

Kantone Holdings Limited 看通集團有限公司
Interim Report 2010/11



www.kantone.com
Stock Code: 1059

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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 has a proven track record of high reliability and high integrity products and systems established by its key subsidiary in Europe with over 75 years of extensive experience. 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 which cover both IT-related and other investments where the Company sees synergies and favourable return to shareholders in the long term.

Kantone is also a market leader in the provision of software and technology infrastructure for one-stop electronic betting solutions complete with a secure e-commerce platform for global gaming and entertainment activities in China.

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 2010

Financial Highlights

- Turnover increased by 10 percent to HK\$682 million
- Profit for the period increased by 20 percent to HK\$81 million
- Profit attributable to owners of the Company rose 20 percent to HK\$82 million
- Earnings per share was HK1.57 cents
- Interim dividend of HK0.2 cents per share
- The Group maintains a positive financial position

The board of directors (the “Board”) 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 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

	Notes	Six months ended 31 December	
		2010 HK\$'000	2009 HK\$'000
Turnover	3	682,155	618,421
Cost of sales		(536,743)	(480,996)
Gross profit		145,412	137,425
Other income		3,114	2,818
Distribution costs		(17,604)	(19,956)
General and administrative expenses		(49,405)	(52,554)
Finance costs		(274)	(258)
Profit before taxation		81,243	67,475
Taxation	5	–	–
Profit for the period		81,243	67,475
Other comprehensive income:			
Exchange difference arising on translation of foreign operations		(990)	1,579
Total comprehensive income for the period		80,253	69,054
Profits for the period attributable to:			
Owners of the Company		81,957	68,102
Non-controlling interests		(714)	(627)
		81,243	67,475
Total comprehensive income for the period attributable to:			
Owners of the Company		80,928	69,679
Non-controlling interests		(675)	(625)
		80,253	69,054
Earnings per share – Basic	6	HK1.57 cents	HK1.32 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	42,476	39,471
Development costs for systems and networks		1,248,163	1,272,570
Goodwill		36,795	36,795
Intangible assets		–	590
Available-for-sale investments		–	–
Deposits and prepaid development costs		1,205,710	1,099,864
		<u>2,533,144</u>	<u>2,449,290</u>
Current assets			
Inventories		26,554	24,775
Trade and other receivables	9	452,138	457,294
Taxation recoverable		15	11
Deposits, bank balances and cash		102,280	126,547
		<u>580,987</u>	<u>608,627</u>
Current liabilities			
Trade and other payables	10	49,668	71,202
Warranty provision		934	1,142
Taxation payable		–	8
Bank loans – amount due within one year		14,353	18,183
		<u>64,955</u>	<u>90,535</u>
Net current assets		<u>516,032</u>	<u>518,092</u>
Total assets less current liabilities		<u>3,049,176</u>	<u>2,967,382</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>2,956,518</u>	<u>2,876,265</u>
Capital and reserves			
Share capital		523,421	523,421
Reserves		2,430,445	2,349,517
Equity attributable to owners of the Company		2,953,866	2,872,938
Non-controlling interests		2,652	3,327
		<u>2,956,518</u>	<u>2,876,265</u>

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2010

	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 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
Exchange difference arising on translation of foreign operations	-	-	-	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
At 1 July 2010 (audited)	523,421	802,109	10,468	6,227	1,530,713	2,872,938	3,327	2,876,265
Profit for the period	-	-	-	-	81,957	81,957	(714)	81,243
Exchange difference arising on translation of foreign operations	-	-	-	(1,029)	-	(1,029)	39	(990)
Total comprehensive income for the period	-	-	-	(1,029)	81,957	80,928	(675)	80,253
Interim dividend	-	-	10,468	-	(10,468)	-	-	-
At 31 December 2010	523,421	802,109	20,936	5,198	1,602,202	2,953,866	2,652	2,956,518

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	280,916	301,045
Net cash used in investing activities	(299,535)	(242,010)
Net cash used in financing activities	(6,451)	(2,297)
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(25,070)	56,738
Cash and cash equivalents at the beginning of the period	126,547	138,340
Effect of foreign exchange rate changes	803	(359)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	102,280	194,719
	<hr/> <hr/>	<hr/> <hr/>
Represented by:		
Deposits, bank balances and cash	102,280	194,719
	<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	394,368	366,588
Rendering of services and software licensing	276,883	237,384
Leasing of systems products	10,904	11,540
Guaranteed distribution income	–	2,909
	<hr/>	<hr/>
	682,155	618,421
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(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>671,251</u>	<u>10,904</u>	<u>-</u>	<u>682,155</u>
RESULTS				
Segment result	<u>84,303</u>	<u>(805)</u>	<u>-</u>	<u>83,498</u>
Interest income				2,407
Finance costs				(274)
Unallocated corporate expenses, net				<u>(4,388)</u>
Profit before taxation				<u>81,243</u>
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>	73,328
Interest income				2,304
Finance costs				(258)
Unallocated corporate expenses, net				<u>(7,899)</u>
Profit before taxation				<u>67,475</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 cost of sales	214,966	176,351
Intangibles assets, included in general and administrative expenses	590	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	4,266	3,830
	<u>219,822</u>	<u>181,361</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 earnings per share is based on the profit for the period attributable to owners of the Company of HK\$81,957,000 (2009: HK\$68,102,000) and on the weighted average number of shares of 5,234,208,000 shares (2009: 5,142,121,000 shares) in issue.

No dilutive earnings per share is presented for the six months ended 31 December 2010 as there were no potential dilutive shares during the period.

7. Dividend

	Six months ended	
	31 December	
	2010	2009
	HK\$'000	HK\$'000
Interim dividend declared in scrip form equivalent to HK0.2 cents (2009: HK0.2 cents) per share, with a cash option	<u>10,468</u>	<u>10,284</u>

The interim dividend declared is calculated on the basis of 5,234,207,576 shares in issue on 31 December 2010.

8. Property, plant and equipment

	Amount HK\$'000
Net book value at 1 July 2010	39,471
Currency realignment	1,698
Additions	5,629
Disposals	(56)
Depreciation	<u>(4,266)</u>
Net book value at 31 December 2010	<u>42,476</u>

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 other receivables

	As at 31 December 2010 HK\$'000 (Unaudited)	As at 30 June 2010 HK\$'000 (Audited)
Trade receivables	331,538	331,412
Advance to suppliers and other receivables	120,600	125,882
	452,138	457,294

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	143,374	149,575
61 – 90 days	107,406	111,772
91 – 180 days	80,758	70,065
	331,538	331,412

10. Trade and other payables

As at 31 December 2010, the balance of trade and other payables included trade payables of HK\$12,946,000 (30 June 2010: HK\$12,908,000). 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	8,118	11,122
61 – 90 days	3,415	547
91 – 180 days	1,413	1,239
	12,946	12,908

11. 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 HK\$'000 (Unaudited)	Motor vehicles HK\$'000 (Unaudited)	Land and buildings HK\$'000 (Audited)	Motor vehicles HK\$'000 (Audited)
Operating leases which expire:				
Within one year	1,033	2,708	828	2,411
In the second to fourth year inclusive	1,926	3,497	2,928	3,502
	<u>2,959</u>	<u>6,205</u>	<u>3,756</u>	<u>5,913</u>

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 plant and machinery, and communication systems and equipment which fall due as follows:

	As at	As at
	31 December 2010 HK\$'000 (Unaudited)	30 June 2010 HK\$'000 (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
	<u>21,625</u>	<u>23,954</u>

Interim Dividend and Scrip Dividend Scheme

The Board has resolved to pay an interim dividend of HK0.2 cents per share for the Period (2009: HK0.2 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. However, investment in innovative solutions continues to hold the key to maintaining momentum within the Group during these difficult times.

Financial Results

For the Period, the Group's turnover increased by 10 percent to HK\$682 million, as compared with HK\$618 million for the Previous Period. Profit for the Period increased by 20 percent to HK\$81 million from HK\$67 million for the Previous Period, and profit attributable to owners of the Company was HK\$82 million as compared with HK\$68 million for the Previous Period. Earnings per share for the Period was HK1.57 cents, compared with HK1.32 cents for the Previous Period. Gross margin continued to be under pressure, reducing to 21.3 percent compared with 22.2 percent for the Previous Period.

The Group continued its cost controlling measures during the Period. Distribution costs dropped 12 percent to HK\$18 million (2009: HK\$20 million) while general and administrative expenses decreased by 6 percent to HK\$49 million (2009: HK\$53 million). However, depreciation and amortisation expenses went up 21 percent to HK\$220 million (2009: HK\$181 million) as a result of the continued roll-out of new projects.

Finance costs for the Period were HK\$0.3 million, which were at about the same level as for the Previous Period. The Group's financial position remains positive with low gearing.

Review of Operations

In China, the Group continued to benefit from the Central Government's backing of the science and technology sector. As a result of increased marketing and sales activities of customised solutions and products, sales in China had grown. Further, the Group is responding to a number of new public and private sector opportunities by expanding its product portfolio to embrace a wide range of integrated wireless solutions and web-based monitoring systems, mainly designed for remote management and security applications. For the Period, China sales increased by 14 percent to HK\$449 million, compared with HK\$395 million for the Previous Period.

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. However, the Group was able to maintain momentum due to its product specialisation and new offerings that met customers' requirements. To alleviate the shortfall in the UK operation, the Group put more effort on other European markets where the Group's innovative range of personal security products, centralised messaging and building management solutions for the emergency and health services had been well received. Additionally, such products and solutions enabled the Group to expand into new market sectors such as the care homes for the elderly and dementia patients. Turnover of European operations was HK\$185 million, compared with HK\$172 million for the Previous Period.

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.

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 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 2010, the Group had deposits, bank balances and cash of approximately HK\$102 million (30 June 2010: HK\$127 million). Current assets were approximately HK\$581 million (30 June 2010: HK\$609 million) and current liabilities amounted to approximately HK\$65 million (30 June 2010: HK\$91 million). With net current assets of HK\$516 million (30 June 2010: HK\$518 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK\$42.4 million (30 June 2010: HK\$47.2 million) to equity attributable to owners of the Company of HK\$2,954 million (30 June 2010: HK\$2,873 million), was 0.014 (30 June 2010: 0.016). Finance costs for the Period remained stable at HK\$0.3 million.

The Group's borrowings comprised bank loans of HK\$14.4 million (30 June 2010: HK\$18.2 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).

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 2010, the Group's capital commitments authorised but not contracted for was HK\$71 million (30 June 2010: HK\$76 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 2010, 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 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	53.79%	–
<i>Securities of Champion Technology Holdings Limited ("Champion", the holding company of the Company)</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 2	26.59%	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:

- 2,815,507,171 shares of the Company were held by Champion. Lawnside International Limited ("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 Champion. Mr. Paul Kan Man Lok was deemed to have corporate interest in the shares of the Company owned by Champion.
- 1,081,803,853 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 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 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.

On 29 November 2010, Lawnside entered into an underwriting agreement (the “Underwriting Agreement”) with Champion relating to a rights issue of 1,808,187,168 shares (“Right Shares”) at HK\$0.15 each. Lawnside has undertaken to Champion (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 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. Mr. Paul Kan Man Lok was deemed to have corporate interest in the shares of Digital HK 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 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, 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 2010, 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 shareholders	Capacity	Number of shares	Approximate percentage of the issued share capital
Champion (Note 1)	Beneficial owner	2,815,507,171	53.79%
Shanghai Industrial Investment (Holdings) Company Limited (Note 2)	Corporate interest	564,700,000	10.79%

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) Company Limited 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 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



看通集團有限公司
二零一零/一一年中期報告
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