

Champion Technology Holdings Limited 冠軍科技集團有限公司
Interim Report 2010/11



www.championtechnology.com

Stock Code: 0092



Champion Technology Holdings Limited (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 \$9 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 2010

Financial Highlights

- Turnover increased by 7 percent to HK\$1.6 billion
- Profit for the period increased by 6 percent to HK\$93 million
- Profit attributable to owners of the Company was HK\$56 million
- Earnings per share was HK1.38 cents
- Interim dividend of HK0.3 cents per share
- The Group maintains a positive financial position, enhanced by a rights issue completed in January 2011

The board of directors (the “Board”) 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 2010 (the “Period”) with comparative unaudited figures for the corresponding period in 2009 (the “Previous Period”) as follows:

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 31 December 2010

		Six months ended 31 December	
		2010	2009
	Notes	HK\$'000	HK\$'000
Turnover	3	1,566,929	1,465,260
Direct operating expenses		(1,361,993)	(1,264,337)
Gross profit		204,936	200,923
Other income		5,216	4,286
Distribution costs		(18,771)	(21,482)
General and administrative expenses		(96,150)	(94,350)
Finance costs		(2,215)	(2,013)
Profit before taxation		93,016	87,364
Taxation	5	–	–
Profit for the period		93,016	87,364
Other comprehensive income:			
Exchange difference arising on translation of foreign operations		(990)	1,579
Total comprehensive income for the period		92,026	88,943
Profits for the period attributable to:			
Owners of the Company		56,116	56,555
Non-controlling interests		36,900	30,809
		93,016	87,364
Total comprehensive income for the period attributable to:			
Owners of the Company		55,564	57,399
Non-controlling interests		36,462	31,544
		92,026	88,943
Earnings per share	6		
– Basic		HK1.38 cents	HK1.41 cents
– Diluted		HK1.34 cents	HK1.37 cents

Condensed Consolidated Statement of Financial Position

At 31 December 2010

	Notes	As at 31 December 2010 HK\$'000 (Unaudited)	As at 30 June 2010 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	61,103	58,848
Development costs for systems and networks		3,861,426	3,826,154
Goodwill		36,795	36,795
Intangible assets		–	590
Available-for-sale investments		628,148	628,148
Interest in an associate		–	–
Deposits and prepaid development costs		3,066,425	3,024,695
		<u>7,653,897</u>	<u>7,575,230</u>
Current assets			
Inventories		26,563	24,785
Trade and other receivables	9	1,051,537	1,088,788
Taxation recoverable		15	11
Deposits, bank balances and cash		289,437	278,611
		<u>1,367,552</u>	<u>1,392,195</u>
Current liabilities			
Trade and other payables	10	80,195	101,102
Warranty provision		934	1,142
Customers' deposits		3,509	3,509
Taxation payable		–	8
Bank loans – amount due within one year		179,353	199,183
Convertible bond	11	136,461	136,461
Bank overdrafts		38,780	37,370
		<u>439,232</u>	<u>478,775</u>
Net current assets		<u>928,320</u>	<u>913,420</u>
Total assets less current liabilities		<u>8,582,217</u>	<u>8,488,650</u>
Non-current liabilities			
Bank loans – amount due after one year		28,056	29,050
Retirement benefit obligations		64,301	61,786
Deferred taxation		301	281
		<u>92,658</u>	<u>91,117</u>
Net assets		<u>8,489,559</u>	<u>8,397,533</u>
Capital and reserves			
Share capital		406,842	406,842
Reserves		6,710,999	6,655,435
		<u>7,117,841</u>	<u>7,062,277</u>
Equity attributable to owners of the Company		7,117,841	7,062,277
Non-controlling interests		1,371,718	1,335,256
		<u>8,489,559</u>	<u>8,397,533</u>

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2010

	Attributable to owners 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	Non-controlling interests HK\$'000	Total equity HK\$'000
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	1,308,480	8,281,805
Profit for the period	-	-	-	-	-	-	-	-	56,555	56,555	30,809	87,364
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	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)	-	-	-
At 31 December 2009	400,553	1,996,925	22,031	50	1,366,003	125,036	8,358	916	3,110,872	7,030,744	1,340,004	8,370,748
At 1 July 2010 (audited)	406,842	2,003,818	10,171	50	1,366,003	125,036	8,358	2,735	3,139,264	7,062,277	1,335,256	8,397,533
Profit for the period	-	-	-	-	-	-	-	-	56,116	56,116	36,900	93,016
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	(552)	-	(552)	(438)	(990)
Total comprehensive income for the period	-	-	-	-	-	-	-	(552)	56,116	55,564	36,462	92,026
Interim dividend	-	-	12,205	-	-	-	-	-	(12,205)	-	-	-
At 31 December 2010	406,842	2,003,818	22,376	50	1,366,003	125,036	8,358	2,183	3,183,175	7,117,841	1,371,718	8,489,559

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 31 December 2010

	Six months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
Net cash from operating activities	725,842	792,571
Net cash used in investing activities	(692,837)	(511,439)
Net cash used in financing activities	(24,392)	(3,928)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	8,613	277,204
Cash and cash equivalents at the beginning of the period	241,241	284,558
Effect of foreign exchange rate changes	803	(359)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	250,657	561,403
	<hr/> <hr/>	<hr/> <hr/>
Represented by:		
Deposits, bank balances and cash	289,437	584,477
Bank overdrafts	(38,780)	(23,074)
	<hr/>	<hr/>
	250,657	561,403
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

1. Basis of preparation

The 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 unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30 June 2010.

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 and revised HKFRSs”) issued by the HKICPA. The adoption of these new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

3. Turnover and segment information

(a) Turnover

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 e-commerce projects and strategic investments during the period.

The turnover of the Group comprises the following:

	Six months ended 31 December	
	2010	2009
	HK\$’000	HK\$’000
Sales of systems products	969,239	897,340
Rendering of services and software licensing	539,771	501,947
Leasing of systems products	10,904	11,540
Guaranteed distribution income	–	13,628
Dividend income	47,015	40,805
	<u>1,566,929</u>	<u>1,465,260</u>

(b) Segment information

Information regarding the Group's reportable segments for the purpose of resources allocation and performance assessment for the period is set out below:

	Systems sales and licensing <i>HK\$'000</i>	Leasing of systems products <i>HK\$'000</i>	Strategic investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended 31 December 2010				
TURNOVER				
External and total revenue	<u>1,509,010</u>	<u>10,904</u>	<u>47,015</u>	<u>1,566,929</u>
RESULTS				
Segment result	<u>66,623</u>	<u>(805)</u>	<u>38,768</u>	<u>104,586</u>
Interest income				3,300
Finance costs				(2,215)
Unallocated corporate expenses, net				<u>(12,655)</u>
Profit before taxation				<u>93,016</u>
Six months ended 31 December 2009				
TURNOVER				
External and total revenue	<u>1,399,287</u>	<u>11,540</u>	<u>54,433</u>	<u>1,465,260</u>
RESULTS				
Segment result	<u>49,427</u>	<u>44</u>	<u>48,863</u>	98,334
Interest income				3,416
Finance costs				(2,013)
Unallocated corporate expenses, net				<u>(12,373)</u>
Profit before taxation				<u>87,364</u>

4. Depreciation and amortisation

	Six months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
Amortisation on:		
Development costs for systems and networks, included in direct operating expenses	613,302	507,232
Intangible assets, included in general and administrative expenses	590	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	5,390	4,827
	<u>619,282</u>	<u>513,239</u>

5. Taxation

	Six months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	-	-
Other jurisdictions	-	-
	<u>-</u>	<u>-</u>

Hong Kong Profits Tax is calculated at 16.5% (2009: 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 is based on the following data:

	Six months ended	
	31 December	
	2010	2009
	HK\$'000	HK\$'000
Earnings attributable to owners of the Company for the purpose of calculating basic earnings per share	56,116	56,555
Interest on convertible bond	685	689
	<hr/>	<hr/>
Earnings for the purpose of calculating diluted earnings per share	56,801	57,244
	<hr/>	<hr/>
	Number of shares ('000)	
Weighted average number of shares for the purpose of calculating basic earnings per share	4,068,421	4,005,530
Effect of dilutive potential ordinary shares:		
Convertible bond	177,222	177,222
	<hr/>	<hr/>
Weighted average number of shares for the purpose of calculating diluted earnings per share	4,245,643	4,182,752
	<hr/>	<hr/>

7. Dividend

	Six months ended	
	31 December	
	2010	2009
	HK\$'000	HK\$'000
Interim dividend declared in scrip form equivalent to HK0.3 cents (2009: HK0.3 cents) per share, with a cash option	12,205	12,017
	<hr/>	<hr/>

The interim dividend declared is calculated on the basis of 4,068,421,130 shares in issue on 31 December 2010.

8. Property, plant and equipment

	Amount HK\$'000
Net book value at 1 July 2010	58,848
Currency realignment	1,698
Additions	6,011
Disposals	(64)
Depreciation	(5,390)
	<hr/>
Net book value at 31 December 2010	61,103

At 31 December 2010, certain land and buildings of the Group with a carrying value of HK\$8,193,000 (30 June 2010: HK\$7,933,000) were pledged to a bank as security for banking facilities granted to the Group.

9. Trade and others receivables

	As at 31 December 2010 HK\$'000 (Unaudited)	As at 30 June 2010 HK\$'000 (Audited)
Trade receivables	807,995	834,049
Advance to suppliers and other receivables	243,542	254,739
	<hr/>	<hr/>
	1,051,537	1,088,788

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 days to 180 days. The aged analysis of trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	As at 31 December 2010 HK\$'000 (Unaudited)	As at 30 June 2010 HK\$'000 (Audited)
0 – 60 days	360,702	385,660
61 – 90 days	246,381	272,073
91 – 180 days	199,844	173,994
> 180 days	1,068	2,322
	<hr/>	<hr/>
	807,995	834,049

10. Trade and other payables

As at 31 December 2010, the balance of trade and other payables included trade payables of HK\$16,325,000 (30 June 2010: HK\$15,022,000). The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	As at 31 December 2010 HK\$'000 (Unaudited)	As at 30 June 2010 HK\$'000 (Audited)
0 – 60 days	11,497	11,127
61 – 90 days	3,415	547
91 – 180 days	1,413	3,348
	<u>16,325</u>	<u>15,022</u>

11. Convertible bond

	As at 31 December 2010 HK\$'000 (Unaudited)	As at 30 June 2010 HK\$'000 (Audited)
1% convertible bond – unlisted	<u>136,461</u>	<u>136,461</u>

The convertible bond bears interest at 1% per annum payable semi-annually and will be matured on 19 September 2011. No conversion of the convertible bond has been made during the Period and the outstanding principal amount of the convertible bond as at 31 December 2010 was HK\$136,460,805.47.

The change in the fair value of the convertible bond was insignificant in both periods, hence no fair value change was recognised in profit or loss.

12. Operating lease arrangements

The Group as lessee

At the end of the reporting period, 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 2010		As at 30 June 2010	
Land and buildings	Motor vehicles	Land and buildings	Motor vehicles
HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Audited)	(Audited)

Operating leases which expire:

Within one year	3,295	2,708	2,430	2,411
In the second to fourth year inclusive	5,112	3,497	3,624	3,502
	8,407	6,205	6,054	5,913

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 end of the reporting period, the Group contracted with tenants in respect of leasing of rented premises, plant and machinery, and communication systems and equipment which fall due as follows:

As at 31 December 2010	As at 30 June 2010
HK\$'000	HK\$'000
(Unaudited)	(Audited)

Operating leases which expire:

Within one year	2,580	676
In the second to fifth year inclusive	15,375	17,817
After five years	3,670	5,461
	21,625	23,954

Interim Dividend and Scrip Dividend Scheme

The Board has resolved to pay an interim dividend of HK0.3 cents per share for the Period (2009: HK0.3 cents per share) to shareholders whose names appear on the register of members of the Company on 17 March 2011. 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 (the “Exchange”) 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 May 2011.

Closure of Register of Members

The register of members of the Company will be closed from 14 March 2011 to 17 March 2011, 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 11 March 2011.

Management Discussion and Analysis

Uncertainties in the business climate continued to depress levels of public and private sector spending. Such market conditions have slowed the pace of growth of Group companies. The Group’s fundamentals remain positive, as reflected by a steady revenue base and niche technologies with innovative applications that deliver value to our customers worldwide.

Financial Results

For the Period, the Group's turnover increased 7 percent to HK\$1,567 million, as compared with HK\$1,465 million for the Previous Period. Profit for the Period was HK\$93 million, a rise of 6 percent, compared with HK\$87 million for the Previous Period, and profit attributable to owners of the Company was HK\$56 million as compared with HK\$57 million for the Previous Period. Earnings per share for the Period was HK1.38 cents, compared with HK1.41 cents for the Previous Period. Gross margin remained stable at 13.1 percent after suffering a significant decline in the Previous Period. In view of the uncertainties in the global economy, the Group continued to adopt a prudent approach for its investment projects, pending more solid signs of recovery.

Discipline in cost management continued to be maintained. For the period, distribution costs were reduced to HK\$19 million (2009: HK\$21 million) while general and administrative expenses went up slightly to HK\$96 million (2009: HK\$94 million). In light of the continued roll-out of new systems and networks as well as ongoing development work during the Period, depreciation and amortisation expenses rose 21 percent to HK\$619 million (2009: HK\$513 million).

Finance costs for the Period were HK\$2.2 million, which were at about similar level as for the Previous Period. The Group's financial position remains positive with low gearing.

Review of Operations

During the Period, China's economy showed a positive rebound, thanks to massive government stimulative measures. However, exports remained weak due to the fragile state of many western economies, resulting in cautious investment sentiment and 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 transmission from mobile phones, as well as smart logistics solutions, continued. These investments were subject to periodic review to determine if progress was in line with the original plan and if the anticipated benefits could be achieved. Where required, impairment provisions at an appropriate level are made. For the Period, China sales accounted for HK\$1,225 million of the Group's turnover as compared with HK\$1,139 million for the Previous Period, an increase of 8 percent.

In Europe, the global economic climate continued to affect the Group's trading position. Austerity measures implemented by governments across Europe had slowed spending and delayed project rollout. In particular, the Group's business in the United Kingdom ("UK") declined as its government embarked on the deepest spending cuts in a generation. The Group maintained its focus on emergency services, NHS (National Health Services) projects and fire control sectors. To alleviate the shortfall in the UK operation, the Group put more effort on other European markets where its innovative range of personal security products had been well received. Turnover of European operations was HK\$249 million, compared with HK\$232 million for the Previous Period.

Kantone Holdings Limited (Kantone)

Kantone's turnover increased 10 percent to HK\$682 million, compared with HK\$618 million for the Previous Period. Sales in China were in line with the country's economic development. With Central Government's support of the science and technology sector in general, sales and marketing activities for Kantone's customised solutions and products continued. In Europe, fiscal tightening across the board had posed great challenges to Kantone's business operation. However, Kantone's innovative range of personal security products and centralised messaging and building management solutions had helped to maintain business momentum. Additionally, such products and solutions enabled it to expand into new market sectors such as the care homes for the elderly and dementia patients.

For e-gaming and online entertainment, Kantone continued to provide integrated gaming technology solutions, online payment channels and sales networks, with revenue steadily increasing. In line with new legislation and provisions governing the operation of lottery on Mainland China, Kantone has to adjust its business model accordingly. Such investments were subject to periodic review to determine if progress was in line with original plans, and if the anticipated benefits could be achieved.

DIGITALHONGKONG.COM (Digital HK)

Digital HK recorded a loss of HK\$1,182,000 on turnover of HK\$1,535,000 for the Period, compared with a loss of HK\$1,104,000 on turnover of HK\$1,532,000 in the Previous Period. Digital HK continues to seek collaboration partners to provide more innovative business solutions. The opportunities that Digital HK is considering include a payment platform project and an investment in a bioscience project where the Group can leverage its IT expertise.

Outlook

Global markets are likely to remain nervous and unsettled over the health of a number of European economies and the fragile state of economic recovery in the United States. China, including Hong Kong, has adopted tightened credit policies and fiscal measures in efforts to combat inflation, giving rise to the prospect of further cooling measures which may slow overall recovery. The recent unrest in the Middle East and North Africa, and the ensuing speculation over oil prices would dampen investment sentiment across the globe. Under such conditions the Group will continue its prudent approach in forward planning and financial management.

Liquidity and Financial Resources

Financial Position and Gearing

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

As at 31 December 2010, the Group had deposits, bank balances and cash of approximately HK\$289 million (30 June 2010: HK\$279 million). Current assets were approximately HK\$1,368 million (30 June 2010: HK\$1,392 million) and current liabilities amounted to approximately HK\$439 million (30 June 2010: HK\$479 million). With net current assets of HK\$928 million (30 June 2010: HK\$913 million), the Group 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\$383 million (30 June 2010: HK\$402 million) and equity attributable to owners of the Company of HK\$7,118 million (30 June 2010: HK\$7,062 million), was 0.054 (30 June 2010: 0.057).

Total borrowings comprised bank loans of HK\$207 million (30 June 2010: HK\$228 million), bank overdrafts of HK\$39 million (30 June 2010: HK\$37 million) and convertible redeemable bond with the outstanding principal amount of HK\$137 million (30 June 2010: HK\$137 million). Finance costs for the Period amounted to HK\$2.2 million (Previous Period: HK\$2.0 million).

The bank loans comprised amount of HK\$179.4 million (30 June 2010: HK\$199.2 million) repayable within one year, HK\$4.4 million (30 June 2010: HK\$4.2 million) repayable in the second year and HK\$23.6 million (30 June 2010: HK\$24.8 million) repayable in the third year. Bank loans of approximately HK\$32.4 million (30 June 2010: HK\$33.2 million) were secured by the Group's land and buildings with a carrying value of HK\$8.2 million (30 June 2010: HK\$7.9 million). The bank overdrafts were unsecured and repayable on demand.

In January 2011, the Company raised net proceeds of approximately HK\$192 million from a rights issue on the basis of four rights shares for every nine existing shares held (the "Rights Issue"). The proceeds serve as additional general working capital of the Group.

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 2010, the Group's capital commitments authorised but not contracted for was HK\$195 million (30 June 2010: HK\$208 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 2010, 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 schemes, and other benefits such as medical scheme.

Directors' Interests and Short Positions in Securities

As at 31 December 2010, 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 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	26.59%	Note 1
<i>Securities of Kantone</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 2	53.79%	–
<i>Securities of Digital HK</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 3	79.98%	–

Notes:

- 1,081,803,853 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 2010, Lawnside had interest in approximately 26.59% 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 principal 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 up 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.

On 29 November 2010, Lawnside entered into an underwriting agreement (the "Underwriting Agreement") with the Company relating to the Rights Issue of 1,808,187,168 shares ("Right Shares") at HK\$0.15 each. Lawnside has undertaken to the Company (i) to take up and accept its rights entitlement in full in respect of 480,801,712 Rights Shares; and (ii) to underwrite 1,327,385,456 Rights Shares pursuant to the Underwriting Agreement. Its interests in these Rights Shares under the Underwriting Agreement have not been taken into account in calculating the percentage of the issued share capital of the Company held by Lawnside.

2. 2,815,507,171 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.
3. 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 the shares of Digital HK owned 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 2010 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 2010, 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	1,081,803,853	–	–	26.59%
	Beneficial owner	–	Convertible redeemable bond convertible into shares	177,221,825	4.36%

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 2010.

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

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

Code on Corporate Governance Practices

The Company had complied with the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to 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, 25 February 2011

冠軍科技集團有限公司
二零一零/一一年中期報告
股份代號：0092

