

KANTONE HOLDINGS LIMITED
看通集團有限公司



INTERIM REPORT

2013/14

www.kantone.com

Stock Code: 1059

Kantone Holdings Limited (“Kantone”) (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 provider 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 global 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. Currently the Group’s focus is to take advantage of China’s national policy to foster its culture industry and the rising interest in collectibles around the world to develop a range of related internet based solutions and services.

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 2013

Financial Highlights

- Turnover rose 33% to HK\$1,211 million
- Profit for the period decreased 5% to HK\$73 million
- Adjusted EBITDA (excluding impairment) went up 10% to HK\$404 million
- Profit attributable to owners of the Company dropped 5% to HK\$73 million
- Earnings per share was HK0.97 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 2013 (the “Period”) with comparative unaudited figures for the corresponding period in 2012 (the “Previous Period”) as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the six months ended 31 December 2013

		Six months ended 31 December	
		2013	2012
	<i>Notes</i>	HK\$'000	HK\$'000 (restated)
Turnover	3	1,210,844	912,376
Cost of sales		(1,015,919)	(712,240)
Gross profit		194,925	200,136
Other income and gain		3,774	4,775
Distribution costs		(16,627)	(15,549)
General and administrative expenses		(64,516)	(52,386)
Impairment losses recognised for deposits and prepaid development costs		(39,504)	(54,700)
Research and development costs expensed		(4,988)	(5,312)
Finance costs		(287)	(207)
Profit before taxation		72,777	76,757
Taxation	5	(102)	–
Profit for the period		72,675	76,757

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the six months ended 31 December 2013

		Six months ended 31 December	
		2013	2012
	Note	HK\$'000	HK\$'000 (restated)
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Recognition of actuarial gain on defined benefit scheme		7,887	8,388
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		(5,185)	(3,084)
Total comprehensive income for the period		75,377	82,061
Profit for the period attributable to:			
Owners of the Company		72,806	76,800
Non-controlling interests		(131)	(43)
		72,675	76,757
Total comprehensive income for the period attributable to:			
Owners of the Company		75,349	81,879
Non-controlling interests		28	182
		75,377	82,061
Earnings per share – Basic	6	HK0.97 cents	HK1.02 cents

Condensed Consolidated Statement of Financial Position

At 31 December 2013

	Notes	As at 31 December 2013 HK\$'000 (unaudited)	As at 30 June 2013 HK\$'000 (restated)
Non-current assets			
Property, plant and equipment	8	45,933	44,773
Development costs for systems and networks		1,463,577	1,547,368
Goodwill		36,795	36,795
Deposits and prepaid development costs		173,940	413,904
		1,720,245	2,042,840
Current assets			
Inventories		27,497	24,523
Trade and other receivables	9	1,673,491	1,284,137
Taxation recoverable		2	1
Deposits, bank balances and cash		69,009	84,193
		1,769,999	1,392,854
Current liabilities			
Trade and other payables	10	65,474	77,102
Warranty provision		1,310	1,246
Taxation payable		106	–
Bank borrowings – amount due within one year		4,579	7,719
		71,469	86,067
Net current assets		1,698,530	1,306,787
Total assets less current liabilities		3,418,775	3,349,627
Non-current liabilities			
Bank borrowings – amount due after one year		16,026	16,989
Retirement benefit obligations		88,506	93,772
		104,532	110,761
Net assets		3,314,243	3,238,866
Capital and reserves			
Share capital		751,603	751,603
Reserves		2,540,851	2,465,502
Equity attributable to owners of the Company		3,292,454	3,217,105
Non-controlling interests		21,789	21,761
		3,314,243	3,238,866

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2013

	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 30 June 2012 (audited)	750,458	799,577	15,009	5,189	1,639,402	3,209,635	21,054	3,230,689
Effect of changes in accounting policies (Note 2)	-	-	-	1,340	(61,637)	(60,297)	-	(60,297)
At 30 June 2012 (restated)	<u>750,458</u>	<u>799,577</u>	<u>15,009</u>	<u>6,529</u>	<u>1,577,765</u>	<u>3,149,338</u>	<u>21,054</u>	<u>3,170,392</u>
Profit for the period	-	-	-	-	76,800	76,800	(43)	76,757
Effect of changes in accounting policies (Note 2)	-	-	-	(2,305)	8,388	6,083	-	6,083
Exchange difference arising on translation of foreign operations	-	-	-	(1,004)	-	(1,004)	225	(779)
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,309)</u>	<u>85,188</u>	<u>81,879</u>	<u>182</u>	<u>82,061</u>
Interim dividend	<u>-</u>	<u>-</u>	<u>15,009</u>	<u>-</u>	<u>(15,009)</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2012 (restated)	<u>750,458</u>	<u>799,577</u>	<u>30,018</u>	<u>3,220</u>	<u>1,647,944</u>	<u>3,231,217</u>	<u>21,236</u>	<u>3,252,453</u>

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2013

	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
Profit for the period	-	-	-	-	5,168	5,168	963	6,131
Effect of changes in accounting policies (Note 2)	-	-	-	3,301	3,274	6,575	-	6,575
Exchange difference arising on translation of foreign operations	-	-	-	2,359	-	2,359	233	2,592
Total comprehensive income for the period	-	-	-	5,660	8,442	14,102	1,196	15,298
Capital injection to a subsidiary	-	-	-	-	671	671	(671)	-
Interim dividend underprovided	-	-	12	-	(12)	-	-	-
Final dividend	-	-	7,516	-	(7,516)	-	-	-
Dividends paid	-	-	(28,885)	-	-	(28,885)	-	(28,885)
Issue of shares as scrip dividend	1,145	-	(1,145)	-	-	-	-	-
	1,145	-	(22,502)	-	(6,857)	(28,214)	(671)	(28,885)
At 30 June 2013 (restated)	751,603	799,577	7,516	8,880	1,649,529	3,217,105	21,761	3,238,866
Profit for the period	-	-	-	-	72,806	72,806	(131)	72,675
Recognition of actuarial gain on defined benefit scheme	-	-	-	-	7,887	7,887	-	7,887
Exchange difference arising on translation of foreign operations	-	-	-	(5,344)	-	(5,344)	159	(5,185)
Total comprehensive income for the period	-	-	-	(5,344)	80,693	75,349	28	75,377
Interim dividend	-	-	15,032	-	(15,032)	-	-	-
At 31 December 2013	751,603	799,577	22,548	3,536	1,715,190	3,292,454	21,789	3,314,243

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 31 December 2013

	Six months ended 31 December	
	2013	2012
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	(8,039)	140,711
Net cash used in investing activities	(2,560)	(86,831)
Net cash used in financing activities	(6,085)	(3,472)
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(16,684)	50,408
Cash and cash equivalents at the beginning of the period	84,193	116,233
Effect of foreign exchange rate changes	1,500	272
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	69,009	166,913
	<hr/>	<hr/>
Represented by:		
Deposits, bank balances and cash	69,009	171,021
Bank overdraft	-	(4,108)
	<hr/>	<hr/>
	69,009	166,913
	<hr/>	<hr/>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2013

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.

Except as described below, 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 2013.

2. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current period, the Group adopted the following new and revised standards, amendments and interpretation which are relevant to the Group’s operations and are mandatory for the financial year ending 30 June 2014:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 to 2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 19 (Revised 2011)	Employee benefits
HKAS 27 (Revised 2011)	Separate financial statements
HKAS 28 (Revised 2011)	Investments in associates and joint ventures
HK(IFRIC*) – INT 20	Stripping costs in the production phase of a surface mine

* *IFRIC represents the IFRS Interpretations Committee.*

Except as described below, the adoption of the above new and revised standards, amendments and interpretation has had no material effect on the unaudited condensed consolidated financial statements of the Group for the current and prior periods.

HKAS 19 (Revised 2011) Employee benefits

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the ‘corridor approach’ permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a “net-interest” amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on other comprehensive income in prior period/year. The Group had applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis.

The effect of the changes in accounting policies described above on total comprehensive income of the Group for the current and prior period/year is as follows:

	Six month ended 31 December		Year ended 30 June	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Impact on other comprehensive income:				
Increase (decrease) in remeasurement of defined benefit obligation	7,887	8,388	11,662	(61,637)
(Decrease) increase in remeasurement of exchange difference arising on translation of foreign operations	<u>(3,397)</u>	<u>(2,305)</u>	<u>996</u>	<u>1,340</u>
Net increase (decrease) in other and total comprehensive income for the period/year attributable to owners of the company	<u>4,490</u>	<u>6,083</u>	<u>12,658</u>	<u>(60,297)</u>

The effect of the changes in accounting policies described above on the financial positions of the Group as at 30 June 2013 is as follow:

	As at 30 June 2013 HK\$'000 (originally stated)	HKAS 19 adjustments HK\$'000	As at 30 June 2013 HK\$'000 (restated)
	Retirement benefit obligations	<u>(46,133)</u>	<u>(47,639)</u>
Total effect on net assets	<u>(46,133)</u>	<u>(47,639)</u>	<u>(93,772)</u>
Translation reserve	6,544	2,336	8,880
Retained profits	<u>1,699,504</u>	<u>(49,975)</u>	<u>1,649,529</u>
Total effect on equity	<u>1,706,048</u>	<u>(47,639)</u>	<u>1,658,409</u>

The effect of the changes in accounting policies described above on the financial positions of the Group as at 31 December 2012 is as follow:

	As at 31 December 2012 <i>HK\$'000</i> (originally stated)	HKAS 19 adjustments <i>HK\$'000</i>	As at 31 December 2012 <i>HK\$'000</i> (restated)
Retirement benefit obligations	<u>(52,453)</u>	<u>(54,214)</u>	<u>(106,667)</u>
Total effect on net assets	<u>(52,453)</u>	<u>(54,214)</u>	<u>(106,667)</u>
Translation reserve	4,185	(965)	3,220
Retained profits	<u>1,701,193</u>	<u>(53,249)</u>	<u>1,647,944</u>
Total effect on equity	<u>1,705,378</u>	<u>(54,214)</u>	<u>1,651,164</u>

The effect of the changes in accounting policies described above on the financial positions of the Group as at 30 June 2012 is as follow:

	As at 30 June 2012 <i>HK\$'000</i> (originally stated)	HKAS 19 adjustments <i>HK\$'000</i>	As at 30 June 2012 <i>HK\$'000</i> (restated)
Retirement benefit obligations	<u>(50,389)</u>	<u>(60,297)</u>	<u>(110,686)</u>
Total effect on net assets	<u>(50,389)</u>	<u>(60,297)</u>	<u>(110,686)</u>
Translation reserve	5,189	1,340	6,529
Retained profits	<u>1,639,402</u>	<u>(61,637)</u>	<u>1,577,765</u>
Total effect on equity	<u>1,644,591</u>	<u>(60,297)</u>	<u>1,584,294</u>

The Group has not early applied those new and revised standards, amendments and interpretation that have been issued but are not yet effective. The directors of the Company anticipate that the application of the new and revised standards, amendments and interpretation will have no material impact on the unaudited consolidated financial statements of the Group.

3. Turnover and segment information

(a) Turnover

Turnover represents the amounts received and receivable for goods sold and services provided by the Group to external 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	
	2013	2012
	HK\$'000	HK\$'000
Sales of systems and products	389,468	377,067
Licensing fees	306,471	283,653
Rendering of services	65,057	37,862
Leasing of systems products	13,009	12,281
Sales of cultural products	436,839	201,513
	<u>1,210,844</u>	<u>912,376</u>

(b) Segment information

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

	Systems sales and licensing	Leasing of systems products	Sale of cultural products	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 31 December 2013				
TURNOVER				
External and total revenue	<u>760,996</u>	<u>13,009</u>	<u>436,839</u>	<u>1,210,844</u>
RESULTS				
Segment result	<u>50,168</u>	<u>1,045</u>	<u>22,500</u>	73,713
Interest income				2,341
Finance costs				(287)
Unallocated expenses, net				<u>(2,990)</u>
Profit before taxation				<u>72,777</u>

	Systems sales and licensing <i>HK\$'000</i>	Leasing of systems products <i>HK\$'000</i>	Sale of cultural products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended 31 December 2012				
TURNOVER				
External and total revenue	698,582	12,281	201,513	912,376
RESULTS				
Segment result	56,845	357	21,211	78,413
Interest income				2,522
Finance costs				(207)
Unallocated expenses, net				(3,971)
Profit before taxation				76,757

4. Amortisation and depreciation

	Six months ended 31 December	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation on development costs for systems and networks, included in cost of sales	284,356	229,753
Depreciation of property, plant and equipment, included in general and administrative expenses	6,796	5,650
Total amortisation and depreciation	291,152	235,403

5. Taxation

	Six months ended 31 December	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Taxation in other jurisdiction – underprovision in prior year	102	–

Hong Kong Profits Tax is calculated at 16.5% (2012: 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 Macau Income Tax 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\$72,806,000 (2012: HK\$76,800,000) and on the weighted average number of shares of 7,516,030,000 shares (2012: 7,504,576,000 shares) in issue.

No dilutive earnings per share is presented for the six months ended 31 December 2013 and 2012 as there were no potential ordinary shares in issue during both periods.

7. Dividend

	Six months ended 31 December	
	2013	2012
	HK\$'000	HK\$'000
Interim dividend declared in scrip form equivalent to HK0.2 cents (2012: HK0.2 cents) per share, with a cash option	15,032	15,009

The interim dividend declared is calculated on the basis of 7,516,029,531 shares in issue on 31 December 2013.

8. Property, plant and equipment

	Amount HK\$'000
Carrying value at 1 July 2013	44,773
Currency realignment	3,056
Additions	4,904
Disposals	(4)
Depreciation	(6,796)
Carrying value at 31 December 2013	45,933

At 31 December 2013, certain land and buildings of the Group with a carrying value of HK\$8,452,000 (30 June 2013: HK\$7,871,000) were pledged to a bank as security for banking facilities granted to the Group.

9. Trade and other receivables

	As at 31 December 2013 HK\$'000 (Unaudited)	As at 30 June 2013 HK\$'000 (Audited)
Trade receivables	496,330	460,680
Advances to suppliers	1,143,742	790,547
Other receivables	33,419	32,910
	<u>1,673,491</u>	<u>1,284,137</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:

	As at 31 December 2013 HK\$'000 (Unaudited)	As at 30 June 2013 HK\$'000 (Audited)
0 – 60 days	276,249	293,309
61 – 90 days	68,063	91,953
91 – 180 days	119,613	75,418
> 180 days	32,405	–
	<u>496,330</u>	<u>460,680</u>

10. Trade and other payables

As at 31 December 2013, the balance of trade and other payables included trade payables of HK\$7,349,000 (30 June 2013: HK\$12,191,000). 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 2013 HK\$'000 (Unaudited)	As at 30 June 2013 HK\$'000 (Audited)
0 – 60 days	5,414	11,906
61 – 90 days	1,935	71
91 – 180 days	–	4
> 180 days	–	210
	<u>7,349</u>	<u>12,191</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:

	As at 31 December 2013		As at 30 June 2013	
	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	983	2,429	1,036	2,385
In the second to fourth year inclusive	5,167	3,954	5,125	4,035
	<u>6,150</u>	<u>6,383</u>	<u>6,161</u>	<u>6,420</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 lessees in respect of leasing of plant and machinery and telecommunications networks which fall due as follows:

	As at 31 December 2013 HK\$'000 (Unaudited)	As at 30 June 2013 HK\$'000 (Audited)
Within one year	1,688	514
In the second to fifth year inclusive	9,487	13,578
Over five years	3,529	–
	14,704	14,092

Interim Dividend and Scrip Dividend Scheme

The Board has resolved to pay an interim dividend of HK0.2 cents per share for the Period (2012: HK0.2 cents per share) to shareholders whose names appear on the register of members of the Company on 19 March 2014. 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 15 May 2014.

Closure of Register of Members

The register of members of the Company will be closed from 18 March 2014 to 19 March 2014, 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 Registrar 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 17 March 2014.

Management Discussion and Analysis

Financial Results

The Group reported a turnover of HK\$1,211 million for the Period, an increase of 33 percent compared with HK\$912 million for the Previous Period. Both profit for the Period and profit attributable to owners of the Company dropped by 5 percent to HK\$73 million, compared with HK\$77 million for the Previous Period. The increase in turnover was attributable to the Group's continued effort in developing new products and markets which brought in new income streams. Earnings per share for the Period was HK0.97 cents (2012: HK1.02 cents). The Group had taken prudent measures to recognise impairment losses of HK\$40 million (2012: HK\$55 million) for the Period for deposits and prepaid development costs for systems and networks, which affected the profit for the Period. Excluding the impairment losses, adjusted EBITDA for the Period increased by 10 percent to HK\$404 million (2012: HK\$367 million). The gross margin of the Group dropped to 16.1 percent (2012: 21.9 percent) as a result of the change in product mix.

Meanwhile, the Group continues to review and exercise cost control measures. Distribution costs increased 7 percent to HK\$16.6 million (2012: HK\$15.5 million), in line with increase in turnover. General and administrative expenses increased by 23 percent to HK\$64.5 million (2012: HK\$52.4 million) due to increased spending in the operating segment of cultural products. Research and development costs expensed remained relatively stable at HK\$5 million (2012: HK\$5.3 million). Amortisation and depreciation expenses increased 24 percent to HK\$291 million (2012: HK\$235 million) as a result of rolling out of new systems and networks.

Finance costs for the Period increased to HK\$0.3 million (2012: HK\$0.2 million) due to the general increase in interest rate. The Group's gearing remained low with a net cash position.

Review of Operations

In China, the economy remained stable despite lower economic growth and declining export performance. The Group's marketing and sales activities for customised solutions and products continued. Its product portfolio embraces a wide range of integrated wireless solutions and web-based monitoring systems mainly designed for remote management and security applications, as well as customised solutions for the trading and promotion of art, antiques, and cultural products. For the Period, China sales increased 36 percent to HK\$830 million, compared with HK\$607 million for the Previous Period. The increase in turnover was attributable to the enhancement of product mix, introduction of new solutions and services, as well as revenue generated from the sale of products related to cultural business.

In Europe, the recession began to recede towards the end of the year as some economies showed signs of slow recovery. In the United Kingdom (“UK”), growth gradually picked up. Germany also recorded solid growth with reduced unemployment.

The Group’s performance was ahead of budget, with UK business, mainly from the public sector (National Health Services (NHS) and Emergency Services), accounting for much of the growth. The improvement highlighted the success of the Group’s new unified communications product in delivering significant savings for its institutional clients, and some of the largest NHS trusts have now adopted this new technology which enables the traditional customer base to invest in controlled migration to newer technologies without the need or risk to retire the well-proven critical messaging systems they have already invested in. Elsewhere in Europe, sales in Germany were dominated by customised personal security products which commanded higher gross margins, with a corresponding reduction in the sales of other traditional messaging products. For the Period, the turnover of the Group’s European operations was HK\$269 million, a rise of 13 percent compared with HK\$237 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 legislations and provisions governing the operation of lottery on Mainland China, Kantone adjusted its business model accordingly. The gradual opening up of the China lottery market in an orderly manner is expected to bode well for Kantone as an innovative service provider to expand its activities into various parts of the lottery value chain. 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

Global market conditions have further stabilised in the second half of 2013 as the financial difficulties in certain Eurozone nations have gradually eased, and as the US economy and labour market have continued to improve moderately. However, the pace of global recovery is still subject to uncertainties, especially the slowdown of China’s economy and its impact on other emerging markets and the world economy as a whole. Such uncertainties will post significant risks to the Group’s business operations. At the same time, the markets for many of its products and services are characterised by rapidly changing technologies and evolving industry standards. Changes in market conditions caused by new technologies, emergence of new competitors, consolidations among our customers and competitors, as well as changes in regulatory requirements can bring volatilities to our businesses. Meeting all these challenges require consistent operational planning and shrewd execution and investment in innovative and enhanced product mix that serves the needs of our customers globally.

Going forward, the Group will continue its prudent approach in investing in complementary businesses that have good growth prospects. In particular, the Group will pursue sectors which are supported by government policies, including healthcare, innovation and technology, cultural and creative industries, smart living, and information-based services for the community and consumers.

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 2013, the Group had HK\$69 million (30 June 2013: HK\$84 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK\$1,770 million (30 June 2013: HK\$1,393 million) and current liabilities amounted to approximately HK\$71 million (30 June 2013: HK\$86 million). With net current assets of HK\$1,699 million (30 June 2013: HK\$1,307 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK\$20.6 million (30 June 2013: HK\$24.7 million) to equity attributable to owners of the Company of HK\$3,292 million (30 June 2013 (restated): HK\$3,217 million), was 0.006 (30 June 2013 (restated): 0.008).

As at 31 December 2013, the Group's total borrowings mainly comprised bank loans of HK\$20.6 million (30 June 2013: HK\$24.7 million), with HK\$4.6 million (30 June 2013: HK\$7.7 million) repayable within one year, HK\$4.6 million (30 June 2013: HK\$4.3 million) repayable in the second year and remaining balance of HK\$11.4 million (30 June 2013: HK\$12.7 million) repayable in the third to fifth year. Bank loans of HK\$20.6 million (30 June 2013: HK\$21.7 million) were secured by the Group's land and buildings with a carrying value of HK\$8.5 million (30 June 2013: HK\$7.9 million). Finance costs for the Period were stable at HK\$0.3 million.

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 2013, the Group's capital commitments authorised but not contracted for were approximately HK\$52 million (30 June 2013: HK\$52 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 2013, 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 2013, 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>			
Prof. Paul Kan Man Lok	Corporate interest	Note 1	54.89%
<i>Securities of Champion Technology Holdings Limited ("Champion", the Company's holding company)</i>			
Prof. Paul Kan Man Lok	Corporate interest	Note 2	27.72%
<i>Securities of DIGITALHONGKONG.COM ("Digital HK", a subsidiary of Champion)</i>			
Prof. 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 Prof. Paul Kan Man Lok. As at 31 December 2013, Lawnside had interest in approximately 27.72% of the entire issued share capital of Champion. Prof. Paul Kan Man Lok was deemed to have corporate interest in the shares of the Company held by Champion.
2. 1,730,651,800 shares of Champion were held by Lawnside. Prof. 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. Prof. 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 2013 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, its holding company, any of its 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 2013, 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	54.89%
Shanghai Industrial Investment (Holdings) Company Limited (Note 2)	Corporate interest	554,740,000	7.38%

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 2013.

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.

Corporate Governance Code

During the Period, the Company complied with the code provisions of the Corporate Governance Code 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 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 financial and accounting policies 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, 28 February 2014

看通集團有限公司
二零一三/一四年中期報告

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