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KANTONE HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1059)

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED
30 JUNE 2017**

Reference is made to the annual report of Kantone Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 30 June 2017 (the “**Annual Report**”). Unless otherwise stated, terms used herein shall bear the same meaning as those defined in the Annual Report.

As disclosed in the Annual Report, the auditors of the Company (the “**Auditors**”) have issued a qualified opinion on the Group’s consolidated financial statements for the year ended 30 June 2017 since there were no sufficient appropriate audit evidence was received to assess the impairment of inventories resulting from downgrading and reclassifications of cultural products by the management of the Group.

The board (the “**Board**”) of directors (the “**Director(s)**”) of the Company wishes to supplement the following information in relation to the above item that result in the qualified opinion from the Auditors.

IMPAIRMENT OF INVENTORIES RESULTING FROM DOWNGRADING AND RECLASSIFICATIONS OF CULTURAL PRODUCTS BY THE MANAGEMENT OF THE GROUP

Background

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.

For the purpose of preparing the consolidated financial statements for the year ended 30 June 2017, 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.

Reason for the audit qualification

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 the Auditors as at the date of the Annual Report to ascertain the assessment of the net realisable values and the impairment of the cultural products made by the current management of the Group, the Auditors were unable to satisfy themselves 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.

View of audit committee

The Audit Committee agreed with the audit qualification and confirmed that it had critically reviewed and agreed with the management’s position on the judgmental areas concerning the above impairment assessment.

Proposed plan to address the qualified opinion

As mentioned in the Annual Report, 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. Subsequent to the issue of the Annual Report, the Company has arranged a team of professionals from “China Cultural Heritage Information and Consulting Center” to come to Hong Kong, being led by Ms. YANG Zhen Hua (楊震華) (“**Ms. Yang**”), who is a renowned expert in the field of jewelry and stones, to perform a detailed authentication on all of the cultural products of the Group.

The Auditors have confirmed their acceptance of Ms. Yang as an expert for authentication purpose and the current view of the Auditors is that the qualified opinion will be removed when a more reliable value of the cultural products can be ascertained after the completion of the authentication exercise by Ms. Yang and her team.

As at the date of this announcement, the authentication exercise by Ms. Yang and her team is in the process. Based on the authentication exercise conducted so far, further substantial impairment may be made by the management as further downgrading and reclassifications of some of the cultural products are required. It is expected that the authentication exercise will be completed by mid-February 2018. Further announcement(s) will be made by the Company when the authentication exercise is completed and based on which the amount of impairment is determined by the management and agreed by the Auditors.

The Company will publish further announcement(s) to update the Shareholders and potential investors of the status of the removal of the audit qualification as and when appropriate.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
KANTONE HOLDINGS LIMITED
Chan Wai
Company Secretary

Hong Kong, 5 February 2018

As at the date of this announcement, the executive Directors are Ms. Wong Man Winny and Mr. Liu Ka Lim; the non-executive Director is Ms. To Yin Fong Cecilica; and the independent non-executive Directors are Mr. Leung Man Fai, Ms. Chung Sau Wai Ada and Mr. Clayton Ip.