

CHAMPION TECHNOLOGY HOLDINGS LIMITED

www.championtechnology.com

冠軍科技集團有限公司 Stock Code: 0092

Interim Report
2011/12



Champion Technology Holdings Limited (www.championtechnology.com) (stock code: 0092) is a global technology group offering innovative solutions in communications software, wireless, telematics, e-commerce, security, online entertainment and e-gaming. The Group's solutions are dedicated to bettering and enriching the lives and lifestyles of people, promoting health consciousness, accident prevention and life safety, and additionally promoting probity and responsibility in the conduct of the online industry.

Throughout the years, the Group has focused on industries supported by government policies. In line with China's national policy to promote its culture industry, the Group has expanded its activities in culture-related technologies and related services, and has developed a portfolio of customised solutions and comprehensive e-commerce capabilities in the sales, marketing and promotion of art, antiques, cultural products and collectibles for the consumer market.

With total assets of over HK\$9 billion and a global presence in over 50 markets, the Group serves its customers through its network of regional offices and distributors, and three Hong Kong listed companies, namely Champion Technology Holdings Limited and Kantone Holdings Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Exchange"), and DIGITALHONGKONG.COM, whose shares are listed on the Growth Enterprise Market of the Exchange. The Group also includes a UK subsidiary previously listed on the London Stock Exchange.



CHAMPION TECHNOLOGY HOLDINGS LIMITED

(Continued in Bermuda with limited liability)

INTERIM REPORT

For the six months ended 31 December 2011

Financial Highlights

- Turnover was HK\$1,511 million, down 4%
- Profit for the period was HK\$64 million, down 31%
- Adjusted EBITDA (excluding impairment) was HK\$698 million, down 2%
- Profit attributable to owners of the Company was HK\$39 million, down 30%
- Earnings per share was HK0.65 cents
- Interim dividend of HK0.3 cents per share
- The Group maintained a positive financial position with net cash

The board of directors (the “Board”) of Champion Technology Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 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

		Six months ended 31 December	
		2011	2010
	Notes	HK\$'000	HK\$'000
Turnover	3	1,510,522	1,566,929
Direct operating expenses		(1,324,940)	(1,361,993)
Gross profit		185,582	204,936
Other income		6,570	5,216
Distribution costs		(18,934)	(18,771)
General and administrative expenses		(83,259)	(84,881)
Impairment losses recognised for deposits and prepaid development costs		(15,773)	-
Research and development costs expensed		(8,930)	(11,269)
Finance costs		(1,496)	(2,215)
Profit before taxation		63,760	93,016
Taxation	5	-	-
Profit for the period		63,760	93,016
Other comprehensive income (expense):			
Exchange difference arising on translation		1,901	(990)
Total comprehensive income for the period		65,661	92,026
Profit for the period attributable to:			
Owners of the Company		39,290	56,116
Non-controlling interests		24,470	36,900
		63,760	93,016
Total comprehensive income for the period attributable to:			
Owners of the Company		40,217	55,564
Non-controlling interests		25,444	36,462
		65,661	92,026
Earnings per share	6		
- Basic		HK0.65 cents	HK1.34 cents
- Diluted		HK0.65 cents	HK1.30 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)
Non-current assets			
Property, plant and equipment	8	63,376	66,309
Development costs for systems and networks		2,592,511	3,203,621
Goodwill		36,795	36,795
Intangible assets		–	–
Available-for-sale investments		628,148	628,148
Interest in an associate		–	–
Deposits and prepaid development costs		3,909,232	3,843,105
		7,230,062	7,777,978
Current assets			
Inventories		23,946	25,568
Trade and other receivables	9	1,554,618	1,080,301
Taxation recoverable		8	10
Deposits, bank balances and cash		504,248	465,247
		2,082,820	1,571,126
Current liabilities			
Trade and other payables	10	79,630	103,388
Warranty provision		1,318	1,445
Customers' deposits		3,483	3,514
Taxation payable		7	–
Bank borrowings – amount due within one year		193,364	225,198
Convertible bond	11	–	64,341
Overdrafts		55,326	54,060
		333,128	451,946
Net current assets		1,749,692	1,119,180
Total assets less current liabilities		8,979,754	8,897,158
Non-current liabilities			
Bank borrowings – amount due after one year		23,761	–
Retirement benefit obligations		59,587	61,337
Deferred taxation		163	169
		83,511	61,506
Net assets		8,896,243	8,835,652
Capital and reserves			
Share capital		601,411	601,411
Reserves		6,841,677	6,780,821
Equity attributable to owners of the Company		7,443,088	7,382,232
Non-controlling interests		1,453,155	1,453,420
		8,896,243	8,835,652

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	Capital redemption reserve	General reserve	Capital reserve	Merger reserve	Translation reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2010 (audited)	406,842	2,003,818	10,171	50	1,366,003	125,036	8,358	2,735	3,139,264	7,062,277	1,335,256	8,397,533
Profit for the period	-	-	-	-	-	-	-	-	56,116	56,116	36,900	93,016
Exchange difference arising from translation	-	-	-	-	-	-	-	(552)	-	(552)	(438)	(990)
Total comprehensive income for the period	-	-	-	-	-	-	-	(552)	56,116	55,564	36,462	92,026
Interim dividend	-	-	12,205	-	-	-	-	-	(12,205)	-	-	-
At 31 December 2010	406,842	2,003,818	22,376	50	1,366,003	125,036	8,358	2,183	3,183,175	7,117,841	1,371,718	8,489,559
At 1 July 2011 (audited)	601,411	2,091,866	6,014	50	1,366,003	125,036	8,358	1,533	3,181,961	7,382,232	1,453,420	8,835,652
Profit for the period	-	-	-	-	-	-	-	-	39,290	39,290	24,470	63,760
Exchange difference arising from translation	-	-	-	-	-	-	-	927	-	927	974	1,901
Total comprehensive income for the period	-	-	-	-	-	-	-	927	39,290	40,217	25,444	65,661
Interim dividend	-	-	18,042	-	-	-	-	-	(18,042)	-	-	-
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	20,639	20,639	(25,709)	(5,070)
	-	-	18,042	-	-	-	-	-	2,597	20,639	(25,709)	(5,070)
At 31 December 2011	<u>601,411</u>	<u>2,091,866</u>	<u>24,056</u>	<u>50</u>	<u>1,366,003</u>	<u>125,036</u>	<u>8,358</u>	<u>2,460</u>	<u>3,223,848</u>	<u>7,443,088</u>	<u>1,453,155</u>	<u>8,896,243</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	200,729	725,842
Net cash used in investing activities	(88,625)	(692,837)
Net cash used in financing activities	(74,800)	(24,392)
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Net increase in cash and cash equivalents	37,304	8,613
Cash and cash equivalents at the beginning of the period	411,187	241,241
Effect of foreign exchange rate changes	431	803
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	448,922	250,657
	<hr/> <hr/>	<hr/> <hr/>
Represented by:		
Deposits, bank balances and cash	504,248	289,437
Overdrafts	(55,326)	(38,780)
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	448,922	250,657
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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 except for certain financial instruments, which are measured at fair values. 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, 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 2011		2010
	HK\$'000		HK\$'000
Sales of systems products	912,188		969,239
Rendering of services and software licensing	551,610		539,771
Leasing of systems products	11,565		10,904
Dividend income	35,159		47,015
	<u>1,510,522</u>		<u>1,566,929</u>

(b) Segment information

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

	Systems sales and licensing HK\$'000	Leasing of systems products HK\$'000	Strategic investments HK\$'000	Consolidated HK\$'000
Six months ended 31 December 2011				
TURNOVER				
External and total revenue	<u>1,463,798</u>	<u>11,565</u>	<u>35,159</u>	<u>1,510,522</u>
RESULTS				
Segment result	<u>46,399</u>	<u>(618)</u>	<u>29,189</u>	74,970
Interest income				2,944
Finance costs				(1,496)
Unallocated expenses, net				<u>(12,658)</u>
Profit before taxation				<u>63,760</u>
Six months ended 31 December 2010				
TURNOVER				
External and total revenue	<u>1,509,010</u>	<u>10,904</u>	<u>47,015</u>	<u>1,566,929</u>
RESULTS				
Segment result	<u>66,623</u>	<u>(805)</u>	<u>38,768</u>	104,586
Interest income				3,300
Finance costs				(2,215)
Unallocated expenses, net				<u>(12,655)</u>
Profit before taxation				<u>93,016</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 direct operating expenses	611,111	613,302
Intangible assets, included in general and administrative expenses	-	590
Depreciation of property, plant and equipment, included in general and administrative expenses	6,144	5,390
Total depreciation and amortisation	617,255	619,282

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 and diluted earnings per share is based on the following data:

	Six months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
Earnings attributable to owners of the Company for the purpose of calculating basic earnings per share	39,290	56,116
Interest on convertible bond	140	685
	<hr/>	<hr/>
Earnings for the purpose of calculating diluted earnings per share	39,430	56,801
	<hr/>	<hr/>
	Number of shares ('000)	
Weighted average number of shares for the purpose of calculating basic earnings per share	6,014,110	4,199,973
Effect of dilutive potential ordinary shares:		
Convertible bond	40,443	182,952
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Weighted average number of shares for the purpose of calculating diluted earnings per share	6,054,553	4,382,925
	<hr/>	<hr/>

The weighted average number of shares and the effect of dilutive potential ordinary shares in respect of the convertible bond of the Company for the purpose of calculating the earnings per share for the Previous Period has been adjusted for the rights issue of the Company completed in January 2011 on the basis of four rights shares for every nine existing issued shares.

7. Dividend

	Six months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
Interim dividend declared in scrip form equivalent to HK0.3 cents (2010: HK0.3 cents) per share, with a cash option	18,042	12,205
	<hr/>	<hr/>

The interim dividend declared is calculated on the basis of 6,014,110,442 shares in issue on 31 December 2011.

8. Property, plant and equipment

	Amount HK\$'000
Net book value at 1 July 2011	66,309
Currency realignment	(1,388)
Additions	4,615
Disposals	(16)
Depreciation	(6,144)
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Net book value at 31 December 2011	63,376
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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 others receivables

	As at 31 December 2011 HK\$'000 (Unaudited)	As at 30 June 2011 HK\$'000 (Audited)
Trade receivables	829,525	843,421
Advances to suppliers	696,776	204,443
Others	28,317	32,437
	<hr/>	<hr/>
	1,554,618	1,080,301
	<hr/> <hr/>	<hr/> <hr/>

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:

	As at 31 December 2011 HK\$'000 (Unaudited)	As at 30 June 2011 HK\$'000 (Audited)
0 – 60 days	360,278	399,176
61 – 90 days	270,886	306,100
91 – 180 days	198,361	138,139
> 180 days	–	6
	<hr/>	<hr/>
	829,525	843,421
	<hr/> <hr/>	<hr/> <hr/>

10. Trade and other payables

As at 31 December 2011, the balance of trade and other payables included trade payables of HK\$15,946,000 (30 June 2011: HK\$21,372,000). 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 2011 HK\$'000 (Unaudited)	As at 30 June 2011 HK\$'000 (Audited)
0 – 60 days	9,665	11,801
61 – 90 days	1,217	522
91 – 180 days	649	7,464
> 180 days	4,415	1,585
	15,946	21,372

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

11. Convertible bond

The convertible bond bore interest at 1% per annum payable semi-annually. The change in the fair value of the convertible bond was insignificant in both periods and hence no fair value change was recognised in profit or loss. The outstanding principal sum of the convertible bond as at 30 June 2011 was fully redeemed by the Company on 19 September 2011.

12. Operating lease arrangements

The Group as lessee

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

	As at 31 December 2011		As at 30 June 2011	
	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	2,225	2,183	2,953	2,629
In the second to fourth year inclusive	4,277	2,157	5,554	2,888
	6,502	4,340	8,507	5,517

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:

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

Interim Dividend and Scrip Dividend Scheme

The Board has resolved to pay an interim dividend of HK0.3 cents per share for the Period (2010: HK0.3 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\$1,511 million for the Period, representing a decrease of 4 percent as compared with HK\$1,567 million for the Previous Period. Profit for the Period was HK\$64 million and profit attributable to owners of the Company was HK\$39 million as compared with HK\$93 million and HK\$56 million respectively 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 HK0.65 cents (2010: HK1.34 cents after adjustment for the rights issue completed in January 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 2 percent to HK\$698 million (2010: HK\$715 million). As a result of continued pressure on customer spending and increasing market competition, the Group's gross margin fell to 12.3 percent from 13.1 percent of Previous Period. The Group continued to review and exercise cost control measures. For the Period, distribution costs remained stable at HK\$19 million (2010: HK\$19 million), while general and administrative expenses dropped 2 percent to HK\$83 million (2010: HK\$85 million) and research and development costs expensed decreased by 21 percent to HK\$9 million (2010: HK\$11 million). Depreciation and amortisation expenses remained stable at HK\$617 million (2010: HK\$619 million).

Finance costs for the Period dropped 32 percent to HK\$1.5 million (2010: HK\$2.2 million), attributable to the redemption of convertible bond and continued low gearing of the Group.

Review of Operations

During the Period, China's economy remained positive despite lower growth rate. Exports were affected by the fragile state of many western economies, which resulted in a cautious investment sentiment and contributed to a slower pace of market activities. The Group continued to focus on innovative communications and security solutions and services customised to achieve high reliability and high integrity. However, the interruption in the supply of key components and products sourced from Japan since March last year had adversely affected the Group's new product development, hence, restraining revenue growth.

The Group's strategic investment in In-Car telematics solutions, anti-radiation products to counteract radio transmission from mobile phones, as well as smart logistics solutions, continued. Meanwhile, in an effort to boost its offerings of security solutions, the Group has been working with international partners to offer comprehensive customised solutions for integrated security systems. These investments were subject to periodic review to determine if progress was in line with the original plans and if the anticipated benefits could be achieved. Where required, impairment provisions at an appropriate level would be made.

For the Period, China sales dropped 3 percent to HK\$1,191 million as compared with HK\$1,225 million for the Previous Period.

In Europe, the unstable economic climate continued to affect the Group's trading position. The austerity measures adopted by governments across Europe had slowed spending and delayed project rollout. In particular, the Group's business in the United Kingdom ("UK") declined amidst a contraction of the economy triggered by its government's 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 either delayed, suffered from reduced budget, or were even scrapped. 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. Turnover of the European operations was HK\$230 million, a drop of 8 percent as compared with HK\$249 million for the Previous Period.

Kantone Holdings Limited ("Kantone")

Kantone's turnover was HK\$656 million and profit for the Period was HK\$55 million, representing corresponding decreases of 4 percent and 33 percent as compared with HK\$682 million and HK\$81 million respectively for the Previous Period. Sales in China were in line with the country's economic development. With Central Government's support of the science and technology sector in general, sales and marketing activities for Kantone's customised solutions and products continued. In Europe, fiscal tightening across the board posed great challenges to Kantone's business operation.

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 legislations and provisions governing the operation of lottery on Mainland China, Kantone 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.

Digital HK

Digital HK recorded a loss of HK\$1,446,000 on turnover of HK\$1,474,000 for the Period, compared with a loss of HK\$1,182,000 on turnover of HK\$1,535,000 in the Previous Period. It continues to seek investments to broaden its income streams. In particular, it plans to leverage its expertise and e-commerce capabilities to engage in the promotion and trading of cultural products and related services, which is in line with China's national policy to promote its culture industry.

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.

While the Group's business fundamentals remain positive, the continuing global uncertain market conditions may further dampen consumer and business confidence and so affect customer purchases and the Group's performance. The Group also has to bear rising operating costs brought about by inflation, higher wages and social security contributions due to national policies.

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 two decades 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 integrated security systems safeguarding precious exhibits on one hand, and e-commerce capabilities in the sales, marketing and promotion of art, antiques, cultural products and collectibles for the consumer market on the other. 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\$504 million liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK\$2,083 million (30 June 2011: HK\$1,571 million) and current liabilities amounted to approximately HK\$333 million (30 June 2011: HK\$452 million). With net current assets of HK\$1,750 million (30 June 2011: HK\$1,119 million), the Group maintained a high level of financial liquidity. The gearing ratio of the Group, which calculation was based on the Group's total borrowings of HK\$272 million (30 June 2011: HK\$344 million) and equity attributable to owners of the Company of HK\$7,443 million (30 June 2011: HK\$7,382 million), was 0.037 (30 June 2011: 0.047).

As at 31 December 2011, total borrowings mainly comprised bank loans of HK\$217 million (30 June 2011: HK\$225 million) and overdrafts of HK\$55 million (30 June 2011: HK\$54 million). The outstanding principal amount of the convertible bond together with interest were fully repaid on 19 September 2011. Bank loans of HK\$193 million were repayable within one year and the remaining bank loans of HK\$24 million were 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 million (30 June 2011: HK\$31 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\$1.5 million compared with HK\$2.2 million for Previous Period.

Treasury Policy

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

Other than the convertible bond, all the borrowings were used by subsidiaries of the Company bearing interest at floating rates. As all the Group's borrowings were denominated in their local currencies, the currency risk exposure associated with them was insignificant.

The Group does not engage in any speculative derivatives or structured product transactions, interest rate or foreign exchange speculative activities. It is the Group's policy to manage foreign exchange risk through matching foreign exchange income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instruments will be used.

Capital Commitments

As at 31 December 2011, the Group's capital commitments authorised but not contracted for amounted to approximately HK\$204 million (30 June 2011: HK\$203 million). These commitments were set aside for the acquisition of property, plant and equipment, and development of systems and networks.

Human Resources and Remuneration Policy

As at 31 December 2011, the Group employed about 1,200 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:

Name of director	Capacity	Number of shares	Approximate percentage of the issued share capital
<i>Securities of the Company</i>			
Dr. Paul Kan Man Lok	Corporate interest	Note 1	26.88%
<i>Securities of Kantone</i>			
Dr. Paul Kan Man Lok	Corporate interest	Note 2	55.07%
<i>Securities of Digital HK</i>			
Dr. Paul Kan Man Lok	Corporate interest	Note 3	74.48%

Notes:

- 1,617,111,835 shares of the Company were held by Lawnside International Limited ("Lawnside"). 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 the Company. Dr. Paul Kan Man Lok was deemed to have corporate interest in the shares of the Company held by Lawnside.

2. 4,125,813,235 shares of Kantone were held by the Company. Dr. Paul Kan Man Lok was deemed to have corporate interest in the shares of Kantone held by the Company.
3. 106,050,000 shares of Digital HK were held by the Company 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 the Company and Lawnside.

Save as disclosed above, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) as at 31 December 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, Kantone and Digital HK has a share option scheme under which eligible persons, including directors of the Company, Kantone, Digital HK or any of their subsidiaries may be granted options to subscribe for shares of the Company, Kantone and Digital HK respectively.

Other than the share option schemes of the Company, Kantone and Digital HK aforementioned, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

During the Period, no option had been granted, exercised, cancelled, lapsed or outstanding under the share option schemes of the Company, Kantone and Digital HK aforementioned.

Substantial Shareholder

As at 31 December 2011, the following person (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 shareholder	Capacity	Number of shares	Approximate percentage of the issued share capital
Lawnside	Beneficial owner	1,617,111,835*	26.88%

* See Note 1 to the "Directors' Interests and Short Positions in Securities" Section above.

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

冠軍科技集團有限公司
二零一一 / 一二年中期報告
股份代號：0092