



KANTONE HOLDINGS LIMITED
看通集團有限公司

Stock Code: 1059

2015/16

INTERIM REPORT

www.kantone.com

Kantone Holdings Limited (“Kantone”) (www.kantone.com) (stock code: 1059) is a provider of IT driven communications systems.

Throughout the years, Kantone has built 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 2015

Financial Highlights

- Turnover was HK\$1,056 million
- Profit for the period was HK\$26 million
- EBITDA was HK\$283 million
- Profit attributable to owners of the Company was HK\$28 million
- Earnings per share was HK2.85 cents
- The Group maintained a positive financial position

The board of directors (the “Board”) of Kantone Holdings Limited (the “Company” or “Kantone”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2015 (the “Period”) with comparative unaudited figures for the corresponding period in 2014 (the “Previous Period”) as follows:

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

For the six months ended 31 December 2015

		Six months ended 31 December	
		2015	2014
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,056,105	1,299,292
Cost of sales		(975,883)	(1,183,148)
Gross profit		80,222	116,144
Other income		9,012	3,289
Distribution costs		(8,929)	(19,277)
General and administrative expenses		(52,805)	(91,223)
Research and development costs expensed		(1,330)	(4,525)
Finance costs		(202)	(353)
Profit before taxation		25,968	4,055
Taxation	4	–	–
Profit for the period		25,968	4,055

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

For the six months ended 31 December 2015

	Six months ended 31 December	
	2015	2014
Note	HK\$'000	HK\$'000
Other comprehensive (expense) income:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefits pension plans	(19,999)	(1,211)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	1,763	6,938
Other comprehensive (expense) income for the period	(18,236)	5,727
Total comprehensive income for the period	7,732	9,782
Profit for the period attributable to:		
Owners of the Company	28,133	896
Non-controlling interests	(2,165)	3,159
	25,968	4,055
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	10,784	6,747
Non-controlling interests	(3,052)	3,035
	7,732	9,782
Earnings per share – Basic	5	
	HK2.85 cents	HK0.12 cents

Condensed Consolidated Statement of Financial Position

At 31 December 2015

	Notes	As at 31 December 2015 HK\$'000 (Unaudited)	As at 30 June 2015 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	37,843	41,750
Development costs for systems and networks		898,868	1,150,367
Deposits and prepaid development costs		–	432,510
		<u>936,711</u>	<u>1,624,627</u>
Current assets			
Inventories		190,801	20,579
Trade and other receivables	8	2,414,925	1,850,412
Deposits, bank balances and cash		75,334	196,407
		<u>2,681,060</u>	<u>2,067,398</u>
Current liabilities			
Trade and other payables	9	44,496	131,954
Warranty provision		1,027	1,074
Bank borrowings – amount due within one year		4,061	4,720
		<u>49,584</u>	<u>137,748</u>
Net current assets		<u>2,631,476</u>	<u>1,929,650</u>
Total assets less current liabilities		<u>3,568,187</u>	<u>3,554,277</u>
Non-current liabilities			
Bank borrowings – amount due after one year		6,091	8,713
Retirement benefit obligations		89,411	80,611
		<u>95,502</u>	<u>89,324</u>
Net assets		<u>3,472,685</u>	<u>3,464,953</u>
Capital and reserves			
Share capital		986,538	986,538
Reserves		2,463,234	2,452,450
Equity attributable to owners of the Company		<u>3,449,772</u>	<u>3,438,988</u>
Non-controlling interests		22,913	25,965
		<u>3,472,685</u>	<u>3,464,953</u>

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2015

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2014 (audited)	758,875	799,577	(528)	1,637,623	3,195,547	24,196	3,219,743
Profit for the period	-	-	-	896	896	3,159	4,055
Remeasurement of defined benefits pension plans	-	-	-	(1,211)	(1,211)	-	(1,211)
Exchange difference arising on translation of foreign operations	-	-	7,062	-	7,062	(124)	6,938
Total comprehensive income (expense) for the period	-	-	7,062	(315)	6,747	3,035	9,782
At 31 December 2014	758,875	799,577	6,534	1,637,308	3,202,294	27,231	3,229,525
At 1 July 2015 (audited)	986,538	795,357	5,402	1,651,691	3,438,988	25,965	3,464,953
Profit for the period	-	-	-	28,133	28,133	(2,165)	25,968
Remeasurement of defined benefits pension plans	-	-	-	(19,999)	(19,999)	-	(19,999)
Exchange difference arising on translation of foreign operations	-	-	2,650	-	2,650	(887)	1,763
Total comprehensive income (expense) for the period	-	-	2,650	8,134	10,784	(3,052)	7,732
At 31 December 2015	986,538	795,357	8,052	1,659,825	3,449,772	22,913	3,472,685

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 31 December 2015

	Six months ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	(546,444)	706,992
Net cash from (used in) investing activities	430,592	(687,337)
Net cash used in financing activities	(2,866)	(4,487)
Net (decrease) increase in cash and cash equivalents	(118,718)	15,168
Cash and cash equivalents at the beginning of the period	196,407	66,648
Effect of foreign exchange rate changes	(2,355)	(2,548)
Cash and cash equivalents at the end of the period	75,334	79,268
Represented by:		
Deposits, bank balances and cash	75,334	79,268

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2015

1. Basis of preparation and accounting policies

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 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 2015. There is no standard, amendment or interpretation that is effective for the first time for the period.

The Group has not early applied those new standards and amendments that have been issued but are not yet effective. The Group has commenced an assessment of the impact of these new standards and amendments, certain of which may have material impact on the Group's consolidated financial statements. The Group is not yet in a position to ascertain their impact on its results of operations and financial position.

2. 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	
	2015	2014
	HK\$'000	HK\$'000
Sales of cultural products	522,709	753,402
Sales of systems and related products	392,540	289,618
Licensing fees	111,672	147,337
Rendering of services	15,967	95,437
Leasing of systems products	13,217	13,498
	<u>1,056,105</u>	<u>1,299,292</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:

	Sale of cultural products	Systems sales and licensing	Leasing of systems products	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 31 December 2015				
TURNOVER				
External and total revenue	<u>522,709</u>	<u>520,179</u>	<u>13,217</u>	<u>1,056,105</u>
RESULTS				
Segment result	<u>79,883</u>	<u>(53,993)</u>	<u>1,831</u>	27,721
Interest income				2,996
Finance costs				(202)
Unallocated expenses, net				<u>(4,547)</u>
Profit before taxation				<u>25,968</u>

	Sale of cultural products <i>HK\$'000</i>	Systems sales and licensing <i>HK\$'000</i>	Leasing of systems products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended 31 December 2014				
TURNOVER				
External and total revenue	753,402	532,392	13,498	<u>1,299,292</u>
RESULTS				
Segment result	<u>30,095</u>	<u>(23,976)</u>	<u>1,318</u>	7,437
Interest income				1,841
Finance costs				(353)
Unallocated expenses, net				<u>(4,870)</u>
Profit before taxation				<u>4,055</u>

3. Amortisation and depreciation

	Six months ended 31 December	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation on development costs for systems and networks, included in cost of sales	251,283	220,790
Depreciation of property, plant and equipment, included in general and administrative expenses	<u>5,646</u>	<u>6,044</u>
Total amortisation and depreciation	<u>256,929</u>	<u>226,834</u>

4. Taxation

Hong Kong Profits Tax is calculated at 16.5% (2014: 16.5%) on the estimated assessable profits derived from Hong Kong. There was no estimated assessable profit for Hong Kong Profits Tax for both periods.

The low effective tax rate is attributable to the fact that a substantial portion of the Group's profit neither arose in, nor was derived from, Hong Kong and was accordingly not subject to Hong Kong Profits Tax and such profit was either exempt from Macau Income Tax or not subject to taxation in any other jurisdictions.

5. 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\$28,133,000 (2014: HK\$896,000) and on the weighted average number of shares of 986,538,000 shares (2014: 758,875,000 shares) in issue.

No dilutive earnings per share is presented for the six months ended 31 December 2015 and 2014 as there were no potential ordinary shares in issue during both periods.

6. Dividend

The Board has resolved not to pay any interim dividend for the six months ended 31 December 2015 (2014: nil).

7. Property, plant and equipment

	Amount HK\$'000
Carrying value at 1 July 2015	41,750
Currency realignment	(2,456)
Additions	4,914
Disposals	(719)
Depreciation	(5,646)
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Carrying value at 31 December 2015	37,843
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8. Trade and other receivables

	As at 31 December 2015 HK\$'000 (Unaudited)	As at 30 June 2015 HK\$'000 (Audited)
Trade receivables	227,547	329,609
Advances to suppliers	2,148,746	1,495,091
Other receivables	38,632	25,712
	<hr/>	<hr/>
	2,414,925	1,850,412
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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 2015 HK\$'000 (Unaudited)	As at 30 June 2015 HK\$'000 (Audited)
0 – 60 days	63,084	159,280
61 – 90 days	136,402	87,741
91 – 180 days	18,607	82,588
> 180 days	9,454	–
	<u>227,547</u>	<u>329,609</u>

9. Trade and other payables

As at 31 December 2015, the balance of trade and other payables included trade payables of HK\$3,182,000 (30 June 2015: HK\$72,107,000). 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 2015 HK\$'000 (Unaudited)	As at 30 June 2015 HK\$'000 (Audited)
0 – 60 days	2,783	24,137
61 – 90 days	–	6,439
91 – 180 days	–	40,635
> 180 days	399	896
	<u>3,182</u>	<u>72,107</u>

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

10. 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 2015		As at 30 June 2015	
	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	935	1,782	961	2,440
In the second to fourth year inclusive	1,851	2,076	2,175	2,108
	<u>2,786</u>	<u>3,858</u>	<u>3,136</u>	<u>4,548</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 communications networks which fall due as follows:

	As at 31 December 2015 HK\$'000 (Unaudited)	As at 30 June 2015 HK\$'000 (Audited)
Within one year	1,416	468
In the second to fifth year inclusive	8,933	8,443
Over five years	991	4,104
	<u>11,340</u>	<u>13,015</u>

Dividend

As a precaution against further economic and financial turbulence, and to strengthen the Group's liquidity position ahead of continuing market uncertainties, the Board does not recommend the payment of any interim dividend for the Period (2014: nil).

Management Discussion and Analysis

Financial Results

The Group reported a turnover of HK\$1,056 million for the Period. Profit for the Period was HK\$26 million and profit attributable to owners of the Company was HK\$28 million. Earnings per share for the Period was HK2.85 cents. EBITDA for the Period was HK\$283 million.

Continued economic downturn in the China market led to a 31 percent reduction in the sales of cultural products to HK\$523 million while the overall turnover from systems sales and licensing maintained momentum, with sales of systems and related products growing 36 percent to HK\$393 million. This was offset by the drop of 83 percent in income from rendering of services to HK\$16 million due to suspension of online lottery sales in Mainland China, as well as a decrease in licensing fees of 24 percent to HK\$112 million.

Continuing efforts in cost control measures and the decline in sales resulted in a drop of 54 percent in distribution costs to HK\$9 million (2014: HK\$19 million); while general and administrative expenses dropped 42 percent to HK\$53 million (2014: HK\$91 million) as a result of the decrease in expenses for sales of cultural products. Research and development costs were lower at HK\$1.3 million (2014: HK\$4.5 million). Amortisation and depreciation expenses increased 13 percent to HK\$257 million (2014: HK\$227 million) due to the faster roll-out of development projects.

Finance costs for the Period was HK\$0.2 million (2014: HK\$0.4 million). The Group's gearing remained low with a net cash position.

Review of Operations

The global economic environment remained sluggish during the Period, with Mainland China recording its slowest pace of growth in a quarter of century as it grappled with a difficult transition to consumer-led expansion. In the markets in which the Group operated, tight controls continued to be exercised in both public and private sector spending, thereby putting more pressure on the demand for the Group's products and services. In response to the less than favourable market conditions, and in order to stay competitive, the Group had to engage in sales of lower profit margin products to maintain momentum.

The Group's various investments were affected by the uncertain economic environment around the world which slowed down the Group's global business plans for these projects. For e-gaming and online entertainment in Mainland China, the Group has suspended the online sale of paperless lottery since March 2015 pursuant to government measures. Provision was made for the investment in the last reporting period. To address the market challenges, and to strengthen our foundation for the future, the Group looked into different options of a business realignment plan aiming at improving its overall return.

In Mainland China, the Group kept up its marketing and sales activities for customised solutions and products, including those for the sales of cultural products. Spending cuts by our customers resulted in lower volume of sales.

In Europe, the Group maintained its market share in the public sector, supported by continued spending within the Healthcare and Emergency Services sectors. However, margins came under pressure due to increased costs of components priced in US dollars. Sales were also affected by the weak economic conditions. In the UK, the length of customer contracts was reduced as customers evaluated new technologies and were reluctant to commit. Sales in Germany registered a healthy growth in terms of Euro but were flat when consolidated into the Group in Hong Kong dollars due to the weak currency.

During the Period, the Group continued to invest in new product development and added new features and functionalities to its i-Message platform, which enabled a range of customised bespoke solutions to be delivered over smart phones. These smart applications have helped open up new opportunities in healthcare, retail and nursing home sectors.

Outlook

Recent financial market volatilities, sharp drop in commodity prices, and various political developments in the international arena have highlighted the unstable economic conditions. Against the backdrop of these unstable conditions and the unclear prospects of Mainland China's economy, we remain cautious in our business approach. Going forward, we will deploy resources to build on our competitive strengths, and continue our prudent approach in investing in complementary businesses that have growth prospects. In particular, the Group will pursue sectors which are supported by government policies, including healthcare, innovation and technology, cyber security, cultural and creative industries, energy conservation and green technologies, smart living, and information-based services for the community and consumers. The Group will also embark on a streamlining of operations and realignment of business activities aimed at achieving a more efficient cost structure and supply chain, which in turn may help improvement in sustainable profitability and create better value for our shareholders.

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 2015, the Group had HK\$75 million (30 June 2015: HK\$196 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK\$2,681 million (30 June 2015: HK\$2,067 million) and current liabilities amounted to approximately HK\$50 million (30 June 2015: HK\$138 million). With net current assets of HK\$2,631 million (30 June 2015: HK\$1,930 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK\$10.2 million (30 June 2015: HK\$13.4 million) to equity attributable to owners of the Company of HK\$3,450 million (30 June 2015: HK\$3,439 million), was 0.003 (30 June 2015: 0.004).

As at 31 December 2015, the Group's total borrowings comprised bank loans of HK\$10.2 million (30 June 2015: HK\$13.4 million), with HK\$4.1 million (30 June 2015: HK\$4.7 million) repayable within one year, HK\$4.1 million (30 June 2015: HK\$4.4 million) repayable in the second year and remaining balance of HK\$2.0 million (30 June 2015: HK\$4.3 million) repayable in the third to fifth year. Finance costs for the Period was HK\$0.2 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 2015, the Group's capital commitments authorised but not contracted for were approximately HK\$26 million (30 June 2015: HK\$28 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 2015, 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 2015, 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 Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Exchange (the "Listing Rules") were as follows:

Name of director	Capacity	Number of shares	Approximate percentage of the issued share capital
<i>Securities of the Company</i>			
Prof. Paul Kan Man Lok	Corporate interest	Note 1	64.94%
<i>Securities of Champion Technology Holdings Limited ("Champion", the Company's holding company)</i>			
Prof. Paul Kan Man Lok	Corporate interest	Note 2	27.90%

Notes:

1. 640,689,792 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 2015, Lawnside had interest in approximately 27.90% 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. 1,766,860,957 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.

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 2015 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 and Champion has a share option scheme under which eligible persons, including directors of the Company and Champion or any of their subsidiaries may be granted options to subscribe for shares of the Company and Champion respectively.

Other than the share option schemes of the Company and Champion 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 and Champion aforementioned.

Substantial Shareholder

As at 31 December 2015, 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
Champion	Beneficial owner	640,689,792	64.94%

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 2015.

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, 25 February 2016

KANTONE HOLDINGS LIMITED
看通集團有限公司

二零一五/一六年中期報告

股份代號：1059
