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 2018

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 2018 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 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	*3(a)*	**136,743**	140,854
Cost of sales		**(60,708)**	(67,836)
Gross profit		**76,035**	73,018
Other income, gains and losses		**3,957**	3,887
Gain on disposal of subsidiaries		**–**	2,167
Distribution costs		**(27,692)**	(26,429)
General and administrative expenses		**(53,431)**	(50,825)
Impairment losses recognised for inventories	*9*	**(1,634,615)**	(1,740,108)
Impairment losses recognised for development costs for systems and networks	*8*	**–**	(14,650)
Impairment losses recognised for other receivables		**(5,835)**	–
Research and development costs expensed		**(2,712)**	(3,089)
Finance costs		**(308)**	(146)

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Loss before taxation		**(1,644,601)**	(1,756,175)
Income tax credit/(expense)	*5*	**713**	(405)
Loss for the year		**(1,643,888)**	(1,756,580)
Other comprehensive income/(expense):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefits pension plans		**36,450**	(208)
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**1,155**	188
Other comprehensive income/(expense) for the year		**37,605**	(20)
Total comprehensive expense for the year		**(1,606,283)**	(1,756,600)
Loss per share			
– Basic and diluted (2017: Restated)	*7*	**HK$(8.33)**	HK$(8.90)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**29,931**	31,366
Development costs for systems and networks	8	**–**	–
		29,931	31,366
Current assets			
Inventories	9	**24,163**	1,658,321
Trade and other receivables	10	**32,809**	35,928
Cash and cash equivalents		**71,626**	76,101
		128,598	1,770,350
Current liabilities			
Trade and other payables	11	**33,391**	56,083
Contract liabilities		**21,034**	–
Warranty provision		**1,236**	1,073
Amount due to a director		**4,180**	3,000
Bank borrowing – amount due within one year		**–**	3,636
		59,841	63,792
Net current assets		**68,757**	1,706,558
Total assets less current liabilities		**98,688**	1,737,924
Non-current liability			
Retirement benefit obligations		**27,774**	60,727
		27,774	60,727
Net assets		**70,914**	1,677,197
Capital and reserves			
Share capital		**19,731**	986,538
Reserves		**51,183**	690,659
Total equity		**70,914**	1,677,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

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**") (which include all the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and accounting principles generally accepted in Hong Kong. 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 2017. 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. CHANGE IN ACCOUNTING POLICIES

(a) Early adoption of HKFRS 9 Financial Instruments

The Group has elected to early adopt HKFRS 9, from 1 July 2017. As permitted by the transitional provisions of HKFRS 9, the Group has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition are recognised in the opening retained profits of the current year.

The adoption of HKFRS 9 has resulted in changes in the accounting policies for classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The Group has also early adopted the consequential amendments to HKFRS 7 Financial Instruments: Disclosures together with HKFRS 9. Changes include transition disclosures and detailed qualitative and quantitative information about the expected credit loss ("**ECL**") calculations such as the assumptions and inputs used are set out as below.

(i) Classification and measurement of financial instruments

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("**FVTOCI**") and at fair value through profit or loss ("**FVTPL**"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of investments in debt instruments under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is classified as financial assets at FVTPL.

The measurement categories and the carrying amounts of financial assets in accordance with HKAS 39 and HKFRS 9 at 1 July 2017 are compared as follows:

Financial assets	**Original measurement category under HKAS 39**	**New measurement category under HKFRS 9**	**Original carrying amount under HKAS 39** *HK$'000*	**New carrying amount under HKFRS 9** *HK$'000*
Trade and other receivables	Amortised cost (Loans and receivables)	Amortised cost	35,928	35,928
Cash and cash equivalents	Amortised cost (Loans and receivables)	Amortised cost	76,101	76,101

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 July 2017 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1 July 2017.

(ii) Credit loss

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing assessment and measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following item:

- financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

As at 1 July 2017, the Group assessed the impact of expected credit loss allowance and concluded that the amount of expected credit loss is not significant to the Group. As a result, the Directors considered no adjustment to the retained profits as at 1 July 2017 is necessary.

(iii) Transition

Changes in accounting policies resulting from the early adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 July 2017. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 July 2017 (the date of initial application of HKFRS 9 by the Group):

  - the determination of the business model within which a financial asset is held.

(b) Early adoption of HKFRS 15 Revenue from Contracts with Customers

The Group has elected to early adopt HKFRS 15, from 1 July 2017. HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 July 2017. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 July 2017.

The revenue recognition of the principal activities of the Group's contracts with customers are as follows:

(i) Sales of cultural products

Revenue from sales of cultural products are determined by management to be recognised at a point in time when control of the cultural products is transferred to the customer.

(ii) Sales of systems and software licensing income

Revenue from sales of systems and software licensing income is determined by management to be recognised at a particular point in time (i.e. when control of the systems and software is transferred to the customer).

(iii) Installation service

Revenue from provision of installation service is determined by management to be recognised over time.

(iv) Maintenance service

Revenue from provision of maintenance service is determined by management to be recognised over time.

The excess of cumulative billings to customer who received services from the Group over the cumulative revenue recognised in profit or loss is recognised as contract liabilities. The contract liability is recognised as revenue when the Group satisfies its performance obligations.

Reclassifications were made as at 1 July 2017 to be consistent with the terminology used under HKFRS 15:

- Receipts in advance from customers which were previously in trade and other payables are reclassified to contract liabilities.

The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that was previously in effect before the adoption of HKFRS 15 is as follows:

	As at 1 July 2017		
	As previously stated	**Reclassifications under HKFRS 15**	**Results as reported**
	HK$'000	***HK$'000***	***HK$'000***
Consolidated statement of financial position (extract):			
Trade and other payables	56,083	(21,188)	34,895
Contract liabilities	–	21,188	21,188

The amount by each financial statements line items affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that was previously in effect before the adoption of HKFRS 15 is as follows:

	As at 30 June 2018		
	Results without the early adoption of HKFRS 15	**Reclassifications under HKFRS 15**	**Results as reported**
	HK$'000	***HK$'000***	***HK$'000***
Consolidated statement of financial position (extract):			
Trade and other payables	**54,425**	**(21,034)**	**33,391**
Contract liabilities	**–**	**21,034**	**21,034**

	Year ended 30 June 2018		
	Results without the early adoption of HKFRS 15	**Effects of the early adoption of HKFRS 15**	**Results as reported**
	HK$'000	***HK$'000***	***HK$'000***
Consolidated statement of cash flow (extract)			
Decrease in trade and other payables	**(3,952)**	**(21,034)**	**(24,986)**
Increase in contract liabilities	**–**	**21,034**	**21,034**

3. 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.

The revenue of the Group comprises the following:

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of systems including software licensing	**86,547**	92,737
Rendering of services	**27,771**	26,270
System sales including software licensing and services	**114,318**	119,007
Leasing of system products	**22,425**	21,847
	136,743	140,854

(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
- System sales including software licensing and services – includes income from sales of systems including software licensing and provision of related services
- Leasing of system products – includes income from leasing of system products

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 2(b). Segment results represent the loss before taxation recognised 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$'000*	System sales including software licensing and services *HK$'000*	Leasing of system products *HK$'000*	Consolidated *HK$'000*
Year ended 30 June 2018				
REVENUE				
External and total revenue				
Recognised at a point in time	**–**	**86,547**	**–**	**86,547**
Recognised over time	**–**	**27,771**	**22,425**	**50,196**
	–	**114,318**	**22,425**	**136,743**
RESULTS				
Segment result	**(1,637,348)**	**3,132**	**1,848**	**(1,632,368)**
Interest income				**171**
Finance costs				**(308)**
Unallocated expenses, net				**(12,096)**
Loss before taxation				**(1,644,601)**

	Sales of cultural products *HK$'000*	System sales including software licensing and services *HK$'000*	Leasing of system 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 ***HK$'000***	**System sales including software licensing and services** ***HK$'000***	**Leasing of system products** ***HK$'000***	**Consolidated** ***HK$'000***
Year ended 30 June 2018				
Amounts included in the measure of segment profit or loss:				
Amortisation and depreciation	–	7,117	1,390	8,507
Impairment losses recognised for inventories	1,634,615	–	–	1,634,615
Impairment losses recognised for other receivables	–	5,835	–	5,835
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

No information about segment assets and liabilities is presented as such information is not regularly provided to the chief operating decision maker for resource allocation and performance assessment purposes.

(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		**Non-current assets**	
	Year ended 30 June		**As at 30 June**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
People's Republic of China (the "**PRC**"), including Hong Kong and Macau	**–**	–	**93**	11
Europe (mainly United Kingdom and Germany)	**136,743**	140,854	**29,838**	31,355
	136,743	140,854	**29,931**	31,366

(d) Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 30 June 2017 and 2018.

4. AMORTISATION AND DEPRECIATION

	2018	2017
	HK$'000	*HK$'000*
Amortisation on development costs for systems and networks, included in cost of sales	**–**	7,044
Depreciation of property, plant and equipment, included in general and administrative expenses	**8,507**	8,608
Total amortisation and depreciation	**8,507**	15,652

5. INCOME TAX

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
– United Kingdom ("**UK**") corporate income tax	**(1,120)**	272
– Germany corporate income tax	**407**	129
– Malaysia corporate income tax	**–**	4
Income tax (credit)/expense	**(713)**	405

UK corporate income tax is calculated at 19% (2017: 19%) 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% (2017: 15%) on the estimated 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% (2017: 24%) on the estimated assessable profit of the subsidiary which carried on business in Malaysia.

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits derived from Hong Kong. There is no estimated assessable profit for Hong Kong Profits Tax for both years.

6. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2018 nor has any dividend been proposed since the end of reporting period (2017: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(1,643,888)**	(1,756,580)

Number of ordinary shares	***'000***	*'000*
		(Restated)
Weighted average number of ordinary shares for the purpose of basic loss per share	**197,308**	197,308

The weighted average number of ordinary shares for the purposes of calculating basis loss per share for the year ended 30 June 2018 has been adjusted, taking into account the share consolidation occurred during the year. The corresponding weighted average number of ordinary shares for the year ended 30 June 2017 has been retrospectively adjusted to reflect the said share consolidation.

Diluted loss per share for the year ended 30 June 2018 and 30 June 2017 were the same as the basic loss per share as there were no potential ordinary shares outstanding during both years.

8. DEVELOPMENT COSTS FOR SYSTEMS AND NETWORKS

	2018	2017
	HK$'000	*HK$'000*
Cost		
At beginning of the year	**4,641,101**	4,641,108
Currency realignment	**–**	(7)
At end of the year	**4,641,101**	4,641,101
Amortisation and impairment		
At beginning of the year	**4,641,101**	4,619,414
Currency realignment	**–**	(7)
Provided for the year	**–**	7,044
Impairment losses recognised	**–**	14,650
At end of the year	**4,641,101**	4,641,101
Carrying value		
At end of the year	**–**	–

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 year (2017: 1 to 2 years).

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 including software licensing and services segment business. Management conducted an impairment review of the Group's system sales including software licensing and services 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.

As at 30 June 2018, the management of the Group consider the zero recoverable amount of the development costs for systems and networks is appropriate and no reversal of impairment is considered necessary.

9. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**7,185**	6,602
Work in progress	**5,170**	5,786
Finished goods *(notes)*	**11,808**	1,645,933
	24,163	1,658,321

Notes:

(i) Included in finished goods are cultural products, including precious stones and antiques, of HK$4,360,000 (2017: HK$1,638,975,000) which are held for trading and resale in the ordinary course of business.

(ii) As at 30 June 2018, all cultural products of the Group were stored in a warehouse run by a worldwide security solution company, which is an independent third party to the Group (2017: 82% or 117 pieces out of total 143 pieces of cultural products with the carrying amount of HK$1,471,339,000 were stored in museum operated by a company wholly-owned by Prof. Paul Kan Man Lok, who was a substantial shareholder of the Company up to 1 October 2016 and resigned as director of the Company on 30 September 2016, on a consignment basis).

(iii) For the purpose of preparing the consolidated financial statements for the year ended 30 June 2017, 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 therefore engaged an independent valuer, Hilco Global Greater China Limited, 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.

For the purpose of preparing the condensed consolidated statement of assets and liabilities as at 31 December 2017, the Group had arranged another team of cultural product and jewellery experts (the "**Current Experts**") from "China Cultural Heritage Information and Consulting Center" (the "**Consulting Center**") being led by Ms. YANG Zhen Hua（楊震華）, to perform a more detailed authentication on all of the cultural products regarding their grading and classification. According to the Current Experts, further downgradings and reclassifications were required to be made on the cultural products as compared to those as of 30 June 2017. The Consulting Center has arranged another valuer, 北京市國宏信價格評估有限公司, to reassess the current market values of the inventories as at 31 December 2017 based on their findings concerning the grading and classification of the cultural products. As a result of the final authentication report and evaluation report, the management of the Group had determined that their net realisable values were below their costs and the shortfalls resulted in further impairment loss of HK$1,633,877,000 being made for the six months ended 31 December 2017.

For the purpose of preparing the consolidated financial statements for the year ended 30 June 2018, the Group engaged GEM Appraisal Center of Peking University（北京北大寶石鑒定中心）(the "**Appraisal Center**") to conduct a scientific examination for 139 pieces of cultural products regarding their grading and classification. According to the Appraisal Center, further downgradings and reclassifications were required to be made on the cultural products as compared to those as of 30 June 2017. The management of the Group has arranged the valuer, 北京市國宏信價格評估有限公司, to reassess the current market values of all 143 pieces of cultural products as at 30 June 2018 based on the findings of the Current Experts and the Appraisal Center concerning the grading and classification of 4 pieces and 139 pieces of the cultural products respectively. As a result of the final authentication report and evaluation report for the valuation of the cultural products as at 30 June 2018, the management of the Group had determined that their net realisable values were below their costs and the shortfalls resulted in additional impairment loss, of HK$1,634,615,000 (including impairment loss of HK$1,633,877,000 recognised for the six months ended 31 December 2017) being made for the year ended 30 June 2018.

The Directors were of the view that, with the detailed exercise performed by the Appraisal Center and the valuer, the carrying amount net of impairment recognised so far, reflected in the consolidated financial statements, was the best estimate of the recoverable amount of the cultural products.

10. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables *(note (a))*	**24,556**	17,833
Other receivables *(note (b))*	**14,088**	18,095
Less: impairment provided for the year *(note (c))*	**(5,835)**	–
	8,253	18,095
	32,809	35,928

Notes:

(a) 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 ageing analysis of trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	2018	2017
	HK$'000	*HK$'000*
0 – 60 days	**22,603**	16,178
61 – 90 days	**1,896**	1,600
91 – 180 days	**57**	55
	24,556	17,833

Before accepting any new customer, the Group's finance and sales management team would assess the potential customer's credit quality and define credit limits for the customers. Limits attributable to customers are reviewed regularly with reference to past settlement history. The Group's finance and sales management team considers trade receivables that are neither past due nor impaired to be of a good credit quality as continuous repayments have been received.

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**22,603**	16,178
Less than 1 month past due	**1,896**	1,600
1 to 3 months past due	**57**	55
	1,953	1,655
	24,556	17,833

(b) The 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.

As at 30 June 2017, included in other receivables was loan to an independent third party amounting to HK$5,744,000. The loan was secured by a personal guarantee provided by an independent third party and interest bearing at 10% per annum.

As at 30 June 2018, the loan has been past due and management of the Group was unsuccessful to demand payment from the debtor. Management the Group considered the chance to recover the receivable amount would be low. Accordingly the amount was fully impaired during the year ended 30 June 2018.

Amounts due from fellow subsidiaries included in other receivables amounting to HK$32,000 (2017: Nil) are unsecured, non-interest bearing and repayable on demand.

(c) The movement in the provision for impairment loss of other receivables during the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 July	**–**	–
Impairment losses recognised	**5,835**	–
At 30 June	**5,835**	–

11. TRADE AND OTHER PAYABLES

	30 June 2018	1 July 2017	30 June 2017
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	**7,531**	7,487	7,487
Other payables *(note (i))*	**25,860**	27,408	48,596
	33,391	34,895	56,083

Note (i): Amounts due to fellow subsidiaries amounting to HK$2,000 (2017: Nil) included in other payables are unsecured, non-interest bearing and repayable on demand.

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

	2018	2017
	HK$'000	*HK$'000*
0 – 60 days	**7,531**	7,487

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

As a result of the adoption of HKFRS 15, receipts in advance from customers of HK$21,034,000 (1 July 2017: HK$21,188,000) as of 30 June 2018 are included in contract liabilities and disclosed in note 2(b).

Other payables mainly represent accruals for daily operating expenses.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT ON THE COMPANY’S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

The independent auditor of the Company will issue a disclaimer of opinion on the consolidated financial statements of the Group. The following section sets out an extract of independent auditor’s report regarding the consolidated financial statements of the Group for the year ended 30 June 2018:

Basis for Disclaimer of Opinion on the Loss, Changes in Equity and Cash Flows

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 aggregate carrying amount was HK$1,638,975,000, net of accumulated impairment loss of HK$1,740,108,000. An impairment loss of HK$1,740,108,000 had been recognised by the Group for the year ended 30 June 2017. For the year ended 30 June 2018, a further impairment loss of HK$1,634,615,000 has been recognised by the Group. We did not express an opinion on the consolidated financial statements for the year ended 30 June 2017 as disclosed in the auditor’s report for the year ended 30 June 2017.

For the purposes of the preparation of the consolidated financial statements for the year ended 30 June 2018, as disclosed in note 17 to the consolidated financial statements, as a result of the inconsistencies in the grading and classification of cultural products performed by different experts as at 30 June 2017 and 2016, during the year, the current management of the Group resolved to arrange another team of cultural product and jewellery experts (the “**Current Experts**”) to conduct a detailed inspection of the cultural products regarding their grading and classification in respect of the year ended 30 June 2018. As disclosed in Note 17 to the consolidated financial statements, the Group engaged the Appraisal Center to conduct a scientific examination of 139 pieces of cultural products, so as to better determine their nature and substance of these cultural products. Based on the work conducted by the Current Experts and the Appraisal Center, further downgradings were identified. Accordingly, a further impairment loss (as mentioned above) of HK$1,634,615,000 has been recognised for the year for the purpose of preparing the consolidated financial statements for the year ended 30 June 2018.

Subsequent to the publication of the Audited Condensed Consolidated Statement of Assets and Liabilities and for the purpose of the annual results of the Group for the year ended 30 June 2018, the Directors unanimously decided to take the approach of eliminating any lingering doubts on the nature of the cultural products inventory so as to obtain a final and uncontroversial conclusion for our inventory.

The directors of the Company were of the view that, with the detailed exercise performed by the Current Experts and the Appraisal Center, the carrying amount net of impairment recognised so far, reflected in the consolidated statement of financial position, was the best estimate of the recoverable amount of the cultural products. We believe the matter of the scope limitations referred to above no longer have possible effect on the figure presented in the consolidated statement of financial position as at 30 June 2018.

However, as the closing balance of the cultural products as at 30 June 2017 is carried forward as the opening balance for the current year, any adjustments found to be necessary to the closing balance as at 30 June 2017 may have a significant effect on the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 30 June 2018.

Basis for Qualified Opinion on the Consolidated Statement of Financial Position

As described in the Disclaimer of Opinion on the Loss, Changes in Equity and Cash Flows section of our report, the matters of the scope limitations referred to inventories no longer have effect on the figures presented in the consolidated statement of financial position as at 30 June 2018.

However, the comparative figures presented in the statement of financial postion as at 30 June 2018 may contain material misstatements and hence may not be comparable with the figures.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSA**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Revenue

Kantone Holdings Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") reported a revenue for the year under review of approximately HK$137 million compared with approximately HK$141 million of the previous year, a decrease of approximately 2.9 percent.

Loss attributable to Owners of the Company

The loss for the year under review is approximately HK$1,644 million (2017: approximately HK$1,757 million). Loss for the year attributable to owners of the Company is approximately HK$1,644 million (2017: approximately HK$1,757 million). The loss was mainly due to the impairment losses recognised on the inventories during the year. Loss per share is HK$8.33 (2017: HK$8.90).

Distribution Costs

The Group's distribution costs for the year were mainly incurred by the principal subsidiary in United Kingdom – Multitone Electronics PLC ("**Multitone**"), which recorded distribution costs for the year under review of approximately HK$28 million compared with approximately HK$26 million of the previous year, representing of an increase of approximately 4.8 percent.

General and Administrative Expenses

General and administrative expenses for the year increased by approximately 5.1 percent to approximately HK$53 million from approximately HK$51 million of previous year.

Amortisation and Depreciation

Amortisation and depreciation costs for the year decreased to approximately HK$9 million, compared with approximately HK$16 million of previous year, due to significant decrease in amortisation on development costs for systems and networks as the development costs for systems and networks were fully impaired during the year ended 30 June 2017.

Impairment Loss

During the year ended 30 June 2018, the Group recognised an impairment loss on inventories of approximately HK$1,635 million. Details of which are set out in the "Review of Operations" section headed below.

Finance Costs

Finance costs for the year increased to approximately HK$0.3 million from approximately HK$0.1 million of the previous year.

REVIEW OF OPERATIONS

System Products

For our system products sector, our UK arms manifest the major sources of income of our Group in that sector. When our management together with the CEO and technical director of Multitone visited China recently to introduce the background and products of Multitone, several customers showed strong interest in doing business with us. More details of that development are provided in the "Outlook" section. So far, during the year under review, business and contribution from system products have remained steady and stable.

Cultural Products

Included in finished goods of the Group as at 30 June 2018 were cultural products, including precious stones and artifacts, of HK$4,360,000 (as at 30 June 2017: HK$1,638,975,000) which were held for trading and resale in the ordinary course of business.

All of such cultural products, totalling 143 pieces, have been kept in a warehouse run by a worldwide security solution company, which is an independent third party to the Group since November 2017.

For the purpose of the audited condensed consolidated statement of assets and liabilities of the Group as at 31 December 2017 (the "**Audited Condensed Consolidated Statement of Assets and Liabilities**") which was announced by the Company on 30 April 2018, a team of cultural product/jewellery experts (the "**Current Experts**") organised by the 中國文物信息諮詢中心 "China Cultural Heritage Information and Consulting Center" (the "**Consulting Center**") and led by Ms. YANG Zhen Hua（楊震華）, who is a renowned expert in the field of jewellery and stones, was engaged to perform an inspection on all 143 pieces of the cultural products owned by the Group, and upon completion of their Stage 1 field work, they directed us to arrange for scientific examination with the GEM Appraisal Center of Peking University（北京北大寶石鑒定中心）(the "**Appraisal Center**") of selected representative samples plus certain items on which doubts were cast by them. According to the latest opinions from the Current Experts, further downgradings and reclassifications were required to be made on the cultural products as compared to those as at 30 June 2017. Based on the findings concerning the grading and classification of the cultural products, another valuer, 北京市國宏信價格評估有限公司, who was arranged by the Consulting Center, reassessed the market values of the inventories as at 31 December 2017. As a result of the final authentication report and evaluation report, the Company had determined that their net realisable values were way below their costs and the shortfall resulted in impairment loss of approximately HK$1,634 million for the six months ended 31 December 2017.

Subsequent to the publication of the Audited Condensed Consolidated Statement of Assets and Liabilities and for the purpose of the annual results of the Group for the year ended 30 June 2018, the Directors unanimously decided to take the approach of eliminating any lingering doubts on the nature of the cultural products inventory so as to obtain a final and uncontroversial conclusion for our inventory.

As disclosed in note 9 to this announcement, the Company engaged the Appraisal Center to conduct a scientific examination of 139 items of cultural products, so that their nature and substance can be established, following which grading and classification of the cultural products can be confirmed. Based on their findings concerning the grading and classification of the cultural products, the Appraisal Center issued their final report, 北京市國宏信價格評估有限公司 has reassessed the market values of all 143 items of cultural products as at 30 June 2018. The result of the final authentication report and evaluation report indicate that there is no material change in their net realisable values between 31 December 2017 and 30 June 2018. Impairment loss of approximately HK$1,635 million is recognised for the year ended 30 June 2018.

In view of the disappointing drop in the value of the cultural products, we will restructure a suitable plan to develop the line of business on the cultural products and to proceed along a more practicable approach in trading new items and selling the cultural products that we have in hand.

OUTLOOK

The business objectives of the Group are to develop its business and achieve sustainable growth of its business. The Group aims to achieve such objectives by pursuing the following growth-oriented strategies: (i) broadening the customer base of the systems sales, lease and licensing business of the Group; and (ii) improving the trading business of the Group. The followings are the proposed strategic pattern of the Group oriented with the above strategy:

Broadening the Customer Base

The Group will continue exploring opportunities for the systems sales, lease and licensing segment to broaden the geographic base of customers, especially to the PRC market.

Through a substantial subsidiary in Europe which specialized in the design, manufacturing and supply of integrated wireless communication systems and solutions for sale and lease, the Group will continue to invest in new products and market development, capitalizing on its position as the market leader in critical messaging. In order to bring in the advanced systems and products applicable to critical messaging and smart cities, the Group has been working on establishing its own base as well as cooperative platforms in the PRC to bring in its systems and products from Europe. The Group will continue to adapt and adopt emerging technologies as well as developing its own innovative products.

Meanwhile, the Group has been identifying other telecommunication and internet technologies which would benefit the Group's roadmap in Asia and the existing business in Europe with a view to enlarging the Group's coverage in the telecommunication and internet industry.

Recently, the CEO and the technical director of Multitone visited several potential customers and business partners in China, this roadshow gave us an opportunity not only to introduce our background and products, but also enabled us to have a much better understanding of the requirement and needs of the customers in China. Shortly after they returned from China, good news for further business alignment with one of the customers was received, where they were not only prepared to buy our products, but also suggested going forward to form a long term partnership with them to promote and sell our products in China, especially the auction-related exhibition and elderly care-related businesses. This promising development happened to fit in with the business strategies pattern of our Group, which we will keep working with our management team in UK for the best business model.

Improving the Trading Business of the Group

The Group will re-build the new trading channels and business networks including internet auctions for the trading of cultural products, the Group's traditional security and telecommunication equipment as well as other products which would generate sustainable and reasonable profit margin.

CAPITAL REORGANISATION

In October 2017, the Board proposed to implement the capital reorganisation (the "**Capital Reorganisation**"), details of which are set out in the circular of the Company dated 9 November 2017 (the "**Circular**"). The shareholders of the Company approved the Capital Reorganisation at the adjourned annual general meeting of the Company held on 29 January 2018 and the Capital Reorganisation became effective on 10 April 2018. For details, please refer to the Circular and the announcements of the Company dated 16 October, 9 November, 28 December 2017, 1 January, 11 January, 13 January, 29 January, 20 February, 20 March and 9 April 2018.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Position and Gearing

The Group's financial position remained positive with a reasonable gearing throughout the year ended 30 June 2018.

As at 30 June 2018, the Group had approximately HK$72 million (2017: approximately HK$76 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK$129 million (2017: approximately HK$1,770 million) and current liabilities amounted to approximately HK$60 million (2017: approximately HK$64 million). With net current assets of approximately HK$69 million (2017: approximately HK$1,707 million), the Group maintained a comfortable level of liquidity. As at 30 June 2018, the Group had no borrowings (2017: total borrowings of approximately HK$3.6 million) and a zero gearing ratio (2017: the gearing ratio of the Group, defined as the Group's total borrowings to equity attributable to owners of the Company, was approximately 2.17).

As at 30 June 2018, the Group had no borrowings (2017: total borrowings comprised bank loans of approximately HK$3.6 million, which was repayable within one year). Finance costs for the year was approximately HK$0.3 million (2017: approximately HK$0.1 million).

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

The Group did not have any capital commitments as at 30 June 2018.

Charges

Property, plant and equipment of the Group with the aggregate carrying amounts of approximately HK$10.9 million have been pledged as securities for the defined benefit retirement scheme of certain subsidiaries operated in UK.

Save as disclosed above, the Group did not have any charges on assets as at 30 June 2018.

Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities (2017: Nil).

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 2018.

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 2018, the Group employed about 186 staff around the globe. Staff costs for the year ended 30 June 2018 were HK$76 million (2017: HK$76 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.

Emoluments of the Directors 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 2018 (2017: 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 2018.

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 2018 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 2018, 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 deviations of code provision A.4.1 and E.1.2 of the CG Code below:

(a) 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.

(b) Under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. Due to other engagement, Ms. Wong Man Winny, the chairman of the Board, was out of town and was unable to attend the annual general meeting held on 28 December 2017 and the adjourned annual general meeting held on 29 January 2018.

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 2018, 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 2018 have been reviewed by the Audit Committee.

By order of the Board
KANTONE HOLDINGS LIMITED
WONG MAN WINNY
CHAIRMAN

Hong Kong, 27 September 2018

As at the date of this announcement, the executive directors of the Company are Ms. Wong Man Winny and 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 Mr. Leung Man Fai, Ms. Chung Sau Wai Ada and Mr. Clayton Ip.