KANTONE HOLDINGS LIMITED

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

2008/2009 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Group turnover HK$663 million
- Profit for the period HK$120 million
- Profit attributable to equity holders HK$122 million
- Adjusted profit (before impairment) HK$161 million
- Adjusted EBITDA (excluding impairment) HK$315 million
- Adjusted earnings per share (excluding impairment) HK4.36 cents
- Interim dividend of HK0.25 cents per share
- Positive financial position with net cash; no speculative derivatives or structured product transactions

The board of directors of Kantone Holdings Limited (the "Company" or "Kantone") announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2008 (the "Period") with the comparative unaudited figures for the corresponding period in 2007 (the "Previous Period") as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 31December 2008

		Six months ended 31 December	
		2008	2007
	Notes	***HK$'000***	*HK$'000*
Turnover	*2*	**662,693**	786,816
Cost of sales		**(442,787)**	(478,862)
Gross profit		**219,906**	307,954
Other income		**13,550**	5,803
Distribution costs		**(20,746)**	(25,244)
General and administrative expenses		**(50,618)**	(53,448)
Impairment losses recognised for available-for-sale investments		**-**	(16,526)
Impairment losses recognised for deposits and prepaid development costs		**(40,560)**	-
Loss on fair value change of convertible bonds		**-**	(3,108)
Finance costs		**(1,117)**	(2,286)
Profit before taxation		**120,415**	213,145
Taxation	*4*	**62**	-
Profit for the period		**120,477**	213,145
Attributable to:			
Equity holders of the Company		**122,302**	214,013
Minority interests		**(1,825)**	(868)
		120,477	213,145
Earnings per share	*5*		
- Basic		**HK3.27 cents**	HK6.62 cents
- Diluted		**N/A**	HK6.56 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	**As at 31 December 2008 HK$'000 (Unaudited)**	As at 30 June 2008 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*7*	**28,728**	37,101
Development costs for systems and networks		**1,076,638**	961,980
Goodwill		**36,795**	36,795
Intangible assets		**4,130**	5,310
Available-for-sale investments		**189,273**	225,631
Interest in an associate		**49,998**	-
Deposits and prepaid development costs		**979,462**	752,700
		2,365,024	2,019,517
Current assets			
Inventories		**22,517**	24,351
Trade and other receivables	*8*	**467,675**	395,670
Taxation recoverable		**16**	29
Deposits, bank balances and cash		**121,158**	105,896
		611,366	525,946
Current liabilities			
Trade and other payables	*9*	**51,595**	105,229
Warranty provision		**1,415**	2,136
Amount due to ultimate holding company		**-**	47
Taxation payable		**1,777**	2,009
Bank borrowings - amount due within one year		**3,086**	5,313
Other borrowings - amount due within one year		**147**	489
		58,020	115,223
Net current assets		**553,346**	410,723
Total assets less current liabilities		**2,918,370**	2,430,240
Non-current liabilities			
Bank borrowings - amount due after one year		**34,398**	48,952
Other borrowings - amount due after one year		**-**	193
Retirement benefit obligations		**62,785**	92,283
Deferred taxation		**149**	157
		97,332	141,585
Net assets		**2,821,038**	2,288,655
Capital and reserves			
Share capital		**403,117**	341,106
Reserves		**2,410,282**	1,938,049
Equity attributable to equity holders of the Company		**2,813,399**	2,279,155
Minority interests		**7,639**	9,500
		2,821,038	2,288,655

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Dividend reserve**	**Subscription right reserve**	**Translation reserve**	**Retained profits**	**Total**	**Minority interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2007	319,993	414,083	79,998	4,639	(16,879)	1,322,690	2,124,524	14,889	2,139,413
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	2,199	-	2,199	358	2,557
Profit for the period	-	-	-	-	-	214,013	214,013	(868)	213,145
Total recognised income and expense for the period	-	-	-	-	2,199	214,013	216,212	(510)	215,702
On exercise of subscription rights	500	1,726	-	(304)	-	-	1,922	-	1,922
On conversion of convertible bonds	4,659	32,692	-	-	-	-	37,351	-	37,351
Interim dividend	-	-	43,896	-	-	(43,896)	-	-	-
	5,159	34,418	43,896	(304)	-	(43,896)	39,273	-	39,273
At 31 December 2007	325,152	448,501	123,894	4,335	(14,680)	1,492,807	2,380,009	14,379	2,394,388
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	557	-	557	299	856
Loss for the period	-	-	-	-	-	(71,003)	(71,003)	(5,178)	(76,181)
Total recognised income and expense for the period	-	-	-	-	557	(71,003)	(70,446)	(4,879)	(75,325)
On exercise of subscription rights	3,044	10,662	-	(2,006)	-	-	11,700	-	11,700
Lapse of subscription rights	-	-	-	(2,329)	-	2,329	-	-	-
On exercise of warrants	28	202	-	-	-	-	230	-	230
Dividends for the period									
- underprovision	-	-	1,290	-	-	(1,290)	-	-	-
- interim	-	-	1,420	-	-	(1,420)	-	-	-
- final	-	-	5,117	-	-	(5,117)	-	-	-
Dividends paid	-	-	(42,338)	-	-	-	(42,338)	-	(42,338)
On issue of shares as scrip dividend	12,882	71,384	(84,266)	-	-	-	-	-	-
	15,954	82,248	(118,777)	(4,335)	-	(5,498)	(30,408)	-	(30,408)
At 30 June 2008	341,106	530,749	5,117	-	(14,123)	1,416,306	2,279,155	9,500	2,288,655
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	21,251	-	21,251	(36)	21,215
Profit for the period	-	-	-	-	-	122,302	122,302	(1,825)	120,477
Total recognised income and expense for the period	-	-	-	-	21,251	122,302	143,553	(1,861)	141,692
On exercise of warrants	11	80	-	-	-	-	91	-	91
On issue of shares as consideration for acquisition of subsidiaries	62,000	328,600	-	-	-	-	390,600	-	390,600
Interim dividend	-	-	10,078	-	-	(10,078)	-	-	-
	62,011	328,680	10,078	-	-	(10,078)	390,691	-	390,691
At 31 December 2008	**403,117**	**859,429**	**15,195**	**-**	**7,128**	**1,528,530**	**2,813,399**	**7,639**	**2,821,038**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 December 2008

	Six months ended 31 December	
	2008	2007
	HK$'000	*HK$'000*
Net cash from operating activities	**170,143**	306,027
Net cash used in investing activities	**(144,202)**	(286,797)
Net cash (used in) from financing activities	**(3,037)**	88
Net increase in cash and cash equivalents	**22,904**	19,318
Cash and cash equivalents at the beginning of the period	**105,896**	100,099
Effect of foreign exchange rate changes	**(7,642)**	(110)
Cash and cash equivalents at the end of the period	**121,158**	119,307
Represented by:		
Deposits, bank balances and cash	**121,158**	127,694
Bank overdrafts	**-**	(8,387)
	121,158	119,307

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2008

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited condensed consolidated financial statements have been prepared on historical cost basis except for certain financial instruments, which are measured at fair values. The accounting policies adopted in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30 June 2008.

The HKICPA has issued a number of new/revised Hong Kong Financial Reporting Standards, HKASs, Amendments and Interpretations that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted the Amendments and Interpretations that are mandatory for the financial year ending 30 June 2009. The adoption of these Amendments and Interpretations has no significant impact on the Group's results and financial position.

2. Turnover and segment information

For management purposes, the Group is currently organised into five main operating businesses – sales of general systems products, provision of services (including software customisation and provision of e-lottery services) and software licensing, leasing of systems products, investments in e-commerce projects and holding strategic investments in advanced technology product development companies. These businesses are the basis on which the Group reports its primary segment information.

	Sales of general systems products	Provision of services and software licensing	Leasing of systems products	Investments in e-commerce projects	Strategic investments	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 31 December 2008						
TURNOVER						
External and total revenue	**386,708**	**256,614**	**10,890**	**521**	**7,960**	**662,693**
RESULTS						
Segment result	**18,245**	**96,080**	**3,443**	**495**	**7,562**	**125,825**
Interest income						**3,242**
Finance costs						**(1,117)**
Unallocated corporate expenses, net						**(7,535)**
Profit before taxation						**120,415**
Taxation						**62**
Profit for the period						**120,477**
Six months ended 31 December 2007						
TURNOVER						
External and total revenue	379,277	389,743	5,264	1,664	10,868	786,816
RESULTS						
Segment result	52,380	170,163	2,099	1,595	(6,110)	220,127
Interest income						4,600
Loss on fair value change of convertible bonds						(3,108)
Finance costs						(2,286)
Unallocated corporate expenses, net						(6,188)
Profit before taxation						213,145
Taxation						-
Profit for the period						213,145

3. Depreciation and amortisation

	Six months ended 31 December	
	2008	2007
	HK$'000	*HK$'000*
Amortisation on:		
Development costs for systems and networks, included in cost of sales	**148,194**	132,892
Intangibles assets, included in general and administrative expenses	**1,180**	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	**3,923**	5,431
Total depreciation and amortisation	**153,297**	139,503

4. Taxation

	Six months ended 31 December	
	2008	2007
	HK$'000	*HK$'000*
The charge comprises:		
Taxation in other jurisdictions		
- current year	**-**	-
- overprovision in prior year	**62**	**-**
	62	**-**

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) 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 or not subject to taxation in any other jurisdictions.

5. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 31 December	
	2008	2007
	HK$'000	*HK$'000*
Earnings attributable to equity holders of the Company for the purpose of calculating basic and diluted earnings per share	**122,302**	214,013
	Number of shares *('000)*	
Weighted average number of shares for the purpose of calculating basic earnings per share	**3,737,977**	3,231,063
Effect of dilutive potential ordinary shares: Subscription rights attached to convertible bonds		31,121
Weighted average number of shares for the purpose of calculating diluted earnings per share		3,262,184

No diluted earnings per share is presented in respect of warrants in both periods as their respective exercise prices were higher than the average market prices of shares of the Company.

6. Dividend

	Six months ended 31 December	
	2008	2007
	HK$'000	*HK$'000*
Interim dividend proposed in scrip form equivalent to HK0.25 cents (2007: HK1.35 cents) per share, with a cash option	**10,078**	43,896

The proposed interim dividend is calculated on the basis of 4,031,171,853 shares in issue on 31 December 2008.

7. Property, plant and equipment

	Amount
	HK$'000
Net book value at 1 July 2008	37,101
Currency realignment	(8,439)
Additions	4,020
Disposals	(31)
Depreciation	(3,923)
Net book value at 31 December 2008	**28,728**

At 31 December 2008, certain land and buildings of the Group with a net book value of HK$9,286,000 (30 June 2008: HK$12,636,000) were pledged to a bank as security for banking facilities granted to the Group. Loss on disposal of property, plant and equipment of the Group amounted to HK$23,000 for the Period.

8. Trade and other receivables

	As at 31 December 2008 HK$'000 (Unaudited)	As at 30 June 2008 HK$'000 (Audited)
Trade receivables	**296,275**	248,302
Guaranteed distribution receivables	**44,838**	43,672
Advance to supplies and other receivables	**126,562**	103,696
	467,675	395,670

The Group maintains a well-defined credit policy regarding its trade customers dependent on their credit worthiness, nature of services and products, industry practice and condition of the market with credit period ranging from 30 to 180 days. The aged analysis of trade receivables at the reporting date is as follows:

	As at 31 December 2008 HK$'000 (Unaudited)	As at 30 June 2008 HK$'000 (Audited)
0-60 days	**97,861**	200,344
61-90 days	**75,224**	38,392
91-120 days	**108,247**	-
121-180 days	**11,972**	7,535
> 180 days	**2,971**	2,031
	296,275	248,302

9. Trade and other payables

As at 31 December 2008, the balance of trade and other payables included trade payables of HK$19,587,000 (30 June 2008: HK$28,748,000). The aged analysis of trade payables at the reporting date is as follows:

	As at 31 December 2008 HK$'000 (Unaudited)	As at 30 June 2008 HK$'000 (Audited)
0-60 days	**16,290**	5,591
61-90 days	**234**	9,422
91-180 days	**-**	10,794
> 180 days	**3,063**	2,941
	19,587	28,748

10. Operating lease arrangements

The Group as lessee

At the balance sheet date, the Group had future minimum lease payments payable under non-cancellable operating leases in respect of rented premises and motor vehicles which fall due as follows:

	As at 31 December 2008		As at 30 June 2008	
	Land and buildings *HK$'000* **(Unaudited)**	**Motor vehicles** *HK$'000* **(Unaudited)**	Land and buildings *HK$'000* (Audited)	Motor vehicles *HK$'000* (Audited)
Within one year	**885**	**2,457**	979	3,432
In the second to fourth year inclusive	**3,280**	**3,016**	4,141	3,592
	4,165	**5,473**	5,120	7,024

Leases are negotiated for terms of one to four years and rentals are fixed for terms of one to three years.

The Group as lessor

At the balance sheet date, the Group contracted with tenants in respect of leasing of plant and machinery and telecommunications networks which fall due as follows:

	As at 31 December 2008	As at 30 June 2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one year	**717**	1,960
In the second to fifth year inclusive	**19,740**	29,842
After five years	**3,920**	7,211
	24,377	39,013

INTERIM DIVIDEND AND SCRIP DIVIDEND SCHEME

The board of directors has resolved to pay an interim dividend of HK0.25 cents per share for the Period (2007: HK1.35 cents per share) to shareholders whose names appear on the register of members of the Company on 16 April 2009. The interim 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 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 12 June 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 April 2009 to 16 April 2009, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the above interim 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 14 April 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

The Period saw the continued softening of the global economy, and with the unfolding of further crises in the financial and industrial sectors, business climate rapidly deteriorated towards the last quarter. The Group's business remained strong for the first three months but was hit by slowdown in project implementation for the rest of the Period amid a marked weakening of the economy.

Financial Results

For the Period, the Group recorded a sixteen percent decline in turnover to HK$663 million, compared with HK$787 million for the Previous Period. Profit for the Period was HK$120 million, a decrease of forty-four percent, and profit attributable to equity holders was HK$122 million compared with HK$214 million for the Previous Period. Earnings per share for the Period was HK3.27 cents, compared with HK6.62 cents for the Previous Period. Profit was affected by a decrease in turnover and profit margins as a result of delays in project implementation. Impairment losses of HK$41 million recognised for deposits and prepaid development costs for systems and networks also impacted negatively on profit. Such provisions reflected prevailing market conditions and a prudent and conservative assessment of the investments and assets concerned. Excluding the impairment losses, adjusted profit for the Period was HK$161 million, and adjusted profit attributable to equity holders was HK$163 million, compared with HK$230 million and HK$231 million respectively of the Previous Period.

Total operating expenses remained stable as the Group continued to review and implement measures to control costs. Distribution costs decreased to HK$20.7 million (2007: HK$25.2 million) in line with the drop in turnover. General and administrative expenses were reduced to HK$50.6 million (2007: HK$53.4 million). Depreciation and amortisation expenses went up modestly to HK$153 million (2007: HK$140 million) as a result of the continued roll-out of new projects.

Finance costs for the Period were further reduced to HK$1.1 million compared with HK$2.3 million for the Previous Period, as total borrowings were reduced from HK$55 million to HK$38 million.

The Group's financial position remains positive with net cash, and it does not engage in any speculative derivatives or structured product transactions.

Review of Operations

In China, the Group has benefited from the Central Government's backing of the IT and telecommunications sector as a core industry under its stimulus package to boost growth and ward off the global slump. Sales and marketing activities for Kantone's customised solutions and products continued. IT expenditure in key verticals such as government, education, and telecoms remained stable. In response to the opening up of new generation wireless networks and new and increasing demand for a broad range of IT and communications solutions across a number of different public and business sectors, the Group has expanded its product portfolio to embrace a comprehensive range of integrated wireless solutions and web-based monitoring systems designed for remote management and security applications. For the Period, China sales fell by fourteen percent to HK$423 million, compared with HK$490 million for the Previous Period, as a result of global slowdown in business activities across the board.

In Europe, the Group's sales and marketing activities in emergency services, fire control projects, as well as NHS (National Health Services) projects in the United Kingdom ("UK") continued. Several new contracts for the supply of Lone Worker and Personal Security solutions to hospitals in the UK have been secured. With the exception of Germany, which had seen a minor slowdown, the global financial crunch did not yet have a significant impact on the Group's sales performance in Europe for the Period. However continued delay in government contracts as a result of key vendors falling behind in systems delivery and installation have led to the European operation falling behind budget. Notwithstanding the difficulties, Kantone remained well-positioned to secure new long-term contracts, especially in the arena of fire services, personal security and marine coast guard security. Turnover of European operations fell fourteen percent to HK$189 million, compared with HK$220 million for the Previous Period, partly attributable to the softening of the Euro and the Pound Sterling.

For e-gaming and online entertainment, Kantone continued to invest in the enhancement of integrated gaming technology solutions, online payment channels and sales network. These investments were subject to review periodically to determine if progress was in line with the original plan and if the anticipated benefits could be achieved. Where required, impairment provisions at appropriate level would be made.

OUTLOOK

Against unprecedented economic and market uncertainties that are likely to persist for a period, the outlook for the remainder of the financial year is difficult to predict. The Group will remain vigilant and adopt a conservative approach in rolling out its business plans. Cost reduction and control measures will continue to be exercised.

Management remains optimistic about China's economy in the long term, especially with the stimulus package announced by the Central Government which provides strong support to infrastructure projects such as the IT and telecommunications sector. With a positive financial position and niche technologies, hopefully the Group will take in stride the ongoing global economic crisis, and to pursue new investments with a promising future as and when opportunities present themselves.

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 Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company was aware of any information which would reasonably indicate that the Company was not in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Exchange (the "Listing Rules") at any time during the Period.

AUDIT COMMITTEE

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

By Order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 23 March 2009

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