

# KANTONE HOLDINGS LIMITED

[www.kantone.com](http://www.kantone.com)

看通集團有限公司 Stock Code: 1059

*Interim Report*  
2011/12



**Kantone Holdings Limited** (“Kantone”) ([www.kantone.com](http://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 also a market leader in the provision of software and technology infrastructure for one-stop electronic lottery solutions complete with a secure e-commerce platform for global gaming and entertainment activities in China.

Throughout the years, Kantone builds on its long-time client relationship to expand its business into a wide range of sectors for the consumer market, which cover both IT and culture-related technologies and investments. It has developed a range of Internet-based solutions and services catered to the creative and culture business, with a focus on promoting Chinese art and cultural products on the international stage to take advantage of China’s national policy to foster its culture industry.

Kantone is listed on the Main Board of The Stock Exchange of Hong Kong Limited and is a subsidiary of Champion Technology Holdings Limited, a global technology group.



# KANTONE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

## INTERIM REPORT

For the six months ended 31 December 2011

### Financial Highlights

- Turnover was HK\$656 million, down 4%
- Profit for the period was HK\$55 million, down 33%
- Adjusted EBITDA (excluding impairment) was HK\$282 million, down 6%
- Profit attributable to owners of the Company was HK\$55 million, down 33%
- Earnings per share was HK0.73 cents
- Interim dividend of HK0.2 cents per share
- The Group maintained a positive financial position with net cash

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 2011 (the "Period") with comparative unaudited figures for the corresponding period in 2010 (the "Previous Period") as follows:

### Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 31 December 2011

		<b>Six months ended 31 December</b>	
		<b>2011</b>	<b>2010</b>
	Notes	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	3	<b>656,422</b>	682,155
Cost of sales		<b>(516,090)</b>	(536,743)
Gross profit		<b>140,332</b>	145,412
Other income		<b>2,490</b>	3,114
Distribution costs		<b>(17,403)</b>	(17,604)
General and administrative expenses		<b>(46,434)</b>	(44,335)
Impairment losses recognised for deposits and prepaid development costs		<b>(15,773)</b>	-
Research and development costs expensed		<b>(8,169)</b>	(5,070)
Finance costs		<b>(234)</b>	(274)
Profit before taxation		<b>54,809</b>	81,243
Taxation	5	-	-
<b>Profit for the period</b>		<b>54,809</b>	81,243
<b>Other comprehensive income (expense):</b>			
Exchange difference arising on translation		<b>1,901</b>	(990)
<b>Total comprehensive income for the period</b>		<b>56,710</b>	80,253
Profit for the period attributable to:			
Owners of the Company		<b>55,014</b>	81,957
Non-controlling interests		<b>(205)</b>	(714)
		<b>54,809</b>	81,243
Total comprehensive income for the period attributable to:			
Owners of the Company		<b>56,714</b>	80,928
Non-controlling interests		<b>(4)</b>	(675)
		<b>56,710</b>	80,253
Earnings per share – Basic	6	<b>HK0.73 cents</b>	HK1.53 cents

## Condensed Consolidated Statement of Financial Position

At 31 December 2011

	Notes	As at 31 December 2011 HK\$'000 (Unaudited)	As at 30 June 2011 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	46,618	48,556
Development costs for systems and networks		818,714	1,025,301
Goodwill		36,795	36,795
Intangible assets		–	–
Available-for-sale investments		–	–
Deposits and prepaid development costs		1,475,217	1,490,990
		<b>2,377,344</b>	<b>2,601,642</b>
<b>Current assets</b>			
Inventories		23,932	25,559
Trade and other receivables	9	720,129	458,756
Taxation recoverable		8	10
Deposits, bank balances and cash		240,364	248,552
		<b>984,433</b>	<b>732,877</b>
<b>Current liabilities</b>			
Trade and other payables	10	50,927	72,207
Warranty provision		1,318	1,445
Taxation payable		7	–
Bank borrowings – amount due within one year		7,364	33,198
Overdrafts		1,265	5,488
		<b>60,881</b>	<b>112,338</b>
<b>Net current assets</b>		<b>923,552</b>	<b>620,539</b>
<b>Total assets less current liabilities</b>		<b>3,300,896</b>	<b>3,222,181</b>
<b>Non-current liabilities</b>			
Bank borrowings – amount due after one year		23,761	–
Retirement benefit obligations		59,587	61,337
Deferred taxation		163	169
		<b>83,511</b>	<b>61,506</b>
<b>Net assets</b>		<b>3,217,385</b>	<b>3,160,675</b>
<b>Capital and reserves</b>			
Share capital		749,253	749,253
Reserves		2,464,209	2,407,495
Equity attributable to owners of the Company		<b>3,213,462</b>	<b>3,156,748</b>
Non-controlling interests		3,923	3,927
		<b>3,217,385</b>	<b>3,160,675</b>

## Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2011

	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 2010 (audited)	<u>523,421</u>	<u>802,109</u>	<u>10,468</u>	<u>6,227</u>	<u>1,530,713</u>	<u>2,872,938</u>	<u>3,327</u>	<u>2,876,265</u>
Profit for the period	-	-	-	-	81,957	81,957	(714)	81,243
Exchange difference arising on translation	-	-	-	(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	<u>523,421</u>	<u>802,109</u>	<u>20,936</u>	<u>5,198</u>	<u>1,602,202</u>	<u>2,953,866</u>	<u>2,652</u>	<u>2,956,518</u>
At 1 July 2011 (audited)	<u>749,253</u>	<u>799,577</u>	<u>14,985</u>	<u>3,999</u>	<u>1,588,934</u>	<u>3,156,748</u>	<u>3,927</u>	<u>3,160,675</u>
Profit for the period	-	-	-	-	55,014	55,014	(205)	54,809
Exchange difference arising on translation	-	-	-	1,700	-	1,700	201	1,901
Total comprehensive income for the period	-	-	-	1,700	55,014	56,714	(4)	56,710
Interim dividend	-	-	14,985	-	(14,985)	-	-	-
<b>At 31 December 2011</b>	<u><b>749,253</b></u>	<u><b>799,577</b></u>	<u><b>29,970</b></u>	<u><b>5,699</b></u>	<u><b>1,628,963</b></u>	<u><b>3,213,462</b></u>	<u><b>3,923</b></u>	<u><b>3,217,385</b></u>

## Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 31 December 2011

	Six months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
Net cash from operating activities	<b>1,097</b>	280,916
Net cash used in investing activities	<b>(2,296)</b>	(299,535)
Net cash used in financing activities	<b>(3,197)</b>	(6,451)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	<b>(4,396)</b>	(25,070)
Cash and cash equivalents at the beginning of the period	<b>243,064</b>	126,547
Effect of foreign exchange rate changes	<b>431</b>	803
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b>239,099</b>	102,280
	<hr/>	<hr/>
Represented by:		
Deposits, bank balances and cash	<b>240,364</b>	102,280
Overdrafts	<b>(1,265)</b>	–
	<hr/>	<hr/>
	<b>239,099</b>	102,280
	<hr/>	<hr/>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2011

## 1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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 2011.

## 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 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 and leasing income received and receivable during the period.

The turnover of the Group comprises the following:

	Six months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
Sales of systems products	363,611	394,368
Rendering of services and software licensing	281,246	276,883
Leasing of systems products	11,565	10,904
	<b>656,422</b>	<b>682,155</b>

**(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:

	<b>Systems sales and licensing</b> <i>HK\$'000</i>	<b>Leasing of systems products</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Six months ended 31 December 2011</b>			
<b>TURNOVER</b>			
External and total revenue	<u>644,857</u>	<u>11,565</u>	<u>656,422</u>
<b>RESULTS</b>			
Segment result	<u>63,068</u>	<u>(618)</u>	<u>62,450</u>
Interest income			2,233
Finance costs			(234)
Unallocated expenses, net			<u>(9,640)</u>
Profit before taxation			<u>54,809</u>
<b>Six months ended 31 December 2010</b>			
<b>TURNOVER</b>			
External and total revenue	<u>671,251</u>	<u>10,904</u>	<u>682,155</u>
<b>RESULTS</b>			
Segment result	<u>84,303</u>	<u>(805)</u>	<u>83,498</u>
Interest income			2,407
Finance costs			(274)
Unallocated expenses, net			<u>(4,388)</u>
Profit before taxation			<u>81,243</u>



#### 4. Depreciation and amortisation

	Six months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
Amortisation on:		
Development costs for systems and networks, included in cost of sales	206,588	214,966
Intangibles assets, included in general and administrative expenses	-	590
Depreciation of property, plant and equipment, included in general and administrative expenses	5,079	4,266
	<u>211,667</u>	<u>219,822</u>
Total depreciation and amortisation		

#### 5. Taxation

	Six months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	-	-
Other jurisdictions	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

Hong Kong Profits Tax is calculated at 16.5% (2010: 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\$55,014,000 (2010: HK\$81,957,000) and on the weighted average number of 7,492,523,000 shares (2010: 5,360,672,000 shares) in issue. The weighted average number of shares for the purpose of calculating the basic earnings per share for the Previous Period has been adjusted for the rights issue of the Company completed in April 2011 on the basis of two rights shares for every five existing issued shares.

No dilutive earnings per share is presented for the six months ended 31 December 2011 and 2010 as there were no potential dilutive shares during the periods.

## 7. Dividend

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared in scrip form equivalent to HK0.2 cents (2010: HK0.2 cents) per share, with a cash option	<b><u>14,985</u></b>	<u>10,468</u>

The interim dividend declared is calculated on the basis of 7,492,522,578 shares in issue on 31 December 2011.

## 8. Property, plant and equipment

	Amount
	HK\$'000
Net book value at 1 July 2011	48,556
Currency realignment	(1,388)
Additions	4,545
Disposals	(16)
Depreciation	(5,079)
<b>Net book value at 31 December 2011</b>	<b><u>46,618</u></b>

At 31 December 2011, certain land and buildings of the Group with a carrying value of HK\$8,151,000 (30 June 2011: HK\$8,455,000) were pledged to a bank as security for banking facilities granted to the Group.

## 9. Trade and other receivables

	<b>As at 31 December 2011 HK\$'000 (Unaudited)</b>	As at 30 June 2011 HK\$'000 (Audited)
Trade receivables	<b>322,428</b>	339,128
Advances to suppliers	<b>378,195</b>	93,332
Others	<b>19,506</b>	26,296
	<b><u>720,129</u></b>	<u>458,756</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 days to 180 days. The advances to suppliers and other receivables are unsecured, non-interest bearing and refundable, and are expected to be realised in the next twelve months from the end of the reporting period. The aged analysis of trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	<b>As at 31 December 2011 HK\$'000 (Unaudited)</b>	As at 30 June 2011 HK\$'000 (Audited)
0 – 60 days	<b>141,861</b>	158,826
61 – 90 days	<b>111,162</b>	117,979
91 – 180 days	<b>69,405</b>	62,317
> 180 days	–	6
	<b><u>322,428</u></b>	<u>339,128</u>

## 10. Trade and other payables

As at 31 December 2011, the balance of trade and other payables included trade payables of HK\$12,567,000 (30 June 2011: HK\$15,881,000). The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	<b>As at 31 December 2011 HK\$'000 (Unaudited)</b>	As at 30 June 2011 HK\$'000 (Audited)
0 – 60 days	<b>9,665</b>	11,798
61 – 90 days	<b>1,217</b>	522
91 – 180 days	<b>649</b>	1,976
> 180 days	<b>1,036</b>	1,585
	<b><u>12,567</u></b>	<u>15,881</u>

The credit period for purchases of goods ranged from 30 days to 60 days. Other payables mainly represented receipts in advance and accruals.

## 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:

	<b>As at 31 December 2011</b>		As at 30 June 2011	
	<b>Land and buildings HK\$'000 (Unaudited)</b>	<b>Motor vehicles HK\$'000 (Unaudited)</b>	Land and buildings HK\$'000 (Audited)	Motor vehicles HK\$'000 (Audited)
Operating leases which expire:				
Within one year	<b>691</b>	<b>2,183</b>	822	2,629
In the second to fourth year inclusive	<b>1,868</b>	<b>2,157</b>	2,840	2,888
	<b><u>2,559</u></b>	<b><u>4,340</u></b>	<u>3,662</u>	<u>5,517</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 telecommunications networks which fall due as follows:

	<b>As at 31 December 2011 HK\$'000 (Unaudited)</b>	As at 30 June 2011 HK\$'000 (Audited)
Within one year	<b>3,201</b>	796
In the second to fifth year inclusive	<b>14,229</b>	19,973
	<b>17,430</b>	20,769

### Interim Dividend and Scrip Dividend Scheme

The Board has resolved to pay an interim dividend of HK0.2 cents per share for the Period (2010: HK0.2 cents per share) to shareholders whose names appear on the register of members of the Company on 23 March 2012. 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 25 May 2012.

### Closure of Register of Members

The register of members of the Company will be closed from 22 March 2012 to 23 March 2012, 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 21 March 2012.

## Management Discussion and Analysis

### Financial Results

The Group reported a turnover of HK\$656 million for the Period, representing a decrease of 4 percent compared with HK\$682 million for the Previous Period. Profit for the Period was HK\$55 million, a drop of 33 percent compared with HK\$81 million for the Previous Period, and profit attributable to owners of the Company was HK\$55 million compared with HK\$82 million for the Previous Period. The drop in turnover and profit was attributable to uncertainties in the global business climate which weakened customers' spending. Earnings per share for the Period was HK0.73 cents (2010: HK1.53 cents after adjustment for the rights issue completed in April 2011). The Group had taken prudent measures to recognise an impairment loss of HK\$16 million (2010: Nil) for deposits and prepaid development costs for systems and networks, which affected the profit for the Period. Excluding the impairment loss, adjusted EBITDA for the Period decreased by 6 percent to HK\$282 million (2010: HK\$301 million). Despite depressed levels of public and private sector spending, the Group had managed to maintain its gross margin at 21 percent as a result of enhancement of product mix. Meanwhile, the Group continues to review and exercise cost control measures. Distribution costs remained stable at about HK\$17 million, while general and administrative expenses increased by 5 percent to HK\$46 million (2010: HK\$44 million). Depreciation and amortisation expenses dropped 4 percent to HK\$21.2 million (2010: HK\$220 million) as the launch of new projects slowed down in light of the uncertain global economic environment.

Finance costs for the Period remained low at about HK\$0.2 million (2010: HK\$0.3 million). The Group's financial position remains positive with net cash.

### Review of Operations

In China, the economy remained positive despite lower economic growth and declining export performance. The Group continued to benefit from the Central Government's backing of the science and technology sector, and its marketing and sales activities for customised solutions and products continued. The Group's product portfolio embraces 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 dropped 2 percent to HK\$439 million, compared with HK\$449 million for the Previous Period.

In Europe, the unstable economic climate continued to affect the Group's trading position. Austerity measures implemented by governments across Europe had slowed spending and delayed project rollout. In particular, the Group's business in the United Kingdom ("UK") declined as its government embarked on the deepest spending cuts in a generation. The

Group maintained its focus on emergency services, NHS (National Health Services) projects and fire control sectors, where some projects were delayed, others suffered from reduced budget, and some were even scrapped. With its product specialisation and new offerings that met customers' requirements, the Group was able to maintain its business activities. To alleviate the shortfall in the UK operation, the Group put more effort on other European markets, building on its innovative range of personal security products, centralised messaging and management solutions for the emergency and health services. Turnover of the European operations dropped 8 percent to HK\$171 million, compared with HK\$185 million for the Previous Period.

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

## **Outlook**

As global markets are likely to remain uncertain over the continuing debt crisis in Europe, concern over the US economy and scepticism whether China can maintain its high growth rate, the Group will remain vigilant in the implementation of its business plans.

Throughout the years, the Group has followed closely the policies of China's economic development, and has managed to take advantage of opportunities offered by such policies, namely backing of the information technology and telecommunications industry. Going forward, the Group will continue its prudent approach in investing in complementary businesses that have good growth prospects. In addition to continuing investments in technologies and innovative solutions which are key to sustainable growth, the Group will expand its business in the culture sector, which is in line with China's national policy to promote its culture industry alongside its rise as an economic power. The Group's participation and sponsorship in the past decade of various cultural events, including the popular exhibitions under the "Peace and Harmony" series hosted by Chinese World Cultural Heritage Foundation with thousands of rare archaic exhibits and relics; major programs such as "Le French May", "Paris 1730–1930: A Taste for China", "Treasures of the World's Cultures from the British Museum", "Otium Ludens Leisure and Play: Ancient Relics of the Roman Empire", has enabled it to accumulate related knowledge and business connections, both overseas and on the Mainland, in the field of culture and related activities. Ongoing engagement in international and regional cultural exchange activities also helps to enhance the Group's experience in the culture business.

Combining technology and art, and in collaboration with niche partners, the Group has developed a portfolio of comprehensive customised solutions for online galleries and digital content with one-stop e-commerce platform and infrastructure for the sales, marketing and promotion of art, antiques, cultural products and collectibles for the consumer market. With the further opening up of China's culture market, as well as the rising interest in Chinese culture and heritage among consumers around the world, the Group is well-positioned to capitalise on its customer base and global network to develop income streams for a wide range of culture-related topics.

## **Liquidity and Financial Resources**

### **Financial Position and Gearing**

The Group's financial position remained positive with a low gearing throughout the Period. As at 31 December 2011, the Group had HK\$240 million (30 June 2011: HK\$249 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK\$984 million (30 June 2011: HK\$733 million) and current liabilities amounted to approximately HK\$61 million (30 June 2011: HK\$112 million). With net current assets of HK\$924 million (30 June 2011: HK\$621 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK\$32 million (30 June 2011: HK\$39 million) to equity attributable to owners of the Company of HK\$3,213 million (30 June 2011: HK\$3,157 million), was 0.010 (30 June 2011: 0.012).

As at 31 December 2011, total borrowings mainly comprised bank loans of HK\$31.1 million (30 June 2011: HK\$33.2 million) and overdrafts of HK\$1.3 million (30 June 2011: HK\$5.5 million). Bank loans of HK\$7.3 million were repayable within one year and the remaining bank loans of HK\$23.8 million repayable in the second year. Overdrafts were repayable on demand. As at 30 June 2011, all the borrowings were repayable either on demand or within one year. Bank loans of HK\$29.3 million (30 June 2011: HK\$31.2 million) were secured by the Group's land and buildings with a carrying value of HK\$8.2 million (30 June 2011: HK\$8.5 million). Finance costs for the Period amounted to HK\$0.2 million compared with HK\$0.3 million for the Previous Period.



## **Treasury Policy**

The Group is committed to financial prudence and maintains a positive financial position with low gearing. It 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 2011, the Group's capital commitments authorised but not contracted for amounted to approximately HK\$83 million (30 June 2011: HK\$98 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 2011, the Group employed about 650 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 2011, the interests of the directors of the Company in the shares 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:

<b>Name of director</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Approximate percentage of the issued share capital</b>
<i>Securities of the Company</i>			
Dr. Paul Kan Man Lok	Corporate interest	Note 1	55.07%
<i>Securities of Champion Technology Holdings Limited ("Champion", the holding company of the Company)</i>			
Dr. Paul Kan Man Lok	Corporate interest	Note 2	26.88%
<i>Securities of DIGITALHONGKONG.COM ("Digital HK", a fellow subsidiary of the Company)</i>			
Dr. Paul Kan Man Lok	Corporate interest	Note 3	74.48%

Notes:

1. 4,125,813,235 shares of the Company were held by Champion. Lawnside International Limited ("Lawnside") is beneficially wholly owned by Dr. Paul Kan Man Lok. As at 31 December 2011, Lawnside had interest in approximately 26.88% of the entire issued share capital of Champion. Dr. Paul Kan Man Lok was deemed to have corporate interest in the shares of the Company held by Champion.
2. 1,617,111,835 shares of Champion were held by Lawnside. Dr. Paul Kan Man Lok was deemed to have corporate interest in the shares of Champion held by Lawnside.
3. 106,050,000 shares of Digital HK were held by Champion and 5,670,520 shares of Digital HK were held by Lawnside. Dr. 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 2011 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 2011, the following persons (other than the directors or chief executive of the Company) had interests in the share capital 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	4,125,813,235	55.07%
Shanghai Industrial Investment (Holdings) Company Limited (Note 2)	Corporate interest	554,740,000	7.40%

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 554,740,000 shares of the Company through control over 100% interest in the shares of Shanghai Industrial Financial (Holdings) Company Limited which had direct interest in 554,740,000 shares of the Company.

Save as disclosed above, no person had any interest or short position in the shares or underlying shares of the Company according to the register required to be kept by the Company under Section 336 of the SFO as at 31 December 2011.

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

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **Code on Corporate Governance Practices**

During the Period, the Company complied with the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

## **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 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, 24 February 2012

看通集團有限公司  
二零一一 / 一二年中期報告  
股份代號：1059

