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KANTONE HOLDINGS LIMITED

看通集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1059)

ANNOUNCEMENT OF THE FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2019

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 2019 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 2019

| | <i>Notes</i> | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Revenue | 3(a) | 143,966 | 136,743 |
| Cost of sales | | <u>(59,679)</u> | <u>(60,708)</u> |
| Gross profit | | 84,287 | 76,035 |
| Other income, gains and losses | | 3,407 | 3,957 |
| Gain on disposal of subsidiaries | | 109 | – |
| Distribution costs | | (29,229) | (27,692) |
| General and administrative expenses | | (54,014) | (53,431) |
| Impairment losses recognised for inventories | | – | (1,634,615) |
| Impairment losses recognised for other receivables | 9 | – | (5,835) |
| Research and development costs expensed | | (2,518) | (2,712) |
| Finance costs | | <u>(249)</u> | <u>(308)</u> |

| | <i>Notes</i> | 2019 HK\$'000 | 2018 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Profit/(loss) before taxation | | 1,793 | (1,644,601) |
| Income tax credit | 5 | <u>644</u> | <u>713</u> |
| Profit/(loss) for the year | | <u>2,437</u> | <u>(1,643,888)</u> |
| Other comprehensive (expense)/ income: | | | |
| Item that will not be reclassified to profit or loss: | | | |
| Remeasurement of defined benefits pension plans | | (882) | 36,450 |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange difference arising on translation of foreign operations | | <u>(5,011)</u> | <u>1,155</u> |
| Other comprehensive (expense)/income for the year | | <u>(5,893)</u> | <u>37,605</u> |
| Total comprehensive (expense) for the year | | <u>(3,456)</u> | <u>(1,606,283)</u> |
| Earnings/(loss) per share | | | |
| – Basic and diluted | 7 | <u>HK\$0.01</u> | <u>HK\$(8.33)</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

| | <i>Notes</i> | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 28,666 | 29,931 |
| Development costs for systems and networks | | – | – |
| | | <u>28,666</u> | <u>29,931</u> |
| Current assets | | | |
| Inventories | 8 | 24,227 | 24,163 |
| Trade and other receivables | 9 | 26,180 | 32,809 |
| Cash and cash equivalents | | 83,365 | 71,626 |
| | | <u>133,772</u> | <u>128,598</u> |
| Current liabilities | | | |
| Trade and other payables | 10 | 39,549 | 33,391 |
| Contract liabilities | | 21,587 | 21,034 |
| Warranty provision | | 1,347 | 1,236 |
| Amount due to a director | | 4,180 | 4,180 |
| Amount due to ultimate holding company | | 3,016 | – |
| | | <u>69,679</u> | <u>59,841</u> |
| Net current assets | | <u>64,093</u> | <u>68,757</u> |
| Total assets less current liabilities | | <u>92,759</u> | <u>98,688</u> |
| Non-current liability | | | |
| Retirement benefit obligations | | <u>25,301</u> | <u>27,774</u> |
| Net assets | | <u>67,458</u> | <u>70,914</u> |
| Capital and reserves | | | |
| Share capital | | 19,731 | 19,731 |
| Reserves | | 47,727 | 51,183 |
| Total equity | | <u>67,458</u> | <u>70,914</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

1. BASIS OF PREPARATION

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 HKFRSs, 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.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has applied, for the first time in the current year, the following new and revised HKFRSs issued by the HKICPA:

| | |
|-----------------------|---|
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014–2016 Cycle |

These new standards and interpretations do not have significant impact to the Group.

The Group has not early applied the following new and revised standards, amendments and interpretation that have been issued but are not yet effective.

| | | Effective for annual reporting periods beginning on or after |
|---------------------------------|---|--|
| HKAS 28 and HKFRS 10 amendments | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined* |
| HKFRS 16 | Leases | 1 January 2019 |
| HK(IFRIC) – Interpretation 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| Amendments to HKFRS 3 | Definition of a Business | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8 | Amendments to Definition of Material | 1 January 2020 |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures | 1 January 2019 |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle | 1 January 2019 |

* The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2018. The effective date has now been deferred. Early application of the amendments continues to be permitted.

The Group has already commenced an assessment of the related impact of adopting the above new and revised HKFRSs. So far, the Directors have preliminarily concluded that the above new and revised HKFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the consolidated financial statements of the Group except for the following:

HKFRS 16 “Leases”

For lessees, HKFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a lease term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. For lessors, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or financial leases, and to account for those two types of leases differently. The standard is mandatorily effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply HKFRS 15 at or before the date of initial application of HKFRS 16.

The standard will affect primarily the accounting for the Group’s operating leases (as lessees). As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$2,968,000. The Group estimates that none of these relate to payments for short-term and low value leases which will continue to be accounted for based on the current accounting model. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short term leases. Detailed impact will be disclosed after a detailed analysis is performed.

The Directors do not anticipate that the application of the other new and revised HKFRSs will have a material impact on the Group’s consolidated financial statements.

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:

| | 2019 | 2018 |
|---|-----------------|-----------------|
| | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| Technology – Sales of systems including software licensing | 92,961 | 86,547 |
| Technology – Rendering of installation and maintenance services | 29,366 | 27,771 |
| | <hr/> | <hr/> |
| Technology – System sales including software licensing and maintenance services | 122,327 | 114,318 |
| | <hr/> | <hr/> |
| Technology – Leasing of system products | 21,639 | 22,425 |
| | <hr/> | <hr/> |
| | 143,966 | 136,743 |
| | <hr/> <hr/> | <hr/> <hr/> |

(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, 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 installation and maintenance services
- Leasing of system products – includes income from leasing of system products

Segment results represent the profit or 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, the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance.

Information regarding the above segments is reported below:

| | | Technology | | |
|----------------------------------|--|--|--|--------------------------|
| | 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 2019 | | | | |
| REVENUE | | | | |
| External and total revenue | | | | |
| Recognised at a point in time | - | 92,961 | - | 92,961 |
| Recognised over time | - | 29,366 | 21,639 | 51,005 |
| | <u>-</u> | <u>122,327</u> | <u>21,639</u> | <u>143,966</u> |
| RESULTS | | | | |
| Segment result | <u>(1,035)</u> | <u>13,243</u> | <u>2,915</u> | 15,123 |
| Interest income | | | | 1,150 |
| Gain on disposal of subsidiaries | | | | 109 |
| Finance costs | | | | (249) |
| Unallocated expenses, net | | | | <u>(14,340)</u> |
| Profit before taxation | | | | <u>1,793</u> |

| | | <u>Technology</u> | | |
|--------------------------------|---|---|---|---------------------------------|
| | Sales of cultural products <i>HK\$'000</i> | System sales including software licensing and services <i>HK\$'000</i> | Leasing of system products <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| 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 |
| | <u>–</u> | <u>114,318</u> | <u>22,425</u> | <u>136,743</u> |
| RESULTS | | | | |
| Segment result | <u>(1,637,348)</u> | <u>3,132</u> | <u>1,848</u> | <u>(1,632,368)</u> |
| Interest income | | | | 171 |
| Finance costs | | | | (308) |
| Unallocated expenses, net | | | | <u>(12,096)</u> |
| Loss before taxation | | | | <u><u>(1,644,601)</u></u> |

| | | <u>Technology</u> | | |
|---|---|---|---|---------------------------------|
| | Sales of cultural products <i>HK\$'000</i> | System sales including software licensing and services <i>HK\$'000</i> | Leasing of system products <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| Year ended 30 June 2019 | | | | |
| Amounts included in the measure of segment profit or loss: | | | | |
| Depreciation | <u>63</u> | <u>6,062</u> | <u>510</u> | <u>6,635</u> |

| | Technology | | | |
|---|---|---|---|---------------------------------|
| | Sales of cultural products <i>HK\$'000</i> | System sales including software licensing and services <i>HK\$'000</i> | Leasing of system products <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| Year ended 30 June 2018 | | | | |
| Amounts included in the measure of segment profit or loss: | | | | |
| Depreciation | 32 | 7,085 | 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 |
| | <u>–</u> | <u>5,835</u> | <u>–</u> | <u>5,835</u> |

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 | |
| | 2019 | 2018 | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| People's Republic of China (the "PRC"), including Hong Kong and Macau | – | – | 26 | 93 |
| Europe (mainly United Kingdom ("UK") and Germany) | <u>143,966</u> | <u>136,743</u> | <u>28,640</u> | <u>29,838</u> |
| | <u>143,966</u> | <u>136,743</u> | <u>28,666</u> | <u>29,931</u> |

(d) Information about major customer

Revenue from customer of the corresponding years contributing over 10% of the total sales of the Group is as follows:

| | 2019 | 2018 |
|------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Customer A | <u>15,152</u> | <u>–</u> |

Customer A contributed revenue from system sales including software licensing and services.

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

4. DEPRECIATION

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Depreciation of property, plant and equipment, included in general and administrative expenses | <u>6,635</u> | <u>8,507</u> |

5. INCOME TAX

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|----------------------------------|-------------------------|-------------------------|
| Current tax: | | |
| – UK corporate income tax credit | (1,059) | (1,120) |
| – Germany corporate income tax | 405 | 407 |
| – Malaysia corporate income tax | <u>10</u> | <u>–</u> |
| Income tax credit | <u>(644)</u> | <u>(713)</u> |

UK corporate income tax is calculated at 19% (2018: 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% (2018: 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% (2018: 24%) on the estimated assessable profit of the subsidiary which carried on business in Malaysia.

Hong Kong profits tax is calculated at 16.5% (2018: 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 2019 nor has any dividend been proposed since the end of reporting period (2018: Nil).

7. EARNINGS/(LOSS) PER SHARE

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

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit/(loss) for the year | <u>2,437</u> | <u>(1,643,888)</u> |
| <i>Number of ordinary shares</i> | <i>'000</i> | <i>'000</i> |
| Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share | <u>197,308</u> | <u>197,308</u> |

The weighted average number of ordinary shares for the purposes of calculating basis earnings/(loss) per share for the year ended 30 June 2018 has been adjusted after taking into account the share consolidation occurred during the year ended 30 June 2018.

Diluted earnings/(loss) per share for the year ended 30 June 2019 and 30 June 2018 were the same as the basic earnings/(loss) per share as there were no potential ordinary shares outstanding during both years.

8. INVENTORIES

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---------------------------------|-------------------------|-------------------------|
| Raw materials | 7,117 | 7,185 |
| Work in progress | 6,352 | 5,170 |
| Finished goods (<i>notes</i>) | <u>10,758</u> | <u>11,808</u> |
| | <u>24,227</u> | <u>24,163</u> |

Notes:

- (i) Included in finished goods are cultural products (including precious stone and artifacts) of HK\$4,187,000 (2018: HK\$4,360,000) which are held for trading and resale in the ordinary course of business.
- (ii) As at 30 June 2019 and 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.

9. TRADE AND OTHER RECEIVABLES

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Trade receivables (<i>note</i>) | <u>22,889</u> | <u>24,556</u> |
| Other receivables | 9,099 | 14,088 |
| <i>Less:</i> provision for impairment loss | <u>(5,808)</u> | <u>(5,835)</u> |
| | <u>3,291</u> | <u>8,253</u> |
| | <u>26,180</u> | <u>32,809</u> |

Note:

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 (after impairment allowance) presented based on the invoice date at the end of the reporting period is as follows:

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---------------|--------------------------------|-------------------------|
| 0 – 60 days | 18,811 | 22,603 |
| 61 – 90 days | 3,453 | 1,896 |
| 91 – 180 days | 625 | 57 |
| | <u>22,889</u> | <u>24,556</u> |

Before accepting any new customer, the Group's finance and sales management team would assess the potential customer's credit worthiness and define credit limits accordingly for the customers. Credit limits attributable to customers are reviewed regularly with reference to past settlement history and where appropriate, information about their current reputation. 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:

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|-------------------------------|--------------------------------|-------------------------|
| Neither past due nor impaired | 21,756 | 22,603 |
| Less than 1 month past due | 853 | 1,896 |
| 1 to 3 months past due | 280 | 57 |
| | <u>1,133</u> | <u>1,953</u> |
| | <u>22,889</u> | <u>24,556</u> |

10. TRADE AND OTHER PAYABLES

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Trade payables | 3,954 | 7,531 |
| Other payables | 35,595 | 25,860 |
| | <u>39,549</u> | <u>33,391</u> |

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

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|-------------|--------------------------------|-------------------------|
| 0 – 60 days | 3,954 | 7,531 |

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

EXTRACT OF INDEPENDENT AUDITOR’S REPORT ON THE COMPANY’S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

As a result of the scope limitation on audit of inventories as at 30 June 2017, which is more fully explained under the “Basis of Qualified Opinion on the Consolidated Financial Statements” below, the independent auditor of the Company will issue a qualified 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 2019:

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion on the Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 30 June 2018, which form the basis for the comparative figures presented in the current year’s consolidated financial statements, included a disclaimer of opinion in respect of the possible effects arising from scope limitation on audit of inventories on the Group’s loss, changes in equity and cash flows for the year ended 30 June 2018. As the closing balance of the cultural products as at 30 June 2017 has been carried forward as the opening balance for the year ended 30 June 2018, any adjustments found to be necessary to the closing balance as 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. Details of the disclaimer opinion were set out in the independent auditor’s report in respect of the years ended 30 June 2018 and 30 June 2017 dated 27 September 2018 and 29 September 2017 respectively which were included in the Company’s annual report for the year ended 30 June 2018 and 30 June 2017 respectively.

The matters of the above mentioned scope limitation no longer have any effect on the current figures in the consolidated financial statements for the year ended 30 June 2019.

However, the comparative figures presented in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows may contain material misstatements and hence may not be comparable with the figures for the current year.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) 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 are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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\$144 million, as compared with approximately HK\$137 million of the previous year.

The Group recorded a slight increase in revenue of HK\$7 million. During the year under review, the Group’s momentum in the European market within the healthcare and emergency services sectors remained steady.

For maintaining the products’ competitiveness, the Group has continued to focus on optimizing its development resources to provide customers with critical messaging solutions in the niche markets.

In addition, the Group’s management has been working with the technical team in United Kingdom to develop a new business model for our potential customers in mainland China and Hong Kong market by providing them with tailor-made solutions. For details, please refer to the “**OUTLOOK**” section.

Profit attributable to Owners of the Company

Profit for the year was approximately HK\$2.4 million, as compared with the loss for the previous fiscal year of approximately HK\$1,644 million. The significant loss for last year was mainly due to the impairment losses of approximately HK\$1,635 million recognised in the inventory of cultural products. Earnings per share is HK\$0.01 compared with loss per share HK\$8.33 of the previous year.

Distribution Costs

The Group’s distribution costs for the year were mainly attributed to our principal subsidiary in UK – Multitone Electronics PLC (“**Multitone**”), which recorded distribution costs for the year under review of approximately HK\$29 million as compared with approximately HK\$28 million in 2018.

General and Administrative Expenses

General and administrative expenses for the year increased by approximately 2 percent to approximately HK\$54 million from approximately HK\$53 million of previous year.

Impairment Losses

The Group recognised an impairment loss on inventories of approximately HK\$1,635 million in the fiscal year 2018.

Finance Costs

Finance costs for the year decreased to approximately HK\$249,000 from approximately HK\$308,000 as compared with the fiscal year 2018.

REVIEW OF OPERATIONS

System Products

During the year under review, our system products sector in the UK, has remained one of the major sources of income of our Group. After the in-depth business study and introduction of the products of Multitone to mainland China and Hong Kong, we started to develop a new system solution product for our target customers, such as IoT service etc. 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. The revenue for this sector was approximately HK\$144 million (2018: approximately HK\$137 million).

Cultural Products

Cultural products, including precious stones and artifacts, valued at HK\$4,187,000 (as at 30 June 2018: HK\$4,360,000) which have been held for trading and resale in the ordinary course of business are included in the inventories of the Group as at 30 June 2019.

Since November 2017, all such cultural products, totalling 143 pieces, have been kept in a secured warehouse run by a world-renowned security solution company, which is an independent third party to the Group.

OUTLOOK

As stated in the interim report 2018, the future plans of the Group were to develop and achieve sustainable growth of its core businesses – expansion of the markets and customer base for our UK subsidiary Multitone into mainland China and Hong Kong. The management considered that the strategies adopted have been fruitful in achieving this aim.

System Products

As stated in the interim report 2018, the Group will continue exploring opportunities for the systems sales, lease and licensing segment and to broaden the geographic base of customers, especially to mainland China and Hong Kong market. During the year under review, through our business networks, some customers approached us seeking for a total solution for their business, such as IoT service. Our technical team formed by Multitone and Multitone (Asia) Smart Communication Technology Company Limited are now working with the world's largest supplier of facial recognition products to enhance our existing system products by adding functions such as facial recognition, voice analytics and IoT integration. With such detecting functions, our system products will be able to get the alert signal directly from the sensors and cameras and then automatically despatch instruction signals to the appropriate persons or units to enable them to deliver efficient, timely actions at low cost. We provide tailor-made total solutions to our customers, and it will be our focal point for our system products' development in the foreseeable future.

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 2019.

As at 30 June 2019, the Group had approximately HK\$83 million (2018: approximately HK\$72 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK\$134 million (2018: approximately HK\$129 million) and current liabilities amounted to approximately HK\$70 million (2018: approximately HK\$60 million). With net current assets of approximately HK\$64 million (2018: approximately HK\$69 million), the Group maintained a comfortable level of liquidity. As at 30 June 2019, the Group had no borrowings (2018: no borrowings) and a zero gearing ratio (2018: zero gearing ratio of the Group, defined as the Group's total borrowings to equity attributable to owners of the Company, was zero).

As at 30 June 2019, the Group had no borrowings (2018: no borrowings). Finance costs for the year was approximately HK\$249,000 (2018: approximately HK\$308,000).

Treasury Policy

The Group is committed to manage its financial resources prudently and to maintain a positive liquid financial position with reasonable gearing. The Group finances its operation and business development by a combination of internally generated resources, capital market instruments and banking facilities.

As there was no borrowing during the year under review, there was no currency risk exposure associated with the Group's borrowings.

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 significant 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 2019.

Charges

Certain property, plant and equipment of the Group with the aggregate carrying amounts of approximately HK\$11 million have been pledged as collaterals 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 2019.

Contingent liabilities

As at 30 June 2019, the Group had no material contingent liabilities (2018: 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 2019.

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 2019, the Group employed about 183 staff around the globe. Staff costs for the year ended 30 June 2019 were HK\$75 million (2018: 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 2019 (2018: 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 2019.

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 2019 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 2019, 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 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 2019, 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 2019 have been reviewed by the Audit Committee.

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

Hong Kong, 27 September 2019

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.