KANTONE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1059

2014/2015 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover was HK$2,544 million
- Profit for the year was HK$10.7 million
- Impairment charge was HK$48 million
- Adjusted EBITDA (excluding impairment) was HK$540 million
- Profit attributable to owners of the Company was HK$8.9 million
- Earnings per share was HK1.03 cents
- The Group maintains a positive financial position

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 2015 with comparative figures for 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2015

	Notes	**2015** **HK$'000**	2014 HK$'000
Turnover	*2*	**2,544,174**	2,720,286
Cost of sales		**(2,305,007)**	(2,259,357)
Gross profit		**239,167**	460,929
Other income		**8,521**	8,721
Distribution costs		**(32,651)**	(37,927)
General and administrative expenses		**(144,398)**	(147,525)
Impairment losses recognised for development costs for systems and networks		**(10,800)**	(142,000)
Impairment loss recognised for goodwill		**(36,795)**	-
Impairment losses recognised for deposits and prepaid development costs		**-**	(126,474)
Research and development costs expensed		**(9,148)**	(10,349)
Finance costs		**(1,023)**	(615)
Profit before taxation		**12,873**	4,760
Taxation	*4*	**(2,205)**	-
Profit for the year		**10,668**	4,760

	Note	2015 HK$'000	2014 HK$'000
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefits pension plans		**5,141**	1,079
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**5,958**	(9,585)
Other comprehensive income (expense) for the year		**11,099**	(8,506)
Total comprehensive income (expense) for the year		**21,767**	(3,746)
Profit for the year attributable to:			
Owners of the Company		**8,927**	2,148
Non-controlling interests		**1,741**	2,612
		10,668	4,760
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**19,998**	(6,181)
Non-controlling interests		**1,769**	2,435
		21,767	(3,746)
Earnings per share - Basic	6	**HK1.03 cents**	HK0.28 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment		**41,750**	46,284
Development costs for systems and networks		**1,150,367**	1,062,346
Goodwill		**-**	36,795
Deposits and prepaid development costs		**432,510**	-
		1,624,627	1,145,425
Current assets			
Inventories		**20,579**	207,535
Trade and other receivables	7	**1,850,412**	2,024,028
Deposits, bank balances and cash		**196,407**	66,648
		2,067,398	2,298,211
Current liabilities			
Trade and other payables	8	**131,954**	91,741
Warranty provision		**1,074**	1,294
Bank borrowings - amount due within one year		**4,720**	17,283
		137,748	110,318
Net current assets		**1,929,650**	2,187,893
Total assets less current liabilities		**3,554,277**	3,333,318

	2015	2014
	HK$'000	*HK$'000*
Non-current liabilities		
Bank borrowings - amount due after one year	**8,713**	14,348
Retirement benefit obligations	**80,611**	99,227
	89,324	113,575
Net assets	**3,464,953**	3,219,743
Capital and reserves		
Share capital	**986,538**	758,875
Reserves	**2,452,450**	2,436,672
Equity attributable to owners of the Company	**3,438,988**	3,195,547
Non-controlling interests	**25,965**	24,196
	3,464,953	3,219,743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

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 new and revised standards issued by the HKICPA and a new interpretation that are mandatorily effective for accounting periods beginning on 1 July 2014. The adoption of the new and revised standards and interpretation has had no material impact on the Group's financial statements of the Group for the current and prior years.

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:

	2015	2014
	HK$'000	*HK$'000*
Sales of cultural products	**1,424,826**	1,132,279
Sales of systems and related products	**640,039**	783,393
Licensing fees	**296,892**	636,750
Rendering of services	**151,053**	141,101
Leasing of systems products	**31,364**	26,763
	2,544,174	2,720,286

(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, that are regularly reviewed by the executive directors of the Company, for the purpose of allocating resources to segments and assessing their performance. Three operating and reportable segments under HKFRS 8 Operating Segments are identified as follows:

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in the consolidated financial statements. Segment results represent the 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:

	Sales of cultural products *HK$'000*	**Systems sales and licensing** *HK$'000*	**Leasing of systems products** *HK$'000*	**Consolidated** *HK$'000*
Year ended 30 June 2015				
TURNOVER				
External and total revenue	**1,424,826**	**1,087,984**	**31,364**	**2,544,174**
RESULTS				
Segment result	**123,405**	**(108,892)**	**2,631**	**17,144**
Interest income				**3,899**
Finance costs				**(1,023)**
Unallocated expenses, net				**(7,147)**
Profit before taxation				**12,873**
Year ended 30 June 2014				
TURNOVER				
External and total revenue	1,132,279	1,561,244	26,763	2,720,286
RESULTS				
Segment result	51,400	(47,160)	1,387	5,627
Interest income				5,000
Finance costs				(615)
Unallocated expenses, net				(5,252)
Profit before taxation				4,760

Year ended 30 June 2015				
Amounts included in the measure of segment profit or loss:				
Amortisation and depreciation	**-**	**474,951**	**3,305**	**478,256**
Impairment losses recognised for development costs for systems and networks	**-**	**10,800**	**-**	**10,800**
Impairment loss recognised for goodwill	**-**	**36,795**	**-**	**36,795**

	Sales of cultural products *HK$'000*	Systems sales and licensing *HK$'000*	Leasing of systems products *HK$'000*	Consolidated *HK$'000*
Year ended 30 June 2014				
Amounts included in the measure of segment profit or loss:				
Amortisation and depreciation	-	553,320	2,553	555,873
Impairment losses recognised for development costs for systems and networks	-	142,000	-	142,000
Impairment losses recognised for deposits and prepaid development costs	-	126,474	-	126,474
Loss on disposal of property, plant and equipment	-	771	-	771

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**	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
People's Republic of China (the "PRC"), including Hong Kong and Macau	**1,780,420**	1,837,662	**1,153,252**	1,100,885
Europe (mainly United Kingdom and Germany)	**530,688**	624,968	**37,371**	42,810
Others	**233,066**	257,656	**434,004**	1,730
	2,544,174	2,720,286	**1,624,627**	1,145,425

3. Amortisation and depreciation

	2015	2014
	HK$'000	*HK$'000*
Amortisation on development costs for systems and networks, included in cost of sales	**466,473**	543,405
Depreciation of property, plant and equipment, included in general and administrative expenses	**11,783**	12,468
Total amortisation and depreciation	**478,256**	555,873

4. Taxation

	2015	2014
Taxation comprises:	***HK$'000***	*HK$'000*
Enterprise Income Tax in the PRC	**2,205**	-

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Hong Kong Profits Tax is calculated at 16.5% (2014: 16.5%) on the estimated assessable profits derived from Hong Kong. There was no estimated assessable profit for Hong Kong Profits Tax for both years.

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

5. Dividends

	2015	2014
	HK$'000	*HK$'000*
2014 interim dividend paid in scrip form equivalent to HK0.2 cents (2015: nil) per share, with a cash option	**-**	15,133

The Board has resolved not to recommend any final dividend for the year ended 30 June 2015.

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$8,927,000 (2014: HK$2,148,000) and on the weighted average number of shares of 863,038,000 shares (2014 as restated: 754,029,000 shares) in issue. The weighted average numbers of shares for the purpose of calculating the earnings per share have been adjusted for the consolidation of ten shares of HK$0.1 each into one share of HK$1 each of the Company with effect in December 2014.

No diluted earnings per share is presented for the two years ended 30 June 2015 as there were no potential ordinary shares in issue during both years.

7. Trade and other receivables

	2015	2014
	HK$'000	*HK$'000*
Trade receivables	**329,609**	484,222
Advances to suppliers	**1,495,091**	1,495,057
Other receivables	**25,712**	44,749
	1,850,412	2,024,028

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:

	2015	2014
	HK$'000	*HK$'000*
0 - 60 days	**159,280**	301,817
61 - 90 days	**87,741**	52,633
91 - 180 days	**82,588**	129,772
	329,609	484,222

8. Trade and other payables

As at 30 June 2015, the balance of trade and other payables included trade payables of HK$72,107,000 (2014: HK$18,778,000). The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2015	2014
	HK$'000	*HK$'000*
0 - 60 days	**24,137**	18,493
61 - 90 days	**6,439**	-
91 - 180 days	**40,635**	-
> 180 days	**896**	285
	72,107	18,778

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

As a precaution against further economic and financial turbulence, and to strengthen our liquidity position ahead of continuing market uncertainties, the Board does not recommend the payment of any final dividend for the year ended 30 June 2015 (2014: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group's results for the year under review (the "Year") were affected by a combination of factors, which included the weak recovery of the markets where we operated; currency exchange losses in particular due to the weak Euro; suspension of online e-lottery business in Mainland China due to the introduction of new measures by the regulatory authorities; and the unexpected delay in the launch of new projects.

For the Year, the Group's turnover reduced by about 6 percent to HK$2,544 million from HK$2,720 million in the previous year. Profit for the Year rose to HK$10.7 million as compared to HK$4.8 million in the previous year. Profit attributable to owners of the Company was HK$8.9 million as compared to HK$2.1 million in the previous year, and earnings per share was HK1.03 cents (2014: HK0.28 cents).

The reduced turnover was mainly attributable to systems sales and licensing of HK$1,088 million, compared with HK$1,561 million in the previous year. However this was partially compensated by increased sales of cultural products to HK$1,425 million, compared with HK$1,132 million in the previous year. EBITDA was HK$492 million, compared with HK$561 million for the previous year.

Taking account of economic indicators the demand for the Group's products and services are expected to be under continuing pressure. After careful review of the business plans for a number of technology projects, the Board deems it appropriate to reconsider the future cashflows from such projects. In line with prudent financial management, the Group had recognised impairment losses of HK$11 million (2014: HK$142 million) for development costs for systems and networks and HK$37 million (2014: nil) for goodwill arising from the suspension of online e-lottery business in Mainland China. No impairment was considered necessary for deposits and prepaid development costs for systems and networks for the Year (2014: HK$126 million). Excluding the impairment losses, adjusted EBITDA for the Year was HK$540 million, compared with HK$830 million for the previous year.

The Group continues to exercise overall cost control measures. Distribution costs were reduced to HK$32.7 million (2014: HK$37.9 million) in line with the decrease in turnover, while general and administrative expenses remained stable at HK$144 million (2014: HK$148 million). Total staff costs increased to HK$99.3 million (2014: HK$92.7 million) and research and development costs expensed were HK$9.1 million (2014: HK$10.3 million). Amortisation and depreciation expenses dropped to HK$478 million (2014: HK$556 million) with the slowdown in the rolling out of development projects. Finance costs for the Year were HK$1.0 million (2014: HK$0.6 million).

Review of Operations

Mainland China's economy continued to grow at a slower pace, while uncertainties in many of the major markets in Europe persisted, and tight controls continued to be exercised in both public and private sector spending. The downtrend accelerated in early 2015, putting more pressure on the demand for Group products and services. In response to less than favourable market conditions, and to remain competitive, we had to engage in sale of lower margin products to maintain momentum.

In Mainland China, we kept up our marketing and sales activities for customised solutions and products. Our product portfolio embraces a wide range of integrated wireless solutions and web-based monitoring systems mainly designed for remote management and security applications, as well as customised solutions for the trading and promotion of cultural products. Spending cuts by our customers resulted in lower volume of systems sales and licensing income. The reduction was partially compensated by increase in sales of cultural products in response to market demand.

Europe saw a continuing demand for the Group's personal security and unified communications products which are capable of embracing a broad range of communications devices, and are therefore able to command higher gross margins. In the UK, National Health Services and Emergency Services continued to account for the bulk of our business activities. Within the UK, several significant orders were received during the Year, including those from a number of large hospitals in London and the North West of England. Sales in Germany showed modest growth in real terms despite unpopular government reforms which had dampened investor confidence. Across the Eurozone, the Group's market share was maintained, although exchange losses were incurred as a result of the weak Euro.

For e-gaming and online entertainment in Mainland China, Kantone suspended the online sale of paperless lottery since March 2015 pursuant to new regulatory measures which called for self-examination and self-correction on unauthorized lottery sale on the internet. Sales in 2014, before the new measures were introduced, were strong. It is uncertain when our operation in lottery-related business will resume. We will comply with any new rules and regulations promulgated by the relevant PRC regulatory authorities and make adjustments to our business model accordingly. In view of this uncertainty and for the sake of financial prudence, impairment provision of HK$36.8 million for goodwill was made in the Year.

OUTLOOK

According to the latest economic indicators, the U.S. economy is forecast to grow mildly in the coming year, but will continue to show uncertainties due to inflationary pressures and expectation of interest rate hikes. The strengthening U.S. Dollar will continue to plague the economies of the emerging markets and resource-exporting countries, and various factors threaten the economic recoveries in Europe. Above all, the surprise devaluation of the Renminbi in August 2015 sparked fears that Mainland China may face a prolonged slowdown, thus cooling investment sentiment further.

In light of continuing global challenges and the unclear prospects of Mainland China's economy, we are cautious in our business approach in the coming year. We will deploy resources to build on our competitive strengths, and continue a prudent approach in investing in complementary businesses that have growth prospects. We will also embark on a streamlining of operations and realignment of business activities to improve our overall return.

Investment in innovative solutions holds the key to maintaining the Group's momentum amid volatile market conditions. In particular, the Group will pursue sectors which are supported by government policies, including healthcare, innovation and technology, cultural and creative industries, energy conservation and green technologies, smart living, and information-based services for the community and consumers. As and when market conditions improve, the Group will endeavour to shift to higher margin services and market segments.

We are cautious about the prospects of major projects in view of the uncertain economic environment, in particular the Group's In-Car Telematics Solution project which global business plan has already been adversely affected. During this difficult period, the Group will place a strong focus on managing risks and finances, and will take appropriate actions to reduce exposure to projects with uncertain prospects.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Position and Gearing

The Group's financial position remained positive with a low gearing throughout the Year. We financed our operation and business development with internally generated resources, capital markets instruments and banking facilities.

As at 30 June 2015, the Group had HK$196 million (2014: HK$67 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK$2,067 million (2014: HK$2,298 million) and current liabilities amounted to approximately HK$138 million (2014: HK$110 million). With net current assets of HK$1,930 million (2014: HK$2,188 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK$13.4 million (2014: HK$31.6 million) to equity attributable to owners of the Company of HK$3,439 million (2014: HK$3,196 million), was 0.004 (2014: 0.010).

As at 30 June 2015, the Group's total borrowings mainly comprised bank loans of HK$13.4 million (2014: HK$31.6 million), with HK$4.7 million (2014: HK$17.3 million) repayable within one year, HK$4.4 million (2014: HK$4.8 million) repayable in the second year and HK$4.3 million (2014: HK$9.5 million) repayable in the third to fifth year. As at 30 June 2015, bank loans of HK$13.4 million (2014: HK$19.1 million) were secured by the Group's land and buildings with a carrying value of HK$7.9 million (2014: HK$8.8 million). Finance costs for the Year increased to HK$1.0 million (2014: HK$0.6 million).

In December 2014, the Company had consolidated ten existing shares with par value of HK$0.1 each into one share with par value of HK$1 of the Company. After the share consolidation, the Company had 758,875,027 issued shares with par value of HK$1 each.

In January 2015, the Company issued 227,662,506 rights shares of HK$1 each at a subscription price of HK$1 per rights share on the basis of three rights shares for every ten existing shares held. The Company raised approximately HK$223 million (net of expenses) for general working capital of the Group.

Treasury Policy

We are committed to financial prudence and maintain a positive financial position with low gearing. We finance our 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 2015, the Group's capital commitments authorised but not contracted for were approximately HK$28 million (2014: HK$22 million). These commitments were set aside for the acquisition of property, plant and equipment, and development of systems and networks.

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

During the Year, the Company had purchased 6 shares of HK$0.1 each of the Company at the total price of HK$0.516 on the Exchange, which shares were subsequently cancelled. Save as aforesaid, 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 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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, our internal controls and financial reporting matters and the above annual results.

By Order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 18 September 2015

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