KANTONE HOLDINGS LIMITED

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

2012/2013 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover rose 37% to HK$1,953 million
- Profit for the year increased 3% to HK$83 million
- Adjusted EBITDA (excluding impairment) went up 25% to HK$768 million
- Profit attributable to owners of the Company grew 2% to HK$82 million
- Earnings per share was HK1.09 cents

The board of directors (the "Board") of Kantone Holdings Limited (the "Company" or "Kantone") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2013 with comparative figures for 2012 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2013

	Notes	**2013** **HK$'000**	2012 HK$'000
Turnover	*2*	**1,953,394**	1,429,281
Cost of sales		**(1,555,802)**	(1,110,903)
Gross profit		**397,592**	318,378
Other income		**7,930**	8,175
Distribution costs		**(33,173)**	(33,578)
General and administrative expenses		**(119,085)**	(94,218)
Impairment losses recognised for deposits and prepaid development costs		**(157,656)**	(104,174)
Research and development costs expensed		**(10,883)**	(13,757)
Finance costs		**(1,837)**	(814)
Profit before taxation		**82,888**	80,012
Taxation credit	*4*	**-**	167
Profit for the year		**82,888**	80,179
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**1,813**	1,149
Total comprehensive income for the year		**84,701**	81,328

	Note	2013 HK$'000	2012 HK$'000
Profit for the year attributable to:			
Owners of the Company		**81,968**	80,474
Non-controlling interests		**920**	(295)
		82,888	80,179
Total comprehensive income for the year attributable to:			
Owners of the Company		**83,323**	81,664
Non-controlling interests		**1,378**	(336)
		84,701	81,328
Earnings per share	*6*		
- Basic		**HK1.09 cents**	HK1.07 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment		**44,773**	46,773
Development costs for systems and networks		**1,547,368**	1,175,896
Goodwill		**36,795**	36,795
Deposits and prepaid development costs		**413,904**	1,172,316
		2,042,840	2,431,780
Current assets			
Inventories		**24,523**	20,608
Trade and other receivables	*7*	**1,284,137**	809,020
Taxation recoverable		**1**	9
Deposits, bank balances and cash		**84,193**	116,233
		1,392,854	945,870
Current liabilities			
Trade and other payables	*8*	**77,102**	66,473
Warranty provision		**1,246**	1,229
Bank borrowings - amount due within one year		**7,719**	28,870
		86,067	96,572
Net current assets		**1,306,787**	849,298
Total assets less current liabilities		**3,349,627**	3,281,078
Non-current liabilities			
Bank borrowings - amount due after one year		**16,989**	-
Retirement benefit obligations		**46,133**	50,389
		63,122	50,389
Net assets		**3,286,505**	3,230,689

	2013	2012
	HK$'000	*HK$'000*
Capital and reserves		
Share capital	**751,603**	750,458
Reserves	**2,513,141**	2,459,177
Equity attributable to owners of the Company	**3,264,744**	3,209,635
Non-controlling interests	**21,761**	21,054
	3,286,505	3,230,689

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

1. Basis of preparation and adoption of new and revised Hong Kong Financial Reporting Standards

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

In the current year, the Group has applied a number of amendments to HKFRSs issued by the HKICPA that are mandatorily effective for accounting periods beginning on 1 July 2012. Except as described below, the adoption of the amendments to HKFRSs has had no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

<u>Amendments to Hong Kong Accounting Standard ("HKAS") 1 Presentation of items of other comprehensive income</u>

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Upon application of HKAS 1, the Group's statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. In addition, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

The Group has not early applied those new and revised standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company are in process of assessing the impact of the application of these new and revised standards, amendments and interpretations on the consolidated financial statements.

2. Turnover and segment information

(a) Turnover

Turnover represents the amounts received and receivable for goods sold and services provided by the Group to external customers, licensing fees and leasing income received and receivable during the year.

The turnover of the Group comprises the following:

	2013	2012
	HK$'000	*HK$'000*
Sales of systems and products	**746,965**	744,800
Licensing fees	**618,542**	512,412
Rendering of services	**87,663**	62,618
Leasing of systems products	**24,806**	23,222
Sales of cultural products	**475,418**	86,229
	1,953,394	1,429,281

(b) Segment information

The operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conforming to the HKFRSs, that are regularly reviewed by the executive directors of the Company, for the purpose of allocating resources to segments and assessing their performance.

The Group was previously organised into two operating segments, namely "systems sales, licensing and others" and "leasing of systems products". These segments were the basis on which the Group reported its segment information. During the current year, the executive directors of the Company reviewed separately the financial results of sales of cultural products which were previously reported under "systems sales, licensing and others", for resources allocation and performance assessment of the Group. Accordingly, three operating and reportable segments under HKFRS 8 Operating Segments are identified as follows:

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

The segment revenue and result in respect of "systems sales, licensing and others" for the year ended 30 June 2012 have been re-presented to conform with the current year's segment reporting.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in the consolidated financial statements. Segment results represent the profit (loss) before taxation earned by each 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:

	Systems sales and licensing	**Leasing of systems products**	**Sales of cultural products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 30 June 2013				
TURNOVER				
External and total revenue	**1,453,170**	**24,806**	**475,418**	**1,953,394**
RESULTS				
Segment result	**57,138**	**1,260**	**32,885**	**91,283**
Interest income				**5,021**
Finance costs				**(1,837)**
Unallocated expenses, net				**(11,579)**
Profit before taxation				**82,888**
Year ended 30 June 2012				
TURNOVER				
External and total revenue	1,319,830	23,222	86,229	1,429,281
RESULTS				
Segment result	90,376	1,503	(1,789)	90,090
Interest income				4,875
Finance costs				(814)
Unallocated expenses, net				(14,139)
Profit before taxation				80,012

	Systems sales and licensing	Leasing of systems products	Sales of cultural products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 30 June 2013				
Amounts included in the measure of segment profit or loss:				
Amortisation and depreciation	**522,964**	**2,940**	**-**	**525,904**
Impairment losses recognised for deposits and prepaid development costs	**157,656**	**-**	**-**	**157,656**
Loss on disposal of property, plant and equipment	**48**	**-**	**-**	**48**
Year ended 30 June 2012				
Amounts included in the measure of segment profit or loss:				
Amortisation and depreciation	427,849	1,424	-	429,273
Impairment losses recognised for deposits and prepaid development costs	104,174	-	-	104,174
Gain on disposal of property, plant and equipment	(8)	-	-	(8)

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

(c) Geographical information

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

	Revenue Year ended 30 June		**Non-current assets As at 30 June**	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
People's Republic of China (including Hong Kong and Macau)	**1,295,357**	976,362	**1,999,847**	2,386,689
Europe (mainly United Kingdom and Germany)	**491,769**	354,546	**41,212**	43,046
Others	**166,268**	98,373	**1,781**	2,045
	1,953,394	1,429,281	**2,042,840**	2,431,780

3. Amortisation and depreciation

	2013	2012
	HK$'000	*HK$'000*
Amortisation on development costs for systems and networks, included in cost of sales	**514,495**	418,847
Depreciation of property, plant and equipment, included in general and administrative expenses	**11,409**	10,426
Total amortisation and depreciation	**525,904**	429,273

4. Taxation credit

	2013	2012
	HK$'000	*HK$'000*
The credit comprises:		
Deferred taxation	**-**	(167)

Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) on the estimated assessable profits derived from Hong Kong. No provision for taxation has been made as the Group's income neither arises in, nor is derived from Hong Kong. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The low effective tax rate is attributable to the fact that a substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and is accordingly not subject to Hong Kong Profits Tax and such profit is either exempt from Macau income tax or not subject to taxation in any other jurisdictions.

5. Dividends

	2013	2012
	HK$'000	*HK$'000*
2013 final dividend proposed in scrip form equivalent to HK0.1 cents (2012: HK0.2 cents) per share, with a cash option	**7,516**	15,009
2013 interim dividend paid in scrip form equivalent to HK0.2 cents (2012: HK0.2 cents) per share, with a cash option	**15,021**	14,997
	22,537	30,006

The proposed final dividend for 2013 is calculated on the basis of 7,516,029,531 shares (2012: 7,504,575,951 shares) in issue on 30 June 2013.

6. Earnings per share

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of HK$81,968,000 (2012: HK$80,474,000) and on the weighted average number of shares of 7,507,641,000 shares (2012: 7,495,929,000 shares) in issue.

No diluted earnings per share is presented for the years ended 30 June 2013 and 2012 as there were no potential ordinary shares in issue during both years.

7. Trade and other receivables

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**460,680**	374,118
Advances to suppliers	**790,547**	406,526
Other receivables	**32,910**	28,376
	1,284,137	809,020

The Group maintains a well-defined credit policy regarding its trade customers depending on their credit worthiness, nature of services and products, industry practice and condition of the market with credit period ranging from 30 days to 180 days. The advances to suppliers and other receivables are unsecured, non-interest bearing and refundable, and are expected to be realised in the next twelve months from the end of the reporting period.

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

	2013	2012
	HK$'000	*HK$'000*
0 - 60 days	**293,309**	157,067
61 - 90 days	**91,953**	118,731
91 - 180 days	**75,418**	98,320
	460,680	374,118

8. Trade and other payables

As at 30 June 2013, the balance of trade and other payables included trade payables of HK$12,191,000 (2012: HK$9,737,000). The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2013	2012
	HK$'000	*HK$'000*
0 - 60 days	**11,906**	9,454
61 - 90 days	**71**	90
91 - 180 days	**4**	73
> 180 days	**210**	120
	12,191	9,737

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

Other payables mainly represent receipt in advance and accruals.

FINAL DIVIDEND AND SCRIP DIVIDEND SCHEME

Subject to the approval of shareholders at the forthcoming annual general meeting of the Company on 28 November 2013, the Board has proposed a final dividend of HK0.1 cents per share for the year ended 30 June 2013 (2012: HK0.2 cents per share) to shareholders whose names appear on the register of members of the Company on 5 December 2013. Taking into account the interim dividend of HK0.2 cents (2012: HK0.2 cents) per share paid on 16 May 2013, total dividend per share for the year would be HK0.3 cents (2012: HK0.4 cents); and total dividend for the year would be HK$23 million, compared with HK$30 million of last year.

The final dividend will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to the shareholders to elect to receive such dividend (or part thereof) in cash in lieu of such allotment (the "Scrip Dividend Scheme").

The Scrip Dividend Scheme is subject to the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Exchange") of a listing of and permission to deal in the shares to be issued pursuant thereto. A circular setting out the details of the Scrip Dividend Scheme together with the form of election will be sent to the shareholders of the Company as soon as practicable.

It is expected that certificates for shares to be issued under the Scrip Dividend Scheme and dividend warrants will be despatched to those entitled thereto on or before 27 January 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 December 2013 to 5 December 2013, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the above final dividend and the Scrip Dividend Scheme, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 3 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the year under review (the "Year"), the Group's turnover increased 37 percent to HK$1,953 million from HK$1,429 million in the previous year (the "Previous Year"). Profit for the Year was HK$82.9 million, an increase of 3 percent compared with HK$80.2 million for the Previous Year, and profit attributable to owners of the Company increased 2 percent to HK$82.0 million as compared with HK$80.5 million for the Previous Year. Earnings per share for the Year was HK1.09 cents (2012: HK1.07 cents). The Group's gross margin dropped to 20.4 percent (2012: 22.3 percent) as a result of change in product mix. EBITDA increased by 20 percent to HK$611 million from HK$510 million for the Previous Year. Faced with the ongoing uncertain economic environment and further delay in project implementation, the Group had taken prudent measures to recognise impairment losses of HK$158 million (2012: HK$104 million) for deposits and prepaid development costs for systems and networks. Excluding the impairment losses, adjusted EBITDA for the Year increased by 25 percent to HK$768 million, compared with HK$614 million for the Previous Year.

The Group continues to review and exercise cost control. Distribution costs remained stable at HK$33.2 million (2012: HK$33.6 million), while general and administrative expenses went up 26 percent to HK$119.1 million (2012: HK$94.2 million) as a result of increased spending in the new operating segment of cultural products. Staff costs increased slightly to HK$93.2 million (2012: HK$92.2 million) and research and development costs expensed decreased by 21 percent to HK$10.9 million (2012: HK$13.8 million). Amortisation and depreciation expenses rose 23 percent to HK$526 million (2012: HK$429 million) as a result of the continued roll-out of new projects.

Finance costs for the Year increased by 126 percent to HK$1.8 million from HK$0.8 million of the Previous Year as a result of the rise in interest rate.

Review of Operations

In China, the economy remained positive despite lower economic growth and declining export performance. The Group's marketing and sales activities for customised solutions and products continued. Its product portfolio embraces a wide range of integrated wireless solutions and web-based monitoring systems mainly designed for remote management and security applications. For the Year, China sales rose 33 percent to HK$1,295 million, compared with HK$976 million for the Previous Year. The increase was attributable to enhancement of product mix, introduction of new solutions and services, as well as revenue generated from the sale of products related to cultural business.

In Europe, the unstable economic climate continued to affect the Group's trading position. The austerity measures adopted by governments across Europe slowed spending and delayed project rollout. There was little evidence of growth across the Eurozone, and in place was an increasing sense of adjustment fatigue in Europe, resulting in pressure on governments to relax their austerity programs. Against this background of an unsettled economy in Europe, the Group achieved satisfactory results for the Year, recording a turnover of HK$492 million, an increase of 39 percent as compared with HK$355 million for the Previous Year. The improvement was attributable to the Group's business in emergency services, NHS (National Health Services) projects and fire control sectors in the United Kingdom ("UK") which picked up after several quarters of slowdown due to spending cuts. Sales in Germany were flat, but there was continuing demand for the Group's products in some European markets despite the weak economic fundamentals. In particular sales of the Group's patented personal security product registered double-digit growth year on year.

Elsewhere, the Group continued to record satisfactory growth from the Australasian and Middle East markets in sales of traditional systems products and personal security solutions. Significant opportunities also exist in the US for the Group's personal security solutions, and a demonstration system was successfully installed during the financial year. In anticipation of the increased demand, the Group's manufacturing facilities in Malaysia were revamped and a new production line was added during the Year.

For e-gaming and online entertainment, the Group continued to provide integrated gaming technology solutions, online payment channels and sales networks, with revenue steadily increasing. In line with new legislations and provisions governing the operation of lottery on Mainland China, the Group adjusted its business model accordingly. Investments in the e-lottery project were subject to periodic review to determine if progress was in line with original plans, and if the anticipated benefits could be achieved.

OUTLOOK

There are signs that global market conditions will turn more stable in the coming year. However, many challenges and uncertainties remain. The anticipated unwinding of US stimulus policy, even at a more gradual pace than originally expected, and uncertainties in the Eurozone economies will continue to weigh on the pace of global recovery. The slowdown in China's economic growth also posts significant risks to the Group's business operations. At the same time, the markets for many of our products and services are characterised by rapidly changing technologies and evolving industry standards. Changes in market conditions caused by new technologies, emergence of new competitors, consolidations among our customers and competitors, as well as changes in regulatory requirements can bring volatilities to our businesses. Meeting all these challenges require consistent operational planning and shrewd execution and investment in innovative and enhanced product mix that serves the needs of our customers globally.

Going forward, the Group will continue its prudent approach in investing in complementary businesses that have good growth prospects. In addition to continuing investments in technologies and innovative solutions which are key to sustainable growth, the Group will expand its business in the culture sector, which is in line with China's national policy to promote its culture industry alongside its rise as an economic power.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Position and Gearing

The Group maintained a positive financial position with low gearing throughout the Year. It financed its operation and business development with internally generated resources, capital markets instruments and banking facilities.

As at 30 June 2013, the Group had HK$84 million (2012: HK$116 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK$1,393 million (2012: HK$946 million) and current liabilities amounted to approximately HK$86 million (2012: HK$97 million). With net current assets of HK$1,307 million (2012: HK$849 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK$24.7 million (2012: HK$28.9 million) to equity attributable to owners of the Company of HK$3,265 million (2012: HK$3,210 million), was 0.008 (2012: 0.009).

As at 30 June 2013, the Group's total borrowings mainly comprised bank loans of HK$24.7 million (2012: HK$28.9 million), with HK$7.7 million repayable within one year, HK$4.3 million repayable in the second year and HK$12.7 million repayable in the third to fifth year. As at 30 June 2012, all the borrowings were repayable either on demand or within one year. As at 30 June 2013, bank loans of HK$21.7 million (2012: HK$25.9 million) were secured by the Group's land and buildings with a carrying value of HK$7.9 million (2012: HK$8.1 million). Finance costs for the Year increased 126 percent to HK$1.8 million (2012: HK$0.8 million).

Treasury Policy

The Group is committed to financial prudence and maintains a positive financial position with low gearing. It finances its operation and business development by a combination of internally generated resources, capital markets instruments and banking facilities.

All the borrowings were used by subsidiaries of the Company bearing interest at floating rates and were denominated in their local currencies. As such, the currency risk exposure associated with the Group's borrowings was insignificant.

The Group does not engage in any speculative derivatives or structured product transactions, interest rate or foreign exchange speculative activities. It is the Group's policy to manage foreign exchange risk through matching foreign exchange income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instruments will be used.

Capital Commitments

As at 30 June 2013, the Group's capital commitments authorised but not contracted for were approximately HK$52 million (2012: HK$69 million). The Group had set aside sufficient internally generated funds for the acquisition of property, plant and equipment, and development of systems and networks.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE CODE

The Company complied with the code provisions of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Exchange during the Year.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Group the financial and accounting policies and practices adopted by the Group, its internal controls and financial reporting matters and the above annual results.

By Order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 27 September 2013

As at the date of this announcement, the executive directors of the Company are Prof. Paul Kan Man Lok and Mr. Lai Yat Kwong; the non-executive directors are Mr. Leo Kan Kin Leung and Ms. Shirley Ha Suk Ling; and the independent non-executive directors are Mr. Frank Bleackley, Prof. Julia Tsuei Jo and Ms. Miranda Ho Mo Han.