# CHAMPION TECHNOLOGY HOLDINGS LIMITED

*(Continued in Bermuda with limited liability)*
Stock Code: 92

# 2013/2014 INTERIM RESULTS ANNOUNCEMENT

## FINANCIAL HIGHLIGHTS

- Turnover increased 37% to HK$2,747 million
- Profit for the period rose 11% to HK$79 million
- Adjusted EBITDA (excluding impairment) went up 17% to HK$998 million
- Profit attributable to owners of the Company rose 26% to HK$47 million
- Earnings per share was HK0.75 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 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 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 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | | (restated) |
| Turnover | *3* | **2,747,150** | 2,009,314 |
| Direct operating expenses | | **(2,425,973)** | (1,766,168) |
| Gross profit | | **321,177** | 243,146 |
| Other income and gain | | **6,395** | 8,487 |
| Distribution costs | | **(18,113)** | (17,209) |
| General and administrative expenses | | **(124,203)** | (101,065) |
| Impairment losses recognised for deposits and prepaid development costs | | **(98,534)** | (54,700) |
| Research and development costs expensed | | **(5,330)** | (6,046) |
| Finance costs | | **(2,280)** | (1,579) |
| Share of loss of a jointly controlled entity | | **(1)** | (1) |
| Profit before taxation | | **79,111** | 71,033 |
| Taxation | *5* | **(102)** | - |
| **Profit for the period** | | **79,009** | 71,033 |

| | Note | Six months ended 31 December 2013 HK$'000 | 2012 HK$'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** | | **81,711** | 76,337 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **46,627** | 36,930 |
| Non-controlling interests | | **32,382** | 34,103 |
| | | **79,009** | 71,033 |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **48,023** | 39,717 |
| Non-controlling interests | | **33,688** | 36,620 |
| | | **81,711** | 76,337 |
| Earnings per share - Basic | *6* | **HK0.75 cents** | HK0.60 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* | **59,124** | 58,741 |
| Development costs for systems and networks | | **4,004,431** | 4,335,747 |
| Goodwill | | **36,795** | 36,795 |
| Available-for-sale investments | | **628,148** | 628,148 |
| Interest in an associate | | **-** | - |
| Interest in a jointly controlled entity | | **474** | 475 |
| Deposits and prepaid development costs | | **522,298** | 1,099,752 |
| | | **5,251,270** | 6,159,658 |
| **Current assets** | | | |
| Inventories | | **27,511** | 24,536 |
| Trade and other receivables | *9* | **3,907,205** | 2,894,381 |
| Taxation recoverable | | **2** | 2 |
| Deposits, bank balances and cash | | **264,991** | 330,804 |
| | | **4,199,709** | 3,249,723 |

| | Note | As at 31 December 2013 HK$'000 (unaudited) | As at 30 June 2013 HK$'000 (restated) |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | *10* | **91,117** | 104,995 |
| Warranty provision | | **1,310** | 1,246 |
| Customers' deposits | | **3,483** | 3,483 |
| Taxation payable | | **106** | - |
| Bank borrowings - amount due within one year | | **176,579** | 191,719 |
| Overdrafts | | **34,797** | 39,833 |
| | | **307,392** | 341,276 |
| **Net current assets** | | **3,892,317** | 2,908,447 |
| **Total assets less current liabilities** | | **9,143,587** | 9,068,105 |
| **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** | | **9,039,055** | 8,957,344 |
| **Capital and reserves** | | | |
| Share capital | | **624,243** | 624,243 |
| Reserves | | **6,903,806** | 6,855,783 |
| Equity attributable to owners of the Company | | **7,528,049** | 7,480,026 |
| Non-controlling interests | | **1,511,006** | 1,477,318 |
| | | **9,039,055** | 8,957,344 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

*For the six months ended 31 December 2013*

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Dividend reserve | Capital redemption reserve | General reserve | Capital reserve | Merger reserve | Translation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | *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 30 June 2012 (audited) | 612,502 | 2,091,866 | 6,125 | 50 | 1,366,003 | 125,036 | 8,358 | 2,180 | 3,238,596 | 7,450,716 | 1,471,025 | 8,921,741 |
| Effect of changes in accounting policies (Note 2) | - | - | - | - | - | - | - | 736 | (33,835) | (33,099) | (27,198) | (60,297) |
| At 30 June 2012 (restated) | 612,502 | 2,091,866 | 6,125 | 50 | 1,366,003 | 125,036 | 8,358 | 2,916 | 3,204,761 | 7,417,617 | 1,443,827 | 8,861,444 |
| Profit for the period | - | - | - | - | - | - | - | - | 36,930 | 36,930 | 34,103 | 71,033 |
| Effect of changes in accounting policies (Note 2) | - | - | - | - | - | - | - | (1,266) | 4,605 | 3,339 | 2,744 | 6,083 |
| Exchange difference arising on translation of foreign operations | - | - | - | - | - | - | - | (552) | - | (552) | (227) | (779) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | (1,818) | 41,535 | 39,717 | 36,620 | 76,337 |
| Interim dividend | - | - | 12,250 | - | - | - | - | - | (12,250) | - | - | - |
| **At 31 December 2012 (restated)** | **612,502** | **2,091,866** | **18,375** | **50** | **1,366,003** | **125,036** | **8,358** | **1,098** | **3,234,046** | **7,457,334** | **1,480,447** | **8,937,781** |
| Profit for the period | - | - | - | - | - | - | - | - | 25,688 | 25,688 | 3,213 | 28,901 |
| Effect of changes in accounting policies (Note 2) | - | - | - | - | - | - | - | 1,812 | 1,797 | 3,609 | 2,966 | 6,575 |
| Exchange difference arising on translation of foreign operations | - | - | - | - | - | - | - | 1,296 | - | 1,296 | 1,298 | 2,594 |
| Total comprehensive income for the period | - | - | - | - | - | - | - | 3,108 | 27,485 | 30,593 | 7,477 | 38,070 |
| Interim dividend underprovided | - | - | 78 | - | - | - | - | - | (78) | - | - | - |
| Final dividend | - | - | 6,242 | - | - | - | - | - | (6,242) | - | - | - |
| Dividends paid | - | - | (6,125) | - | - | - | - | - | - | (6,125) | - | (6,125) |
| Issue of shares as scrip dividend | 11,741 | 587 | (12,328) | - | - | - | - | - | - | - | - | - |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | - | - | (12,382) | (12,382) |
| Loss on partial disposal of a subsidiary | - | - | - | - | - | - | - | - | (2,145) | (2,145) | 2,145 | - |
| Capital injection to a subsidiary | - | - | - | - | - | - | - | - | 369 | 369 | (369) | - |
| | 11,741 | 587 | (12,133) | - | - | - | - | - | (8,096) | (7,901) | (10,606) | (18,507) |
| At 30 June 2013 (restated) | 624,243 | 2,092,453 | 6,242 | 50 | 1,366,003 | 125,036 | 8,358 | 4,206 | 3,253,435 | 7,480,026 | 1,477,318 | 8,957,344 |
| Profit for the period | - | - | - | - | - | - | - | - | 46,627 | 46,627 | 32,382 | 79,009 |
| Recognition of actuarial gain on defined benefit scheme | - | - | - | - | - | - | - | - | 4,330 | 4,330 | 3,557 | 7,887 |
| Exchange difference arising on translation of foreign operations | - | - | - | - | - | - | - | (2,934) | - | (2,934) | (2,251) | (5,185) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | (2,934) | 50,957 | 48,023 | 33,688 | 81,711 |
| Interim dividend | - | - | 12,485 | - | - | - | - | - | (12,485) | - | - | - |
| **At 31 December 2013** | **624,243** | **2,092,453** | **18,727** | **50** | **1,366,003** | **125,036** | **8,358** | **1,272** | **3,291,907** | **7,528,049** | **1,511,006** | **9,039,055** |

## 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 | **(41,698)** | 325,136 |
| Net cash used in investing activities | **(501)** | (229,803) |
| Net cash used in financing activities | **(20,078)** | (5,674) |
| Net (decrease) increase in cash and cash equivalents | **(62,277)** | 89,659 |
| Cash and cash equivalents at the beginning of the period | **290,971** | 239,937 |
| Effect of foreign exchange rate changes | **1,500** | 272 |
| Cash and cash equivalents at the end of the period | **230,194** | 329,868 |
| Represented by: | | |
| Deposits, bank balances and cash | **264,991** | 369,702 |
| Overdrafts | **(34,797)** | (39,834) |
| | **230,194** | 329,868 |

## 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 | 2012 | 2013 | 2012 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'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 | (3,397) | (2,305) | 996 | 1,340 |
| Net increase (decrease) in other and total comprehensive income for the period/year | 4,490 | 6,083 | 12,658 | (60,297) |
| Increase (decrease) in total comprehensive income for the period/year attributable to: | | | | |
| Owners of the Company | 2,464 | 3,339 | 6,948 | (33,099) |
| Non-controlling interests | 2,026 | 2,744 | 5,710 | (27,198) |
| | 4,490 | 6,083 | 12,658 | (60,297) |

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

| | 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 | (46,133) | (47,639) | (93,772) |
| Total effect on net assets | (46,133) | (47,639) | (93,772) |
| Translation reserve | 2,924 | 1,282 | 4,206 |
| Retained profits | 3,280,868 | (27,433) | 3,253,435 |
| Non-controlling interests | 1,498,806 | (21,488) | 1,477,318 |
| Total effect on equity | 4,782,598 | (47,639) | 4,734,959 |

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

| | As at 31 December 2012 *HK$'000* (originally stated) | HKAS 19 adjustments *HK$'000* | As at 31 December 2012 *HK$'000* (restated) |
|---|---|---|---|
| Retirement benefit obligations | (52,453) | (54,214) | (106,667) |
| Total effect on net assets | (52,453) | (54,214) | (106,667) |
| Translation reserve | 1,628 | (530) | 1,098 |
| Retained profits | 3,263,276 | (29,230) | 3,234,046 |
| Non-controlling interests | 1,504,901 | (24,454) | 1,480,447 |
| Total effect on equity | 4,769,805 | (54,214) | 4,715,591 |

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

| | As at 30 June 2012 *HK$'000* (originally stated) | HKAS 19 adjustments *HK$'000* | As at 30 June 2012 *HK$'000* (restated) |
|---|---|---|---|
| Retirement benefit obligations | (50,389) | (60,297) | (110,686) |
| Total effect on net assets | (50,389) | (60,297) | (110,686) |
| Translation reserve | 2,180 | 736 | 2,916 |
| Retained profits | 3,238,596 | (33,835) | 3,204,761 |
| Non-controlling interests | 1,471,025 | (27,198) | 1,443,827 |
| Total effect on equity | 4,711,801 | (60,297) | 4,651,504 |

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, and dividends received and receivable from the Group's strategic investments 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 | **991,548** | 978,455 |
| Licensing fees | **714,754** | 582,675 |
| Rendering of services | **65,640** | 38,629 |
| Leasing of systems products | **13,009** | 12,281 |
| Sales of cultural products | **956,553** | 362,115 |
| Dividend income | **5,646** | 35,159 |
| | **2,747,150** | 2,009,314 |

**(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 | Strategic investments | Consolidated |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Six months ended 31 December 2013** | | | | | |
| TURNOVER | | | | | |
| External and total revenue | **1,771,942** | **13,009** | **956,553** | **5,646** | **2,747,150** |
| RESULTS | | | | | |
| Segment result | **37,696** | **1,045** | **47,318** | **4,281** | **90,340** |
| Interest income | | | | | **4,584** |
| Finance costs | | | | | **(2,280)** |
| Unallocated expenses, net | | | | | **(13,532)** |
| Share of loss of a jointly controlled entity | | | | | **(1)** |
| Profit before taxation | | | | | **79,111** |
| Six months ended 31 December 2012 | | | | | |
| TURNOVER | | | | | |
| External and total revenue | 1,599,759 | 12,281 | 362,115 | 35,159 | 2,009,314 |
| RESULTS | | | | | |
| Segment result | 11,614 | 357 | 35,626 | 27,719 | 75,316 |
| Interest income | | | | | 4,536 |
| Finance costs | | | | | (1,579) |
| Unallocated expenses, net | | | | | (7,239) |
| Share of loss of a jointly controlled entity | | | | | (1) |
| Profit before taxation | | | | | 71,033 |

## 4. Amortisation and depreciation

| | Six months ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Amortisation on development costs for systems and networks, included in direct operating expenses | **810,341** | 718,533 |
| Depreciation of property, plant and equipment, included in general and administrative expenses | **7,758** | 6,650 |
| Total amortisation and depreciation | **818,099** | 725,183 |

## 5. Taxation

| | Six months ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| 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$46,627,000 (2012: HK$36,930,000) and on the weighted average number of shares of 6,242,427,000 shares (2012: 6,125,016,000 shares) in issue.

No dilutive earnings per share is presented for the six month 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 | **12,485** | 12,250 |

The interim dividend declared is calculated on the basis of 6,242,427,454 shares in issue on 31 December 2013.

## 8. Property, plant and equipment

| | Amount |
|---|---|
| | *HK$'000* |
| Carrying value at 1 July 2013 | 58,741 |
| Currency realignment | 3,056 |
| Additions | 5,089 |
| Disposals | (4) |
| Depreciation | (7,758) |
| **Carrying value at 31 December 2013** | **59,124** |

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 others receivables

| | **As at 31 December 2013** | As at 30 June 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | **1,275,230** | 1,132,865 |
| Advances to suppliers | **2,594,002** | 1,726,275 |
| Other receivables | **37,973** | 35,241 |
| | **3,907,205** | 2,894,381 |

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** | As at 30 June 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| 0 - 60 days | **652,071** | 675,762 |
| 61 - 90 days | **282,406** | 304,595 |
| 91 - 180 days | **234,694** | 152,508 |
| > 180 days | **106,059** | - |
| | **1,275,230** | 1,132,865 |

## 10. Trade and other payables

As at 31 December 2013, the balance of trade and other payables included trade payables of HK$7,379,000 (30 June 2013: HK$12,192,000). 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** | As at 30 June 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| 0 - 60 days | **5,444** | 11,907 |
| 61 - 90 days | **1,935** | 71 |
| 91 - 180 days | **-** | 4 |
| > 180 days | **-** | 210 |
| | **7,379** | 12,192 |

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** | **Motor vehicles** | Land and buildings | Motor vehicles |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| | **(Unaudited)** | **(Unaudited)** | (Audited) | (Audited) |
| Operating leases which expire: | | | | |
| Within one year | **2,777** | **2,429** | 3,839 | 2,385 |
| In the second to fourth year inclusive | **5,933** | **3,954** | 5,807 | 4,035 |
| | **8,710** | **6,383** | 9,646 | 6,420 |

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 premises and certain equipment which is included in plant and machinery and telecommunications networks, which fall due as follows:

| | **As at 31 December 2013** | As at 30 June 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Within one year | **1,814** | 819 |
| In the second to fifth year inclusive | **9,487** | 13,608 |
| Over five years | **3,529** | - |
| | **14,830** | 14,427 |

## 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$2,747 million for the Period, representing an increase of 37 percent as compared with HK$2,009 million for the Previous Period. Profit for the Period was HK$79 million and profit attributable to owners of the Company was HK$47 million as compared with HK$71 million and HK$37 million respectively for the Previous Period. The increase in turnover and profit 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 HK0.75 cents (2012: HK0.60 cents). The Group had taken prudent measures to recognise impairment losses of HK$99 million (2012: HK$55 million) 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 17 percent to HK$998 million (2012: HK$852 million).The Group's gross margin remained stable at 11.7 percent compared with 12.1 percent of the Previous Period. Cost control measures continued to be exercised. For the Period, distribution costs increased 5 percent to HK$18.1 million (2012: HK$17.2 million), in line with increase in turnover. General and administrative expenses increased 23 percent to HK$124 million (2012: HK$101 million), due to increased spending in the operating segment of cultural products. However, research and development costs expensed decreased by 12 percent to HK$5.3 million (2012: HK$6.0 million). Amortisation and depreciation expenses increased 13 percent to HK$818 million (2012: HK$725 million) as a result of rolling out of new systems and networks.

Finance costs for the Period increased by 44 percent to HK$2.3 million (2012: HK$1.6 million) due to the general increase in interest rate. The Group's gearing remained low with a net cash position.

## Review of Operations

For the Period, China's economy grew at a slower pace but remained largely stable. The Group continued to focus on innovative communications and security solutions and services customised to achieve high reliability and high integrity. Enhancement of product mix, introduction of new solutions and services, and revenue generated from the sale of products related to cultural business contributed to the increase in sales.

The Group's strategic investment in In-Car telematics solutions, anti-radiation products to counteract radio transmission from mobile phones, as well as smart logistic 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.

For the Period, China sales increased by 34 percent to HK$2,120 million as compared with HK$1,582 million for the Previous Period.

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. Elsewhere, sales in Germany were stable. There was continuing demand for the Group's personal security products which are capable of embracing a broad range of communications devices and are therefore able to command higher gross margins.

Turnover of the European operations was HK$390 million, an increase of 28 percent as compared with HK$304 million for the Previous Period.

***Kantone Holdings Limited ("Kantone")***

Kantone recorded a 33 percent increase in turnover to HK$1,211 million as compared with HK$912 million for the Previous Period. Profit for the Period was HK$73 million, as compared with HK$77 million for the Previous Period, a decrease of 5 percent. Sales in China where Kantone continued to focus on customised solutions and services were in line with the country's economic development. Growth in the sales of products related to cultural business was encouraging. In Europe, recovery of the UK market boosted Kantone's sales performance, while momentum was maintained in Germany. Kantone's customised solutions had proved competitive and in demand. In particular, the new unified communications product introduced by Kantone in recent years embraces a wider range of devices including Wi-Fi and smart phone, thereby enabling 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. Some of the largest NHS trusts have now adopted this new technology.

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.

***DIGITALHONGKONG.COM ("Digital HK")***

Digital HK recorded a loss of HK$1,117,000 on turnover of HK$1,869,000 for the Period, compared with a loss of HK$1,473,000 on turnover of HK$1,537,000 in the Previous Period. It continues to seek investments that will broaden its income streams and leverage its expertise and e-commerce capabilities.

*Sad Note*

On a sad note, Mr. Francis Gilbert Knight, the Company's independent non-executive director since 2000, passed away on 30 December 2013. During his time with us, Francis always worked with the best interests of the Group and its shareholders in mind. He brought to the Group his wealth of knowledge and extensive experience in management. He will be sadly missed.

## 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$265 million (30 June 2013: HK$331 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK$4,200 million (30 June 2013: HK$3,250 million) and current liabilities amounted to approximately HK$307 million (30 June 2013: HK$341 million). With net current assets of HK$3,892 million (30 June 2013: HK$2,908 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$227 million (30 June 2013: HK$249 million) and equity attributable to owners of the Company of HK$7,528 million (30 June 2013 (restated): HK$7,480 million), was 0.030 (30 June 2013 (restated): 0.033).

As at 31 December 2013, the Group's total borrowings mainly comprised bank loans of HK$192 million (30 June 2013: HK$209 million) and overdrafts of HK$35 million (30 June 2013: HK$40 million). The bank loans comprised an amount of HK$176 million (30 June 2013: HK$192 million) repayable within one year, HK$5 million (30 June 2013: HK$4 million) repayable in the second year and remaining balance of HK$11 million (30 June 2013: HK$13 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). The overdrafts were unsecured and repayable on demand. Finance costs for the Period amounted to HK$2.3 million compared with HK$1.6 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.

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 2013, the Group's capital commitments authorised but not contracted were approximately HK$183 million (30 June 2013: HK$183 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 2013, 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 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** |
|---|---|---|---|
| *Securities of the Company* | | | |
| Prof. Paul Kan Man Lok | Corporate interest | *Note 1* | 27.72% |
| *Securities of Kantone* | | | |
| Prof. Paul Kan Man Lok | Corporate interest | *Note 2* | 54.89% |
| *Securities of Digital HK* | | | |
| Prof. Paul Kan Man Lok | Corporate interest | *Note 3* | 74.48% |

*Notes:*

1. 1,730,651,800 shares of the Company were held by Lawnside International Limited ("Lawnside"). Lawnside is beneficially wholly owned by Prof. Paul Kan Man Lok. As at 31 December 2013, Lawnside had interests in approximately 27.72% of the entire issued share capital of the Company. Prof. 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. Prof. 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. Prof. 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 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, 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 2013, 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 | 1,730,651,800* | 27.72% |

* *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 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 the above interim results.

By Order of the Board
**Paul KAN Man Lok**
*Chairman*

Hong Kong, 28 February 2014

*As at the date of this announcement, the executive directors of the Company are Prof. Paul Kan Man Lok, Mr. Leo Kan Kin Leung and Mr. Lai Yat Kwong; the non-executive director is Ms. Shirley Ha Suk Ling; and the independent non-executive directors are Mr. Terry John Miller, Mr. Frank Bleackley and Mr. Lee Chi Wah.*