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Champion Technology Holdings Limited  
**Interim Report 2009/10**



[www.championtechnology.com](http://www.championtechnology.com)  
Stock Code: 0092

**Champion Technology Holdings Limited** ([www.championtechnology.com](http://www.championtechnology.com)) (stock code 0092) is a global technology group offering innovative solutions in communications software, wireless, telematics, e-commerce, security, online entertainment and e-gaming. The Group's solutions are dedicated to bettering and enriching the lives and lifestyles of people, promoting health consciousness, accident prevention and life safety, and additionally promoting probity and responsibility in the conduct of the online industry.

Throughout the years, the Group has continued to build on the experience and trusted relationships with its customers and partners to expand its investment horizons, which now include transportation and logistics infrastructure, green technologies, information medicine, and resource related projects.

With total assets of over \$8 billion and a global presence in over 50 markets, the Group serves its customers through its network of regional offices and distributors, and three Hong Kong listed companies, namely Champion Technology Holdings Limited and Kantone Holdings Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Exchange"), and DIGITALHONGKONG.COM, whose shares are listed on the Growth Enterprise Market of the Exchange. The Group also includes a UK subsidiary previously listed on the London Stock Exchange.



# CHAMPION TECHNOLOGY HOLDINGS LIMITED

(Continued in Bermuda with limited liability)

## INTERIM REPORT

For the six months ended 31 December 2009

### Financial Highlights

- Turnover grew 2% to HK\$1,465 million
- Profit for the period dropped 47% to HK\$87 million
- Profit attributable to owners of the Company fell 47% to HK\$57 million
- Earnings per share was HK1.41 cents
- Interim dividend of HK0.3 cents per share
- The Group maintains a positive financial position, without engaging in speculative derivatives or structured product transactions

The board of directors of Champion Technology Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2009 (the “Period”) with the comparative unaudited figures for the corresponding period in 2008 (the “Previous Period”) as follows:

## Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 31 December 2009

		Six months ended 31 December	
		2009	2008
	Notes	HK\$'000	HK\$'000
Turnover	3	1,465,260	1,442,978
Direct operating expenses		<u>(1,264,337)</u>	<u>(1,074,414)</u>
Gross profit		200,923	368,564
Other income		4,286	16,111
Distribution costs		(21,482)	(21,270)
General and administrative expenses		(94,350)	(99,323)
Impairment losses recognised for			
deposits and prepaid development costs		-	(94,380)
Loss on deemed disposal of a subsidiary		-	(932)
Finance costs		<u>(2,013)</u>	<u>(3,167)</u>
Profit before tax		87,364	165,603
Income tax	5	-	62
<b>Profit for the period</b>		<b><u>87,364</u></b>	<b><u>165,665</u></b>
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		<u>1,579</u>	<u>21,217</u>
<b>Total comprehensive income for the period</b>		<b><u>88,943</u></b>	<b><u>186,882</u></b>
Profits for the period attributable to:			
Owners of the Company		56,555	107,557
Non-controlling interests		<u>30,809</u>	<u>58,108</u>
		<b><u>87,364</u></b>	<b><u>165,665</u></b>
Total comprehensive income attributable to:			
Owners of the Company		57,399	118,320
Non-controlling interests		<u>31,544</u>	<u>68,562</u>
		<b><u>88,943</u></b>	<b><u>186,882</u></b>
Earnings per share	6		
– Basic		<u>HK1.41 cents</u>	<u>HK3.43 cents</u>
– Diluted		<u>HK1.37 cents</u>	<u>HK3.25 cents</u>

## Condensed Consolidated Statement of Financial Position

At 31 December 2009

		As at 31 December 2009 HK\$'000 (Unaudited)	As at 30 June 2009 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	57,275	54,197
Development costs for systems and networks		3,244,121	3,138,721
Goodwill		36,795	36,795
Intangible assets		1,770	2,950
Available-for-sale investments		853,257	1,088,980
Interest in an associate		–	–
Deposits and prepaid development costs		<u>3,062,915</u>	<u>2,933,357</u>
		<u>7,256,133</u>	<u>7,255,000</u>
<b>Current assets</b>			
Inventories		26,703	24,551
Trade and other receivables	9	1,035,211	1,268,884
Taxation recoverable		7	25
Deposits, bank balances and cash		<u>584,477</u>	<u>322,706</u>
		<u>1,646,398</u>	<u>1,616,166</u>
<b>Current liabilities</b>			
Trade and other payables	10	84,133	121,576
Warranty provision		1,503	1,513
Customers' deposits		3,898	3,935
Taxation payable		48	1,051
Bank borrowings – amount due within one year		179,230	178,043
Other borrowings – amount due within one year		–	176
Convertible bonds	11	136,461	136,461
Bank overdrafts		<u>23,074</u>	<u>38,148</u>
		<u>428,347</u>	<u>480,903</u>
<b>Net current assets</b>		<u>1,218,051</u>	<u>1,135,263</u>
<b>Total assets less current liabilities</b>		<u>8,474,184</u>	<u>8,390,263</u>
<b>Capital and reserves</b>			
Share capital		400,553	400,553
Reserves		<u>6,630,191</u>	<u>6,572,792</u>
Equity attributable to owners of the Company		7,030,744	6,973,345
Non-controlling interests		<u>1,340,004</u>	<u>1,308,460</u>
<b>Total equity</b>		<u>8,370,748</u>	<u>8,281,805</u>
<b>Non-current liabilities</b>			
Bank borrowings – amount due after one year		33,342	37,026
Retirement benefit obligations		69,946	71,289
Deferred taxation		<u>148</u>	<u>143</u>
		<u>103,436</u>	<u>108,458</u>
		<u>8,474,184</u>	<u>8,390,263</u>

# Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2009

	Attributable to owners of the Company										Non-controlling interests HK\$'000	Total equity HK\$'000
	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		
At 1 July 2008 (audited)	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
Profit for the period	-	-	-	-	-	-	-	-	107,557	107,557	58,108	165,665
Other comprehensive income for the period	-	-	-	-	-	-	-	10,763	-	10,763	10,454	21,217
Total comprehensive income for the period	-	-	-	-	-	-	-	10,763	107,557	118,320	68,562	186,882
Issue of shares of a subsidiary as consideration for acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	411,080	411,080
Interim dividend	-	-	9,873	-	-	-	-	-	(9,873)	-	-	-
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	-	-	(208,094)	(208,094)
Issue of shares of a subsidiary upon exercise of warrants	-	-	-	-	-	-	-	-	-	-	84	84
	-	-	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
At 1 July 2009 (audited)	400,553	1,996,925	10,014	50	1,366,003	125,036	8,358	72	3,066,334	6,973,345	1,308,460	8,281,805
Profit for the period	-	-	-	-	-	-	-	-	56,555	56,555	30,809	87,364
Other comprehensive income for the period	-	-	-	-	-	-	-	844	-	844	735	1,579
Total comprehensive income for the period	-	-	-	-	-	-	-	844	56,555	57,399	31,544	88,943
Interim dividend	-	-	12,017	-	-	-	-	-	(12,017)	-	-	-
<b>At 31 December 2009</b>	<b>400,553</b>	<b>1,996,925</b>	<b>22,031</b>	<b>50</b>	<b>1,366,003</b>	<b>125,036</b>	<b>8,358</b>	<b>916</b>	<b>3,110,872</b>	<b>7,030,744</b>	<b>1,340,004</b>	<b>8,370,748</b>

## Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 31 December 2009

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Net cash from operating activities	<b>792,571</b>	546,036
Net cash used in investing activities	<b>(511,439)</b>	(404,616)
Net cash used in financing activities	<b>(3,928)</b>	(42,178)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>277,204</b>	99,242
Cash and cash equivalents at the beginning of the period	<b>284,558</b>	322,912
Effect of foreign exchange rate changes	<b>(359)</b>	(7,642)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b>561,403</b>	414,512
	<hr/>	<hr/>
Represented by:		
Deposits, bank balances and cash	<b>584,477</b>	414,512
Bank overdrafts	<b>(23,074)</b>	-
	<hr/>	<hr/>
	<b>561,403</b>	414,512
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# Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2009

## 1. Basis of preparation

The Group's 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 Group's unaudited condensed consolidated financial statements have been prepared on the 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 2009.

## 2. Application of new and revised Hong Kong Financial Reporting Standards

In the current period, the Group has applied a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards, amendments and interpretations (collectively referred to as "new HKFRSs") issued by the HKICPA which are or have become effective. The application of the new HKFRSs has the following effect on the condensed consolidated financial statements of the Group.

### HKAS 1 (Revised) Presentation of financial statements

The revised standard has introduced terminology changes (including revised titles for the condensed consolidated financial statements) and changes in the format and content of the condensed consolidated financial statements.

### HKFRS 8 Operating segments ("HKFRS 8")

The new standard is a disclosure standard that requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a change in the number of the reportable segments presented.

The Group has not early applied the new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group.

### 3. Turnover and segment information

The Group has adopted HKFRS 8 with effect from 1 July 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers for the purpose of allocating resources to segments and assessing their performance. The application of this standard has resulted in the grouping of some of the business segments as reported in the Previous Period.

For management purposes, the Group is organised into three main operating businesses – sales of general systems products (including software customisation and provision of e-lottery services) and software licensing, leasing of systems products and strategic investments in advanced technology product development companies and e-commerce. Information reported for the Previous Period has been restated to conform to the current period presentation.

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

	<b>Systems sales and licensing</b> <i>HK\$'000</i>	<b>Leasing of systems products</b> <i>HK\$'000</i>	<b>Strategic investments</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Six months ended 31 December 2009</b>				
<b>TURNOVER</b>				
External and total revenue	<u>1,399,287</u>	<u>11,540</u>	<u>54,433</u>	<u>1,465,260</u>
<b>RESULTS</b>				
Segment result	<u>49,427</u>	<u>44</u>	<u>48,863</u>	<u>98,334</u>
Interest income				3,416
Finance costs				(2,013)
Unallocated corporate expenses, net				<u>(12,373)</u>
Profit before tax				<u>87,364</u>
Income tax				–
Profit for the period				<u><u>87,364</u></u>
<b>Six months ended 31 December 2008</b>				
<b>TURNOVER</b>				
External and total revenue	<u>1,396,376</u>	<u>10,890</u>	<u>35,712</u>	<u>1,442,978</u>
<b>RESULTS</b>				
Segment result	<u>152,144</u>	<u>3,443</u>	<u>26,062</u>	181,649
Interest income				4,738
Finance costs				(3,167)
Loss on deemed disposal of subsidiaries				(932)
Unallocated corporate expenses, net				<u>(16,685)</u>
Profit before tax				165,603
Income tax				<u>62</u>
Profit for the period				<u><u>165,665</u></u>



#### 4. Depreciation and amortisation

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Amortisation on:		
Development costs for systems and networks, included in direct operating expenses	<b>507,232</b>	410,389
Intangible assets, included in general and administrative expenses	<b>1,180</b>	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	<b>4,827</b>	5,158
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Total depreciation and amortisation	<b>513,239</b>	416,727
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#### 5. Income tax

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
The credit comprises:		
Taxation in other jurisdictions		
– overprovision in prior years	<hr/>	<hr/>
	<b>-</b>	<b>62</b>
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Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) 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.

## 6. Earnings per share

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

	<b>Six months ended 31 December</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Earnings attributable to owners of the Company for the purpose of calculating basic earnings per share	<b>56,555</b>	107,557
Interest on a convertible bond	<b>689</b>	—
	<b><u>57,244</u></b>	<u>107,557</u>
Earnings for the purpose of calculating diluted earnings per share	<b><u>57,244</u></b>	<u>107,557</u>
	<b>Number of shares ('000)</b>	
Weighted average number of shares for the purpose of calculating basic earnings per share	<b>4,005,530</b>	3,134,774
Effect of dilutive potential ordinary shares: Convertible bond	<b><u>177,222</u></b>	<u>172,984</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<b><u>4,182,752</u></b>	<u>3,307,758</u>

The weighted average number of shares for the purpose of calculating the basic earnings per share for 2008 has been adjusted for the rights issue of the Company on the basis of one rights share for every existing issued share completed in June 2009.

No diluted earnings per share is presented in respect of warrants for 2008 as the exercise price of the warrants was higher than the average market price of shares of the Company.

## 7. Dividend

	<b>Six months ended 31 December</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared in scrip form equivalent to HK0.30 cents (2008: HK0.50 cents) per share, with a cash option	<b><u>12,017</u></b>	<u>9,873</u>

The interim dividend declared is calculated on the basis of 4,005,530,338 shares in issue on 31 December 2009.

## 8. Property, plant and equipment

	Amount HK\$'000
Net book value at 1 July 2009	54,197
Currency realignment	(465)
Additions	8,392
Disposals	(22)
Depreciation	<u>(4,827)</u>
<b>Net book value at 31 December 2009</b>	<b><u>57,275</u></b>

As at 31 December 2009, certain land and buildings of the Group with a carrying value of HK\$8,591,000 (30 June 2009: HK\$10,262,000) were pledged to a bank as security for banking facilities granted to the Group. Gain on disposal of property, plant and equipment of the Group amounted to HK\$11,000 for the Period.

## 9. Trade and others receivables

	<b>As at 31 December 2009 HK\$'000 (Unaudited)</b>	As at 30 June 2009 HK\$'000 (Audited)
Trade receivables	<b>719,462</b>	827,794
Guaranteed distribution receivables	<b>61,074</b>	201,524
Advance to suppliers and other receivables	<b><u>254,675</u></b>	<u>239,566</u>
	<b><u>1,035,211</u></b>	<u>1,268,884</u>

The Group maintains a well-defined credit policy regarding its trade customers depending 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 the trade receivables at the reporting date is as follows:

	<b>As at 31 December 2009 HK\$'000 (Unaudited)</b>	As at 30 June 2009 HK\$'000 (Audited)
0 – 60 days	<b>248,661</b>	458,802
61 – 90 days	<b>234,869</b>	256,433
91 – 180 days	<b>233,643</b>	107,434
> 180 days	<b><u>2,289</u></b>	<u>5,125</u>
	<b><u>719,462</u></b>	<u>827,794</u>

## 10. Trade and other payables

As at 31 December 2009, the balance of trade and other payables included trade payables of HK\$21,868,000 (30 June 2009: HK\$13,261,000). The aged analysis of the trade payables at the reporting date is as follows:

	<b>As at 31 December 2009 HK\$'000 (Unaudited)</b>	As at 30 June 2009 HK\$'000 (Audited)
0 – 60 days	<b>10,897</b>	8,035
61 – 90 days	<b>2,341</b>	775
91 – 180 days	<b>851</b>	3,417
> 180 days	<b>7,779</b>	1,034
	<b><u>21,868</u></b>	<b><u>13,261</u></b>

## 11. Convertible bond

	<b>As at 31 December 2009 HK\$'000 (Unaudited)</b>	As at 30 June 2009 HK\$'000 (Audited)
1% convertible bond – unlisted	<b><u>136,461</u></b>	<b><u>136,461</u></b>

On 19 September 2008, the Company issued a convertible redeemable bond (the “Convertible Bond”) in the principal amount of HK\$188,553,096.27 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 during the Period. As at 31 December 2009, the outstanding principal amount of the Convertible Bond was HK\$136,460,805.47.

The change in fair value of the Convertible Bond was insignificant during both periods, hence no fair value change was charged or credited to profit or loss.

## 12. 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 2009		As at 30 June 2009	
	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	3,018	2,610	4,424	2,575
In the second to fifth year inclusive	<u>7,046</u>	<u>4,012</u>	<u>4,252</u>	<u>3,185</u>
	<u><b>10,064</b></u>	<u><b>6,622</b></u>	<u>8,676</u>	<u>5,760</u>

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

### The Group as lessor

At the balance sheet date, the Group contracted with lessees in respect of leasing of systems products which fall due as follows:

	As at 31 December 2009 HK\$'000 (Unaudited)	As at 30 June 2009 HK\$'000 (Audited)
	Within one year	1,539
In the second to fifth year inclusive	20,148	20,519
After five years	<u>4,398</u>	<u>5,726</u>
	<u><b>26,085</b></u>	<u>26,725</u>

## **Interim Dividend and Scrip Dividend Scheme**

The board of directors has resolved to pay an interim dividend of HK0.3 cents per share for the Period (2008: HK0.5 cents per share) to shareholders whose names appear on the register of members of the Company on 16 April 2010. The interim dividend will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to the shareholders to elect to receive such dividend (or part thereof) in cash in lieu of such allotment (the “Scrip Dividend Scheme”).

The Scrip Dividend Scheme is subject to the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of a listing of and permission to deal in the shares to be issued pursuant thereto. A circular setting out the details of the Scrip Dividend Scheme together with the form of election will be sent to the shareholders of the Company as soon as practicable.

It is expected that certificates for shares to be issued under the Scrip Dividend Scheme and dividend warrants will be despatched to those entitled thereto on or before 11 June 2010.

## **Closure of Register of Members**

The register of members of the Company will be closed from 14 April 2010 to 16 April 2010, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the above interim dividend and the Scrip Dividend Scheme, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrars in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 13 April 2010.

## **Management Discussion and Analysis**

For the Period, the global operating environment remained very challenging despite some early signs of economic recovery. The impact of the financial crisis and its wrenching aftermath continued to be felt across the board. In the markets where we operate, tight controls were exercised over public and private sector spending, thereby slowing the pace of growth.

Our positive performance has been achieved via a combination of pricing policies and other concessionary terms provided to our customers and suppliers in an effort to maintain the flow of business in a difficult credit and operating environment.

## Financial Results

For the Period, the Group's turnover grew two percent to HK\$1,465 million, as compared with HK\$1,443 million for the Previous Period. Profit for the Period was HK\$87 million, a decrease of forty-seven percent, and profit attributable to owners of the Company was HK\$57 million, compared with HK\$108 million for the Previous Period. Earnings per share for the Period was HK1.41 cents as compared with HK3.43 cents of the Previous Period (after adjustment for the rights issue of the Company on the basis of one rights share for each existing issued share completed in June 2009). Excluding amortisation on development costs for systems and networks, gross margin dropped to forty-eight percent from fifty-four percent as a result of continuing severe market conditions and pressures on pricing. In view of the sluggish economy, the Group continued to adopt a conservative approach for its investment projects, pending more solid signs of recovery.

Strict discipline in cost management continued to be maintained. Distribution costs remained stable at HK\$21 million, in line with turnover. General and administrative expenses were slightly reduced to HK\$94 million (2008: HK\$99 million). In light of the continued roll-out of new systems and networks during the Period, depreciation and amortisation expenses went up twenty-three percent to HK\$513 million (2008: HK\$417 million).

Finance costs for the Period were reduced to HK\$2.0 million from HK\$3.2 million in the Previous Period.

The Group's financial position remains positive with low gearing, and it does not engage in any speculative derivatives or structured product transactions.

## Review of Operations

During the Period, China's economy was supported by massive government stimulative measures, which, to a large extent, have helped to stabilise the Mainland market. However, the weak export market and the closedown of factories affected investment sentiment and contributed to a slower pace of market activities. The Group continued to focus on innovative communications and security solutions and services customised to achieve high reliability and high integrity. Its strategic investment in In-Car Telematics solutions, anti-radiation products to counteract radio emission from mobile phones, as well as smart logistics solutions, continued. These investments were subject to review periodically to determine if progress was in line with the original plan and if the anticipated benefits could be achieved. Where required, impairment provisions at the appropriate level would be made.

For the Period, China sales accounted for HK\$1,139 million of the Group's turnover as compared with HK\$1,106 million of the Previous Period.

In Europe, the global economic climate continued to influence the Group's trading position. The three-month period from October to December 2009 saw some signs of recovery within the United Kingdom ("UK") economy after six consecutive quarters of contraction. However, growth was negligible as tight controls over spending continued to be exercised by the public and the private sectors. Sales and marketing activities in emergency services, fire control projects, as well as the NHS (National Health Services) projects in the UK continued. Several new contracts for the supply of alarm monitoring solutions to hospitals in the UK and Scotland were secured. Fire services sector had picked up with the resumption of project roll-out after a succession of delays. German market had also shown slight growth for the Group despite the generally poor market conditions. The fundamentals of the overall economy in Europe, however, remained quite fragile.

Turnover of European operations remained stable at HK\$232 million, as compared with HK\$242 million for the Previous Period.

#### *Kantone Holdings Limited (Kantone)*

Kantone recorded a seven percent drop in turnover to HK\$618 million, compared with HK\$663 million in the Previous Period. Profit for the Period was HK\$67 million, as compared with HK\$120 million of the Previous Period, a decrease of forty-four percent.

Sales in China was in line with the country's economic development. With Central Government's support of the IT and telecommunications sector in general, sales and marketing activities for Kantone's customised solutions and products continued. In Europe, the main markets of UK and Germany had shown signs of stabilisation, and some of the projects had resumed roll-out after initial delays.

For e-gaming and online entertainment, Kantone continued to provide integrated gaming technology solutions, online payment channels and sales network. As new legislation and provisions governing the operation of lottery in Mainland China come into force, Kantone has to adjust its business model. Such investments were subject to review periodically to determine if progress was in line with the original plan and if the anticipated benefits can be achieved. Where required, impairment provisions at appropriate level would be made.

#### *DIGITALHONGKONG.COM (Digital HK)*

Digital HK recorded a loss of HK\$1,104,000 on turnover of HK\$1,532,000 for the Period, compared with a loss of HK\$669,000 on turnover of HK\$1,828,000 in the Previous Period. Its performance continued to be impacted by a highly competitive market and the generally cautious market sentiment amid economic uncertainties. Digital HK will continue to seek suitable investment opportunities to diversify its revenue streams.



## Outlook

The directors remain alert to further difficulties and challenges that may arise, despite some early signs of easing of the global economic downturn. Markets remain unsettled as fears grow over the health of the European economy, and concern is increasing over possible hike in interest rates which may put a brake to the economic recovery. Chinese Premier Wen Jiabao predicted 2010 would be the most complex year for the Mainland economy in this century, as the country is faced with the external issue of increasing trade frictions with the US, and having to battle with the wild horse of inflation in the domestic market, while endeavouring to sustain healthy growth to revive a huge job market. Against market uncertainties both globally and domestically, management will remain vigilant in rolling out the Group's business plans.

Despite the current difficult market conditions, the Group will continue to plan for the years ahead by investing in new products and solutions for both existing and new markets. As information technology is widely adopted today across industries and businesses, as well as in our daily lives, new opportunities will continue to emerge, especially in fast growing markets such as China, where we can leverage our IT expertise. In particular, building on our proven and trusted client relationship and strategic partnership over the last decade, we have explored and invested in new areas such as green technology, transportation, logistics, energy, and information medicine where global demand continues to surge. The directors are hopeful that these investments will bear fruit and bring long-term value to the shareholders within our risk/return framework.

## Liquidity and Financial Resources

### Financial Position and Gearing

The Group's financial position remained positive with a low gearing.

As at 31 December 2009, the Group had HK\$584 million made up of deposits, bank balances and cash. Current assets were approximately HK\$1,646 million (30 June 2009: HK\$1,616 million) and current liabilities amounted to approximately HK\$428 million (30 June 2009: HK\$481 million). With net current assets of HK\$1,218 million (30 June 2009: HK\$1,135 million), the Group had maintained a high level of financial liquidity. The gearing ratio of the Group, which calculation was based on the Group's total borrowings of HK\$372 million (30 June 2009: HK\$390 million) and equity attributable to owners of the Company of HK\$7,031 million (30 June 2009: HK\$6,973 million), was 0.053 (30 June 2009: 0.056).

Total borrowings mainly comprised bank borrowings of HK\$212 million (30 June 2009: HK\$215 million), bank overdrafts of HK\$23 million (30 June 2009: HK\$38 million) and convertible redeemable bond in the principal amount of HK\$137 million (30 June 2009: HK\$137 million). Finance costs for the Period amounted to HK\$2.0 million (Previous Period: HK\$3.2 million).

The bank borrowings comprised bank loans of HK\$179 million (30 June 2009: HK\$178 million) repayable within one year, HK\$4 million (30 June 2009: HK\$5 million) repayable in the second year and HK\$29 million (30 June 2009: HK\$32 million) repayable in the third to fourth year. Bank loans of HK\$37 million were secured by the Group's land and buildings with a carrying value of HK\$8.6 million (30 June 2009: HK\$10.3 million). The bank overdrafts were unsecured and repayable on demand.

### **Treasury Policy**

The Group is committed to financial prudence and maintains a positive financial position with low gearing. The Group finances its operation and business development by a combination of internally generated resources, capital markets instruments and banking facilities.

Other than the Convertible Bond, all the borrowings were used by subsidiaries of the Company bearing interest at floating rates. As all the Group's borrowings were denominated in their local currencies, the currency risk exposure associated with them was insignificant.

The Group does not engage in any speculative derivatives or structured product transactions, interest rate or foreign exchange speculative activities. It is the Group's policy to manage foreign exchange risk through matching foreign exchange income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instruments will be used.

### **Capital Commitments**

As at 31 December 2009, the Group's capital commitments authorised but not contracted for was HK\$242 million (30 June 2009: HK\$270 million). These commitments are set aside for the acquisition of property, plant and equipment, and development of systems and networks.

## **Human Resources and Remuneration Policy**

As at 31 December 2009, the Group employed about 1,300 staff around the globe. Remuneration is determined with reference to market terms and the performance, qualifications and experience of the individual employee. Remuneration includes monthly salaries, performance-linked bonuses, retirement benefits under the Mandatory Provident Fund Scheme, and other benefits such as medical scheme.

## Directors' Interests and Short Positions in Securities

As at 31 December 2009, the interests of the directors of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Exchange (the "Listing Rules") were as follows:

Name of director	Capacity	Number of shares	Approximate percentage of the issued share capital	Number of convertible securities
<i>Securities of the Company</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 1	26.31%	Note 1
<i>Securities of Kantone</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 2	53.49%	–
<i>Securities of Digital HK</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 3	79.98%	–

Notes:

- 1,053,945,731 shares of the Company were held by Lawnside International Limited ("Lawnside"). Lawnside is beneficially wholly owned by Mr. Paul Kan Man Lok. As at 31 December 2009, Lawnside had interests in approximately 26.31% of the entire issued share capital of the Company. Mr. Paul Kan Man Lok was deemed to have corporate interest in the shares of the Company owned by Lawnside. Lawnside also held a convertible redeemable bond of the Company with outstanding amount of HK\$136,460,805.47 carrying the right to convert the principal amount of the bond or any part thereof into shares of the Company from 19 September 2008 to 19 September 2010 or, at the option of the Company, extended to 19 September 2011 at the conversion price per share of the higher of (i) HK\$0.77 (after adjustment on 23 May 2009 as a result of a rights issue of the Company); and (ii) the volume-weighted average price of shares of the Company for the 10 dealing days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.80. The bond has not been taken into account in calculating the percentage of the issued share capital of the Company held by Lawnside.
- 2,750,385,608 shares of Kantone were held by the Company. Mr. Paul Kan Man Lok was deemed to have corporate interest in such shares held by the Company.
- 117,300,000 shares of Digital HK were held by the Company and 2,669,171 shares of Digital HK were held by Lawnside. Mr. Paul Kan Man Lok was deemed to have corporate interest in such shares held by the Company and Lawnside.

Save as disclosed above, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) as at 31 December 2009 as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to the Model Code.

## **Share Options and Directors' Rights to Acquire Shares or Debentures**

Each of the Company, Kantone and Digital HK has a share option scheme under which eligible persons, including directors of the Company, Kantone, Digital HK or any of their subsidiaries may be granted options to subscribe for shares of the Company, Kantone and Digital HK respectively.

Other than the share option schemes of the Company, Kantone and Digital HK aforementioned, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

During the Period, no option had been granted, exercised, cancelled, lapsed or outstanding under the share option schemes of the Company, Kantone and Digital HK aforementioned.

## Substantial Shareholder

As at 31 December 2009, the following person (other than the directors or chief executive of the Company) had interests in the share capital or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares	Description of derivatives	Number of underlying shares	Approximate percentage of the issued share capital
Lawnside (Note)	Beneficial owner	1,053,945,731	–	–	26.31%
	Beneficial owner	–	Convertible redeemable bond convertible into shares	177,221,825	4.42%

Note: See Note 1 to the “Directors’ Interests and Short Positions in Securities” Section above.

Save as disclosed above, no person had any interests or short positions in the shares or underlying shares of the Company according to the register of interests kept by the Company under Section 336 of the SFO as at 31 December 2009.

## Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period.

## Code on Corporate Governance Practices

The Company complied with the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the Period.

## **Model Code for Securities Transactions by Directors**

The Company has adopted a code of conduct regarding directors' securities transactions on the terms of the Model Code. The Company has made specific enquiry of all directors of the Company, result of which indicates that the directors had complied with such code of conduct throughout the Period.

## **Audit Committee**

The audit committee of the Company has reviewed with the management of the Group the accounting principles and practices adopted by the Group, its internal controls and financial reporting matters and this interim report.

By Order of the Board

**Paul KAN Man Lok**

*Chairman*

Hong Kong, 15 March 2010



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二零零九/一零年中期報告  
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