KANTONE HOLDINGS LIMITED

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

2015/2016 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue was HK$2,090 million
- Loss for the year was HK$18 million
- Impairment charge was HK$634 million
- Adjusted EBITDA (excluding impairment) was HK$1,120 million
- Loss attributable to owners of the Company was HK$12 million
- Loss per share was HK1.19 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 2016 with comparative figures for 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Revenue	*2*	**2,090,426**	2,544,174
Cost of sales		**(1,374,356)**	(2,305,007)
Gross profit		**716,070**	239,167
Other income, gains and losses		**4,076**	8,521
Gain on disposal of subsidiaries	*9*	**11,773**	-
Distribution costs		**(29,731)**	(32,651)
General and administrative expenses		**(84,043)**	(144,398)
Impairment losses recognised for development costs for systems and networks		**(633,604)**	(10,800)
Impairment loss recognised for goodwill		**-**	(36,795)
Research and development costs expensed		**(1,940)**	(9,148)
Finance costs		**(350)**	(1,023)
(Loss)/profit before taxation		**(17,749)**	12,873
Taxation	*4*	**-**	(2,205)
(Loss)/profit for the year		**(17,749)**	10,668

	Note	2016 HK$'000	2015 HK$'000
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefits pension plans		**5,655**	5,141
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**5,299**	5,958
Item that was reclassified to profit or loss:			
Exchange difference arising on disposal of a subsidiary		**(783)**	-
Other comprehensive income for the year		**10,171**	11,099
Total comprehensive (expense)/income for the year		**(7,578)**	21,767
(Loss)/profit for the year attributable to:			
Owners of the Company		**(11,764)**	8,927
Non-controlling interests		**(5,985)**	1,741
		(17,749)	10,668
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(996)**	19,998
Non-controlling interests		**(6,582)**	1,769
		(7,578)	21,767
(Loss)/earnings per share - Basic and diluted	6	**HK(1.19 cents)**	HK1.03 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**33,406**	41,750
Development costs for systems and networks		**21,694**	1,150,367
Deposits and prepaid development costs		**-**	432,510
		55,100	1,624,627
Current assets			
Inventories		**3,397,308**	20,579
Trade and other receivables	7	**34,282**	1,850,412
Deposits, bank balances and cash		**74,377**	196,407
		3,505,967	2,067,398
Current liabilities			
Trade and other payables	8	**61,040**	131,954
Warranty provision		**1,055**	1,074
Bank borrowings - amount due within one year		**3,677**	4,720
		65,772	137,748
Net current assets		**3,440,195**	1,929,650
Total assets less current liabilities		**3,495,295**	3,554,277

	2016	2015
	HK$'000	*HK$'000*
Non-current liabilities		
Bank borrowings - amount due after one year	**3,677**	8,713
Retirement benefit obligations	**57,821**	80,611
	61,498	89,324
Net assets	**3,433,797**	3,464,953
Capital and reserves		
Share capital	**986,538**	986,538
Reserves	**2,447,259**	2,452,450
Equity attributable to owners of the Company	**3,433,797**	3,438,988
Non-controlling interests	**-**	25,965
	3,433,797	3,464,953

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2016

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 2015. 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. 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, licensing fees and leasing income received and receivable during the year.

The revenue of the Group comprises the following:

	2016	2015
	HK$'000	*HK$'000*
Licensing fees *(Note)*	**927,399**	296,892
Sales of systems and related products	**583,010**	640,039
Sales of cultural products	**522,709**	1,424,826
Leasing of systems products	**25,910**	31,364
Rendering of services	**31,398**	151,053
	2,090,426	2,544,174

Note: On 6 April 2016, the Group entered into agreements with various independent third parties granting them non-exclusive rights to exploit and use the design of the Group's systems and networks where the parties may freely assign, transfer, delegate, sub-contract or sub-license any of their rights by giving notice to the Group. The Group received an aggregated income of HK$792,285,000 (2015: nil) and such income was included in licensing fees income.

(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
- 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 makers, for the purpose of resource allocation and assessment of segment performance.

Information regarding the above segments is reported below:

	Sales of cultural products	**Systems sales and licensing**	**Leasing of systems products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 30 June 2016				
REVENUE				
External and total revenue	**522,709**	**1,541,807**	**25,910**	**2,090,426**
RESULTS				
Segment result	**78,064**	**(98,443)**	**3,511**	**(16,868)**
Interest income				**3,373**
Gain on disposal of subsidiaries				**11,773**
Finance costs				**(350)**
Unallocated expenses, net				**(15,677)**
Loss before taxation				**(17,749)**
Year ended 30 June 2015				
REVENUE				
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 2016				
Amounts included in the measure of segment profit or loss:				
Amortisation and depreciation	**-**	**501,025**	**2,326**	**503,351**
Impairment losses recognised for development costs for systems and networks	**-**	**633,604**	**-**	**633,604**

	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				
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

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**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
People's Republic of China (the "PRC"), including Hong Kong and Macau	**888,695**	1,780,420	**21,715**	1,153,252
Europe (mainly United Kingdom and Germany)	**432,571**	530,688	**31,814**	37,371
Japan	**470,738**	19,110	**-**	432,510
Others	**298,422**	213,956	**1,571**	1,494
	2,090,426	2,544,174	**55,100**	1,624,627

3. Amortisation and depreciation

	2016 ***HK$'000***	2015 *HK$'000*
Amortisation on development costs for systems and networks, included in cost of sales	**492,515**	466,473
Depreciation of property, plant and equipment, included in general and administrative expenses	**10,836**	11,783
Total amortisation and depreciation	**503,351**	478,256

4. Taxation

	2016	2015
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% (2015: 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. 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 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

No dividend was paid or proposed during the year ended 30 June 2016 nor has any dividend been proposed since the end of reporting period (2015: nil).

6. (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the loss for the year attributable to owners of the Company of HK$11,764,000 (2015: profit of HK$8,927,000) and on the weighted average number of shares of 986,538,000 shares (2015: 863,038,000 shares) in issue.

Diluted (loss)/earnings per share for the two years ended 30 June 2016 were the same as the basic (loss)/earnings per share as there were no potential ordinary shares outstanding during both years.

7. Trade and other receivables

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**23,729**	329,609
Advances to suppliers	**-**	1,495,091
Other receivables	**10,553**	25,712
	34,282	1,850,412

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:

	2016	2015
	HK$'000	*HK$'000*
0 - 60 days	**20,669**	159,280
61 - 90 days	**156**	87,741
91 - 180 days	**2,904**	82,588
	23,729	329,609

8. Trade and other payables

As at 30 June 2016, the balance of trade and other payables included trade payables of HK$10,975,000 (2015: HK$72,107,000). The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
0 - 60 days	**10,975**	24,137
61 - 90 days	**-**	6,439
91 - 180 days	**-**	40,635
> 180 days	**-**	896
	10,975	72,107

The credit period for purchases of goods ranged from 30 days to 60 days. Other payables mainly represent receipt in advance and accruals.

9. Gain on disposal of subsidiaries

On 20 April 2016, the Group agreed to dispose of its entire interest in Shenzhen Helper Science Development Company Limited ("Shenzhen Helper") to an independent third party for a consideration of RMB9,170,000 (equivalent to HK$11,076,000), satisfied by the transfer of shares of Aspire Management Limited ("AML") at a value of RMB5,340,000 (equivalent to HK$6,450,000) and cash of RMB3,830,000 (equivalent to HK$4,626,000). The completion date of the disposal was 27 April 2016.

As at 27 April 2016, the carrying amount of net assets of Shenzhen Helper was as follows:

	HK$'000
Property, plant and equipment	2,015
Development costs for systems & networks	2,371
Trade and other receivables	13,084
Deposits, bank balances and cash	3,119
Other payables	(4,791)
Net assets disposed of	**15,798**
Cash consideration	4,626
Consideration satisfied by shares of AML	6,450
Release of translation reserve	(783)
Net assets disposed of	(15,798)
Non-controlling interest	17,128
Gain on disposal of subsidiaries	**11,623**
Cash consideration	4,626
Bank balances and cash disposed of	(3,119)
Net cash inflow arising on disposal	**1,507**

As at 27 April 2016, there was an amount of HK$27,184,000 due to Shenzhen Helper by the Group which had been eliminated in the Group's consolidated financial statements. Such amount was waived upon disposal of SZ Helper and the gain was included in the gain on disposal of subsidiaries above.

On 28 June 2016, the Group disposed of Good Holdings Limited ("GHL") and Peak Vantage Limited ("PVL") to an independent third party for cash considerations of HK$100,000 and HK$50,000 respectively. As at 28 June 2016, the carrying amount of net assets of each of GHL and PVL was nil. The net gain on disposal of these subsidiaries was HK$150,000. The net cash inflow arising on disposal of these subsidiaries was HK$150,000.

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 2016 (2015: 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 soft demands of the markets in which we operate; weak currencies in the European countries; the suspension of online e-lottery business in Mainland China due to the introduction of new measures by the regulatory authorities; and the delay in the launch of new projects.

For the Year, the Group's revenue reduced by 18 percent to HK$2,090 million from HK$2,544 million in the previous year. Loss for the Year was HK$17.7 million, compared with a profit of HK$10.7 million for the last year. Loss attributable to owners of the Company was HK$11.8 million, compared with a profit attributable to owners of the Company of HK$8.9 million in last year. Loss per share was HK1.19 cents (2015: earnings per share of HK1.03 cents). EBITDA was HK$486 million for the Year, compared with HK$492 million for the previous year.

The reduced revenue was mainly attributed to the decrease in sales of cultural products to HK$523 million for the Year from HK$1,425 million of last year, a significant drop of 63 percent due to the limited supply of cultural products. However, this was compensated by 212 percent increase in licensing fees to HK$927 million from HK$297 million of last year, mainly attributable to a total consideration of HK$792 million in return for the grant of rights to market the Group's systems and networks.

In view of the uncertainties in the global economy and business environments, the Group has recognised further impairment losses on development costs for systems and networks of HK$634 million (2015: HK$11 million). Excluding the impairment losses, adjusted EBITDA for the Year increased to HK$1,120 million, from HK$540 million for the previous year.

The Group continues to exercise stringent cost control measures. Distribution costs were reduced to HK$30 million (2015: HK$33 million) in line with the decrease in revenue, while general and administrative expenses decreased 42 percent to HK$84 million (2015: HK$144 million) due to reduction in expenses for cultural business. In line with China's national policy to support culture industry, it was our business realignment plan to scale down our investment in systems products and to deploy more resources on further investment in our culture-related business. Both staff costs and research and development costs expensed decreased to HK$95 million (2015: HK$99 million) and HK$2 million (2015: HK$9 million) respectively. Amortisation and depreciation costs increased 5 percent to HK$503 million (2015: HK$478 million) due to an increase in amortisation on development costs for systems and networks of HK$87 million resulting from the changes in estimated useful lives of certain projects, despite the absence of new project roll-out in the Year. Finance costs for the Year were HK$0.4 million (2015: HK$1.0 million).

Review of Operations

The global economic environment remained sluggish, with Mainland China recording its slowest pace of growth in a quarter of a century as it grappled with the difficult transition to consumer-led expansion. In the markets in which the Group operated, tight controls continued to be exercised in both public and private sector spending, thereby putting more pressure on the demand for the Group's products and services.

A number of the Group's investments were affected by the uncertain economic environment around the world. To address market challenges and to strengthen our foundation, the Group looked into different options of business realignment plans with the aim of improving the overall return. As part of the realignment, some investment projects were divested, while others were revamped, in order to focus on business activities with a higher long-term value. More resources were deployed on further investment in our culture-related business.

In order to relieve the financial pressures arising from continuous capital expenditure on technology project developments, we have revised our mode of operation by granting rights to third parties to market our systems and networks.

In Mainland China, we continued our marketing and sales activities for customised solutions and products, including those for the sales of cultural products. Spending cuts by our customers and weak investment sentiment resulted in lower volume of sales.

In Europe, we maintained our market share in the public sector, which was supported by continued spending within the healthcare and emergency services sectors. However, the weak Euro and the sharp drop in the British Pound towards the end of the financial year have put increasing pressure on our production costs as components sourced by the Group are primarily priced in US dollars. Weak economic conditions also resulted in customer contracts of reduced length as customers evaluated new technologies and were reluctant to commit. In the UK, Kantone completed the full changeout of the largest metropolitan Fire & Rescue Service in London during the Year. Several competitive tender wins in the Fire sector including the Southern Ireland Fire Services have also positioned Kantone well for the coming year. In Germany, the launch of a new personal security system, EkoSecure, has seen good growth as it replaced a third-party product, resulting in improved margins in this sector.

To maintain competitiveness, we continued to focus our development resources on providing customers with critical messaging solutions in niche markets such as healthcare, fire, lone worker or general business applications. The trend to provide more software based solutions has enabled Kantone to bring new products to market in a shorter timescale at improved margins. The greater use of software applications also allows Kantone to be more flexible and quicker to react to niche opportunities.

OUTLOOK

In light of continuing global uncertainties and the unclear prospects of China's economy, we remain cautious in our approach in the coming year. We will deploy resources to build on our competitive strengths, and continue our prudent approach in investing in complementary businesses that show good growth prospects, and pursue sectors which are supported by government policies, including healthcare, innovation and technology, cyber security, cultural and creative industries, smart living and information-based services for the community and consumers.

In particular, we have in recent years expanded our culture-related businesses, building on our long-standing experience in sponsoring and supporting various national and international cultural events in Hong Kong and overseas. Leveraging on such strong cultural business background, and in line with China's national policy to support culture industry, the Group will make further investment in our culture-related business, including but not limited to the development of an online marketplace for art collectibles and culture-related activities as well as engaging in cross border e-commerce. We aim to focus on selecting exquisite and rare artworks which have great appreciation potential. In line with that strategy, we will adjust our inventory to capture the appreciation potential. The directors believe that such expansion may take advantage of the market's growing interest in cultural products as a result of China's Belt and Road Initiative, which aims to connect Eurasian economies through infrastructure, trade, and investment.

Barring any further unforeseen material adverse external developments, the directors are cautiously optimistic about the Group's prospects in the coming year.

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 2016, the Group had HK$74 million (2015: HK$196 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK$3,506 million (2015: HK$2,067 million) and current liabilities amounted to approximately HK$66 million (2015: HK$138 million). With net current assets of HK$3,440 million (2015: HK$1,930 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK$7.4 million (2015: HK$13.4 million) to equity attributable to owners of the Company of HK$3,434 million (2015: HK$3,439 million), was 0.002 (2015: 0.004).

As at 30 June 2016, the Group's total borrowings comprised bank loans of HK$7.4 million (2015: HK$13.4 million), with HK$3.7 million repayable within one year and HK$3.7 million repayable in the second year (2015: HK$4.7 million repayable within one year, HK$4.4 million repayable in the second year and HK$4.3 million repayable in the third to fifth year). Finance costs for the Year decreased to HK$0.4 million (2015: HK$1.0 million).

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 2016, the Group's capital commitments authorised but not contracted for were approximately HK$10 million (2015: HK$28 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, 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.

SCOPE OF WORK PERFORMED BY AUDITOR

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 30 June 2016 have been compared by the Company's auditor, Moore Stephens CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Moore Stephens CPA Limited in this respect did not constitute an audit, review or other 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 the auditor.

By Order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 28 September 2016

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.