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Kantone Holdings Limited

Interim Report 2009/10



www.kantone.com
Stock Code: 1059

Kantone Holdings Limited (www.kantone.com) (stock code 1059) is a leading provider of IT driven communications systems with a presence in over 50 markets. It is also a market leader in the provision of software and technology infrastructure for one-stop electronic betting solutions complete with secure e-commerce platform for global gaming and entertainment activities in China.

With a proven track record of high reliability and high integrity products and systems established by a key subsidiary in Europe over the last 60 years, Kantone is able to build on its long-time client relationship to expand its business into a multiple range of private and public sector projects, covering both IT-related and other investments where the Company sees synergies and favourable return to shareholders in the long term.

Kantone is listed on the Main Board of 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 2009

Financial Highlights

- Turnover declined by 6.7% to HK\$618 million
- Profit for the period dropped by 44% to HK\$67 million
- Profit attributable to owners of the Company fell 44% to HK\$68 million
- Earnings per share was HK1.32 cents
- Interim dividend of HK0.2 cents per share
- The Group maintains a positive financial position, without engaging in 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 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	618,421	662,693
Cost of sales		(480,996)	(442,787)
Gross profit		137,425	219,906
Other income		2,818	13,550
Distribution costs		(19,956)	(20,746)
General and administrative expenses		(52,554)	(50,618)
Impairment losses recognised for deposits and prepaid development costs		-	(40,560)
Finance costs		(258)	(1,117)
Profit before tax		67,475	120,415
Income tax	5	-	62
Profit for the period		67,475	120,477
Other comprehensive income			
Exchange differences arising on translation of foreign operations		1,579	21,215
Total comprehensive income for the period		69,054	141,692
Profits for the period attributable to:			
Owners of the Company		68,102	122,302
Non-controlling interests		(627)	(1,825)
		67,475	120,477
Total comprehensive income attributable to:			
Owners of the Company		69,679	143,553
Non-controlling interests		(625)	(1,861)
		69,054	141,692
Earnings per share	6		
– Basic		HK1.32 cents	HK3.00 cents

Condensed Consolidated Statement of Financial Position

At 31 December 2009

		As at 31 December 2009	As at 30 June 2009
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	38,511	34,835
Development costs for systems and networks		1,116,134	1,094,033
Goodwill		36,795	36,795
Intangible assets		1,770	2,950
Available-for-sale investments		48,203	95,084
Deposits and prepaid development costs		1,148,614	1,062,892
		2,390,027	2,326,589
Current assets			
Inventories		26,694	24,541
Trade and other receivables	9	416,021	505,545
Taxation recoverable		7	25
Deposits, bank balances and cash		194,719	138,340
		637,441	668,451
Current liabilities			
Trade and other payables	10	53,798	85,276
Warranty provision		1,503	1,513
Taxation payable		48	1,051
Bank borrowings – amount due within one year		4,106	3,043
Other borrowings – amount due within one year		–	176
		59,455	91,059
Net current assets		577,986	577,392
Total assets less current liabilities		2,968,013	2,903,981
Capital and reserves			
Share capital		514,212	514,212
Reserves		2,344,844	2,275,165
Equity attributable to owners of the Company		2,859,056	2,789,377
Non-controlling interests		5,521	6,146
Total equity		2,864,577	2,795,523
Non-current liabilities			
Bank borrowings – amount due after one year		33,342	37,026
Retirement benefit obligations		69,946	71,289
Deferred taxation		148	143
		103,436	108,458
		2,968,013	2,903,981

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	Total equity
	Share capital	Share premium	Dividend reserve	Translation reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2008 (audited)	341,106	530,749	5,117	(14,123)	1,416,306	2,279,155	9,500	2,288,655
Profit for the period	-	-	-	-	122,302	122,302	(1,825)	120,477
Other comprehensive income for the period	-	-	-	21,251	-	21,251	(36)	21,215
Total comprehensive income for the period	-	-	-	21,251	122,302	143,553	(1,861)	141,692
On exercise of warrants	11	80	-	-	-	91	-	91
Issue of shares as considerations for acquisition of a subsidiary	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	403,117	859,429	15,195	7,128	1,528,530	2,813,399	7,639	2,821,038
At 1 July 2009 (audited)	514,212	797,616	7,713	1,253	1,468,583	2,789,377	6,146	2,795,523
Profit for the period	-	-	-	-	68,102	68,102	(627)	67,475
Other comprehensive income for the period	-	-	-	1,577	-	1,577	2	1,579
Total comprehensive income for the period	-	-	-	1,577	68,102	69,679	(625)	69,054
Interim dividend	-	-	10,284	-	(10,284)	-	-	-
At 31 December 2009	514,212	797,616	17,997	2,830	1,526,401	2,859,056	5,521	2,864,577

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 31 December 2009

	Six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Net cash from operating activities	301,045	170,143
Net cash used in investing activities	(242,010)	(144,202)
Net cash used in financing activities	(2,297)	(3,037)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	56,738	22,904
Cash and cash equivalents at the beginning of the period	138,340	105,896
Effect of foreign exchange rate changes	(359)	(7,642)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<u>194,719</u>	<u>121,158</u>
Represented by:		
Deposits, bank balances and cash	<u>194,719</u>	<u>121,158</u>

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:

	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 2009				
TURNOVER				
External and total revenue	<u>603,972</u>	<u>11,540</u>	<u>2,909</u>	<u>618,421</u>
RESULTS				
Segment result	<u>70,396</u>	<u>44</u>	<u>2,888</u>	<u>73,328</u>
Interest income				<u>2,304</u>
Finance costs				<u>(258)</u>
Unallocated corporate expenses, net				<u>(7,899)</u>
Profit before tax				<u>67,475</u>
Income tax				<u>-</u>
Profit for the period				<u>67,475</u>
Six months ended 31 December 2008				
TURNOVER				
External and total revenue	<u>643,322</u>	<u>10,890</u>	<u>8,481</u>	<u>662,693</u>
RESULTS				
Segment result	<u>114,325</u>	<u>3,443</u>	<u>8,057</u>	125,825
Interest income				3,242
Finance costs				(1,117)
Unallocated corporate expenses, net				(7,535)
Profit before tax				120,415
Income tax				62
Profit for the period				<u>120,477</u>

4. Depreciation and amortisation

	Six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Amortisation on:		
Development costs for systems and networks, included in cost of sales	176,351	148,194
Intangibles assets, included in general and administrative expenses	1,180	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	3,830	3,923
Total depreciation and amortisation	<u>181,361</u>	<u>153,297</u>

5. Income tax

	Six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
The credit comprises:		
Taxation in other jurisdictions		
– overprovision in prior years	<u>–</u>	<u>62</u>

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:

	Six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Earnings attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	<u>68,102</u>	<u>122,302</u>
	Number of shares ('000)	
Weighted average number of shares for the purpose of calculating basic earnings per share	<u>5,142,121</u>	<u>4,079,519</u>

There was no dilution effect on earnings per share for both periods as there were no dilutive potential ordinary shares in issue for 2009 and the exercise price of warrants for the computation of diluted earnings per share for 2008 was higher than the average market prices of shares of the Company.

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 four existing issued shares completed in May 2009.

7. Dividend

	Six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Interim dividend declared in scrip form equivalent to HK0.20 cents (2008: HK0.25 cents) per share, with a cash option	<u>10,284</u>	<u>10,078</u>

The interim dividend declared is calculated on the basis of 5,142,120,870 shares in issue on 31 December 2009.

8. Property, plant and equipment

	Amount HK\$'000
Net book value at 1 July 2009	34,835
Currency realignment	(465)
Additions	7,993
Disposals	(22)
Depreciation	<u>(3,830)</u>
Net book value at 31 December 2009	<u><u>38,511</u></u>

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 other receivables

	As at 31 December 2009 HK\$'000 (Unaudited)	As at 30 June 2009 HK\$'000 (Audited)
Trade receivables	282,917	339,130
Guaranteed distribution receivables	12,870	44,838
Advance to suppliers and other receivables	<u>120,234</u>	<u>121,577</u>
	<u><u>416,021</u></u>	<u><u>505,545</u></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:

	As at 31 December 2009 HK\$'000 (Unaudited)	As at 30 June 2009 HK\$'000 (Audited)
0 – 60 days	92,260	176,575
61 – 90 days	109,116	106,104
91 – 180 days	79,824	51,326
> 180 days	<u>1,717</u>	<u>5,125</u>
	<u><u>282,917</u></u>	<u><u>339,130</u></u>

10. Trade and other payables

As at 31 December 2009, the balance of trade and other payables included trade payables of HK\$14,966,000 (30 June 2009: HK\$10,712,000). The aged analysis of the trade payables at the reporting date is as follows:

	As at 31 December 2009 HK\$'000 (Unaudited)	As at 30 June 2009 HK\$'000 (Audited)
0 – 60 days	8,532	8,029
61 – 90 days	2,341	775
91 – 180 days	851	874
> 180 days	3,242	1,034
	<u>14,966</u>	<u>10,712</u>

11. Operating lease arrangements

The Group as lessee

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

	As at 31 December 2009 Land and buildings HK\$'000 (Unaudited)	Motor vehicles HK\$'000 (Unaudited)	As at 30 June 2009	
			Land and buildings HK\$'000 (Audited)	Motor vehicles HK\$'000 (Audited)
Within one year	718	2,610	888	2,575
In the second to fourth year inclusive	2,738	4,012	3,582	3,184
	<u>3,456</u>	<u>6,622</u>	<u>4,470</u>	<u>5,759</u>

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 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	480
In the second to fifth year inclusive	20,148	20,519
After five years	4,398	5,726
	<u>26,085</u>	<u>26,725</u>

Interim Dividend and Scrip Dividend Scheme

The board of directors has resolved to pay an interim dividend of HK0.20 cents per share for the Period (2008: HK0.25 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 recorded a seven percent decline in turnover to HK\$618 million, compared with HK\$663 million for the Previous Period. Profit for the Period was HK\$67 million, a decrease of forty-four percent, and profit attributable to owners of the Company was HK\$68 million, compared with HK\$122 million for the Previous Period. Earnings per share for the Period was HK1.32 cents, compared with HK3.00 cents for the Previous Period (after adjustment for the rights issue of the Company on the basis of one rights share for every four existing issued shares completed in May 2009). Excluding amortisation on development costs for systems and networks, gross margin dropped to fifty-one percent from fifty-five 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 decreased slightly to HK\$20 million (2008: HK\$21 million) in line with the drop in turnover. General and administrative expenses were relatively stable at HK\$53 million (2008: HK\$51 million). In light of the continued roll-out of new systems and networks during the Period, depreciation and amortisation expenses went up eighteen percent to HK\$181 million (2008: HK\$153 million).

Finance costs for the Period were reduced to HK\$0.3 million compared with HK\$1.1 million for 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

In China, the Central Government took steps to back the IT and telecommunications sector as a core industry under its stimulus package with the aim to ward off the global slump. However, the general weakness in export market and the closedown of factories affected investment sentiment and contributed to a slower pace of market activities. Sales of Kantone's customised solutions and products continued despite the difficult market conditions. 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 seven percent to HK\$395 million, compared with HK\$423 million for 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. To maintain its competitive edge in order to secure new long-term contracts, Kantone continued to invest in new security products and integrated mobile solutions.

Turnover of European operations registered a drop of nine percent to HK\$172 million, as compared with HK\$189 million for the Previous Period.

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 could be achieved. Where required, impairment provisions at appropriate level would be made.

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.

In addition to focusing on developing core platform technologies and customised personal security solutions to maintain its position in providing mission critical communications systems and solutions, the Group will expand its income streams through extending its business activities to new industry sectors. Throughout the past decade, the Group has built on its proven and trusted client relationship and strategic partnership to invest in new opportunities such as green technology, telemedicine, logistics, transportation and other areas where the 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 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 2009, the Group had HK\$195 million (30 June 2009: HK\$138 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK\$637 million (30 June 2009: HK\$668 million) and current liabilities amounted to approximately HK\$59 million (30 June 2009: HK\$91 million). With net current assets of HK\$578 million (30 June 2009: HK\$577 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK\$37 million (30 June 2009: 40 million) to equity attributable to owners of the Company of HK\$2,859 million (30 June 2009: 2,789 million), was 0.013 (30 June 2009: 0.014).

Total borrowings mainly comprised bank borrowings of HK\$37.4 million (30 June 2009: HK\$40.1 million). Finance costs for the Period amounted to HK\$0.3 million (Previous Period: HK\$1.1 million).

The bank borrowings comprised bank loans of HK\$4.1 million (30 June 2009: HK\$3.0 million) repayable within one year, HK\$4.5 million (30 June 2009: HK\$4.6 million) repayable in the second year and HK\$28.8 million (30 June 2009: HK\$32.5 million) repayable in the third to fourth year. The bank loans 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).

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.

All the borrowings were used by subsidiaries of the Company bearing interest at floating rates 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 2009, the Group's capital commitments authorised but not contracted for was HK\$82 million (30 June 2009: HK\$90 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 2009, 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 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	53.49%	-
<i>Securities of Champion Technology Holdings Limited ("Champion", the holding company of the Company)</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 2	26.31%	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:

- 2,750,385,608 shares of the Company were held by Champion. As at 31 December 2009, Lawnside International Limited ("Lawnside") had interest in approximately 26.31% of the entire issued share capital of Champion. Lawnside is beneficially wholly owned by Mr. Paul Kan Man Lok, who was deemed to have corporate interest in the shares of the Company owned by Champion.
- 1,053,945,731 shares of Champion were held by Lawnside. Mr. Paul Kan Man Lok was deemed to have corporate interest in the shares of Champion owned by Lawnside. Lawnside also held a convertible redeemable bond of Champion 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 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\$0.77 (after adjustment on 23 May 2009 as a result of a rights issue of Champion); 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 0.8. The bond has not been taken into account in calculating the percentage of the issued share capital of Champion held by Lawnside.
- 117,300,000 shares of Digital HK were held by Champion 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 Champion 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, Champion and Digital HK has a share option scheme under which eligible persons, including directors of the Company, Champion, 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 2009, the following persons (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	Approximate percentage of the issued share capital
Champion (Note 1)	Beneficial owner	2,750,385,608	53.49%
Shanghai Industrial Investment (Holdings) Company Limited (Note 2)	Corporate interest	564,700,000	10.98%

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 564,700,000 shares of the Company through control over 100% interest in the shares of Shanghai Industrial Financial (Holdings) Co. Ltd., which had direct interest in 564,700,000 shares of the Company.

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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