KANTONE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1059)

ANNOUNCEMENT OF THE FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2017

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Kantone Holdings Limited (the "**Company**", together with its subsidiaries, collectively, the "**Group**") announces the consolidated results of the Group for the year ended 30 June 2017 with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Revenue	*2(a)*	**140,854**	2,090,426
Cost of sales		**(67,836)**	(1,374,356)
Gross profit		**73,018**	716,070
Other income, gains and losses		**3,887**	4,076
Gain on disposal of subsidiaries	*11*	**2,167**	11,773
Distribution costs		**(26,429)**	(29,731)
General and administrative expenses		**(50,825)**	(84,043)
Impairment losses recognised for inventories	*8*	**(1,740,108)**	—
Impairment losses recognised for development costs for systems and networks	*7*	**(14,650)**	(633,604)
Research and development costs expensed		**(3,089)**	(1,940)
Finance costs		**(146)**	(350)
Loss before taxation		**(1,756,175)**	(17,749)
Income tax expense	*4*	**(405)**	—
Loss for the year		**(1,756,580)**	(17,749)

	Notes	2017 HK$'000	2016 HK$'000
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefits pension plans		**(208)**	5,655
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**188**	5,299
Exchange difference reclassified to profit or loss on disposal of a subsidiary		**—**	(783)
Other comprehensive (expense)/income for the year		**(20)**	10,171
Total comprehensive expense for the year		**(1,756,600)**	(7,578)
Loss for the year attributable to:			
Owners of the Company		**(1,756,580)**	(11,764)
Non-controlling interests		**—**	(5,985)
		(1,756,580)	(17,749)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(1,756,600)**	(996)
Non-controlling interests		**—**	(6,582)
		(1,756,600)	(7,578)
Loss per share — Basic and diluted	6	**HK(178.05) cents**	HK(1.19) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**31,366**	33,406
Development costs for systems and networks	7	**—**	21,694
		31,366	55,100
Current assets			
Inventories	8	**1,658,321**	3,397,308
Trade and other receivables	9	**35,928**	34,282
Deposits, bank balances and cash		**76,101**	74,377
		1,770,350	3,505,967
Current liabilities			
Trade and other payables	10	**56,083**	61,040
Warranty provision		**1,073**	1,055
Amount due to a director		**3,000**	—
Bank borrowings — amount due within one year		**3,636**	3,677
		63,792	65,772
Net current assets		**1,706,558**	3,440,195
Total assets less current liabilities		**1,737,924**	3,495,295
Non-current liabilities			
Bank borrowings — amount due after one year		**—**	3,677
Retirement benefit obligations		**60,727**	57,821
		60,727	61,498
Net assets		**1,677,197**	3,433,797
Capital and reserves			
Share capital		**986,538**	986,538
Reserves		**690,659**	2,447,259
		1,677,197	3,433,797

1. BASIS OF PREPARATION AND ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Historical cost is generally based on the fair value of the consideration given in exchange for goods. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

In the current year, the Group has applied a number of amendments to HKFRSs issued by the HKICPA that are mandatorily effective for accounting periods beginning on 1 July 2016. The adoption of the amendments to HKFRSs in the current year has had no material impact on the consolidated financial statements of the Group for the current and prior years.

2. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue 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 year.

The revenue of the Group comprises the following:

	2017	2016
	HK$'000	*HK$'000*
Sales of cultural products	—	522,709
Sales of systems and related products	**92,737**	583,010
Licensing fees *(note)*	—	927,399
Rendering of services	**26,270**	31,398
Leasing of systems products	**21,847**	25,910
	140,854	2,090,426

Note: On 6 April 2016, the Group entered into agreements with various independent third parties granting them non-exclusive rights to exploit and use the design of the Group's systems and networks where the parties may freely assign, transfer, delegate, sub-contract or sub-license any of their rights by giving notice to the Group. During the year ended 30 June 2016, the Group received an aggregated income of HK$792,285,000, which was non-refundable, and such income was included in licensing fees income.

(b) Segment information

The operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conforming to HKFRSs, which are regularly reviewed by the executive directors of the Company, for the purpose of allocating resources to segments and assessing their performance. Three operating and reportable segments under HKFRS 8 Operating Segments are identified as follows:

- Sales of cultural products — includes income from trading of cultural products
- Systems sales and licensing — includes income from sales of systems and related products, software licensing and customisation and provision of related services
- Leasing of systems products — includes income from leasing of systems products

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in the consolidated financial statements. Segment results represent the loss before taxation earned by each reportable segment, excluding interest income, finance costs, unallocated income and expenses such as central administration costs and directors' salaries. This is the measure reported to the executive directors of the Company, the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance.

Information regarding the above segments is reported below:

	Sales of cultural products *HK\$'000*	Systems sales and licensing *HK\$'000*	Leasing of systems products *HK\$'000*	Consolidated *HK\$'000*
Year ended 30 June 2017				
REVENUE				
External and total revenue	**—**	**119,007**	**21,847**	**140,854**
RESULTS				
Segment result	**(1,740,595)**	**(8,891)**	**3,045**	**(1,746,441)**
Interest income				**180**
Gain on disposal of subsidiaries				**2,167**
Finance costs				**(146)**
Unallocated expenses, net				**(11,935)**
Loss before taxation				**(1,756,175)**

	Sales of cultural products	Systems sales and licensing	Leasing of systems products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 30 June 2016				
REVENUE				
External and total revenue	522,709	1,541,807	25,910	2,090,426
RESULTS				
Segment result	78,064	(98,443)	3,511	(16,868)
Interest income				3,373
Gain on disposal of subsidiaries				11,773
Finance costs				(350)
Unallocated expenses, net				(15,677)
Loss before taxation				(17,749)

	Sales of cultural products	**Systems sales and licensing**	**Leasing of systems products**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Year ended 30 June 2017				
Amounts included in the measure of segment profit or loss:				
Amortisation and depreciation	**—**	**14,318**	**1,334**	**15,652**
Impairment losses recognised for inventories	**1,740,108**	**—**	**—**	**1,740,108**
Impairment losses recognised for development costs for systems and networks	**—**	**14,650**	**—**	**14,650**
Year ended 30 June 2016				
Amounts included in the measure of segment profit or loss:				
Amortisation and depreciation	—	501,025	2,326	503,351
Impairment losses recognised for development costs for systems and networks	—	633,604	—	633,604

No assets and liabilities are included in segment reporting as they are not regularly reviewed by the executive directors of the Company.

(c) Geographical information

The following table provides an analysis of the Group's revenue and non-current assets by location of customers and by location of assets respectively:

	Revenue Year ended 30 June		Non-current assets As at 30 June	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
People's Republic of China (the "**PRC**"), including Hong Kong and Macau	—	888,695	**11**	21,715
Europe (mainly United Kingdom and Germany)	**140,854**	432,571	**31,355**	31,814
Japan	—	470,738	—	—
Others	—	298,422	—	1,571
	140,854	2,090,426	**31,366**	55,100

3. AMORTISATION AND DEPRECIATION

	2017	2016
	HK$'000	*HK$'000*
Amortisation on development costs for systems and networks, included in cost of sales	**7,044**	492,515
Depreciation of property, plant and equipment, included in general and administrative expenses	**8,608**	10,836
Total amortisation and depreciation	**15,652**	503,351

4. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current tax expense:		
— United Kingdom ("**UK**") corporate income tax	**272**	—
— Germany corporate income tax	**129**	—
— Malaysia corporate income tax	**4**	—
	405	—

The UK corporation income tax rate was reduced from 20% to 19% effective from 1 April 2017. UK corporate income tax is calculated at 19% and 20% (2016: 20%) on the estimated assessable profit derived from UK.

Pursuant to the rules and regulations of Germany, the Group is subjected to corporate income tax at 15% (2016: 15%) of the assessable profit of the subsidiary which carried on business in Germany.

Pursuant to the rules and regulations of Malaysia, the Group is subjected to corporate income tax at 24% (2016: 24%) of the assessable profit of the subsidiary which carried on business in Malaysia.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. There is no estimates assessable profit for PRC Enterprise Income Tax for both years.

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits derived from Hong Kong. There was no estimated assessable profit for Hong Kong Profits Tax for both years.

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. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2017 nor has any dividend been proposed since the end of reporting period (2016: nil).

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of HK$1,756,580,000 (2016: loss of HK$11,764,000) and on the weighted average number of shares of 986,538,000 shares (2016: 986,538,000 shares) in issue.

Diluted loss per share for the two years ended 30 June 2017 and 2016 were the same as the basic loss per share as there were no potential ordinary shares outstanding during both years.

7. DEVELOPMENT COSTS FOR SYSTEMS AND NETWORKS

	2017	2016
	HK$'000	*HK$'000*
Cost		
At beginning of the year	**4,641,108**	5,353,579
Currency realignment	**(7)**	(908)
Written off	**—**	(692,358)
Disposal of a subsidiary	**—**	(19,205)
At end of the year	**4,641,101**	4,641,108
Amortisation and impairment		
At beginning of the year	**4,619,414**	4,203,212
Currency realignment	**(7)**	(725)
Provided for the year	**7,044**	492,515
Written off	**—**	(692,358)
Disposal of a subsidiary	**—**	(16,834)
Impairment losses recognised	**14,650**	633,604
At end of the year	**4,641,101**	4,619,414
Carrying value		
At end of the year	**—**	21,694

Development costs for systems and networks include all direct costs incurred in setting up and development of systems and networks. The Group's development costs for systems and networks are amortised over the estimated economic useful lives of 1 to 2 years (2016: 1 to 3 years).

During the year ended 30 June 2016, due to the continued poor market condition in Asia Pacific region, management conducted a strategic review of the Group's system sales and licensing segment business. On 6 April 2016, the Group entered into agreements with various independent third parties (being in the business as developers) granting non-exclusive rights to exploit and use the design of certain of the Group's developed systems and networks for a total consideration of HK$792,285,000, which has been included in revenue for the year ended 30 June 2016. The Group retains its rights to sell those products.

Due to the arrangement of the grant of non-exclusive exploitation and design usage rights, the Group has revised certain assumptions, including the expected sales quantity and price, used for developing its budget and estimated cash flows for the development costs for system and networks. The recoverable amount based on the value in use method using the revised estimated cash flow was estimated by the management at HK$21,694,000 and an impairment loss of HK$633,604,000 was recognised in profit or loss for the year ended 30 June 2016. The estimated cash flows forecasts from the project covered a period of 1 to 3 years and was discounted at a rate of 10%-25% based on financial budgets approved by management.

As at the end of the year ended 30 June 2017, the directors of the Company reassessed the market conditions in Asia Pacific region for the Group's systems and networks and considered that they were worse than previously expected. Further, no revenue in Asia Pacific region was generated from the system sales and licensing segment business. Management conducted an impairment review of the Group's system sales and licensing segment business in Asia Pacific region. The impairment assessment took into account the fact that no further development costs will be provided by the Group for that segment after granting the independent third parties non-executive rights to exploit and use the design of certain of the Group's developed systems and networks during the year ended 30 June 2016. The recoverable amount based on the value in use was estimated as zero and accordingly, full impairment loss of HK$14,650,000 was recognised in profit or loss for the year ended 30 June 2017.

8. INVENTORIES

	2017	2016
	HK$'000	*HK$'000*
Raw materials	**6,602**	6,578
Work in progress	**5,786**	4,243
Finished goods *(notes)*	**1,645,933**	3,386,487
	1,658,321	3,397,308

Notes:

(i) Included in finished goods are cultural products, including precious stones and antiques, of HK$1,638,975,000 (2016: HK$3,379,083,000) which are held for trading and resale in the ordinary course of business.

(ii) Around 82% or 117 pieces out of total 143 pieces of cultural products (2016: 82% or 117 pieces out of total 143 pieces of cultural products) are stored in museum operated by a company wholly-owned by Prof. Paul Kan Man Lok, a director and substantial shareholder of the Company up to 30 September 2016 and 1 October 2016 respectively, on consignment basis.

(iii) In the opinion of the Directors, finished goods amounting to HK$1,592,538,000 are not expected to be realised within one year.

The Group had engaged cultural product/jewellery experts to perform an inspection on the inventories of cultural products. According to these experts, downgradings and reclassifications were required to be made on a number of inventory items of cultural products. The Group engaged an independent valuer to reassess the current market values of the inventories as at 30 June 2017 based on the findings of the cultural product/jewellery experts concerning the grading and classification of the cultural products. As a result of the assessment, the management of the Group had determined that the net realisable values of a number of the inventory items of cultural products were lower than their costs and that the shortfalls amounted to an aggregate amount of HK$1,740,108,000. Accordingly, the Group recognised an impairment loss of HK$1,740,108,000 for the year ended 30 June 2017.

9. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**17,833**	23,729
Other receivables	**18,095**	10,553
	35,928	34,282

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 Group credit policy for sales of cultural products is cash on delivery. 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 ageing analysis of trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 — 60 days	**16,178**	20,669
61 — 90 days	**1,600**	156
91 — 180 days	**55**	2,904
	17,833	23,729

10. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**7,487**	10,975
Other payables	**48,596**	50,065
	56,083	61,040

The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 — 60 days	**7,487**	10,975

The credit period for purchases of goods ranged from 30 days to 60 days.

Other payables mainly represent receipts in advance from customers of HK$21,188,000 (2016: HK$21,938,000) and accruals.

11. GAIN ON DISPOSAL OF SUBSIDIARIES

On 30 August 2016, the Group disposed of its entire interest in Vision Kingdom Limited and its subsidiary, Smart (Macao Commercial Offshore) Limited to an independent third party for a consideration of HK$3,000,000 fully satisfied by cash. The consideration was received during the year ended 30 June 2016 and has been included as other payables as at 30 June 2016.

As at 30 August 2016, the carrying amount of net assets disposed of amounted to HK$833,000, mainly representing deposits, bank balances and cash of HK$863,000, other receivables of HK$58,000 and other payables of HK$88,000. The net gain on disposal amounted to HK$2,167,000.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

The independent auditor of the Company will issue a disclaimer of opinion on the consolidated financial statements of the Group. The below section set out an extract of independent auditor's report regarding the consolidated financial statements of the Group for the year ended 30 June 2017:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Limitation of scope – impairment of inventories resulting from downgradings and reclassifications of cultural products

Included in the Group's inventories as at 30 June 2017 were cultural products whose cost amounted to HK$3,379,083,000. These cultural products were purchases made by the Group in the second half of the preceding financial year by the former management of the Group in the ordinary course of business for its principal activity of trading of cultural products. Consistent to the impairment review performed as at the end of the preceding financial year, cultural product and jewellery experts (the "**Current Experts**") were engaged by the management of the Group to perform an inspection, on a test basis, on the inventories of the cultural products. As a result of the inspection, the Current Experts advised the management of the Group that downgradings and reclassifications were required to be made on a number of the inventory items of cultural products. The findings of the Current Experts were inconsistent with the results of the grading and classification review carried out by the former management of the Group on the cultural products as at 30 June 2016 which had been confirmed by another team of cultural product and jewellery experts (the "**Former Experts**") who had performed an onsite inspection, on a test basis, on the inventories of cultural products as at 30 June 2016. As a result of the inconsistencies in the grading and classification of cultural products as at 30 June 2017 and 2016, the current management of the Group resolved to arrange another team of cultural product and jewellery experts to conduct a full inspection of the cultural products regarding their grading and classification as soon as practical (the "**Full Inspection**"). As at the date of this report, the management of the Group is still in the process of identifying and arranging suitable team of experts to conduct the Full Inspection. For the purpose of preparing the current year's consolidated financial statements, the management of the Group had reassessed the current market values of the inventories as at 30 June 2017 based on the findings of the Current Experts concerning the grading and classification of the cultural products. As a result of the assessment, the management of the Group had determined that the net realisable values of a number of the inventory items of cultural products were lower than their costs and that the shortfalls amounted to an aggregate amount of HK$1,740,108,000. Accordingly, the Group recognised an impairment loss of HK$1,740,108,000 for the year ended 30 June 2017.

Because of the inconsistencies in the written findings of the Former Experts and the Current Experts concerning the grading and classification of cultural products and the unavailability of sufficient appropriate audit evidence available to us as at the date of this report to ascertain the assessment of the net realisable values of the cultural products made by the current management of the Group, we were unable to satisfy ourselves that the impairment loss of HK$1,740,108,000 recognised as an expense during the year ended 30 June 2017 and carrying amount of the cultural products of HK$1,638,975,000 as at 30 June 2017 were free from material misstatements. Any adjustments that might have been found to be necessary in respect of the above would have a significant effect on the Group's financial position as at 30 June 2017 and the Group's financial performance for the year then ended, and the related disclosures thereof in the consolidated financial statements.

As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of inventories, and the other elements making up the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Revenue

Kantone Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") reported a revenue for the year under review of approximately HK$141 million compared with approximately HK$2,090 million of the previous year, a decrease of approximately 93 percent. This was mainly due to the absence of licensing fees as a result of the scale-down of the investments in the development of systems and networks in recent years and after the sale of the non-exclusive rights to exploit and use the design of the Group's systems and networks during the year ended 30 June 2016 which would otherwise be exclusive to the Group.

The Group's revenue of the systems sales and licensing and leasing of system products was mainly generated by our United Kingdom principal subsidiary — Multitone Electronics PLC ("**Multitone**"), which recorded a revenue for the year under review of approximately HK$141 million compared with approximately HK$160 million of the previous year, representing of a decrease of approximately 12 percent. The decrease in revenue was due to the drop in the exchange rate of Pound Sterling against Hong Kong dollar. In fact, the revenue denominated in Pound Sterling increased by 3 percent as compared with the year 2016.

Loss attributable to Owners of the Company

The loss for the year under review is approximately HK$1,757 million (2016: approximately HK$18 million). Loss for the year attributable to owners of the Company is approximately HK$1,757 million (2016: approximately HK$12 million). The loss was mainly due to the significant drop in revenue and the impairment losses recognised for the development costs for systems and networks and inventories during the year. Loss per share is HK178.05 cents (2016: HK1.19 cents).

Distribution Costs

The Group's distribution costs for the year was mainly incurred by Multitone, which recorded distribution costs for the year under review of approximately HK$26 million compared with approximately HK$30 million of the previous year, representing of a decrease of approximately 13 percent. This was mainly due to the drop in the exchange rate of Pound Sterling against Hong Kong dollar. In fact, the distribution costs denominated in Pound Sterling increased by 4 percent.

General and Administrative Expenses

General and administrative expenses for the year decreased by approximately 39 percent to approximately HK$51 million from approximately HK$84 million of previous year as a result of the business realignment.

Amortisation and Depreciation

Amortisation and depreciation costs for the year significantly dropped to approximately HK$16 million, compared with approximately HK$503 million of previous year, due to the scale-down in the development of IT systems and networks.

Impairment Loss

During the year ended 30 June 2017, the Directors continuously studied the market conditions of the information technology industry with the intention to invest in leading technologies with high earning potential. However, other than those systems owned and developed by Multitone, the Directors had not been able to establish whether the rest of the systems owned by the Group were still able to generate any revenue to the Group, especially after the granting to independent third parties during the year ended 30 June 2016 the non-exclusive right to exploit and use the design of certain of the Group's developed systems and networks. Noting that no revenue was generated from the systems sales and licensing segment in Asia Pacific region during the year, the Directors considered it prudent not to project for any positive cash flow from those systems in the foreseeable future. Therefore, management decided not to make any further investment into the existing development projects in Asia Pacific region but will maintain its investment in the European region as the relevant technologies are still developing well and the management of Multitone has kept increasing its market share in different parts of Europe.

The Group had engaged cultural product/jewellery experts to perform an inspection on the inventories of cultural products. According to these experts, downgrading and reclassification were required to be made on a number of items of cultural products in our inventory. The Group then engaged an independent professional valuer, Hilco Global Greater China Limited ("**Hilco**"), to valuate the Group's inventories. The results of the valuation prepared by Hilco, based on the classifications and remarks of the cultural product/jewellery experts, reflected that the fair value of a number of the inventory items of cultural products fell below their carrying amount due to the downgrading and reclassification, therefore an impairment loss on inventories of approximately HK$1,740 million were recognised during the year under review.

Due to the slow-moving properties typical to cultural products in general, the Directors expect that some of the inventories would remain unsold 12 months after the end of reporting period. Management considered that it might not be surprising to estimate that it might take years to sell all the inventories. However, no provision has been made in the accounts of the Group for the year ended 30 June 2017 as the Directors target to sell most, if not all, of the existing inventories within the next 24 months on a best effort basis. Any change in market conditions would affect the profit or loss in future years. At 30 June 2017, the carrying amount of the Group's inventories was approximately HK$1,658 million (2016: approximately HK$3,397 million).

Finance Costs

Finance costs for the year decreased to approximately HK$0.1 million from approximately HK$0.4 million of the previous year, which was due to with the partial repayment of bank loans during the year.

Review of Operations

With the change in management in October 2016, the new management adopted a strategic plan in realigning the existing businesses, namely to sell the inventories, further developing the systems sales and licensing business in the United Kingdom and tapping into the business opportunity in the PRC sector.

The resignation and retirement of the old management coincided with the disintegration of all the previous sale channels and business networks of the sales of cultural products. Therefore the Group had to re-build the new sale channels and business networks for the sales of cultural products.

The Group's wholly-owned U.K. subsidiary — Multitone, which is a leading provider of Messaging-System Solutions to Healthcare, Aged Care, Local Government and Retail Markets, has continued enhancing its existing systems and inventing new systems to cater for the needs of its customers. Multitone is specialised in the design and manufacturing of communication systems and equipment, specifically, the development and delivery of integrated critical messaging system solutions.

The Company's management currently works with Multitone in collaboration to introduce its products into Hong Kong and the China market. And, following the visit of Multitone's management to Hong Kong recently, the Group's management has confirmed its full support for Multitone to open up the market in Greater China.

The Group has been exploring opportunities for the systems sales and licensing segment to broaden the geographic base of customers, especially to the PRC market, and improving the sale channel and business network of the sales of cultural products segment, and expect to generate positive results in due course.

OUTLOOK

A review of the operations of the Group during the year is provided in the section headed "Review of Operations" above and the prospect of the Group's future business development generally remains unchanged as stated in the Company's interim report for the six months ended 31 December 2016 ("**Interim Report 2016/2017**").

Overview

Concerns over the tensions related to North Korea and the possibility of swifter rate hikes from the Fed have driven some investors to flee from risk assets but we believe the probability is low of a major escalation in North Korean tensions or a sharp Fed tightening.

As the financial market fundamentals remain healthy and the global economy is solid, we remain confident that the financial markets can fetch higher in the coming years.

We have a guarded outlook for China property development in view of the tightening liquidity and property cooling policies. However, similar to the phenomenon in the past few years, the upward trend of Shenzhen property as well as those located in the extended Shenzhen areas are expected to grow continually irrespective of the general property market conditions.

Cultural Artifacts Investment

There are quite a number of artifacts and Shoushan Tianhuang Stones and Changhua Tianhuang in the Group's inventory. Tianhuang Stones are generally conceived as the "King of Stones" in China. These jewelry stones from Fujian and Zhejiang provinces were said to be worth its weight in gold, which has long been reflected in the market price that the current price is higher than the value of gold. The Management attaches great importance to these valuable assets, while the Group believes that by virtue of the advantages of this resource, the realisation plan for these artifacts can be implemented.

To determine its upward trend over the past few years, the management has appointed an independent valuer to revalue the value of Tianhuang jewelry stones.

Investment plan In Auction Business

Auction businesses are experiencing a new lease on life, thanks to reality TV shows featuring auctioneers and antique hunters. It's not that auction businesses have ever disappeared from the landscape, but that scores of buyers are waking up to the idea of buying secondhand merchandise in an auction environment.

The Group has planned to recruit elite and skilled auctioneers to develop auction house projects. In addition, the Group considers switching to live auction as one of the ways to improve market share of the project itself.

Strong Rooms & Vaults

The Group intends to match its business plan in auction house by entering into the security industry, with the aim to design and build high security, prefabricated and modular strong rooms for sale and leasing. These high quality, secured structures enable the storage of high-value items away from the risk of theft, attack or hostage taking. The main features of these security systems render that clients' privacy being protected, ensure lowest holding and transaction costs in auction related transactions by enabling direct warehousing before and after auction while taking the advantage of Hong Kong's duty-free policy for most artifacts.

Based on the above cultural artifacts investment, the investment plan in auction business, and the investment in the strong rooms and vault, the Group is confident in the future because the success of these three investments can make the Group's trade-related transactions proceed in bulk trading mode afterwards, while it also allows the public to have a better channel to be involved, so as to pave the way for the future of artifacts securitisation.

Communication Systems

Multitone has taken a substantial market share in both UK and Germany. Targeted new markets to be explored include Asia and Eastern Europe. Multitone will work in collaboration with the Group's management in Hong Kong to introduce its products into the China market. Management considers that there is a strong demand for relevant communication systems and equipment in China. On the other hand, the Group's management would work closely with Multitone in identifying high quality electronic products made in China and distribute them through the present well-established distribution channel in Europe.

Education Business

Investment Plan in Preschool Education

According to the result of the 6th Census of Population of Mainland China, the number of infants under the age of 6 was 105 million, among which 22.91 million dwelled in cities, and 82.16 million in rural areas.

The per capita disposable income of China of 2015 is RMB21,966, increase by 8.9% than the previous year, people in China would cater for higher quality life and education for the next generation.

China is experiencing a peak of childbearing couples between at the age of between 20-29, and with the fourth “Baby Boom” and the introduction of “Two Children Policy”, we have strong reason to expect an enormous market of infants and children education.

To cite the National Middle and Long Term Reform and Development Outlines for Education (2010-2020), the market size of preprimary education is RMB 350 billion annually, with RMB150 billion of infant education under age of 3, which would experience 15% compounded growth, and RMB200 billion for market of age of 3-6, with 20% compounded growth each year.

According to the data from the National Bureau of Statistics of China, by 2015, there were 233,683 kindergartens in Mainland China, an 11.3% increase of 23,802 compared to 2014. Among which, 146,376 kindergartens were private invested and operated, which stood for 62.6%.

It’s estimated that the total number of kindergartens in Mainland China would reach over 300,000 by the year 2020, and among which 200,000 would be private-invested.

It’s clear to conclude that the preschool market in Mainland China stand for huge opportunity.

In order to seize the enormous commercial opportunity in China’s preschool market, the Group intends to set up platform company for the purpose of education projects investment and management, and to combine and integrate quality resources into the platform for education projects development.

Internal Control

Since a reliable and cost efficient Internal Control system is fundamental to the successful operation and day-to-day running of a business and in achieving its business objectives, the new management has engaged a professional internal control consultant to conduct a study of the Group’s overall operations, excluding those of Multitone which, based on new management’s own observations and studies, are found to be reliable and effective. The Board is implementing the recommendations suggested by this consultant to improve the overall internal control of the Group and to prevent recurrence of previous deficiencies.

The finalisation of this report is completed, the management is taking some appropriate remedial actions and to rectify any deficiencies while new systems will be implemented to ensure that future business will be conducted in an efficient and proper manner. The management is confident that once the new system is in place, the Group’s business revenue and therefore the profits will be greatly enhanced.

As stated in our Interim Report 2016/2017, the Group would try to seek this consultant's advice to incorporate and implement better internal control over the strategic, governance and management processes, covering the company's entire range of activities and operations on top of those directly related to financial operations and reporting. Our long-term target aims to cover not only those aspects of a business that could broadly be defined as compliance matters, but extends also to the performance aspects of the business.

The management understands that good internal controls need to be responsive to the specific nature and needs of the business. Hence, the Group would seek to reflect sound business practice, remain relevant over time in the continuously evolving business environment and enable the Group to respond to the specific needs of the business and industry.

Eventually, the Group's management hopes to see that business opportunities are maximised and potential losses associated with unwanted events reduced.

DIRECTORS' VIEW ON THE INDEPENDENT AUDITOR'S OPINION

Presumably, auditing standards and guidelines should mean to guide the auditors to express audit opinions which would lead the readers of audit reports to have a better understanding rather than misunderstanding of the financial reports.

While the directors of the Company understand that the auditors are obligated to adhere strictly to the auditing standards and guidelines without the freedom to explain in their auditor reports to the readers specifically as to whether the other parts of the financial statements in which the auditors have not encountered any limitation are indeed proper, time and fair.

In this respect and with regret, such auditing standards and guidelines are apparently not rational because it could easily lead the public readers to draw the wrong conclusion that the rest of the information disclosed in the financial statements are not reliable or having created limitation to the work of the auditors.

Liquidity And Financial Resources

Financial Position and Gearing

The Group's financial position remained positive with a reasonable gearing throughout the Year.

As at 30 June 2017, the Group had approximately HK$76 million (2016: approximately HK$74 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK$1,770 million (2016: approximately HK$3,506 million) and current liabilities amounted to approximately HK$64 million (2016: approximately HK$66 million). With net current assets of approximately HK$1,707 million (2016: approximately HK$3,440 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of approximately HK$3.6 million (2016: approximately HK$7.4 million) to equity attributable to owners of the Company of approximately HK$1,677 million (2016: approximately HK$3,434 million), was 0.002 (2016: 0.002).

As at 30 June 2017, the Group's total borrowings comprised bank loans of approximately HK$3.6 million (2016: approximately HK$7.4 million), which was repayable within one year (2016: approximately HK$3.7 million repayable within one year, approximately HK$3.7 million repayable in the second year). Finance costs for the year decreased to approximately HK$0.1 million (2016: approximately HK$0.4 million).

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 market 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 30 June 2017, the Group's capital commitments which were authorised but not contracted for was nil (2016: HK$10 million). These commitments were related to the acquisition of property, plant and equipment, and development of systems and networks.

Charges

The Group did not have any charges on assets as at 30 June 2017.

Contingent liabilities

As at 30 June 2017, the Group had no material contingent liabilities.

Significant investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and future plans for material investments or capital assets

There were no significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 30 June 2017.

There is no plan for other material investments or additions of capital assets as at the date of this announcement.

Remuneration Policy

As at 30 June 2017, the Group employed about 210 staff around the globe. Staff costs for the year ended 30 June 2017 were HK$76 million (2016: HK$95 million).

The remuneration of the employees of the Group is determined with reference to market terms and the performance, qualifications and experience of the individual employee.

The emoluments of the directors of the Company are recommended by the Human Resources and Remuneration Committee of the Company after considering factors such as the Company's operating results, individual performance, salaries paid by comparable companies, and time commitment and responsibilities of the relevant director.

The Company has adopted a share option scheme as an incentive to directors and eligible employees.

FINAL DIVIDEND

The Directors do not recommend any payment of final dividend for the year ended 30 June 2017 (2016: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed the Company's listed securities during the year ended 30 June 2017.

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 30 June 2017 have been agreed by the Group's auditor, Moore Stephens CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens CPA Limited on this preliminary announcement.

CODE OF CORPORATE GOVERNANCE

Throughout the year ended 30 June 2017, the Company has complied with the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules, save for the deviation of code provision A.4.1 of the CG Code below:

Under the code provision A.4.1 of the CG Code, all non-executive Directors should be appointed for a specific term, subject to re-election. Whilst the non-executive Directors are not appointed for a specific term, the term of office for non-executive Directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the articles of association of the Company. At each annual general meeting of the Company, one-third of the Directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation so that each Director shall be subject to retirement at least once every three years. As such, the Company considers that such provision is sufficient to meet the underlying objectives of CG Code.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the year ended 30 June 2017, each of them has complied with the required standards as set out in the Model Code.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed with the management of the Group on the accounting principles and practices adopted by the Group, its internal controls and financial reporting matters.

The annual results of the Company for the year ended 30 June 2017 have been reviewed by the Audit Committee.

By order of the Board
KANTONE HOLDINGS LIMITED
LIU KA LIM
Executive Director

Hong Kong, 29 September 2017

As at the date of this announcement, the executive director of the Company is Mr. Liu Ka Lim; the non-executive director of the Company is Ms. To Yin Fong Cecilica; and the independent non-executive directors of the Company are Ms. Miranda Ho Mo Han, Ms. Chung Sau Wai Ada and Mr. Clayton Ip.