *HK$'000*
Cash flows from operating activities			
Profit before taxation		257,278	832,069
Adjustments for:			
Depreciation of property, plant and equipment		12,440	12,548
Amortisation of development costs for systems and networks		713,070	470,654
Amortisation of intangible assets		2,360	2,360
Impairment losses recognised for available-for-sale investments		56,502	80,605
Impairment losses recognised for development costs for systems and networks		436,488	–
Impairment losses recognised for deposits and prepaid development costs		245,310	–
Impairment loss recognised for interest in an associate		–	312
Impairment loss recognised for property, plant and equipment		5,085	–
Gain on disposal of development costs for systems and networks		–	(23,140)
Discount on acquisition of additional interest in a subsidiary		–	(4,402)
Discount on deemed acquisition of additional interest in a subsidiary		(2,860)	(6,463)
Gain (loss) on deemed disposal of subsidiaries		(196)	465
Gain on disposal of available-for-sale investments		–	(11,888)
Gain on disposal of property, plant and equipment		(164)	(2,004)
Interest on bank and other borrowings		6,781	7,484
Issue costs of convertible bonds		–	2,130
Interest income		(8,577)	(21,147)
Loss on fair value change of convertible bonds		2,282	32,829
Operating cash flows before movements in working capital		1,725,799	1,372,412
Decrease (increase) in inventories		4,985	(2,393)
Decrease (increase) in trade and other receivables		49,830	(127,883)
Increase in trade and other payables		153,937	17,858
Increase in warranty provision		276	39
Decrease in customers' deposits		(3,528)	(4,137)
Cash generated from operations		1,931,299	1,255,896
Hong Kong Profits Tax refunded (paid)		222	(9,186)
Taxation in other jurisdictions refunded (paid)		54	(44)
Net cash from operating activities		1,931,575	1,246,666

	NOTE	2008 HK$'000	2007 HK$'000
Cash flows from investing activities			
Deposits and prepayments paid in respect of development costs for systems and networks		(2,052,804)	(2,258,690)
Purchase of available-for-sale investments		–	(519,688)
Acquisition of a subsidiary	32	(50,000)	–
Acquisition of additional interest in a subsidiary		–	(13,122)
Purchase of property, plant and equipment		(8,910)	(9,540)
Contributions from minority shareholders		–	–
Refund of deposits paid in connection with projects relating to development costs for systems and networks and acquisition of investments		–	327,600
Capital receipts from available-for-sale investments		437,310	358,899
Interest received		8,577	21,147
Proceeds from disposal of available-for-sale investments		–	19,561
Proceeds from disposal of development costs for systems and networks		–	140,400
Proceeds from disposal of property, plant and equipment		364	2,870
Payments for development costs for systems and networks		(319,800)	(234,940)
Net cash used in investing activities		(1,985,263)	(2,165,503)
Cash flows from financing activities			
Net cash receipt from issue of convertible bonds (net of issue costs of HK$2,130,000)		–	60,270
Repayment of borrowings		(2,694)	(229,721)
Proceeds from issue of warrants		–	290,440
New loans raised		21,283	302,000
Dividends paid		(41,140)	(33,766)
Proceeds from exercise of subscription rights		17,011	–
Dividends paid to minority shareholders		(42,340)	(24,809)
Interest paid		(6,781)	(7,484)
Redemption of convertible bonds		(780)	–
Proceeds received upon exercise of warrants		82,091	–
Net cash from financing activities		26,650	356,930
Net decrease in cash and cash equivalents		(27,038)	(561,907)
Cash and cash equivalents at beginning of the year		347,482	921,264
Effect on foreign exchange rate changes		2,468	(11,875)
Cash and cash equivalents at end of the year		322,912	347,482
Represented by			
Deposits, bank balances and cash		350,728	347,482
Bank overdrafts		(27,816)	–
		322,912	347,482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2008

1. GENERAL

The Company was originally incorporated in the Cayman Islands but subsequently re-domiciled to Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information Section of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 37 and 19 respectively.

The consolidated financial statements are presented in Hong Kong dollar, which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (the "HKFRSs"), Hong Kong Accounting Standards (the "HKASs") and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 July 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 10	Interim financial reporting and impairment
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions

The adoption of the new HKFRSs has no material effect on how the results of the Group are prepared and presented for the current and prior accounting years. Accordingly, no prior year adjustment is required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early adopted the following new standards, amendments and interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [1]
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets [6]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) – INT 12	Service concession arrangements [3]
HK(IFRIC) – INT 13	Customer loyalty programmes [4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]
HK(IFRIC) – INT 15	Agreements for the construction of real estate [1]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation [5]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.
[5] Effective for annual periods beginning on or after 1 October 2008.
[6] Effective from 1 July 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities of Stock Exchange and the Hong Kong Companies Ordinance in Hong Kong.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries is recorded at historical cost and the excess of the carrying amounts of net assets acquired over the cost of acquisition is recognised as discount on acquisition and charged to consolidated income statement.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary, at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivables for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Service income is recognised when the services are rendered.

Sales of goods are recognised when goods are delivered and title has passed.

Income from licensing is recognised when the relevant licensing agreements are formally concluded.

Income from certain available-for-sale investments where the Group is contracted to receive a pre-determined minimum sum over the period of the projects is allocated to accounting periods so as to reflect a constant periodic rate of return on the investment in these available-for-sale investments. Income from other available-for-sale investments are recognised when the Group's right to receive the distributions has been established.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

Costs incurred by the Group in establishing its telecommunication networks include, among other things, property and equipment, internally developed and acquired software and the acquisition of required licenses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Freehold land	Nil
Leasehold land	Over the shorter of the remaining unexpired terms of the relevant leases or 50 years
Buildings	2% – 5%
Plant and machinery and telecommunications networks	10% – 50%
Furniture and fixtures	20% – 33⅓%
Motor vehicles	25%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Owner-occupied leasehold interest in land

The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease.

Impairment (other than goodwill, development costs for systems and networks and financial assets)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Deposits and prepaid development costs

Deposits and prepaid development costs represent the development costs for systems and networks projects under construction. Deposits and prepaid development costs are transferred to development costs for systems and networks when it is implemented for its intended use. Deposits and prepaid development costs are stated at cost less impairment.

Development costs for systems and networks

Development costs for systems and networks are stated at cost less amortisation and any accumulated impairment losses.

Development costs for systems and networks represent all direct costs incurred by the Group in setting up systems and networks, including the cost of equipment, development cost and subcontracting expenditure. Such assets are recognised only if all of the following conditions are met:

– the technical feasibility of completing the asset so that it will be available for use or sale.

– its intention to complete the asset and use or sell it.

– its ability to use or sell the asset.

– how the asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the asset or the asset itself or, if it is to be used internally, the usefulness of the asset.

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset.

– its ability to measure reliably the expenditure attributable to the asset during its development.

Development costs that cannot fulfil the above conditions are recognised as expenses in the period in which it is incurred. Development costs for systems and networks which are implemented for its intended use and fulfil the above conditions are amortised on a straight line basis over their estimated useful lives, subject to a maximum of five years. Where the recoverable amount of development costs for systems and networks has declined below their carrying amount, the carrying amount is reduced to reflect the decline in value.

Development costs for systems and networks that are not yet available for intended use are stated at cost less any accumulated impairment losses. Impairment test is performed at least annually.

An item of development costs for systems and networks is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into one of the two categories, including loans and receivables and available-for-sale financial assets. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories.

For available-for-sale debt investments with guaranteed return, payments receivables each year for investments are apportioned between income and reduction of the carrying value of the investments so as to reflect a constant periodic rate of return. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and an increase in the number of delayed payments.

For financial assets carried at amortised cost, an impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Convertible bonds

The convertible bonds issued by the Group includes a liability component, a conversion option, a call option and a put option and an early redemption option. Convertible bonds that will not be settled other than by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

The convertible bonds (including the liability component, the conversion option, the call option and the put option and an early redemption option) as a whole are designated as financial liabilities at fair value through profit or loss on initial recognition. At each subsequent balance sheet date, the entire convertible bonds will be measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bonds designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Subscription rights granted to the convertible bond holders to subscribe for the ordinary shares of a subsidiary of the Company are recognised at fair value on initial recognition and will remain in subscription right reserve until the subscription rights are exercised (in which case the balance in the subscription right reserve will be transferred to share premium). Where the subscription rights remain unexercised at the expiry date, the balance in the subscription right reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon exercise or expiration of the subscription rights.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership and control of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Interest in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associate is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Borrowing costs

All borrowing costs are expensed as incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit cost

Payments to the Group's defined contribution retirement benefit schemes are charged as expense when employees have rendered service entitling them to contributions.

For the Group's defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuation being carried out at each balance sheet date. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group's pension obligations and the fair value of scheme assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the amended benefits become vested. Any assets resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contribution to the scheme.

The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of scheme assets.

Any assets resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contribution to the scheme.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at both balance sheet dates, the carrying amount of goodwill was HK$36,795,000. Details of the recoverable amount calculation are disclosed in note 16.

Development costs for systems and networks

(a) *Estimated useful life*

As at 30 June 2008, the carrying value of development costs for systems and networks amounts to HK$2,743,823,000 (2007: HK$2,137,057,000). The estimated useful life of the assets reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the development.

(b) *Estimated impairment*

Determining whether development costs for systems and networks and deposits and prepaid development costs are impaired requires an estimation of the value in use. The value in use calculation requires the Group to estimate the future cash flow expected to arise from the continuing use of the assets and a suitable discount rate in order to calculate the present value. As at 30 June 2008, the carrying amount of development costs for systems and networks and deposits and prepaid development costs were HK$2,743,823,000 (2007: HK$2,137,057,000) and HK$2,563,105,000 (2007: HK$2,041,260,000) respectively.

Estimated impairment of available-for-sale investments

Determining whether available-for-sale investments are impaired requires an estimation of future cash flows discounted at the current market rate of return of similar assets. As at 30 June 2008, the carrying amount of available-for-sale investments was HK$1,509,822,000 (2007: HK$1,786,794,000).

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008	**2007**
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investments	1,509,822	1,786,794
Loans and receivables (including cash and cash equivalents)		
– Trade and other receivables	1,152,497	1,202,327
– Deposit, bank balances and cash	350,728	347,482
	1,503,225	1,549,809
	3,013,047	3,336,603
Financial liabilities		
Amortised cost		
- Trade and other payables	248,931	87,291
- Bank borrowings	250,265	229,781
- Other borrowings	682	2,577
- Bank overdrafts	27,816	–
	527,694	319,649
Financial liabilities at fair value through profit or loss		
- Convertible bonds	–	35,880
	527,694	355,529

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade receivables, deposits, bank balances and cash, trade payables and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 30 June 2008 in relation to financial assets is the carrying amounts of those assets stated in the consolidated balance sheet.

In order to minimise the credit risk in relation to trade receivables, the management of the Group will only advance credit to customers with good credit history. In addition, the management reviews the recoverable amount of each individual debt at each balance sheet date, taking into account of future discounted cash flows, to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on trade receivables is concentrated on a few distributors. Receivables from top five distributors represented approximately 88.6% of trade receivables at the balance sheet date. In addition, the credit risk on guaranteed distribution receivable is also concentrated on a few number of guarantors of investments. Receivables from the top five guarantors of investments represented approximately 22.1% of guaranteed distribution receivables at the balance sheet date. The management considers that there are no significant credit risks due to the long and good credit history of these debtors.

As at 30 June 2008, the Group maintains approximately HK$71,409,000 (2007: nil) of deposits with certain overseas financial institutions. The management considers there are no significant credit risks due to the long and good credit history with these financial institutions. The credit risk on other liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Interest rate	0 – 6 months	7 – 12 months	Over 1 year	Total undiscounted cash flow	Carrying amount at 30 June 2008
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008						
Trade and other payables	N/A	248,931	–	–	248,931	248,931
Bank borrowings	2.8	201,510	3,302	57,758	262,570	250,265
Other borrowings	9.0	523	14	205	742	682
Bank overdrafts	5.7	27,819	–	–	27,819	27,816
		478,783	3,316	57,963	540,062	527,694

	Interest rate	0 – 6 months	7 – 12 months	Over 1 year	Total undiscounted cash flow	Carrying amount at 30 June 2007
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007						
Trade and other payables	N/A	87,291	–	–	87,291	87,291
Bank borrowings	5.9	180,946	53,427	382	234,755	229,781
Other borrowings	8.0	2,042	14	752	2,808	2,577
Convertible bonds	1.0	–	18,860	–	18,860	35,880
		270,279	72,301	1,134	343,714	355,529

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings and bank deposits. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arises.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings only, as management considers interest rates on bank balances are not subject to significant fluctuations in interest rates. The analysis is prepared assuming the amount of balances outstanding at the balance sheet date was the amount outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's profit for the year ended 30 June 2008 would decrease or increase by approximately HK$1,391,000 (2007: decrease or increase by HK$1,145,000).

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

Foreign currency risk

Several subsidiaries of the Company have foreign currency denominated monetary assets and liabilities, which expose the Group to foreign currency risk.

The carrying amounts of the group entities' foreign currency denominated monetary assets and monetary liabilities (including intra-group current accounts) at the reporting date are as follows:

	2008		2007	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Euro	5,381	167	6,455	1,187
Pound Sterling	325	–	155	–
Macao Pataca	436	67	133	–
United States dollar	513,688	20,172	259,114	37,411

The Group currently does not engage in any foreign currency hedging instruments. It is the Group's policy to manage foreign exchange risk through matching foreign currency income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instruments will be used.

Sensitivity analysis

The group entities are mainly exposed to foreign currency risk from Euro and United States dollar. Under the pegged exchange rate system, the financial exposure on exchange rate fluctuation between Hong Kong dollar and United States dollar is considered by the directors to be insignificant and therefore no sensitivity analysis has been prepared.

The following table details the group entities' sensitivity to a 5% increase and decrease in Euro against each group entity's functional currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where Euro strengthen 5% against each group entity's functional currency. For a 5% weakening of Euro against each group entity's functional currency, there would be an equal and opposite impact on the profit.

	2008	**2007**
	HK$'000	*HK$'000*
Euro	261	263

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Price risk

(i) Convertible bonds

The Group is exposed to equity price risk on the convertible bonds issued by Kantone Holdings Limited ("Kantone") (see note 28). The management manages this exposure by providing measures in the subscription agreement to allow redemption of the convertible bonds at the option of Kantone, see note 28 for details.

The convertible bonds issued by Kantone were either fully converted or redeemed in 2008, hence management considers that the Group is not exposed to price risk at the balance sheet date.

Sensitivity analysis

The following sensitivity analysis has been determined based on the exposure to equity price risk at the balance sheet date. If the share price of Kantone had been 5% higher, profit for the year ended 30 June 2007 would decrease by HK$1,686,000 as a result of the changes in fair value of convertible bonds. Conversely, if the share price of Kantone had been 5% lower, profit for the year ended 30 June 2007 would increase by HK$1,996,000 as a result of the changes in fair value of convertible bonds.

(ii) Available-for-sale investments

The Group is also exposed to price risk on its available-for-sale investments. The risk is mainly concentrated on equity instruments operating in the advanced technology development industry sector. The Group has an investment committee dedicated to monitor this risk.

Fair value of financial assets and financial liabilities

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- for an option based derivative, the fair value is estimated using option pricing model (for example, the Binomial Model, etc.).

The directors consider that the carrying amounts of financial assets and liabilities of the Group recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and services provided by the Group to outside customers, licensing fees received and receivable and distributions/dividends received and receivable from the Group's investments in telecommunications and e-commerce projects and strategic investments during the year.

(a) Turnover

The turnover of the Group comprises the following:

	2008 *HK$'000*	2007 *HK$'000*
Sales of systems products	2,287,033	1,560,653
Rendering of services and software licensing	1,167,512	1,441,768
Leasing of systems products	10,158	9,537
Guaranteed distribution income	114,556	111,067
Dividend income	55,790	41,262
	3,635,049	3,164,287

(b) Business segments

For management purposes, the Group is currently organised into six main operating businesses – sales of general systems products, provision of services (including software customisation and provision of e-lottery services) and software licensing, leasing of systems products, investments in telecommunications networks and projects, investments in e-commerce projects and holding strategic investments in advanced technology product development companies. These businesses are the basis on which the Group reports its primary segment information.

	Sales of general systems products *HK$'000*	Provision of services and software licensing *HK$'000*	Leasing of systems products *HK$'000*	Investments in tele-communications networks and projects *HK$'000*	Investments in e-commerce projects *HK$'000*	Strategic investments *HK$'000*	Consolidated *HK$'000*
Year ended 30 June 2008							
TURNOVER							
External and total revenue	2,287,033	1,167,512	10,158	16,033	7,846	146,467	3,635,049
RESULTS							
Segment result	71,767	131,741	4,993	2,940	6,663	70,244	288,348
Interest income							8,577
Gain on deemed disposal of subsidiaries							196
Discount on deemed acquisition of additional interest in a subsidiary							2,860
Loss on fair value change of convertible bonds							(2,282)
Unallocated corporate expenses, net							(33,640)
Finance costs							(6,781)
Profit before taxation							257,278
Taxation							(2,063)
Profit for the year							255,215

	Sales of general systems products HK$'000	Provision of services and software licensing HK$'000	Leasing of systems products HK$'000	Investments in tele-communications networks and projects HK$'000	Investments in e-commerce projects HK$'000	Strategic investments HK$'000	Consolidated HK$'000
As at 30 June 2008							
ASSETS							
Segment assets	4,905,516	1,339,190	6,731	47,468	53,733	1,731,963	8,084,601
Unallocated corporate assets							361,558
Consolidated total assets							8,446,159
LIABILITIES							
Segment liabilities	127,509	185,185	7,981	4,001	–	–	324,676
Unallocated corporate liabilities							305,878
Consolidated total liabilities							630,554
OTHER INFORMATION							
Capital additions of property, plant and equipment	4,498	4,106	306	–	–	–	8,910
Capital additions of systems and networks	319,800	–	–	–	–	–	319,800
Additions of deposits and prepaid development costs	2,052,804	–	–	–	–	–	2,052,804
Depreciation and amortisation	274,171	453,260	439	–	–	–	727,870
Impairment losses recognised for available-for-sale investments	–	–	–	–	–	56,502	56,502
Impairment losses recognised for development costs for systems and networks	165,565	270,923	–	–	–	–	436,488
Impairment losses recognised for deposits and prepaid development costs	99,560	145,750	–	–	–	–	245,310

	Sales of general systems products *HK$'000*	Provision of services and software licensing *HK$'000*	Leasing of systems products *HK$'000*	Investments in tele-communications networks and projects *HK$'000*	Investments in e-commerce projects *HK$'000*	Strategic investments *HK$'000*	Consolidated *HK$'000*
Year ended 30 June 2007							
TURNOVER							
External and total revenue	1,560,653	1,441,768	9,537	14,009	16,213	122,107	3,164,287
RESULTS							
Segment result	173,004	622,076	4,055	11,499	14,459	42,376	867,469
Interest income							21,147
Impairment loss recognised for interest in an associate							(312)
Loss on deemed disposal of subsidiaries							(465)
Discount on deemed acquisition of additional interest in a subsidiary							6,463
Loss on fair value change of convertible bonds							(32,829)
Unallocated corporate expenses, net							(19,790)
Finance costs							(9,614)
Profit before taxation							832,069
Taxation							(9,171)
Profit for the year							822,898

	Sales of general systems products HK$'000	Provision of services and software licensing HK$'000	Leasing of systems products HK$'000	Investments in tele-communications networks and projects HK$'000	Investments in e-commerce projects HK$'000	Strategic investments HK$'000	Consolidated HK$'000
As at 30 June 2007							
ASSETS							
Segment assets	3,179,647	2,019,554	7,823	139,173	149,329	1,800,599	7,296,125
Unallocated corporate assets							361,242
Consolidated total assets							7,657,367
LIABILITIES							
Segment liabilities	117,990	54,597	8,023	–	–	–	180,610
Unallocated corporate liabilities							282,736
Consolidated total liabilities							463,346
OTHER INFORMATION							
Capital additions of property, plant and equipment	5,316	3,783	441	–	–	–	9,540
Capital additions of available-for-sale investments	–	–	–	–	–	512,014	512,014
Capital additions of systems and networks	234,780	160	–	–	–	–	234,940
Additions of deposits and prepaid development costs	2,258,690	–	–	–	–	–	2,258,690
Depreciation and amortisation	27,055	457,962	545	–	–	–	485,562
Impairment losses recognised for available-for-sale investments	–	–	–	–	–	80,605	80,605
Gain on disposal of development costs for systems and networks	23,140	–	–	–	–	–	23,140
Gain on disposal of available-for-sale investments	–	–	–	–	–	11,888	11,888

(c) Geographical segments

(i) The following table provides an analysis of the Group's revenue by geographical market, by location of customers, irrespective of the origin of the goods/services:

	Revenue by geographical segment Year ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
People's Republic of China (the "PRC") including Hong Kong and Macau	2,783,225	2,407,051
Europe	597,404	535,796
Others	254,420	221,440
	3,635,049	3,164,287

(ii) The following is an analysis of the carrying amount of segment assets, and capital additions to property, plant and equipment, systems and networks, interest in e-commerce projects and telecommunications projects and strategic investments in advanced technology product development companies, analysed by the geographical market to which the assets are located:

	Carrying amount of segment assets		Capital additions	
	30.6.2008	**30.6.2007**	**30.6.2008**	**30.6.2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The PRC including Hong Kong and Macau	7,820,448	6,922,269	2,730,720	3,007,113
Europe	135,939	138,981	6,520	7,692
Others	128,214	234,875	102	379
	8,084,601	7,296,125	2,737,342	3,015,184

7. OTHER INCOME

Included in other income are interest earned on bank deposits and balances of HK$8,577,000 (2007: HK$21,147,000) and discount on deemed acquisition of additional interest in a subsidiary of HK$2,860,000 (2007: HK$6,463,000). Included in other income in the previous year was discount on acquisition of additional interest in a subsidiary of HK$4,402,000. No such income has arisen during the year.

8. GAIN ON DISPOSAL OF DEVELOPMENT COSTS FOR SYSTEMS AND NETWORKS

In the previous year, the Group disposed of its interest in certain systems and networks with an aggregate carrying value HK$117,260,000 with sales proceeds amounted to HK$140,400,000, resulting in a gain on disposal of HK$23,140,000.

9. FINANCE COSTS

	2008	**2007**
	HK$'000	*HK$'000*
Interest on bank and other borrowings wholly repayable within five years	6,781	7,484
Issue costs of convertible bonds	–	2,130
	6,781	9,614

10. PROFIT BEFORE TAXATION

	2008	2007
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(Note (i))*	8,006	7,813
Staff costs excluding directors' remuneration	116,035	107,365
Retirement benefit scheme contributions other than directors' *(Note (ii))*	7,269	7,757
Total staff costs	131,310	122,935
Amortisation on:		
Development costs for systems and networks, included in direct operating expenses	713,070	470,654
Intangible assets, included in general and administrative expenses	2,360	2,360
Depreciation of property, plant and equipment, included in general and administrative expenses	12,440	12,548
Total depreciation and amortisation	727,870	485,562
Auditor's remuneration	5,740	4,913
Cost of inventories recognised	1,595,673	1,293,989
Impairment loss recognised for property, plant and equipment	5,085	–
Minimum lease payments paid under operating leases in respect of:		
Rented premises	6,774	4,708
Machinery and equipment	5,010	4,325
Research and development cost expensed	10,242	10,033
and after crediting:		
Net foreign exchange gain	19,811	16,802
Rental income from leasing of:		
Plant and machinery and telecommunications networks	10,158	9,537
Gain on disposal of property, plant and equipment	164	2,004
Gain on disposal of available-for-sale investments	–	11,888

Notes:

(i) Information regarding directors' and employees' emoluments
Year ended 30 June 2008

	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total directors' emoluments
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
Name of executive directors					
Mr. Paul Kan Man Lok *	–	2,110	162	20	2,292
Mr. Leo Kan Kin Leung *	15	1,185	750	12	1,962
Mr. Lai Yat Kwong *	10	831	661	15	1,517
Name of non-executive directors					
Mr. Francis Gilbert Knight +	80	100	–	–	180
Prof. Liang Xiong Jian #	100	100	–	–	200
Prof. Ye Pei Da #	100	100	–	–	200
Mr. Frank Bleackley #	100	100	–	–	200
Mr. Terry John Miller	50	207	–	–	257
Ms. Shirley Ha Suk Ling *	10	774	402	12	1,198
	465	5,507	1,975	59	8,006

Year ended 30 June 2007

	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total directors' emoluments
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
Name of executive directors					
Mr. Paul Kan Man Lok *	–	2,110	162	20	2,292
Mr. Leo Kan Kin Leung *	15	1,126	710	12	1,863
Mr. Lai Yat Kwong *	10	817	661	15	1,503
Name of non-executive directors					
Mr. Francis Gilbert Knight +	60	100	–	–	160
Prof. Liang Xiong Jian #	100	100	–	–	200
Prof. Ye Pei Da #	100	100	–	–	200
Mr. Frank Bleackley #	100	100	–	–	200
Mr. Terry John Miller	50	201	–	–	251
Ms. Shirley Ha Suk Ling *	10	752	370	12	1,144
	445	5,406	1,903	59	7,813

* The director is also a director of Kantone and DIGITALHONGKONG.COM ("Digital HK") both of which are the listed subsidiaries of the Company.

\# The director is also a director of Kantone.

\+ The director is also a director of Digital HK.

The remuneration for non-executive directors comprises directors' fees and other emoluments which vary with the number of committees on which they serve.

Note: The performance related incentive payment is discretionary as may be decided by the board of directors provided that the total amount of bonus payable to all the members of the board of directors for such year shall not exceed eight percent of consolidated profit after taxation of the Group.

Employees

The five highest paid individuals of the Group included two (2007: two) directors of the Company, details of whose emoluments are set out above. The aggregate emoluments of the remaining three (2007: three) highest paid employees of the Group, not being a director of the Company, are as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries and other benefits	4,872	3,980
Performance related incentive payments	113	255
Retirement benefit scheme contributions	495	617
	5,480	4,852

Emoluments of these employees were within the following bands:

	Number of employees	
	2008	**2007**
HK$1,500,001 – HK$2,000,000	3	3

(ii) Retirement benefit scheme contributions

	2008	2007
	HK$'000	*HK$'000*
Retirement benefit scheme contributions to the Group's defined contribution scheme	947	1,265
Retirement benefit scheme contributions to the Group's defined benefit scheme	6,381	6,551
	7,328	7,816

Defined contribution scheme

Certain subsidiaries of the Company participate in a retirement benefit scheme covering a portion of their employees. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee.

The retirement benefit scheme contributions charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contribution payable by the Group is reduced by the amount of forfeited contributions.

At the balance sheet date, there were no forfeited contributions which arose upon employees leaving the scheme and which are available to reduce the contributions payable in the future years (2007: nil).

Commencing from December 2000, the Group enrolled all eligible employees in Hong Kong into a mandatory provident fund (the "MPF") scheme. The retirement benefit cost of the MPF scheme charged to the consolidated income statement represents contributions to the MPF scheme by the Group at rates specified in the rules of the MPF scheme.

Defined benefit scheme

Certain subsidiaries of the Company operate a self-administered, funded pension scheme. The scheme provides defined pension benefits related to service, and final earnings and capital sums on death. Membership is optional for all staff paid monthly and aged over 21 years.

The contributions which are determined by a qualified actuary on the basis of triennial valuations using the projected unit credit method are charged to the consolidated income statement. Under the scheme, the employees are entitled to a pension between 1.67% and 2.50% of final salary for each year of pensionable service at an age of 65. No other post-retirement benefits are provided. The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligations were carried out at 31 December 2005 by Ms. Alison Bostock, Fellow of the Institute of Actuaries, and were updated to 30 June 2008 for the accounting reporting purpose. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries, pensions and share dividends.

The main actuarial assumptions used were as follows:

	30.6.2008	**30.6.2007**
Discount rate	6.60%	5.90%
Expected return on scheme assets	7.50%	7.20%
Expected rate of salary increase	3.80%	3.10%
Future pension increase	3.80%	3.10%

The actuarial valuation updated to 30 June 2008 showed that the market value of the scheme assets was HK$261,287,000 (2007: HK$247,495,000) and that the actuarial value of these assets represented 75% (2007: 70%) of the benefits that had accrued to members.

Amounts recognised in the consolidated income statement in respect of the defined benefit pension scheme are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Current service cost	3,449	3,388
Interest on obligation	20,489	18,929
Expected return on plan assets	(17,557)	(15,766)
	6,381	6,551

The charge for the year has been included in cost of sales.

The amount included in the consolidated balance sheet arising from the Group's obligations in respect of its defined benefit pension scheme is as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Fair value of scheme assets	261,287	247,495
Present value of funded obligations	(346,394)	(353,421)
Net unrecognised actuarial (gain) loss	(7,176)	9,941
	(92,283)	(95,985)

Movements in the present value of the defined benefit obligation are as follows:

	2008	2007
	HK$'000	*HK$'000*
At beginning of the year	353,421	344,682
Currency realignment	(4,879)	32,411
Service cost	3,449	3,388
Interest cost	20,489	18,929
Actuarial gain	(15,143)	(32,587)
Contributions	2,054	2,078
Benefits paid	(12,997)	(15,480)
At end of the year	346,394	353,421

Movements in the fair value of plan assets are as follows:

	2008	2007
	HK$'000	*HK$'000*
At beginning of the year	247,495	229,349
Currency realignment	(3,641)	22,076
Expected return on plan assets	17,557	15,766
Actuarial gain (loss)	4,186	(13,387)
Contributions	10,832	9,171
Benefits paid	(15,142)	(15,480)
At end of the year	261,287	247,495

The fair value of plan assets and the expected rate of return at the balance sheet date is analysed as follows:

	Expected return		Fair value of plan assets	
	2008	2007	2008	2007
			HK$'000	*HK$'000*
Equity instruments	7.80%	7.90%	233,991	188,162
Debt instruments	4.80%	4.90%	26,645	59,097
Other assets	5.00%	5.50%	651	236
			261,287	247,495

The weighted average rate of return of assets held is 7.50% (2007: 7.20%). The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The assumptions used in determining the overall expected return of the scheme have been set with reference to yields available on government bonds and appropriate risk margins.

The actual return on plan assets was HK$22,354,000 (2007: HK$2,379,000).

The history of the plan for the current and prior period is as follows:

	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*
Present value of defined benefit obligation	346,394	353,421	344,682
Fair value of plan assets	(261,287)	(247,495)	(229,349)
Deficit	85,107	105,926	115,333
Experience adjustments on plan liabilities	(15,143)	(32,587)	(15,015)
Experience adjustments on plan assets	4,186	(13,387)	4,146

11. TAXATION

	2008	2007
	HK$'000	*HK$'000*
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	–	–
Other jurisdictions	2,015	25
	2,015	25
Under (over) provision in prior years:		
Hong Kong Profits Tax	221	9,169
Other jurisdictions	(173)	–
	48	9,169
Deferred taxation *(Note 29)*	–	(23)
	2,063	9,171

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits derived from Hong Kong. No provision for taxation has been made as the Group's income neither arises in, nor is derived from Hong Kong. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The low effective tax rate is attributable to the fact that a substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and is accordingly not subject to Hong Kong Profits Tax and such profit is either exempt from or not subject to taxation in any other jurisdictions.

Details of deferred taxation for the year are set out in note 29.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2008 *HK$'000*	2007 *HK$'000*
Profit before taxation	257,278	832,069
Tax at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	42,451	145,612
Tax effect of profit exempted or not subject to taxation in other jurisdictions	(47,172)	(153,798)
Tax effect of expenses not deductible for tax purposes	5,899	17,392
Tax effect of income not taxable for tax purposes	(8,289)	(16,450)
Tax effect on utilisation of tax losses previously not recognised	(11)	(256)
Tax effect of tax losses not recognised	9,058	7,852
Underprovision in prior years	48	9,169
Others	79	(350)
Taxation for the year	2,063	9,171

12. DIVIDENDS

	2008 *HK$'000*	2007 *HK$'000*
Final dividend proposed in scrip form equivalent to HK0.25 cent (2007: HK3.5 cents) per share, with a cash option	4,936	56,127
Interim dividend paid in scrip form equivalent to HK2.45 cents (2007: HK2.4 cents) per share, with a cash option	41,360	38,003
Underprovision in prior year	1,816	2,556
	48,112	96,686

The proposed final dividend for 2008 is calculated on the basis of 1,974,500,267 shares in issue on 30 June 2008.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2008 *HK$'000*	2007 *HK$'000*
Earnings attributable to equity holders of the Company for the purpose of calculating basic earnings per share	190,456	626,818
Effect of options attached to convertible bonds of a subsidiary	(602)	(1,045)
Earnings for the purpose of calculating of diluted earnings per share	189,854	625,773

	Number of shares ('000) 2008	2007
Weighted average number of shares for the purpose of calculating basic earnings per share	1,684,033	1,434,430
Effect of dilutive potential ordinary shares:		
Warrants	29,983	6,851
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,714,016	1,441,281

The calculation of diluted earnings per share does not include certain warrants of the Company for the year, as the exercise price of these warrants was higher than the average market price for these shares.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *HK$'000*	Plant and machinery and tele-communications networks *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST					
At 1 July 2006	61,616	988,110	15,690	10,245	1,075,661
Currency realignment	1,794	29,301	–	–	31,095
Additions	–	9,309	10	221	9,540
Disposals	(261)	(12,134)	–	(835)	(13,230)
At 30 June 2007	63,149	1,014,586	15,700	9,631	1,103,066
Currency realignment	(231)	(1,997)	–	–	(2,228)
Additions	–	8,088	822	–	8,910
Disposals	–	(2,361)	(6)	(2,354)	(4,721)
At 30 June 2008	62,918	1,018,316	16,516	7,277	1,105,027
DEPRECIATION AND IMPAIRMENT					
At 1 July 2006	22,548	960,689	15,498	9,529	1,008,264
Currency realignment	253	27,181	–	–	27,434
Provided for the year	1,702	10,442	78	326	12,548
Eliminated on disposals	(59)	(11,470)	–	(835)	(12,364)
At 30 June 2007	24,444	986,842	15,576	9,020	1,035,882
Currency realignment	(44)	(2,401)	–	–	(2,445)
Provided for the year	1,613	10,154	355	318	12,440
Impairment loss	–	5,085	–	–	5,085
Eliminated on disposals	–	(2,161)	(6)	(2,354)	(4,521)
At 30 June 2008	26,013	997,519	15,925	6,984	1,046,441
CARRYING VALUES					
At 30 June 2008	36,905	20,797	591	293	58,586
At 30 June 2007	38,705	27,744	124	611	67,184

	2008	2007
	HK$'000	*HK$'000*
The carrying values of the Group's property interests comprise:		
Freehold properties held outside Hong Kong	16,751	17,131
Leasehold properties:		
Held in Hong Kong		
- long leases	13,363	14,983
- medium term leases	3,332	2,930
Held outside Hong Kong		
- long leases	302	292
- medium term leases	3,157	3,369
	36,905	38,705

The Group leases equipment to customers on operating leases terms. The carrying value of such equipment, which is included in plant and machinery and telecommunications networks, is as follows:

	2008	2007
	HK$'000	*HK$'000*
Customer equipment at cost	99,110	100,505
Less: Accumulated depreciation	(97,696)	(99,004)
Carrying value	1,414	1,501

At 30 June 2008, certain land and buildings of the Group with a carrying value of HK$12,636,000 (2007: HK$12,915,000) were pledged to a bank as security for banking facilities granted to the Group.

During the year ended 30 June 2008, the directors had determined that full impairment amounting HK$5,085,000 was to be made for the property, plant and equipment in Brazil in view of its decline in value in use.

Note: Owner-occupied leasehold land is included in property, plant and equipment as the allocations between the land and buildings elements cannot be made reliably.

15. DEVELOPMENT COSTS FOR SYSTEMS AND NETWORKS

	2008	**2007**
	HK$'000	*HK$'000*
COST		
At beginning of the year	3,334,755	2,475,932
Currency realignment	154	(117)
Additions	319,800	234,940
Disposals	–	(171,600)
Transferred from deposits	1,436,370	795,600
At end of the year	5,091,079	3,334,755
AMORTISATION AND IMPAIRMENT		
At beginning of the year	1,197,698	781,384
Provided for the year	713,070	470,654
Eliminated on disposal	–	(54,340)
Impairment losses recognised	436,488	–
At end of the year	2,347,256	1,197,698
CARRYING VALUE		
At end of the year	2,743,823	2,137,057

Development costs for systems and networks include all direct costs incurred in the setting up and development of systems and networks. The Group's development costs for systems and networks (other than those that are not yet available for intended use) are amortised over the estimated useful lives of a maximum of five years.

The management conducted a review of the Group's development costs for systems and networks in light of the current market condition and determined that certain development costs for systems and networks were impaired based on the estimated recoverable amounts with reference to their values in use. The value in use were determined based on the estimated future cash flows discounted at a rate of 10% per annum. Accordingly, impairment losses of HK$436,488,000 have been recognised.

16. GOODWILL

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2008 & 2007
	HK$'000
Provision of e-lottery services	36,795

For the year ended 30 June 2008, management of the Group determines that there was no impairment of its CGU containing goodwill.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for goodwill based on cash flow forecasts derived from the most recent financial budgets and projected for the next four years and discounted at a rate of 10% which reflects current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. No impairment loss was considered necessary.

17. INTANGIBLE ASSETS

	License rights
	HK$'000
COST	
Balance at 1 July 2006, 30 June 2007 and 30 June 2008	11,800
AMORTISATION	
Balance at 1 July 2006	1,770
Charge for the year	2,360
Balance at 30 June 2007	4,130
Charge for the year	2,360
Balance at 30 June 2008	6,490
CARRYING VALUE	
At 30 June 2008	5,310
At 30 June 2007	7,670

The license rights for provision of e-lottery businesses were acquired as part of a business combination in previous years. The license rights have definite useful lives and are amortised on a straight-line basis over the period of the right granted or 5 years, whichever is shorter.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2008	**2007**
	HK$'000	*HK$'000*
Unlisted equity securities, at cost, in respect of:		
- Interest in e-commerce projects	104,410	104,410
- Interest in telecommunication projects	34,974	34,974
- Others	862,545	813,143
Impairment loss recognised	(373,781)	(317,279)
	628,148	635,248
Unlisted debt securities with guaranteed return, in respect of:		
- Interest in e-commerce projects	377,750	377,750
- Interest in telecommunication projects	360,201	360,201
- Others	1,553,832	1,386,394
Capital receipts from the investment	(1,410,109)	(972,799)
	881,674	1,151,546
	1,509,822	1,786,794

The unlisted debt securities with guaranteed return represent the Group's investments in certain securities which have guaranteed a pre-determined return to the Group over a fixed period of time. The pre-determined returns are non-interest bearing and are denominated in United States dollar. Payments receivable each year for investments with pre-determined return are apportioned between income and reduction of the carrying value of the investments so as to reflect a constant periodic rate of return. The pre-determined sums will be received for a period of 5 years by half-yearly instalments and are discounted at the effective interest rate of 10% per annum.

The unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated outside Hong Kong. They are measured at cost less impairment losses at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

During the year, the directors of the Company reviewed the carrying amount of the unlisted securities in light of the current market condition with reference to the financial results and business operated by the investees. The directors identified an impairment loss of HK$56,502,000 (2007: HK$80,605,000) estimated based on expected cash flows projection from such investments.

19. INTEREST IN AN ASSOCIATE

	2008	**2007**
	HK$'000	*HK$'000*
Unlisted shares, at cost	31	31
Impairment loss recognised	(31)	(31)
	–	–

Particulars of the Group's associate at 30 June 2008 are as follows:

Name of company	**Place of incorporation**	**Proportion of nominal value of issued capital directly held by the Company**	**Principal activities**
Belcher Technology Limited	Samoa	31%	Provision of software consultation and the development of software systems. The business has not yet been commenced during the year.

Impairment loss was recognised based on the estimated recoverable amount of the associate which was determined by projected discounted cash flows from the associate.

20. DEPOSITS AND PREPAID DEVELOPMENT COSTS

During the year, the management conducted a review of the Group's deposits and prepaid developments costs in light of the current market condition and determined that certain deposits and prepaid developments costs were impaired based on the estimated recoverable amounts with reference to their values in use. The values in use were determined based on the estimated future cash flows discounted at a rate of 10% per annum. Accordingly, impairment losses of HK$245,310,000 have been recognised.

21. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials	13,675	11,901
Work in progress	3,212	2,277
Finished goods	8,577	16,271
	25,464	30,449

22. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	464,447	448,683
Guaranteed distribution receivables	267,553	261,050
Advance to suppliers and other receivables	420,497	492,594
	1,152,497	1,202,327

The Group maintains a well-defined credit policy regarding its trade customers dependent on their credit worthiness, nature of services and products, industry practice and condition of the market with credit period ranging from 30 to 180 days. The guaranteed distribution receivables, advance to suppliers and other receivables are unsecured, non-interest bearing and payable on demand.

The aged analysis of trade receivables at the reporting date is as follows:

	2008	2007
	HK$'000	*HK$'000*
0 – 60 days	334,465	319,667
61 – 90 days	120,415	122,709
91 – 180 days	7,536	1,149
> 180 days	2,031	5,158
	464,447	448,683

Before accepting any new customer, the Group's finance and sales management team would assess the potential customer's credit quality and defines credit limits by customer. Limits attributable to customers are reviewed regularly with reference to past settlement history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$2,031,000 (2007: HK$5,158,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The age of these receivables is ranged from 180 days to 320 days in both years.

The Group has provided fully for all receivables over 320 days because historical experience is such that receivables that are past due beyond 320 days are generally not recoverable.

The trade and other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2008	2007
	HK$'000	*HK$'000*
United States dollar	699,095	700,928

23. DEPOSITS, BANK BALANCES AND CASH AND BANK OVERDRAFTS

Deposits, bank balances and cash

	2008	2007
	HK$'000	*HK$'000*
Interest bearing deposits	228,671	303,969
Bank balances and cash	122,057	43,513
	350,728	347,482

The Group's deposits, bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2008	2007
	HK$'000	*HK$'000*
United States dollar	109,190	61,621
Hong Kong dollar	829	8,199
Renminbi ("RMB")	36	35
Others	4,162	754

The deposits, bank balances and cash comprise short-term deposits with maturity of three months or less and cash held by the Group. The deposits carries interest at an average rate of 1.3% (2007: 0.1%).

Certain bank balances and cash of HK$4,056,000 (2007: HK$4,033,000) were denominated in RMB which is not freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Bank overdrafts

Bank overdrafts carry interest at an average rate of 5.7%.

24. TRADE AND OTHER PAYABLES

At 30 June 2008, the balance of trade and other payables included trade payables of HK$147,847,000 (2007: HK$14,446,000). The aged analysis of trade payables at the reporting date is as follows:

	2008	2007
	HK$'000	*HK$'000*
0 – 60 days	9,419	10,080
61 – 90 days	28,067	644
91 – 180 days	107,419	1,111
> 180 days	2,942	2,611
	147,847	14,446

The credit period on purchases of goods is ranged from 30 days to 60 days.

25. WARRANTY PROVISION

	2008	2007
	HK$'000	*HK$'000*
At beginning of the year	1,860	1,683
Currency realignment	147	138
Provided during the year	2,798	2,492
Utilised during the year	(2,669)	(2,453)
At end of the year	2,136	1,860

The warranty provision represents the management's best estimate of the Group's liability under 12-month warranties granted on manufactured products, based on prior experience and industry average for defective products.

26. BANK BORROWINGS

	2008	2007
	HK$'000	*HK$'000*
Bank borrowings comprise the following:		
Bank loans (Unsecured)	249,893	228,610
Mortgage loan (Secured)	372	1,171
	250,265	229,781

Included in the Group's balance above were bank borrowings of HK$372,000 (2007: HK$1,171,000), which were secured by the Group's land and buildings with carrying value of HK$12,636,000 (2007: HK$12,915,000).

	2008	2007
	HK$'000	*HK$'000*
Bank borrowings bear interest at prevailing market rates and are repayable as follows:		
On demand or within one year	201,313	229,408
More than one year but not exceeding two years	4,647	373
More than two years but not exceeding five years	44,305	–
	250,265	229,781
Less: Amount due within one year shown under current liabilities	(201,313)	(229,408)
Amount due after one year	48,952	373

The above bank borrowings bear variable interest at an average rate of 2.8% (2007: 5.9%).

27. OTHER BORROWINGS

	2008	2007
	HK$'000	*HK$'000*
The other borrowings represent block discounting loans and are payable as follows:		
Within one year	489	1,861
More than one year but not exceeding two years	193	506
More than two years but not exceeding three years	–	210
	682	2,577
Less: Amount due within one year shown under current liabilities	(489)	(1,861)
Amount due after one year	193	716

The above other borrowings bear variable interest at an average rate of 9% (2007: 8%).

28. CONVERTIBLE BONDS

	HK$'000
As at 1 July 2006	18,219
Currency realignment	30
Issue of 1% convertible bonds	62,400
Issue of subscription rights	(2,789)
Change in fair value during the year	32,829
Converted during the year	(74,809)
As at 30 June 2007	35,880
Currency realignment	(31)
Change in fair value during the year	2,282
Converted during the year	(37,351)
Redeemed during the year	(780)
As at 30 June 2008	–

The convertible bonds were convertible at any time up to one week prior to 1 April 2008 and thus classified as current liabilities.

On 1 April 2005, Kantone, a 51% (2007: 51%) owned subsidiary of the Company entered into a subscription agreement (the "Subscription Agreement of Kantone") with an independent third party (the "Bondholder of Kantone") for the subscription of an aggregate principal amount of up to US$24,000,000 1% convertible bonds due 2008 (the "Convertible Bonds of Kantone") issued by Kantone. The principal terms of the Convertible Bonds of Kantone were as follows:

(a) The outstanding principal amount of the Convertible Bonds of Kantone may be converted at the option of the Bondholder of Kantone in whole or in part into shares of HK$0.1 each in Kantone at any time from the date of issue of the Convertible Bonds of Kantone up to one week prior to 1 April 2008, the maturity date of the Convertible Bonds of Kantone, at a price equal to either 125% of the average of the closing prices per share for the 30 consecutive business days immediately prior to the date of the Subscription Agreement of Kantone, subject to adjustment (the "Fixed Conversion Price of Kantone") or 93% of the average of any five consecutive closing prices per share as selected by the Bondholder of Kantone during the 30 consecutive business days immediately prior to the date on which notice of exercise of the bondholder is received by Kantone (the "Floating Conversion

Price of Kantone"), provided that both the Fixed Conversion Price of Kantone and the Floating Conversion Price of Kantone shall not be less than the par value of Kantone's shares.

(b) The Convertible Bonds of Kantone bear interest at the rate of 1% per annum and interest will be payable bi-annually in arrears in June and December in each year.

(c) Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds of Kantone will be redeemed at 100% of the principal amount at maturity.

(d) The Convertible Bonds of Kantone may be early redeemed at the option of Kantone subject to certain conditions set out in the Subscription Agreement of Kantone.

Pursuant to the Subscription Agreement of Kantone, Kantone issued Convertible Bonds with an aggregate principal amount of US$8,000,000 in April 2005; the Bondholder of Kantone had an option to require Kantone to issue additional Convertible Bonds of Kantone of up to US$8,000,000 (the "Call Option") within a defined period; and Kantone was also granted an option to issue and to require the Bondholder of Kantone to subscribe an aggregate principal amount of Convertible Bonds of Kantone of up to US$8,000,000 (the "Put Option") within a defined period.

On 23 August 2006, the Bondholder of Kantone exercised the Call Option and Kantone issued additional Convertible Bonds of Kantone of US$8,000,000.

As the conversion price was not fixed and the conversion option of the Convertible Bonds of Kantone would not result in settlement by the exchange of a fixed amount for fixed number of equity instruments, the conversion option was regarded as a derivative.

The Convertible Bonds of Kantone included the liability component and embedded derivative (including the conversion option, the Call Option and the Put Option and an early redemption option).

The fair value of the liability component of the Convertible Bonds of Kantone at 30 June 2007 was determined based on the present value of the estimated future cash flows discounted at the expected borrowing rate of Kantone of HIBOR plus 1.9%.

The fair value of the conversion option and redemption option embedded was calculated using the Binomial model. The inputs into the model were as follows:

	30 June 2007
Stock price	HK$0.76
Exercise price	HK$0.3844
Expected volatility	40%
Maturity life	0.76 years
Risk-free rate	4.10%
Expected dividend yield	5%

The fair value of the Put Option in the prior year were calculated using the Binomial model. The inputs into the model were as follows:

	30 June 2007
Underlying asset price	HK$73,730,000
Exercise price	HK$62,240,000
Expected volatility	11.1%
Maturity life	0.92 years
Risk free rate	4.10%
Expected dividend yield	1%

In 2005, Kantone, under the Subscription Agreement of Kantone, had granted to the Bondholder of Kantone an additional right to subscribe for up to 30,437,073 new shares in Kantone at a subscription price of HK$0.3844 per share, exercisable until 1 April 2008 (the "2005 Subscription Rights"). In 2006, Kantone had granted an additional right to the Bondholder of Kantone to subscribe for up to 30,347,707 new shares in Kantone at a subscription price of HK$0.3844 per share, exercisable until 1 April 2008 (the "2006 Subscription Rights").

As the 2005 Subscription Rights and 2006 Subscription Rights granted to the Bondholder of Kantone would result in settlement by the exchange of a fixed amount for fixed number of equity instrument, the fair value of the 2005 Subscription Rights and 2006 Subscription Rights granted was recognised in equity as subscription right reserve on initial recognition.

The fair value of the 2005 Subscription Rights and 2006 Subscription Rights at the date of grant was calculated using the Binomial model. The inputs into the model were as follows:

	2006 Subscription Rights	**2005 Subscription Rights**
Stock price	HK$0.42	HK$0.33
Exercise price	HK$0.3844	HK$0.3844
Expected volatility	40%	40%
Maturity life	1.61 years	3 years
Risk-free rate	3.88%	3.57%
Expected dividend yield	5%	5%

During the year, US$2,300,000 (2007: US$5,700,000) of the issued Convertible Bonds of Kantone were converted into 46,590,000 (2007: 115,740,000) shares of Kantone of HK$0.1 each at a price of HK$0.3844 (2007: HK$0.3844) per share. In addition, US$100,000 (2007: Nil) of the issued Convertible Bonds of Kantone were redeemed by Kantone during the year. At 30 June 2008, no Convertible Bonds of Kantone remained outstanding.

29. DEFERRED TAXATION

The following is the deferred taxation liability recognised and movement thereon:

	Accelerated for depreciation	
	2008	**2007**
	HK$'000	*HK$'000*
Balance at beginning of the year	149	206
Currency realignment	8	(34)
Movement for the year *(Note 11)*	–	(23)
Balance at end of the year	157	149

At the balance sheet date, the Group had unused tax losses of approximately HK$327,189,000 (2007: HK$272,353,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. These tax losses may be carried forward infinitely.

30. SHARE CAPITAL

	Number of shares *'000*	Amount *HK$'000*
Authorised share capital of HK$0.1 each:		
Balance at 1 July 2006, 30 June 2007 and 30 June 2008	30,000,000	3,000,000
Issued and fully paid share capital of HK$0.1 each:		
Balance at 1 July 2006	1,314,201	131,420
Issue of shares upon exercise of 2007 Warrants	245,855	24,585
Issue of shares upon exercise of 2008 Warrants	5,585	559
Issue of shares as 2006 final scrip dividend	22,337	2,234
Issue of shares as 2007 interim scrip dividend	15,646	1,564
Balance at 30 June 2007 and 1 July 2007	1,603,624	160,362
Issue of shares upon exercise of 2008 Warrants	59,314	5,932
Issue of shares upon exercise of 2009 Warrants	10	1
Issue of shares as 2007 final scrip dividend	25,241	2,524
Issue of shares as 2008 interim scrip dividend	18,311	1,831
Issue of shares on acquisition of a subsidiary	268,000	26,800
Balance at 30 June 2008	1,974,500	197,450

During the year, the following changes in the share capital of the Company took place:

(a) During the year, 59,314,088 shares and 9,371 shares of HK$0.1 each were issued at HK$1.38 and HK$1.6 per share respectively as a result of the exercise of the 2008 Warrants and 2009 Warrants (as defined under the section headed "Warrants" below) of the Company by the warrantholders;

(b) In January 2008, 25,241,398 shares of HK$0.1 each were issued at a price of HK$1.47 per share upon election by shareholders to receive shares in the Company in lieu of the 2007 final dividend in cash pursuant to the scrip dividend scheme as detailed in a circular dated 17 December 2007;

(c) In June 2008, 18,311,212 shares of HK$0.1 each were issued at a price of HK$1.15 per share upon election by shareholders to receive shares in the Company in lieu of the 2008 interim dividend in cash pursuant to the scrip dividend scheme as detailed in a circular dated 15 May 2008;

(d) The Company issued 268,000,000 shares of HK$0.1 each as part of the consideration for acquisition of the entired issued share capital of Big World International Limited (the "Big World"), see note 32 for more details.

All shares issued rank pari passu with the then existing shares in issue in all respects.

Warrants

On 23 October 2006, the Company proposed a bonus issue of new warrants ("2008 Warrants") to subscribe for shares equal to 20% of the issued number of shares of HK$0.1 each on 27 February 2007, to the shareholders of the Company whose names appeared on the register of members on 22 November 2006. Pursuant to an ordinary resolution passed on 22 November 2006, 316,478,617 units of 2008 Warrants were issued to the shareholders of the Company at an initial subscription price of HK$1.38 per share of HK$0.1 each of the Company as a result of the bonus issue of new warrants. The 2008 Warrants expired on 7 March 2008.

On 26 October 2007, the Company proposed a bonus issue of new warrants ("2009 Warrants") to subscribe for shares equal to 20% of the issued number of shares of HK$0.1 each on 8 March 2008, to the shareholders of the Company whose names appeared on the register of members on 23 November 2007. Pursuant to an ordinary resolution passed on 23 November 2007, 337,635,936 units of 2009 Warrants were issued to the shareholders of the Company at an initial subscription price of HK$1.6 per share of HK$0.1 each of the Company as a result of the bonus issue of new warrants. The 2009 Warrants will expire on 16 April 2009.

During the year, 2008 Warrants and 2009 Warrants carrying subscription rights of HK$81,853,441 and HK$14,994 respectively were exercised.

As at 30 June 2008, the outstanding number of 2009 Warrants was 337,626,565 units (2007: number of 2008 Warrants outstanding was 310,893,952 units).

31. SHARE OPTION SCHEMES

The Company, Kantone, a 51% owned subsidiary of the Company, and Digital HK, a 78% owned subsidiary of the Company, each has a share option scheme under which eligible persons, including directors of the Company, Kantone, Digital HK or any of their respective subsidiaries, may be granted options to subscribe for shares in the Company, Kantone and Digital HK respectively.

(i) The Company

On 29 November 2002, the Company adopted a share option scheme (the "Champion Option Scheme") which, with a remaining life of about 5 years, will expire on 28 November 2012. The purpose of the Champion Option Scheme is to attract and to retain quality personnel and other persons and to provide them with incentive to contribute to the business and operation of the Group. Under the Champion Option Scheme, the directors may grant options to any directors, employees, consultants, advisors in respect of business, operation, management, technology, legal, accounting and financial matters of the Company, its subsidiaries or affiliates or any discretionary trust whose discretionary objects include the aforesaid persons or a company beneficially owned by the aforesaid persons as well as customers and suppliers of the Group, to subscribe for shares of the Company. The share option granted by the Company is exercisable at any time for a period determined by its directors which will be less than ten years from the date of grant, where the acceptance date should not be later than 21 days after the date of offer.

The exercise price (subject to adjustment as provided therein) of the option under the Champion Option Scheme is the highest of (i) the nominal value of the shares; (ii) the closing price per share as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day; or (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant of the options. The maximum number of shares in respect of which the options may be granted under the Champion Option Scheme shall not exceed 10% of the issued share capital of the Company at the date of approval of the Champion Option Scheme under the existing mandate limit of the Champion Option Scheme. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any one grantee in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue on the last date of such 12-month period, without prior approval from the Company's shareholders. No share option under the Champion Option Scheme has been granted by the Company since its adoption.

(ii) Kantone

On 29 November 2002, Kantone adopted the share option scheme (the "Kantone Option Scheme") which will expire on 28 November 2012. The purpose of the Kantone Option Scheme is to attract and to retain quality personnel and to provide them with incentive to contribute to the business and operation of Kantone and its subsidiaries ("Kantone Group"). Under the Kantone Option Scheme, the directors may grant options to any eligible persons of Kantone Group, including directors, employees, consultants, advisors in respect of business, operation, management, technology, legal, accounting and financial matters of Kantone, its subsidiaries or affiliates or any discretionary trust whose discretionary objects include the aforesaid persons or a company beneficially owned by the aforesaid persons as well as customers and suppliers of Kantone Group, to subscribe for shares in Kantone. Options granted are exercisable at any time for a period determined by its directors which will be less than ten years from the date of grant, where the acceptance date should not be later than 21 days after the date of offer.

The exercise price (subject to adjustment as provided therein) of the option under the Kantone Option Scheme is equal to the highest of (i) the nominal value of the shares; (ii) the closing price per share as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; or (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant. The maximum number of shares in respect of which the options may be granted under the Kantone Option Scheme shall not exceed 10% of the issued share capital of Kantone at the date of approval of the Kantone Option Scheme under the existing mandate limit of the Kantone Option Scheme. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of Kantone from time to time. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of Kantone in issue on the last date of such 12-month period, without prior approval from Kantone's shareholders. No share option under the Kantone Option Scheme has been granted since its adoption.

(iii) DIGITAL HK

On 29 November 2002, Digital HK adopted a share option scheme (the "DHK Option Scheme") which will expire on 28 November 2012. The purpose of the DHK Option Scheme is to attract and to retain quality personnel and other persons and to provide them with incentive to contribute to the business and operation of Digital HK and its subsidiaries (the "DIGITALHK Group"). Under the DHK Option Scheme, the directors may grant options to any directors, employees, consultants, advisors in respect of business, operation, management, technology, legal, accounting and financial matters of Digital HK, its subsidiaries or affiliates or any discretionary trust whose discretionary objects include the aforesaid persons or a company beneficially owned by the aforesaid persons as well as customers and suppliers of the DIGITALHK Group, to subscribe for shares of Digital HK. Options granted by Digital HK are exercisable at any time for a period of up to ten years from the date of grant, where the acceptance date should not be later than 21 days after the date of offer.

The exercise price of the option under the DHK Option Scheme is the highest of (i) the nominal value of the shares; (ii) the closing price per share as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant. No share option under the DHK Option Scheme has been granted by Digital HK since its adoption.

32. ACQUISITION OF A SUBSIDIARY

In April 2008, the Group acquired the entire issued share capital of Big World for cash consideration of HK$50 million and the issue of 268 million shares of HK$0.1 each of the Company with a fair value of HK$313,560,000.

The net assets acquired at the date of acquisition was as follows:

	Book value	Premium paid on acquisition of asset	Total
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Deposits and prepaid development costs	355,828	11,733	367,561
Other payables	(4,001)	–	(4,001)
	351,827	11,733	363,560
Total consideration			363,560
The above acquisition was satisfied by			
– Cash			50,000
– Shares of the Company			313,560
			363,560
Net cash outflow arising on acquisition			
Cash consideration paid			50,000

The Group acquired Big World for the deposits and prepaid development costs which it has paid for development of a software system for logistics and smart port management system for a port currently under development in the PRC and hence the acquisition was accounted for as an acquisition of asset.

33. MAJOR NON-CASH TRANSACTIONS

During the year, the Group disposed of its deposits and prepaid development costs of HK$216,840,000 (2007: HK$245,700,000) in return for equity interest in certain available-for-sale investments.

34. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	*HK$'000*
Capital expenditure in respect of property, plant and equipment and development costs for systems and networks:		
Authorised but not contracted for	362,732	343,700

35. OPERATING LEASE ARRANGEMENTS

The Group as leasee

At the balance sheet date, the Group had future minimum lease payments payable under non-cancellable operating leases in respect of rented premises and motor vehicles which fall due as follows:

	2008		2007	
	Land and buildings	**Motor vehicles**	**Land and buildings**	**Motor vehicles**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Operating leases which expire:				
Within one year	4,501	3,432	3,233	3,226
In the second to fourth year	4,960	3,592	4,336	4,699
	9,461	7,024	7,569	7,925

Leases are negotiated for an average term of one to four years and rentals are fixed for an average term of one to four years.

The Group as lessor

At the balance sheet date, the Group contracted with tenants in respect of leasing of plant and machinery and telecommunications networks which fall due as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Within one year	1,960	13,902
In the second to fifth year inclusive	29,842	26,721
After five years	7,211	1,601
	39,013	42,224

36. RELATED PARTY TRANSACTIONS

The key management personnel are the directors of the Company. The details of remuneration paid to them are set out in note 10.

37. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 30 June 2008 are as follows:

Name of company	Place of incorporation/ operations	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
100BESTSHOP.COM Limited	Hong Kong	Ordinary – HK$2	100%	Provision of e-shopping and internet-based activities
Aspire Management Limited	British Virgin Islands	Ordinary – US$1,500,000	31%$^{\Delta}$	Investment holding
Big World International Limited	Samoa	Ordinary – US$50,000	100%	Investment holding
Bingo Profits Limited	British Virgin Islands	Ordinary – US$1	51%	Investment holding
Briar International Limited	Samoa	Ordinary – US$50,000	100%	Software development
Champion (Cook Islands) Limited *	Cook Islands	Ordinary – HK$1	100%	Investment holding
Champion Consortium Limited	British Virgin Islands/ PRC	Ordinary – US$1	100%	Strategic investment
Champion Fax Machine Investments Limited	British Virgin Islands/ PRC	Ordinary – US$1	100%	Investment holding
Champion International Investments Limited	British Virgin Islands/ PRC	Ordinary – US$50,000	100%	Strategic investments and investments in telecommunications networks and e-commerce projects
Champion Luck International Limited	Hong Kong	Ordinary – HK$2	100%	Property investment
Champion Million Industries Limited	Hong Kong	Ordinary – HK$2	100%	Property investment
Champion Pacific Investment Limited	Hong Kong	Ordinary – HK$2	100%	Property investment
Champion Technology Limited	Hong Kong	Ordinary – HK$1,000 Deferred – HK$1,000,000	100%	Sales of general systems products and provision of services and software licensing
Champnet Limited	Hong Kong	Ordinary – HK$2	100%	Internet business
Chief Champion Limited	Hong Kong	Ordinary – HK$1,000 Deferred – HK$10,000	100%	Property investment
Chinese Paging Company Limited	Hong Kong	Ordinary – HK$1,000 Deferred – HK$2,000,000	100%	Paging operations

Name of company	Place of incorporation/ operations	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
Chinese Science & Technology Limited	Hong Kong	Ordinary – HK$2	100%	Internet business
Cyber Solutions Inc.	Samoa	Ordinary – US$1	100%	Internet business
DIGITALHONGKONG.COM INC.	British Virgin Islands	Ordinary – US$1	78%	Provision of an e-commerce platform for payment process for global business
DIGITALHONGKONG.COM *	Cayman Islands	Ordinary – HK$15,000,000	78%	Investment holding
DIGITAL COMMERCE LIMITED	Hong Kong	Ordinary – HK$2	78%	Provision of an e-commerce platform and evaluation of e-commerce opportunities
Digital Hong Kong Limited	Hong Kong	Ordinary – HK$2	78%	Provision of an e-commerce platform for payment process for retail customers and e-mall based in Hong Kong
Eagle Landmark Limited	British Virgin Islands	Ordinary – US$1	100%	Provision of treasury services
ESP International Group Limited	Hong Kong	Ordinary – HK$2	100%	Advertising and recruitment agency
Happy Commercial Company Limited	Macau	Ordinary – MOP25,000	100%	Provision of documentation services and arrangement and business consultant
Happy Union Development Limited	Hong Kong	Ordinary – HK$2	100%	Property investment
Harilela Kantone Telecommunications Limited	Hong Kong	Ordinary – HK$10,000	55%	Investments in telecommunications networks
High Win Limited	British Virgin Islands	Ordinary – US$1	100%	Investment holding and strategic investment
Honest (Macao Commercial Offshore) Limited	Macau	Ordinary – MOP100,000	100%	Provision of consulting services, data processing and selling activities
Hong Kong IT Alliance Limited	Hong Kong	Ordinary – HK$2	100%	Information technology development
Hydro-Cable Limited	British Virgin Islands	Ordinary – US$1	100%	Investment holding

Name of company	Place of incorporation/ operations	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
Internet Vehicles Limited	Hong Kong	Ordinary – HK$2	100%	Provision of internet related services
Kannet Limited	Hong Kong	Ordinary – HK$2	100%	Internet operations
Kantel Limited	Hong Kong	Ordinary – HK$2	100%	Investment in telecommunications networks
Kantone Holdings Limited *	Cayman Islands	Ordinary – HK$341,105,968	51%	Investment holding
Kantone Paging Company Limited	Hong Kong	Ordinary – HK$1,000 Deferred – HK$2,000,000	100%	Trading of pagers and provision of paging services
Kantone (UK) Limited	United Kingdom	Ordinary – £5,500,000	51%	Investment holding
Keen Pacific Limited	Samoa	Ordinary – US$1	51%	Provision of treasury service
Kontone International Limited	Hong Kong	Ordinary – HK$2	100%	Investment holding
KTT (Cook Islands) Limited *	Cook Islands	Ordinary – HK$10,000	100%	Investment holding
Lucky (Macao Commercial Offshore) Limited	Macau	Ordinary – MOP100,000	100%	Provision of consulting services, research and development, and selling activities
Lucky Success Development Limited	Hong Kong	Ordinary – HK$2	100%	Property investment
Lucky Tone Investments Limited	Hong Kong	Ordinary – HK$2	100%	Property investment
M.C. Holdings Limited	Cayman Islands	Ordinary – £5,500,002	51%	Investment holding
Marcotte Limited	Samoa	Ordinary – US$1	100%	Investment holding
Multitone Electronics PLC	United Kingdom	Ordinary – £3,830,107	51%	Investment holding, design and manufacture of telecommunications systems and equipment
Multitone Electronics Sdn. Bhd.	Malaysia	Ordinary – MR285,000	51%	Manufacture of telecommunications equipment
Multiton Elektronik GmbH	Germany	Ordinary – €1,022,584	51%	Distribution of telecommunications equipment
Multitone Rentals Limited	United Kingdom	Ordinary – £100	51%	Leasing of systems products

Name of company	Place of incorporation/ operations	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
New Telecomm Company Limited	Hong Kong	Ordinary – HK$6,000,000	100%	Trading in telecommunications equipment and provision of related services
Peak Vantage Limited	British Virgin Islands/ Macau	Ordinary US$1	51%	Provision of treasury services
QQKK.COM Limited	Hong Kong	Ordinary – HK$2	100%	Provision of e-commerce, m-commerce and internet based activities
Shenzhen Hengyu Science & Technology Company Limited #	PRC	Ordinary – RMB21,000,000	31%Δ	Investment holding
Silverstrand Investments Limited	Samoa	Ordinary – US$1	51%	Investment holding
Smart Delta Inc.	Samoa	Ordinary – US$1	51%	Provision of treasury services
Smart (Macao Commercial Offshore) Limited	Macau	Ordinary – MOP100,000	51%	Provision of services, software licensing and trading of telecommunications equipment
Success (Macao Commercial Offshore) Limited	Macau	Ordinary – MOP100,000	100%	Provision of consulting services, research and development and selling activities
Top Gallop International Limited	British Virgin Islands	Ordinary – US$1	100%	Investment holding
Very Happy International Limited	Hong Kong	Ordinary – HK$2	100%	Property investment
Victory (Macao Commercial Offshore) Limited	Macau	Ordinary – MOP100,000	100%	Provision of services, software licensing and trading in telecommunications products
Wollaston Limited	Samoa	Ordinary – US$1	51%	Investment holding
Y28.COM Inc.	British Virgin Islands	Ordinary – US$1	100%	Provision of e-commerce, m-commerce and internet based activities

Name of company	Place of incorporation/ operations	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
Y28.COM Limited	Hong Kong	Ordinary – HK$2	100%	Provision of e-commerce m-commerce and internet based activities
Y28 Innovations *	Cayman Islands	Ordinary – HK$0.1	100%	Provision of e-commerce, m-commerce, and internet based activities
Zonal Care Incorporated	British Virgin Islands/ Macau	Ordinary – US$2	51%	Strategic investments and investments in e-commerce projects

* Directly held by the Company

\# Wholly owned foreign enterprise for a term of 20 years commencing 17 October 2003.

Δ Kantone holds 60% equity interest in these companies, hence it is accounted for as subsidiaries of the Group.

The deferred shares, which are held by the Group, of each of the above-mentioned subsidiaries entitled the holders thereof to:

(a) a fixed non-cumulative dividend at the rate of 5% per annum for any financial year of the company in question in respect of which the net profits of such company exceed HK$100,000,000,000; and

(b) on a winding-up, a return of the capital paid up on such shares out of the surplus assets of the company in question after a total sum of HK$100,000,000,000 has been distributed in such winding up in respect of each of the ordinary shares of such company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or constituted a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Save as disclosed, none of the subsidiaries had any debt securities subsisting at 30 June 2008 or at any time during the year.

38. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date:

(a) On 28 July 2008, the Group entered into an agreement to acquire the entire issued share capital of Good Holdings Limited ("GHL") by issue of 620,000,000 shares of Kantone to the independent vendors. GHL is an investment holding company and its subsidiary is engaged in the development of gaming software contents, sports websites and sports network systems. The acquisition of GHL was completed in September 2008. The fair value of the shares issued at completion date was HK$328,600,000.

At the date of this report, management of the Group is still in the midst of determining the financial effect of the acquisition.

(b) On 12 August 2008, the Company acquired 299,290,629 shares of Kantone from Lawnside International Limited ("Lawnside"), a shareholder of the Company, the consideration of which will be satisfied entirely by the issue of HK$188,553,096 convertible bonds of the Company (the "Convertible Bonds"). The Convertible Bonds are convertible into shares of the Company at an initial conversion price of HK$1.09, subject to adjustments in accordance with the terms of the Convertible Bond agreement. The Convertible Bonds bears interest at 1% per annum payable bi-annually and will mature at the second anniversary date of issue of the Convertible Bonds ("Maturity Date"). Lawnside may require the Company to redeem the Convertible Bonds at par plus interest at any time after the date of issue up to the Maturity Date. The Convertible Bonds are convertible at any time after the date of issue up to the Maturity Date.

At the date of this report, management of the Group is still in the midst of determining the financial effect of the issue of the Convertible Bonds.

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a bi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

4. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

Set out below is the unaudited condensed consolidated financial statements of the Group for the six months ended 31 December 2008 with the comparative unaudited figures for the corresponding period as extracted from the interim report of the Group for the six months ended 31 December 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
For the six months ended 31 December 2008

		Six months ended 31 December	
		2008	**2007**
	Notes	*HK$'000*	*HK$'000*
Turnover	2	1,442,978	1,839,601
Direct operating expenses		(1,074,414)	(1,184,746)
Gross profit		368,564	654,855
Other income		16,111	9,965
Distribution costs		(21,270)	(29,264)
General and administrative expenses		(99,323)	(106,869)
Impairment losses recognised for available-for-sale investments		–	(49,402)
Impairment losses recognised for deposits and prepaid development costs		(94,380)	–
Loss on deemed disposal of subsidiaries		(932)	–
Loss on fair value change of convertible bonds		–	(3,108)
Finance costs		(3,167)	(3,616)
Profit before taxation		165,603	472,561
Taxation	4	62	(222)
Profit for the period		165,665	472,339
Attributable to:			
Equity holders of the Company		107,557	368,217
Minority interests		58,108	104,122
		165,665	472,339
Earnings per share	5		
– Basic		HK5.45 cents	HK22.8 cents
– Diluted		N/A	HK22.0 cents
Dividends		9,873	40,560
Dividend per Share		HK0.5 cents	HK2.45 cents

CONDENSED CONSOLIDATED BALANCE SHEET
At 31 December 2008

	Notes	As at 31 December 2008 HK$'000 (Unaudited)	As at 30 June 2008 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	49,173	58,586
Development costs for systems and networks		2,848,616	2,743,823
Goodwill		36,795	36,795
Intangible assets		4,130	5,310
Available-for-sale investments		1,360,389	1,509,822
Interest in an associate		49,998	–
Deposits and prepaid development costs		2,858,507	2,563,105
		7,207,608	6,917,441
Current assets			
Inventories		23,626	25,464
Trade and other receivables	8	1,092,050	1,152,497
Taxation recoverable		16	29
Deposits, bank balances and cash		414,512	350,728
		1,530,204	1,528,718
Current liabilities			
Trade and other payables	9	75,877	248,931
Warranty provision		1,415	2,136
Customers' deposits		5,068	6,275
Taxation payable		1,777	2,009
Bank borrowings – amount due within one year		162,086	201,313
Other borrowings – amount due within one year		147	489
Convertible bonds	10	188,553	–
Bank overdrafts		–	27,816
		434,923	488,969
Net current assets		1,095,281	1,039,749
Total assets less current liabilities		8,302,889	7,957,190
Non-current liabilities			
Bank borrowings – amount due after one year		34,398	48,952
Other borrowings – amount due after one year		–	193
Retirement benefit obligations		62,785	92,283
Deferred taxation		149	157
		97,332	141,585
Net assets		8,205,557	7,815,605
Capital and reserves			
Share capital		197,450	197,450
Reserves		6,605,876	6,487,556
Equity attributable to equity holders of the Company		6,803,326	6,685,006
Minority interests		1,402,231	1,130,599
		8,205,557	7,815,605

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 December 2008

	Attributable to equity holders of the Company												
	Share capital	Share premium	Dividend reserve	Capital redemption reserve	General reserve	Capital reserve	Merger reserve	Translation reserve	Retained profits	Total	Subscription right reserve	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2007	160,362	1,582,237	56,127	50	1,366,003	105,495	8,358	(9,100)	2,868,140	6,137,672	4,639	1,051,710	7,194,021
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	–	–	1,120	–	1,120	–	1,439	2,559
Profit for the period	–	–	–	–	–	–	–	–	368,217	368,217	–	104,122	472,339
Total recognised income and expense for the period	–	–	–	–	–	–	–	1,120	368,217	369,337	–	105,561	474,898
On issue of shares upon exercise of warrants	5,191	66,440	–	–	–	–	–	–	–	71,631	–	–	71,631
On exercise of subscription rights of a subsidiary	–	–	–	–	–	–	–	–	–	–	(304)	1,101	797
On conversion of convertible bonds of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	36,634	36,634
Interim dividend	–	–	40,560	–	–	–	–	–	(40,560)	–	–	–	–
	5,191	66,440	40,560	–	–	–	–	–	(40,560)	71,631	(304)	37,735	109,062
At 31 December 2007	165,553	1,648,677	96,687	50	1,366,003	105,495	8,358	(7,980)	3,195,797	6,578,640	4,335	1,195,006	7,777,981
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	–	–	282	–	282	–	572	854
Loss for the period	–	–	–	–	–	–	–	–	(177,761)	(177,761)	–	(39,363)	(217,124)
Total recognised income and expense for the period	–	–	–	–	–	–	–	282	(177,761)	(177,479)	–	(38,791)	(216,270)
On issue of shares upon exercise of warrants	742	9,495	–	–	–	–	–	–	–	10,237	–	223	10,460
On exercise of subscription rights of a subsidiary	–	–	–	–	–	–	–	–	–	–	(2,006)	18,220	16,214
Subscription rights of a subsidiary lapsed	–	–	–	–	–	–	–	–	1,188	1,188	(2,329)	1,141	–
Dividends for the period													
– underprovision in prior year	–	–	1,816	–	–	–	–	–	(1,816)	–	–	–	–
– interim	–	–	800	–	–	–	–	–	(800)	–	–	–	–
– final	–	–	4,936	–	–	–	–	–	(4,936)	–	–	–	–
Dividends paid	–	–	(41,140)	–	–	–	–	–	–	(41,140)	–	–	(41,140)
On issue of shares as scrip dividend	4,355	53,808	(58,163)	–	–	–	–	–	–	–	–	–	–
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(42,340)	(42,340)
On issue of shares as consideration for acquisition of subsidiaries	26,800	286,760	–	–	–	–	–	–	–	313,560	–	–	313,560
Deemed acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(2,860)	(2,860)
	31,897	350,063	(91,751)	–	–	–	–	–	(6,364)	283,845	(4,335)	(25,616)	253,894
At 30 June 2008	197,450	1,998,740	4,936	50	1,366,003	105,495	8,358	(7,698)	3,011,672	6,685,006	–	1,130,599	7,815,605

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Dividend reserve HK$'000	Capital redemption reserve HK$'000	General reserve HK$'000	Capital reserve HK$'000	Merger reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Subscription right reserve HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 July 2008	197,450	1,998,740	4,936	50	1,366,003	105,495	8,358	(7,698)	3,011,672	6,685,006	–	1,130,599	7,815,605
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	–	–	10,763	–	10,763	–	10,454	21,217
Profit for the period	–	–	–	–	–	–	–	–	107,557	107,557	–	58,108	165,665
Total recognised income and expense for the period	–	–	–	–	–	–	–	10,763	107,557	118,320	–	68,562	186,882
On acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(208,094)	(208,094)
On issue of shares as consideration for acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	411,080	411,080
On deemed disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	84	84
Interim dividend	–	–	9,873	–	–	–	–	–	(9,873)	–	–	–	–
	–	–	9,873	–	–	–	–	–	(9,873)	–	–	203,070	203,070
At 31 December 2008	**197,450**	**1,998,740**	**14,809**	**50**	**1,366,003**	**105,495**	**8,358**	**3,065**	**3,109,356**	**6,803,326**	**–**	**1,402,231**	**8,205,557**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 December 2008

	Six months ended 31 December	
	2008	**2007**
	HK$'000	*HK$'000*
Net cash from operating activities	546,036	690,502
Net cash used in investing activities	(404,616)	(627,352)
Net cash (used in) from financing activities	(42,178)	20,391
Net increase in cash and cash equivalents	99,242	83,541
Cash and cash equivalents at the beginning of the period	322,912	347,482
Effect of foreign exchange rate changes	(7,642)	(110)
Cash and cash equivalents at the end of the period	414,512	430,913
Represented by:		
Deposits, bank balances and cash	414,512	471,247
Bank overdrafts	–	(40,334)
	414,512	430,913

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2008

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited condensed consolidated financial statements have been prepared on historical cost basis except for certain financial instruments, which are measured at fair values. The accounting policies adopted in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30 June 2008.

The HKICPA has issued a number of new/revised Hong Kong Financial Reporting Standards, HKASs, Amendments and Interpretations that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted the Amendments and Interpretations that are mandatory for the financial year ending 30 June 2009. The adoption of these Amendments and Interpretations has no significant impact on the Group's results and financial position.

2. TURNOVER AND SEGMENT INFORMATION

For management purposes, the Group is currently organised into six main operating businesses – sales of general systems products, provision of services (including software customisation and provision of e-lottery services) and software licensing, leasing of systems products, investments in telecommunications networks and projects, investments in e-commerce projects and holding strategic investments in advanced technology product development companies. These businesses are the basis on which the Group reports its primary segment information.

	Sales of general systems products	Provision of services and software licensing	Leasing of systems products	Investments in tele-communications networks and projects	Investments in e-commerce projects	Strategic investments	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 31 December 2008							
TURNOVER							
External and total revenue	930,815	465,561	10,890	–	521	35,191	1,442,978
RESULTS							
Segment result	36,247	115,897	3,443	–	490	25,572	181,649
Interest income							4,738
Finance costs							(3,167)
Loss on deemed disposal of subsidiaries							(932)
Unallocated corporate expenses, net							(16,685)
Profit before taxation							165,603
Taxation							62
Profit for the period							165,665

	Sales of general systems products HK$'000	Provision of services and software licensing HK$'000	Leasing of systems products HK$'000	Investments in tele-communications networks and projects HK$'000	Investments in e-commerce projects HK$'000	Strategic investments HK$'000	Consolidated HK$'000
Six months ended 31 December 2007							
TURNOVER							
External and total revenue	864,801	851,150	5,264	8,963	5,021	104,402	1,839,601
RESULTS							
Segment result	110,282	311,118	2,099	7,702	4,158	48,758	484,117
Interest income							6,909
Loss on fair value change of convertible bonds							(3,108)
Finance costs							(3,616)
Unallocated corporate expenses, net							(11,741)
Profit before taxation							472,561
Taxation							(222)
Profit for the period							472,339

3. DEPRECIATION AND AMORTISATION

	Six months ended 31 December 2008 HK$'000	2007 HK$'000
Amortisation on:		
Development costs for systems and networks, included in direct operating expenses	410,389	350,217
Intangible assets, included in general and administrative expenses	1,180	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	5,158	6,633
Total depreciation and amortisation	416,727	358,030

4. TAXATION

	Six months ended 31 December 2008 HK$'000	2007 HK$'000
The charge comprises:		
(Over) under provision in prior years:		
Hong Kong Profits Tax	–	222
Other jurisdictions	(62)	–
	(62)	222

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits derived from Hong Kong. No provision for taxation has been made as the Group's income neither arises in, nor is derived from Hong Kong. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The low effective tax rate is attributable to the fact that a substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and is accordingly not subject to Hong Kong Profits Tax and such profit is either exempt from or not subject to taxation in any other jurisdictions.

5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 31 December	
	2008	**2007**
	HK$'000	*HK$'000*
Earnings attributable to equity holders of the Company for the purpose of calculating basic earnings per share	107,557	368,217
Effect of subscription rights attached to convertible bonds of a subsidiary		(1,038)
Earnings for the purpose of calculating diluted earnings per share		367,179
	Number of shares *('000)*	
Weighted average number of shares for the purpose of calculating basic earnings per share	1,974,500	1,617,305
Effect of dilutive potential ordinary shares: Warrants		51,382
Weighted average number of shares for the purpose of calculating diluted earnings per share		1,668,687

No diluted earnings per share is presented in respect of warrants and convertible bond in 2008 as their respective exercise price and conversion price were higher than the average market price of shares of the Company.

The calculation of diluted earnings per share in 2007 does not include certain warrants of the Company as the exercise price of these warrants was higher than the average market price of shares of the Company.

6. DIVIDEND

	Six months ended 31 December	
	2008	**2007**
	HK$'000	*HK$'000*
Interim dividend proposed in scrip form equivalent to HK0.5 cents (2007: HK2.45 cents) per share, with a cash option	9,873	40,560

The interim dividend proposed is calculated on the basis of 1,974,500,267 shares in issue on 31 December 2008.

7. PROPERTY, PLANT AND EQUIPMENT

	Amount
	HK$'000
Net book value at 1 July 2008	58,586
Currency realignment	(8,439)
Additions	4,215
Disposals	(31)
Depreciation	(5,158)
Net book value at 31 December 2008	49,173

At 31 December 2008, certain land and buildings of the Group with a net book value of HK$9,286,000 (30 June 2008: HK$12,636,000) were pledged to a bank as security for banking facilities granted to the Group. Loss on disposal of property, plant and equipment of the Group amounted to HK$23,000 for the Period.

8. TRADE AND OTHER RECEIVABLES

	As at 31 December 2008 *HK$'000* (Unaudited)	**As 30 June 2008** *HK$'000* (Audited)
Trade receivables	623,496	464,447
Guaranteed distribution receivables	185,144	267,553
Advance to suppliers and other receivables	283,410	420,497
	1,092,050	1,152,497

The Group maintains a well-defined credit policy regarding its trade customers dependent on their credit worthiness, nature of services and products, industry practice and condition of the market with credit period ranging from 30 to 180 days. The aged analysis of trade receivables at the reporting date is as follows:

	As at 31 December 2008 *HK$'000* (Unaudited)	**As at 30 June 2008** *HK$'000* (Audited)
0-60 days	210,433	334,465
61-90 days	223,579	120,415
91-120 days	164,788	–
121-180 days	21,398	7,536
> 180 days	3,298	2,031
	623,496	464,447

9. TRADE AND OTHER PAYABLES

As at 31 December 2008, the balance of trade and other payables included trade payables of HK$19,598,000 (30 June 2008: HK$147,847,000). The aged analysis of trade payables at the reporting date is as follows:

	As at 31 December 2008 *HK$'000* (Unaudited)	**As at 30 June 2008** *HK$'000* (Audited)
0-60 days	16,300	9,419
61-90 days	234	28,067
91-180 days	–	107,419
> 180 days	3,064	2,942
	19,598	147,847

10. CONVERTIBLE BOND

	As at 31 December 2008 *HK$'000* (Unaudited)	As at 30 June 2008 *HK$'000* (Audited)
1% convertible bond – unlisted	188,553	–

On 19 September 2008, the Company issued a convertible redeemable bond in the principal amount of HK$188,553,096.27 (the "Convertible Bond") to Lawnside International Limited ("Lawnside"), a shareholder of the Company. The Convertible Bond bears interest at 1% per annum payable semi-annually and will mature on 19 September 2010, or at the option of the Company, extended to 19 September 2011. No conversion of the Convertible Bond has been made by Lawnside since its issue.

11. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had future minimum lease payments payable under non-cancellable operating leases in respect of rented premises and motor vehicles which fall due as follows:

	As at 31 December 2008		As at 30 June 2008	
	Land and buildings *HK$'000* (Unaudited)	Motor vehicles *HK$'000* (Unaudited)	Land and buildings *HK$'000* (Audited)	Motor vehicles *HK$'000* (Audited)
Within one year	2,986	2,457	4,501	3,432
In the second to fourth year inclusive	4,029	3,016	4,960	3,592
	7,015	5,473	9,461	7,024

Leases are negotiated for terms of one to four years and rentals are fixed for terms of one to four years.

The Group as lessor

At the balance sheet date, the Group contracted with tenants in respect of leasing of plant and machinery and telecommunications networks which fall due as follows:

	As at 31 December 2008 *HK$'000* (Unaudited)	As at 30 June 2008 *HK$'000* (Audited)
Within one year	717	1,960
In the second to fifth year inclusive	19,740	29,842
After five years	3,920	7,211
	24,377	39,013

5. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available financial resources, the existing banking facilities available and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements and for the period up to twelve months from the date of this prospectus in the absence of unforeseen circumstances.

6. INDEBTEDNESS

At the close of business on 31 March 2009, being the latest practicable date for ascertaining the indebtedness of the Group prior to the printing of this prospectus, the Group had outstanding bank loans of approximately HK$147.3 million; unsecured other borrowings of approximately HK$0.2 million representing block discounting loans; and convertible bond of approximately HK$188.6 million. As at 31 March 2009, apart from bank loans of approximately HK$37.3 million secured by certain land and buildings of the Group with a carrying value of approximately HK$9.4 million, the remaining bank loans were unsecured. As at 31 March 2009, none of the indebtedness of the Group was guaranteed by parties external to the Group.

Save as aforesaid, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 31 March 2009.

7. MATERIAL ADVERSE CHANGE

As disclosed in the interim report of the Company for the six months ended 31 December 2008 and the paragraph below headed "Business review and prospects of the Group" in this appendix, the Group's turnover and profit attributable to equity holders of the Company for the six months ended 31 December 2008 decreased by approximately 22% and 71% respectively as compared to the corresponding period in 2007 as a result of a marked weakening of the economy after the unfolding of further crises in the financial and industrial sectors. The Group's turnover from the PRC market dropped by approximately 19% as a result of the global slowdown in business activities across the board while the decline of approximately 20% in the Group's turnover in Europe was mainly attributable to the continued delay in government contracts as a result of key vendors falling behind in system delivery and installation. The impairment losses of approximately HK$94 million recognised for deposits and prepaid development costs for systems and networks also adversely impacted the profit of the Group.

Save as the aforementioned and as disclosed in the Company's annual report for the year ended 30 June 2008, the Company's interim report for the six months ended 31 December 2008 and the paragraph below headed "Business review and prospects of the Group" in this appendix, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 30 June 2008, being the date to which the latest audited consolidated financial statements of the Group were made up.

8. BUSINESS REVIEW AND PROSPECTS OF THE GROUP

The Group is principally engaged in the design, development and manufacture of telecommunications equipment and systems, setting up and development of internet-based knowledge systems and networks, software and proprietary technologies, and provision of telecommunications networks. It also engages in investments in telecommunications projects and e-commerce projects and holding strategic investments in advanced technology product companies.

Review of operations

Since the global financial crisis last year, the PRC's economy has been adversely affected by the weakening export market and closedown of factories with large numbers of laid-off workers. Key areas of focus of the Group in the PRC are innovative communications and security solutions and services customised to achieve high reliability and high integrity. The Group's products embrace a comprehensive range of integrated wireless solutions that interface with a broad range of radio networks; web-based monitoring solutions designed for remote management and security applications; and command, control and communications applications for use in mission critical assignments involving public safety, personal security and telematics control.

For the six months ended 31 December 2008, the Group's PRC sales were approximately HK$1,106 million, a drop of approximately 19% as compared with approximately HK$1,363 million in the previous period as a result of the slowdown in business activities across the board.

In Europe, the Group is mainly engaged in the sales and marketing activities in emergency services, fire control projects, as well as the National Health Services projects in the UK. Several new contracts for the supply of Lone Worker and Personal Security solutions to hospitals in the UK have been secured. However continued delay in government contracts as a result of key vendors falling behind in systems delivery and installation have led to the European operation falling behind budget. For the six months ended 31 December 2008, turnover of European operations registered a decline of approximately 20% to approximately HK$242 million as compared with approximately HK$304 million in the previous period, partly attributable to the softening of Euro and Pound Sterling.

Prospects of the Group

Against unprecedented economic and market uncertainties that are likely to persist for a period, the outlook for the remainder of the financial year is difficult to predict. The Group will remain vigilant and adopt a conservative approach in rolling out its business plans. Cost reduction and control measures will continue to be exercised.

In terms of business segment performance, it is expected that sales of general systems and provision of services and software licensing will slow down in line with the overall softening of the global economy, with software segment being affected to a larger extent as customers defer upgrades and service enhancement. Leasing of systems products will remain stable as customers are expected to continue with existing leasing contracts. E-commerce investments will be affected by market volatilities. Investments in telecommunications networks and projects are expected to scale down further as the Group shifts its focus to communications software, which is classified under strategic investments, an area which the Group will continue to pursue and will adopt a long-term view towards investing in the future.

The Directors echo Premier Wen Jiabao's remarks at the Boao Forum recently held in Hainan Island, the PRC that the current financial crisis would not be "short-lived", and that it is better that we get ourselves well-prepared to meet the challenges, and not to underestimate the difficulties brought about by the crisis. The Premier's words will serve as a good reminder of the Group's cautious approach.

In order to prepare for the worst possible scenario, Shareholders should note that the Rights Issue may not be the only means that the Group resorts to in its preparation for more liquidity ahead of continuing market uncertainties. When and where market conditions permit, the Group may consider alternative means of financing, either through debt or equity, to further strengthen its financial position.

Meanwhile, the Group's investments in privately held companies and projects may be subject to further impairment, especially those in the start-up or development stages. Management will continue to exercise prudence in managing investment risks and take a critical review of the Group's investment portfolio, making provisions and write-downs where deemed appropriate, in compliance with the requirements of the latest international accounting standards. The rapidly deteriorating operating environment and global financial markets may require management to take greater caution with the Group's financial accounts in the future.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets attributable to equity holders of the Company has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Rights Issue on the consolidated net tangible assets attributable to equity holders of the Company as if the Rights Issue had been taken place on 31 December 2008.

The unaudited pro forma statement of adjusted consolidated net tangible assets attributable to equity holders of the Company is prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group as at the date to which it is made up or at any future date.

	Unaudited consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2008	**Adjustment**	**Unaudited adjusted consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2008**	**Unaudited adjusted consolidated net tangible assets attributable to equity holders of the Company per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on 1,990,826,245 Rights Shares issued	4,465,351	193,083	4,658,434	1.175

Notes:

1. The unaudited consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2008 of HK$4,465,351,000 represents the net assets attributable to equity holders of the Company of HK$6,803,326,000, as extracted from the unaudited consolidated balance sheet of the Group as at 31 December 2008 set out in Appendix I to this prospectus, and deducting development costs for systems and networks, goodwill and intangible assets of HK$2,337,975,000 in aggregate (net of the portion attributable to minority interests of HK$551,566,000).

2. The adjustment to the unaudited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2008 represents the estimated net proceeds from the Rights Issue of approximately HK$193.1 million, which is calculated based on 1,990,826,245 Rights Shares to be issued to the Qualifying Shareholders at the subscription price of HK$0.1 per Rights Share and after deduction of estimated related expenses, including underwriting commission, legal and professional fees and other related expenses of approximately HK$6.0 million.

   Such adjustment is calculated based on the assumption that all 1,990,826,245 Rights Shares offered by the Company would be accepted by the Qualifying Shareholders, regardless of whether those Rights Shares would be subscribed by (i) Lawnside, a Qualifying Shareholder of the Company and the holder of the Outstanding Convertible Bond issued by the Company which remained outstanding as at 31 December 2008, the Rights Issue subscription consideration of which will be set off against the principal amount of Outstanding Convertible Bond, in whole or in part, for up to a principal amount of approximately HK$188.6 million (see below for details); or (ii) other Qualifying Shareholders.

On 16 April 2009, the Company and Lawnside entered into Underwriting Agreement in which Lawnside agreed to underwrite 1,469,903,337 Rights Shares, being the total number of 1,990,826,245 Rights Shares under the Rights Issue after deducting 520,922,908 Rights Shares undertaken to be subscribed by Lawnside pursuant to its Irrevocable Undertaking.

Pursuant to the Underwriting Agreement, the total subscription price of the Rights Shares to be taken up and underwritten by Lawnside will be set off, in whole or in part, against the principal amount of the Outstanding Convertible Bond, for up to a principal amount of approximately HK$188.6 million. In addition, the Directors are of the view that the unaudited carrying amount of the Outstanding Convertible Bond as at 31 December 2008 (which is carried at fair value through profit or loss) approximates its principal amount. As a result, the above-mentioned undertaking and arrangement with Lawnside will not affect the pro forma adjustment of approximately HK$193.1 million to the unaudited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2008 for illustration of the impact of the Rights Issue (though the net cash proceeds to be received by the Company from the Rights Issue may be different, depending on the number of Rights Shares that are subscribed by the Qualifying Shareholders other than Lawnside).

The above are hypothetical in nature and may not be indicative of the actual financial impact of the Rights Issue on the financial position of the Group as at 31 December 2008 or any future date. Also, the carrying amount of the Outstanding Convertible Bond as at the date of issue of the Rights Shares may not approximate their then principal amount.

3. The calculation of the unaudited adjusted consolidated net tangible assets attributable to equity holders of the Company per Share is based on 3,965,326,512 Shares, comprising 1,974,500,267 Shares in issue as at 31 December 2008 and 1,990,826,245 Rights Shares to be issued by reference to 1,990,826,245 Shares in issue as at 22 May 2009, the Latest Practicable Date. The increase of 16,325,978 Shares from 31 December 2008 to the Latest Practicable Date was due to the issue of 16,325,340 Shares pursuant to the scrip dividend scheme of the Company and the exercise of the subscription rights under 638 units of warrants of the Company.

2. REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

TO THE DIRECTORS OF CHAMPION TECHNOLOGY HOLDINGS LIMITED

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of Champion Technology Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the rights issue of 1,990,826,245 rights shares of HK$0.1 each at HK$0.1 per rights share on the basis of one rights share for every existing share held on 22 May 2009 might have affected the consolidated net tangible assets of the Group presented, for inclusion in Appendix II to the prospectus of the Company dated 26 May 2009 (the "Prospectus"). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is set out in Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2008 or any future date.

Opinion

In our opinion:

(a) the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 May 2009

Set out below is a summary of the provisions of the memorandum of continuance (the "Memorandum") and the bye-laws of the Company (the "Bye-laws") and of certain aspects of Bermuda company law.

1. MEMORANDUM OF CONTINUANCE

The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum also sets out the objects of the Company, including acting as a holding and an investment company, and its powers, including the powers to issue preference shares which are, at the option of the holder, liable to be redeemed and to purchase its shares. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the Board upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed "Bermuda Company Law" in this Appendix.

(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the Board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Bye-laws)) is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or

(ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which his associate(s) is/are materially interested save for the exceptions set out above in sub-paragraphs (aa) to (ff) above which shall apply to an associate of a Director mutatis mutandis.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but less than one third) will retire from office by rotation so that each Director shall be subject to retirement at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

(ix) Borrowing powers

The Board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum;

(v) change the currency denomination of its share capital;

(vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

(vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to the foregoing shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the Board.

(h) Accounts and audit

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the Board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Memorandum (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the Board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the

Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the Board determines.

(p) Inspection of register of members

The register and branch register of members, as the case may be, shall be open to inspection by members of the public without charge at the registered office, the place where the branch register of members is kept or such other place at which the register of members is kept in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the

Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM AND BYE-LAWS

The Memorandum may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is continued in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

(i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(ii) in writing off:

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the

Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DIRECTORS

Executive Directors

Paul Kan Man Lok, CBE, Comm OSSI, Chevalier de la Légion d'Honneur, JP, 62, is the founder of the Group and the Chairman and an executive director of each of the Company, Kantone and DHK. Mr. Kan holds a Master's degree in Business Administration from the Chinese University of Hong Kong and has over 40 years of experience in the computing and telecommunications industries. Mr. Kan is an independent non-executive director of CLP Holdings Limited, a company listed on the Stock Exchange.

Leo Kan Kin Leung, 52, is the Chief Executive Officer and an executive director of the Company, as well as a non-executive director of each of Kantone and DHK. He is a brother of Mr. Kan. Prior to joining the Group in 1988, he held management positions in several international companies in Hong Kong. He holds a Master's degree in Business Administration from Dalhousie University in Canada and a Master's degree in Economics from the University of Alberta in Canada. In 2006, he completed the Oxford Advanced Management Programme at the Saïd Business School of the University of Oxford.

Lai Yat Kwong, 60, is the Chief Financial Officer and an executive director of the Company. He is also the Acting Chief Executive Officer and Chief Financial Officer and an executive director of Kantone, as well as a non-executive director of DHK. He joined the Group in March 1994 as Vice President of Internal Audit and Control. In July 1997, he took on responsibility as the Chief Financial Officer of Kantone. He holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong and has over 36 years of experience in accounting, auditing and company secretarial matters. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants (Practising).

The business address of the executive Directors is at 3rd Floor, Kantone Centre, 1 Ning Foo Street, Chaiwan, Hong Kong.

Non-executive Director

Shirley Ha Suk Ling, 53, has been a non-executive Director since November 2004. She is also the Chief Executive Officer and an executive director of DHK, as well as a non-executive director of Kantone. She joined the Company in 1992 as its Executive Vice President with responsibility for its corporate development. She has over 25 years of business experience including 10 years in investment banking. Ms. Ha holds a Bachelor's degree in Arts from the University of Hong Kong and a Master's degree in Business Administration from the Chinese University of Hong Kong.

The business address of Shirley Ha Suk Ling is at 3rd Floor, Kantone Centre, 1 Ning Foo Street, Chaiwan, Hong Kong.

Independent non-executive Directors

Terry John Miller, 70, has been an independent non-executive Director since 1992. He has extensive experience in business management and operations. His residential address is at Apartado 3593, Almancil 8135, Algarve, Portugal.

Francis Gilbert Knight, 79, has been an independent non-executive Director since February 2000. He is also an independent non-executive director of DHK. He has over 20 years' experience in the field of copyright protection, security and commercial investigations. His residential address is at Miramar Villa, Flat 7, 10th Floor, 2B Shiu Fai Terrace, Stubbs Road, Hong Kong.

Professor Ye Pei Da, 93, has been an independent non-executive Director since November 2001. He has an indepth knowledge of the telecommunications industry in the PRC. His residential address is at No. 202, Unit 2, 7th Floor, South Building, Beijing University of Post & Telecommunications (BUPT), Hai Dian District, Beijing, PRC.

Frank Bleackley, 72, has been an independent non-executive Director since November 2001. He is also an independent non-executive director of Kantone. He has more than 30 years of experience in the management and business development of joint venture companies in Hong Kong and the PRC. His residential address is at 1706 Lions Tower, Kobe Kyukyoryuchi, 106 Ito-Cho, Chuo-Ku, Kobe-Shi 650-0032, Japan.

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	3rd Floor, Kantone Centre 1 Ning Foo Street Chaiwan Hong Kong
Company secretary	Jennifer Cheung Mei Ha, a solicitor practising in Hong Kong
Authorised representatives	Leo Kan Kin Leung and Jennifer Cheung Mei Ha
Auditor	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor, One Pacific Place 88 Queensway Hong Kong
Principal share registrar and transfer agent	Butterfield Fund Services (Bermuda) Limited 65 Front Street Hamilton Bermuda
Branch share registrar in Hong Kong	Tricor Secretaries Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

Principal bankers	The Bank of Tokyo-Mitsubishi UFJ, Ltd. 8th Floor, AIG Tower 1 Connaught Road Central Hong Kong
	DBS Bank (Hong Kong) Limited 16th Floor, The Center 99 Queen's Road Central Central Hong Kong
	The Hongkong and Shanghai Banking Corporation Limited HSBC Main Building 1 Queen's Road Central Hong Kong
	Standard Chartered Bank (Hong Kong) Limited Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong

PARTIES INVOLVED IN THE RIGHTS ISSUE

Underwriter	Lawnside International Limited P.O. Box 71 Craigmuir Chambers Road Town Tortola British Virgin Islands
Financial adviser to the Company	Quam Capital Limited 32nd Floor, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Legal advisers to the Company	*As to Hong Kong law* Jennifer Cheung & Co. Unit A, 19th Floor Two Chinachem Plaza 68 Connaught Road Central Hong Kong
	As to Bermuda law Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Hong Kong

DISCLOSURE OF INTERESTS

Interests of the Directors in the Company

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company or any of its associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange (except the changes arising as a result of the Underwriting Agreement) were as follows:

Name	Nature of interest	Number of shares	Approximate percentage of the issued share capital
Securities of the Company			
Mr. Kan	Corporate interest	520,922,908 *(Note 1)*	26.17%
Securities of Kantone			
Mr. Kan	Corporate interest	2,705,645,775 *(Note 2)*	53.33%
Securities of DHK			
Mr. Kan	Corporate interest	119,969,171 *(Note 3)*	79.98%

Notes:

1. 520,922,908 Shares were held by Lawnside. Lawnside also held the Outstanding Convertible Bond. The Outstanding Convertible Bond had not been taken into account in calculating the percentage of the issued share capital of the Company held by Lawnside.

2. These shares of Kantone were held by the Company. Lawnside, which is beneficially wholly owned by Mr. Kan, had interests in approximately 26.17% of the entire issued share capital of the Company. Mr. Kan was deemed to have corporate interest in shares owned by the Company.

3. 117,300,000 shares of DHK were held by the Company and 2,669,171 shares of DHK were held by Lawnside.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules to be notified to the Company and the Stock Exchange (except the changes arising as a result of the Underwriting Agreement).

Mr. Kan and Mr. Leo Kan Kin Leung are also directors of Lawnside.

Interests of other persons in the Company

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (except the changes arising as a result of the Underwriting Agreement):

Name	Nature of interest	Number of Shares	Approximate percentage of the issued share capital
Lawnside *(Note)*	Beneficial owner	520,922,908	26.17%

Note: See Note 1 to the sub-paragraph headed "Interests of the Directors in the Company" above.

Save as disclosed above, taking no account of Shares which may be taken up under the Rights Issue, the Directors are not aware of any person who will immediately following the Rights Issue hold or be beneficially interested in 10% or more of the Shares then in issue.

Interests in other members of the Group

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than a Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the following subsidiaries of the Company:

(a) Shanghai Industrial Investment (Holdings) Company Limited was interested in approximately 12.55% of the issued share capital of Kantone;

(b) Silicon Valley Technology (Hong Kong) Limited was interested in 45% of the issued share capital of Harilela Kantone Telecommunications Limited;

(c) Mr. Lo Ming Chi, Charles and Mr. Wang Yu Peng were both interested in approximately 16.67% of the issued share capital of Aspire Management Limited;

(d) Mr. Wang Yu Peng and Shenzhen Helper Information Technology Co., Ltd. were interested in approximately 23.08% and approximately 15.38% respectively of the issued share capital of Shenzhen Helper Science Development Co., Ltd.;

(e) Bharat Electronics Limited was interested in 49% of the issued share capital of Bel Multitone Limited;

(f) China Sport United Investment Limited was interested in 60% of equity interest of China Sports Technology Inc.;

(g) China Sport United Investment Limited and Beijing Huizhong Tong Chan Investment Company Limited were interested in 49% and 10% respectively of the equity interest of China Sports (Beijing) Printing Company Limited; and

(h) China Sport United Investment Limited and Beijing Huizhong Tong Chan Investment Company Limited were interested in 30% and 10% respectively of the equity interest of China Sports (Beijing) Digital Technology Company Limited.

Interests of expert in the Group

The expert named in the paragraph headed "Qualification of expert" in this appendix did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date.

Interests in contract or arrangement

None of the Directors has any interest in contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole.

Interests in assets

None of the Directors or the expert named in the paragraph headed "Qualification of expert" in this appendix has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 30 June 2008, being the date on which the latest published audited accounts of the Company were made up except that Lawnside sold 299,290,629 shares of Kantone to the Company on 19 September 2008 pursuant to the agreement mentioned in item (c) of the paragraph headed "Material contracts" in this appendix.

Service contracts

There is no existing or proposed service contract between any member of the Group and any Director (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations)).

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

(a) an agreement dated 22 April 2008 between (i) the Company (as purchaser) and (ii) Cyber Ltd., Treasure Focus International Ltd., Cyber Channel Enterprises Ltd. and Good Choice Technology Ltd. (as vendors) relating to the sale and purchase of the entire issued share capital of Big World International Limited for an aggregate consideration of HK$370 million, HK$50 million of which was paid in cash and the balance of HK$320 million was satisfied by the issue of 268 million Shares;

(b) an agreement dated 28 July 2008 (as amended by a supplemental agreement dated 12 August 2008) between (i) Kantone (as purchaser) and (ii) Hudson Sky Limited, Guan Feng Technology Ltd., Westcity International Ltd. and Good Talent Technology Ltd. (as vendors) relating to the sale and purchase of the entire issued share capital of Good Holdings Limited for a total consideration of HK$390.6 million, which was satisfied by the issue of 620 million shares of Kantone at HK$0.63 each;

(c) an agreement dated 12 August 2008 between (i) the Company (as purchaser) and (ii) Lawnside (as vendor) relating to the sale and purchase of 299,290,629 shares of Kantone for a total consideration of HK$188,553,096.27, which was satisfied by the issue of the Outstanding Convertible Bond;

(d) an underwriting agreement dated 23 March 2009 between (i) Kantone and (ii) the Company relating to a rights issue of 1,014,761,471 shares of Kantone at HK$0.10 each; and

(e) the Underwriting Agreement.

LITIGATION

Neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

QUALIFICATION OF EXPERT

The qualification of the expert who has given opinion in this prospectus is as follows:

Name	**Qualification**
Deloitte Touche Tohmatsu	Certified Public Accountants

CONSENT

The expert named in the paragraph headed "Qualification of expert" in this appendix has given and has not withdrawn its written consent to the issue of this prospectus with a copy of its report and the references to its name included herein in the form and context in which they are respectively included.

LEGAL EFFECT

This prospectus, the PAL and the EAF, and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong.

BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

A copy of this prospectus, together with copies of the PAL and EAF and the written consent referred to in the paragraph headed "Consent" in this appendix, has been delivered to the Registrar of Companies in Hong Kong for registration pursuant to section 342C of the Companies Ordinance. A copy of this prospectus, together with copies of the PAL and EAF will be filed with the Registrar of Companies in Bermuda in compliance with the Companies Act.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal office of the Company at 3rd Floor, Kantone Centre, 1 Ning Foo Street, Chaiwan, Hong Kong during normal business hours up to and including the Acceptance Date:

(a) the memorandum of continuance and the bye-laws of the Company;

(b) the annual reports of the Company for each of the two years ended 30 June 2007 and 2008 and the interim report of the Company for the six months ended 31 December 2008;

(c) the circulars of the Company relating to notifiable transactions issued since 30 June 2008, being the date of its latest published audited accounts;

(d) the accountants' report on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;

(e) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(f) the written consent referred to in the paragraph headed "Consent" in this appendix; and

(g) the Companies Act.