



2008/09 Kantone Holdings Limited
interim report

Kantone Holdings Limited (www.kantone.com) (stock code 1059) is a leading IT solutions provider with proven track record of over 50 years in high security, high reliability and high integrity communications networks and trusted relationships with clients in the government and enterprise sectors. It commands a dominant position in the provision of command and control communications solutions in the mission critical services sector, including emergency and rescue operations, and has a global presence in over 50 markets.

Kantone is also a market leader in China in the provision of software and technology infrastructure for one-stop electronic betting solutions. Kantone builds on its long history of online telephone call data handling systems and call centre software applications, and is at the forefront of developing integrated platforms with secure e-commerce solutions for global gaming and entertainment activities.

Kantone is listed on The Stock Exchange of Hong Kong Limited and is a subsidiary of Champion Technology Holdings Limited, the holding company of a communications software group.



KANTONE HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT
For the six months ended 31 December 2008

Financial Highlights

- Group turnover HK\$663 million
- Profit for the period HK\$120 million
- Profit attributable to equity holders HK\$122 million
- Adjusted profit (before impairment) HK\$161 million
- Adjusted EBITDA (excluding impairment) HK\$315 million
- Adjusted earnings per share (excluding impairment) HK4.36 cents
- Interim dividend of HK0.25 cents per share
- Positive financial position with net cash; no speculative derivatives or structured product transactions

The board of directors of Kantone Holdings Limited (the “Company” or “Kantone”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2008 (the “Period”) with the comparative unaudited figures for the corresponding period in 2007 (the “Previous Period”) as follows:

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	662,693	786,816
Cost of sales		(442,787)	(478,862)
Gross profit		219,906	307,954
Other income		13,550	5,803
Distribution costs		(20,746)	(25,244)
General and administrative expenses		(50,618)	(53,448)
Impairment losses recognised for available-for-sale investments		–	(16,526)
Impairment losses recognised for deposits and prepaid development costs		(40,560)	–
Loss on fair value change of convertible bonds		–	(3,108)
Finance costs		(1,117)	(2,286)
Profit before taxation		120,415	213,145
Taxation	4	62	–
Profit for the period		120,477	213,145
Attributable to:			
Equity holders of the Company		122,302	214,013
Minority interests		(1,825)	(868)
		120,477	213,145
Earnings per share	5		
– Basic		HK3.27 cents	HK6.62 cents
– Diluted		N/A	HK6.56 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	28,728	37,101
Development costs for systems and networks		1,076,638	961,980
Goodwill		36,795	36,795
Intangible assets		4,130	5,310
Available-for-sale investments		189,273	225,631
Interest in an associate		49,998	–
Deposits and prepaid development costs		979,462	752,700
		2,365,024	2,019,517
Current assets			
Inventories		22,517	24,351
Trade and other receivables	8	467,675	395,670
Taxation recoverable		16	29
Deposits, bank balances and cash		121,158	105,896
		611,366	525,946
Current liabilities			
Trade and other payables	9	51,595	105,229
Warranty provision		1,415	2,136
Amount due to ultimate holding company		–	47
Taxation payable		1,777	2,009
Bank borrowings – amount due within one year		3,086	5,313
Other borrowings – amount due within one year		147	489
		58,020	115,223
Net current assets		553,346	410,723
Total assets less current liabilities		2,918,370	2,430,240
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		2,821,038	2,288,655
Capital and reserves			
Share capital		403,117	341,106
Reserves		2,410,282	1,938,049
Equity attributable to equity holders of the Company		2,813,399	2,279,155
Minority interests		7,639	9,500
		2,821,038	2,288,655

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 HK\$'000	Share premium HK\$'000	Dividend reserve HK\$'000	Subscription right reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 July 2007	319,993	414,083	79,998	4,639	(16,879)	1,322,690	2,124,524	14,889	2,139,413
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	2,199	-	2,199	358	2,557
Profit for the period	-	-	-	-	-	214,013	214,013	(868)	213,145
Total recognised income and expense for the period	-	-	-	-	2,199	214,013	216,212	(510)	215,702
On exercise of subscription rights	500	1,726	-	(304)	-	-	1,922	-	1,922
On conversion of convertible bonds	4,659	32,692	-	-	-	-	37,351	-	37,351
Interim dividend	-	-	43,896	-	-	(43,896)	-	-	-
	5,159	34,418	43,896	(304)	-	(43,896)	39,273	-	39,273
At 31 December 2007	<u>325,152</u>	<u>448,501</u>	<u>123,894</u>	<u>4,335</u>	<u>(14,680)</u>	<u>1,492,807</u>	<u>2,380,009</u>	<u>14,379</u>	<u>2,394,388</u>
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	557	-	557	299	856
Loss for the period	-	-	-	-	-	(71,003)	(71,003)	(5,178)	(76,181)
Total recognised income and expense for the period	-	-	-	-	557	(71,003)	(70,446)	(4,879)	(75,325)
On exercise of subscription rights	3,044	10,662	-	(2,006)	-	-	11,700	-	11,700
Lapse of subscription rights	-	-	-	(2,329)	-	2,329	-	-	-
On exercise of warrants	28	202	-	-	-	-	230	-	230
Dividends for the period	-	-	1,290	-	-	(1,290)	-	-	-
- underprovision	-	-	1,420	-	-	(1,420)	-	-	-
- interim	-	-	5,117	-	-	(5,117)	-	-	-
- final	-	-	(42,338)	-	-	-	(42,338)	-	(42,338)
Dividends paid	-	-	(84,266)	-	-	-	-	-	-
On issue of shares as scrip dividend	12,882	71,384	-	-	-	-	-	-	-
	15,954	82,248	(118,777)	(4,335)	-	(5,498)	(30,408)	-	(30,408)
At 30 June 2008	<u>341,106</u>	<u>530,749</u>	<u>5,117</u>	<u>-</u>	<u>(14,123)</u>	<u>1,416,306</u>	<u>2,279,155</u>	<u>9,500</u>	<u>2,288,655</u>
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	21,251	-	21,251	(36)	21,215
Profit for the period	-	-	-	-	-	122,302	122,302	(1,825)	120,477
Total recognised income and expense for the period	-	-	-	-	21,251	122,302	143,553	(1,861)	141,692
On exercise of warrants	11	80	-	-	-	-	91	-	91
On issue of shares as consideration for acquisition of subsidiaries	62,000	328,600	-	-	-	-	390,600	-	390,600
Interim dividend	-	-	10,078	-	-	(10,078)	-	-	-
	62,011	328,680	10,078	-	-	(10,078)	390,691	-	390,691
At 31 December 2008	<u>401,117</u>	<u>859,429</u>	<u>15,195</u>	<u>-</u>	<u>7,128</u>	<u>1,528,530</u>	<u>2,813,399</u>	<u>7,639</u>	<u>2,821,038</u>

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	170,143	306,027
Net cash used in investing activities	(144,202)	(286,797)
Net cash (used in) from financing activities	(3,037)	88
Net increase in cash and cash equivalents	22,904	19,318
Cash and cash equivalents at the beginning of the period	105,896	100,099
Effect of foreign exchange rate changes	(7,642)	(110)
Cash and cash equivalents at the end of the period	121,158	119,307
Represented by:		
Deposits, bank balances and cash	121,158	127,694
Bank overdrafts	–	(8,387)
	121,158	119,307

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 five 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 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 e-commerce projects HK\$'000	Strategic investments HK\$'000	Consolidated HK\$'000
Six months ended 31 December 2008						
TURNOVER						
External and total revenue	<u>386,708</u>	<u>256,614</u>	<u>10,890</u>	<u>521</u>	<u>7,960</u>	<u>662,693</u>
RESULTS						
Segment result	<u>18,245</u>	<u>96,080</u>	<u>3,443</u>	<u>495</u>	<u>7,562</u>	<u>125,825</u>
Interest income						3,242
Finance costs						(1,117)
Unallocated corporate expenses, net						<u>(7,535)</u>
Profit before taxation						120,415
Taxation						<u>62</u>
Profit for the period						<u>120,477</u>
Six months ended 31 December 2007						
TURNOVER						
External and total revenue	<u>379,277</u>	<u>389,743</u>	<u>5,264</u>	<u>1,664</u>	<u>10,868</u>	<u>786,816</u>
RESULTS						
Segment result	<u>52,380</u>	<u>170,163</u>	<u>2,099</u>	<u>1,595</u>	<u>(6,110)</u>	220,127
Interest income						4,600
Loss on fair value change of convertible bonds						(3,108)
Finance costs						(2,286)
Unallocated corporate expenses, net						<u>(6,188)</u>
Profit before taxation						213,145
Taxation						<u>-</u>
Profit for the period						<u>213,145</u>

3. Depreciation and amortisation

	Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Amortisation on:		
Development costs for systems and networks, included in cost of sales	148,194	132,892
Intangibles assets, included in general and administrative expenses	1,180	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	3,923	5,431
	<u>153,297</u>	<u>139,503</u>
Total depreciation and amortisation	<u>153,297</u>	<u>139,503</u>

4. Taxation

	Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
The charge comprises:		
Taxation in other jurisdictions		
– current year	–	–
– overprovision in prior year	62	–
	<u>62</u>	<u>–</u>

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 and diluted earnings per share	<u>122,302</u>	<u>214,013</u>
	Number of shares ('000)	
Weighted average number of shares for the purpose of calculating basic earnings per share	<u>3,737,977</u>	3,231,063
Effect of dilutive potential ordinary shares:		
Subscription rights attached to convertible bonds		<u>31,121</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share		<u>3,262,184</u>

No diluted earnings per share is presented in respect of warrants in both periods as their respective exercise prices were higher than the average market prices 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 HK0.25 cents (2007: HK1.35 cents) per share, with a cash option	<u>10,078</u>	<u>43,896</u>

The proposed interim dividend is calculated on the basis of 4,031,171,853 shares in issue on 31 December 2008.

7. Property, plant and equipment

	Amount HK\$'000
Net book value at 1 July 2008	37,101
Currency realignment	(8,439)
Additions	4,020
Disposals	(31)
Depreciation	(3,923)
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Net book value at 31 December 2008	28,728
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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 at 30 June 2008 HK\$'000 (Audited)
Trade receivables	296,275	248,302
Guaranteed distribution receivables	44,838	43,672
Advance to suppliers and other receivables	126,562	103,696
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	467,675	395,670
	<hr/> <hr/>	<hr/> <hr/>

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	97,861	200,344
61-90 days	75,224	38,392
91-120 days	108,247	-
121-180 days	11,972	7,535
> 180 days	2,971	2,031
	<u>296,275</u>	<u>248,302</u>

9. Trade and other payables

As at 31 December 2008, the balance of trade and other payables included trade payables of HK\$19,587,000 (30 June 2008: HK\$28,748,000). 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	16,290	5,591
61-90 days	234	9,422
91-180 days	-	10,794
> 180 days	3,063	2,941
	<u>19,587</u>	<u>28,748</u>

10. 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	885	2,457	979	3,432
In the second to fourth year inclusive	3,280	3,016	4,141	3,592
	4,165	5,473	5,120	7,024

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

Interim Dividend and Scrip Dividend Scheme

The board of directors has resolved to pay an interim dividend of HK0.25 cents per share for the Period (2007: HK1.35 cents per share) to shareholders whose names appear on the register of members of the Company on 16 April 2009. 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 12 June 2009.

Closure of Register of Members

The register of members of the Company will be closed from 15 April 2009 to 16 April 2009, 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 14 April 2009.

Management Discussion and Analysis

The Period saw the continued softening of the global economy, and with the unfolding of further crises in the financial and industrial sectors, business climate rapidly deteriorated towards the last quarter. The Group’s business remained strong for the first three months but was hit by slowdown in project implementation for the rest of the Period amid a marked weakening of the economy.

Financial Results

For the Period, the Group recorded a sixteen percent decline in turnover to HK\$663 million, compared with HK\$787 million for the Previous Period. Profit for the Period was HK\$120 million, a decrease of forty-four percent, and profit attributable to equity holders was HK\$122 million compared with HK\$214 million for the Previous Period. Earnings per share for the Period was HK3.27 cents, compared with HK6.62 cents for the Previous Period. Profit was affected by a decrease in turnover and profit margins as a result of delays in project implementation. Impairment losses of HK\$41 million recognised for deposits and prepaid development costs for systems and networks also impacted negatively on profit. Such provisions reflected prevailing market conditions and a prudent and conservative assessment of the investments and assets concerned. Excluding the impairment losses, adjusted profit for the Period was HK\$161 million, and adjusted profit attributable to equity holders was HK\$163 million, compared with HK\$230 million and HK\$231 million respectively of the Previous Period.

Total operating expenses remained stable as the Group continued to review and implement measures to control costs. Distribution costs decreased to HK\$20.7 million (2007: HK\$25.2 million) in line with the drop in turnover. General and administrative expenses were reduced to HK\$50.6 million (2007: HK\$53.4 million). Depreciation and amortisation expenses went up modestly to HK\$153 million (2007: HK\$140 million) as a result of the continued roll-out of new projects.

Finance costs for the Period were further reduced to HK\$1.1 million compared with HK\$2.3 million for the Previous Period, as total borrowings were reduced from HK\$55 million to HK\$38 million.

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

Review of Operations

In China, the Group has benefited from the Central Government's backing of the IT and telecommunications sector as a core industry under its stimulus package to boost growth and ward off the global slump. Sales and marketing activities for Kantone's customised solutions and products continued. IT expenditure in key verticals such as government, education, and telecoms remained stable. In response to the opening up of new generation wireless networks and new and increasing demand for a broad range of IT and communications solutions across a number of different public and business sectors, the Group has expanded its product portfolio to embrace a comprehensive range of integrated wireless solutions and web-based monitoring systems designed for remote management and security applications. For the Period, China sales fell by fourteen percent to HK\$423 million, compared with HK\$490 million for the Previous Period, as a result of global slowdown in business activities across the board.

In Europe, the Group's sales and marketing activities in emergency services, fire control projects, as well as NHS (National Health Services) projects in the United Kingdom ("UK") continued. Several new contracts for the supply of Lone Worker and Personal Security solutions to hospitals in the UK have been secured. With the exception of Germany, which had seen a minor slowdown, the global financial crunch did not yet have a significant impact on the Group's sales performance in Europe for the Period. 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. Notwithstanding the difficulties, Kantone remained well-positioned to secure new long-term contracts, especially in the arena of fire services, personal security and marine coast guard security. Turnover of European operations fell fourteen percent to HK\$189 million, compared with HK\$220 million for the Previous Period, partly attributable to the softening of the Euro and the Pound Sterling.

For e-gaming and online entertainment, Kantone continued to invest in the enhancement of integrated gaming technology solutions, online payment channels and sales network. 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 appropriate level would be made.

Outlook

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.

Management remains optimistic about China's economy in the long term, especially with the stimulus package announced by the Central Government which provides strong support to infrastructure projects such as the IT and telecommunications sector. With a positive financial position and niche technologies, hopefully the Group will take in stride the ongoing global economic crisis, and to pursue new investments with a promising future as and when opportunities present themselves.

Liquidity and Financial Resources

Financial Position and Gearing

The Group maintained a positive financial position throughout the Period. It financed its operation and business development with internally generated resources, capital markets instruments and banking facilities.

As at 31 December 2008, the Group had HK\$121 million (30 June 2008: HK\$106 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK\$611 million (30 June 2008: HK\$526 million) and current liabilities amounted to approximately HK\$58 million (30 June 2008: HK\$115 million). With net current assets of HK\$553 million (30 June 2008: HK\$411 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings to equity attributable to equity holders of the Company, was 0.01 (30 June 2008: 0.02).

Total borrowings comprised bank borrowings of HK\$37.5 million (30 June 2008: HK\$54.3 million) and other borrowings, which represented block discounting loans, of HK\$0.1 million (30 June 2008: HK\$0.7 million). Finance costs for the Period amounted to HK\$1.1 million (Previous Period: HK\$2.3 million).

The bank borrowings comprised bank loans of HK\$3.1 million (30 June 2008: HK\$4.9 million) repayable within one year, HK\$3.8 million (30 June 2008: HK\$4.7 million) repayable in the second year and HK\$30.6 million (30 June 2008: HK\$44.3 million) repayable in the third to fifth year. The mortgage loan of HK\$0.4 million outstanding as at 30 June 2008 was repaid during the Period. The bank loans and mortgage loan were secured by the Group's land and buildings with a carrying value of HK\$9.3 million (30 June 2008: HK\$12.6 million).

The other borrowings of HK\$0.1 million (30 June 2008: HK\$0.7 million) were unsecured and repayable within one year (30 June 2008: HK\$0.5 million repayable within one year and the remaining balance repayable in the second year).

Treasury Policy

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

All the borrowings were used by the subsidiaries of the Company bearing interest at floating rate and were denominated in their local currencies. As such, the currency risk exposure associated with the Group's borrowings 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 2008, the Group's capital commitments authorised but not contracted for was HK\$90 million (30 June 2008: HK\$110 million). The Group has set aside sufficient internally generated funds for the acquisition of property, plant and equipment, and development of systems and networks.

Human Resources and Remuneration Policy

As at 31 December 2008, the Group employed about 700 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 2008, the interests and short positions of the directors and chief executive 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 were as follows:

Long positions:

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	50.59%	Note 1
<i>Securities of Champion Technology Holdings Limited ("Champion", the holding company of the Company)</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 2	26.06%	Note 2
<i>Securities of DIGITALHONGKONG.COM ("Digital HK", a fellow subsidiary of the Company)</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 3	79.98%	–

Notes:

1. 2,039,491,502 shares and 300,278,027 units of warrants of the Company were held by Champion while 82,058,443 units of warrants 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 2008, Lawnside had interests in approximately 26.06% of the entire issued share capital of Champion. Mr. Paul Kan Man Lok was deemed to have corporate interest in the securities of the Company owned by Champion and Lawnside. These warrants expired on 8 January 2009 and have not been taken into account in calculating the percentage of the issued share capital of the Company held by them.
2. 514,491,761 shares and 100,701,319 units of warrants of Champion were held by Lawnside. The warrants will expire on 16 April 2009. Lawnside also held a HK\$188,553,096.27 convertible redeemable bond of Champion carrying the right to convert the principal amount of the bond or any part thereof into shares of Champion from 19 September 2008 to 19 September 2010 or, at the option of Champion, extended to 19 September 2011 at the conversion price per share of the higher of (i) HK\$1.09; and (ii) the volume-weighted average price of shares of Champion 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. These warrants and the bond have not been taken into account in calculating the percentage of the issued share capital of Champion held by Lawnside.
3. 117,300,000 shares of Digital HK were held by Champion and 2,669,171 shares of Digital HK were held by 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 2008 as 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.

Share Options and Directors' Rights to Acquire Shares or Debentures

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

Other than the share option schemes of the Company, Champion and Digital HK aforementioned, at no time during the Period was the Company, any of its holding company, fellow subsidiaries or 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, Champion and Digital HK aforementioned.

Substantial Shareholders

As at 31 December 2008, the following persons (other than the directors or chief executive of the Company) had interests or short positions 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 shareholders	Capacity	Number of shares	Description of derivatives	Number of underlying shares	Approximate percentage of the issued share capital
Champion (Note 1)	Beneficial owner	2,039,491,502	-	-	50.59%
	Beneficial owner	-	Warrants to subscribe for shares	300,278,027	7.45%
Shanghai Industrial Investment (Holdings) Company Limited (Note 2)	Corporate Interest	563,160,000	-	-	13.97%
	Corporate Interest	-	Warrants to subscribe for shares	51,135,236	1.27%

Notes:

1. See Note 1 to the “Directors’ Interests and Short Positions in Securities” Section above.
2. Shanghai Industrial Investment (Holdings) Company Limited had interest in 614,295,236 shares and underlying shares of the Company through control over 100% interest in the shares of various companies. These companies include SIIC Treasury (B.V.I.) Ltd., which had direct interest in 397,157,950 shares and underlying shares of the Company; SIIC CM Development Funds Ltd., which had direct interest in 131,288,291 shares and underlying shares of the Company; SIIC Asset Management Co. Ltd., which had direct interest in 72,408,995 shares and underlying shares of the Company; and Billion More, which had direct interest in 13,440,000 shares and underlying shares of the Company.

Save as disclosed herein and disclosed above under the “Directors’ Interests and Short Positions in Securities” Section, the Company had not been notified of any person, other than a director or chief executive of the Company, having interests or short positions in the shares or underlying shares of the Company, which was recorded in the register required to be kept under section 336 of the SFO as at 31 December 2008.

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

None of the directors of the Company was aware of any information which would reasonably indicate that the Company was not in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Exchange (the “Listing Rules”) at any time during the Period.

Model Code for Securities Transactions by Directors


The Company has adopted a code of conduct regarding directors’ securities transactions on terms as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors of the Company, result of which indicates that the directors have 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, 23 March 2009



看通集團有限公司
二零零八/零九年中期報告
股份代號：1059