KANTONE HOLDINGS LIMITED

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

2008/2009 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover was HK$1,300 million
- Profit for the year was HK$68.3 million
- Profit attributable to equity holders was HK$71.1 million
- Adjusted profit (excluding impairment) was HK$265 million
- Adjusted EBITDA (excluding impairment) was HK$602 million
- Adjusted earnings per share (excluding impairment) was HK6.09 cents; reported earnings per share was HK1.61 cents
- Proposed final dividend of HK0.15 cents per share
- The Group maintains a positive financial position, with the completion of a one-for-four rights issue in May

The board of directors 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 2009 with comparative figures for 2008 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2009

	Notes	**2009**	2008
		HK$'000	*HK$'000*
Turnover	*3*	**1,299,684**	1,613,048
Cost of sales		**(903,496)**	(965,712)
Gross profit		**396,188**	647,336
Other income		**8,718**	13,110
Distribution costs		**(42,300)**	(48,149)
General and administrative expenses		**(92,255)**	(134,355)
Impairment losses recognised for available-for-sale investments		**(56,014)**	(16,527)
Impairment losses recognised for development costs for systems and networks		**(100,425)**	(229,125)
Impairment losses recognised for deposits and prepaid development costs		**(40,560)**	(86,970)
Loss on fair value change of convertible bonds		**-**	(2,282)
Finance costs		**(3,983)**	(4,232)
Profit before taxation		**69,369**	138,806
Taxation	*5*	**(1,062)**	(1,842)
Profit for the year		**68,307**	136,964
Attributable to:			
Equity holders of the Company		**71,068**	143,010
Minority interests		**(2,761)**	(6,046)
		68,307	136,964
Earnings per share	*7*		
- Basic		**HK1.61 cents**	HK3.99 cents
- Diluted		**HK1.61 cents**	HK3.95 cents

CONSOLIDATED BALANCE SHEET

At 30 June 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment		**34,835**	37,101
Development costs for systems and networks		**1,094,033**	961,980
Goodwill		**36,795**	36,795
Intangible assets		**2,950**	5,310
Available-for-sale investments		**95,084**	225,631
Deposits and prepaid development costs		**1,062,892**	752,700
		2,326,589	2,019,517
Current assets			
Inventories		**24,541**	24,351
Trade and other receivables	*8*	**505,545**	395,670
Taxation recoverable		**25**	29
Deposits, bank balances and cash		**138,340**	105,896
		668,451	525,946
Current liabilities			
Trade and other payables	*9*	**85,276**	105,229
Warranty provision		**1,513**	2,136
Amount due to ultimate holding company		**-**	47
Taxation payable		**1,051**	2,009
Bank borrowings - amount due within one year		**3,043**	5,313
Other borrowings - amount due within one year		**176**	489
		91,059	115,223
Net current assets		**577,392**	410,723
Total assets less current liabilities		**2,903,981**	2,430,240
Non-current liabilities			
Bank borrowings - amount due after one year		**37,026**	48,952
Other borrowings - amount due after one year		**-**	193
Retirement benefit obligations		**71,289**	92,283
Deferred taxation		**143**	157
		108,458	141,585
Net assets		**2,795,523**	2,288,655
Capital and reserves			
Share capital		**514,212**	341,106
Reserves		**2,275,165**	1,938,049
Equity attributable to equity holders of the Company		**2,789,377**	2,279,155
Minority interests		**6,146**	9,500
		2,795,523	2,288,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2009

1. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

2. Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied a number of new and revised HKFRSs, Hong Kong Accounting Standards, amendments and interpretations (collectively referred to as "new HKFRSs") issued by the HKICPA which are or have become effective.

The adoption of the new HKFRSs has no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. Turnover and segment information

Turnover represents the net amounts received and receivable for goods sold and services provided by the Group to outside customers, licensing fees received and receivable and distributions/dividends received and receivable from the Group's investments in e-commerce projects and strategic investments during the year.

(a) Business segments

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 *HK$'000*	**Provision of services and software licensing** *HK$'000*	**Leasing of systems products** *HK$'000*	**Investments in e-commerce projects** *HK$'000*	**Strategic investments** *HK$'000*	**Consolidated** *HK$'000*
Year ended 30 June 2009						
TURNOVER						
External and total revenue	**714,182**	**549,165**	**21,193**	**787**	**14,357**	**1,299,684**
RESULTS						
Segment result	**41,984**	**75,979**	**2,605**	**746**	**(42,409)**	**78,905**
Interest income						**5,933**
Finance costs						**(3,983)**
Unallocated corporate expenses, net						**(11,486)**
Profit before taxation						**69,369**
Taxation						**(1,062)**
Profit for the year						**68,307**

	Sales of general systems products *HK$'000*	Provision of services and software licensing *HK$'000*	Leasing of systems products *HK$'000*	Investments in e-commerce projects *HK$'000*	Strategic investments *HK$'000*	Consolidated *HK$'000*
Year ended 30 June 2008						
TURNOVER						
External and total revenue	928,681	651,121	10,158	2,770	20,318	1,613,048
RESULTS						
Segment result	33,859	115,763	4,993	1,723	3,791	160,129
Interest income						8,546
Loss on fair value change of convertible bonds						(2,282)
Finance costs						(4,232)
Unallocated corporate expenses, net						(23,355)
Profit before taxation						138,806
Taxation						(1,842)
Profit for the year						136,964

(b) Geographical segments

The following table provides an analysis of the Group's revenue by geographical market, by location of customers, irrespective of the origin of the goods/services:

	2009 ***HK$'000***	2008 *HK$'000*
People's Republic of China, including Hong Kong and Macau	**836,269**	1,023,107
Europe	**354,233**	450,954
Others	**109,182**	138,987
	1,299,684	1,613,048

4. Depreciation and amortisation

	2009 ***HK$'000***	2008 *HK$'000*
Amortisation on:		
Development costs for systems and networks, included in cost of sales	**321,725**	269,895
Intangibles assets, included in general and administrative expenses	**2,360**	2,360
Depreciation of property, plant and equipment, included in general and administrative expenses	**7,187**	9,961
Total depreciation and amortisation	**331,272**	282,216

5. Taxation

	2009 ***HK$'000***	2008 *HK$'000*
The charge comprises:		
Taxation in other jurisdictions		
- current year	**1,062**	2,015
- overprovision in prior years	**-**	(173)
	1,062	1,842

Hong Kong Profits Tax is calculated at 16.5% (2008: 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 or not subject to taxation in any other jurisdictions.

6. Dividends

	2009	2008
	HK$'000	*HK$'000*
Final dividend proposed in scrip form equivalent to HK0.15 cents (2008: HK0.15 cents) per share, with a cash option	**7,713**	5,117
Interim dividend paid in scrip form equivalent to HK0.25 cents (2008: HK1.35 cents) per share, with a cash option	**10,148**	45,316
Underprovision in prior year	**930**	1,290
	18,791	51,723

The proposed final dividend for 2009 is calculated on the basis of 5,142,120,870 shares in issue on 30 June 2009.

7. Earnings per share

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

	2009	2008
	HK$'000	*HK$'000*
Earnings attributable to equity holders of the Company for the purpose of calculating basic and diluted earnings per share	**71,068**	143,010

	Number of shares *('000)*	
	2009	2008
Weighted average number of shares for the purpose of calculating basic earnings per share	**4,405,134**	3,586,096
Effect of dilutive potential ordinary shares:		
Subscription rights attached to convertible bonds	**N/A**	29,979
Weighted average number of shares for the purpose of calculating diluted earnings per share	**4,405,134**	3,616,075

The computation of diluted earnings per share for the year ended 30 June 2008 does not assume the conversion of the convertible bonds as the conversion of convertible bonds would result in an increase in earnings per share.

The computation of diluted earnings per share for both years does not assume the exercise of warrants in both years as their respective exercise prices were higher than the average market prices of shares of the Company.

The weighted average number of shares for the purpose of calculating the basic earnings per share has been adjusted for the rights issue of the Company completed in May 2009 on the basis of one rights share for every four existing issued shares.

8. Trade and other receivables

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**339,130**	248,302
Guaranteed distribution receivables	**44,838**	43,672
Advance to suppliers and other receivables	**121,577**	103,696
	505,545	395,670

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 to 180 days. The guaranteed distribution receivables, advances to suppliers and other receivables are unsecured, non-interest bearing and repayable on demand. The aged analysis of trade receivables at the reporting date is as follows:

	2009	2008
	HK$'000	*HK$'000*
0-60 days	**176,575**	200,344
61-90 days	**106,104**	38,392
91-180 days	**51,326**	7,535
> 180 days	**5,125**	2,031
	339,130	248,302

9. Trade and other payables

As at 30 June 2009, the balance of trade and other payables included trade payables of HK$10,712,000 (2008: HK$28,748,000). The aged analysis of trade payables at the reporting date is as follows:

	2009	2008
	HK$'000	*HK$'000*
0-60 days	**8,029**	5,591
61-90 days	**775**	9,422
91-180 days	**874**	10,794
> 180 days	**1,034**	2,941
	10,712	28,748

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

FINAL DIVIDEND AND SCRIP DIVIDEND SCHEME

Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the directors have proposed a final dividend of HK0.15 cents per share for the year ended 30 June 2009 (2008: HK0.15 cents per share) to shareholders whose names appear on the register of members of the Company on 27 November 2009. Taking into account the interim dividend of HK0.25 cents per share paid on 12 June 2009, total dividend per share would be HK0.40 cents (2008: HK1.50 cents); and total dividend for the year would be HK$18.8 million, compared with HK$51.7 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 22 January 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 25 November 2009 to 27 November 2009, 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 24 November 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the year under review (the "Year"), the Group recorded a 19 percent decline in turnover to HK$1,300 million, compared with HK$1,613 million for the previous year (the "Previous Year"). Profit for the Year was HK$68.3 million, a decrease of 50 percent, and profit attributable to equity holders was HK$71.1 million compared with HK$143.0 million for the Previous Year. Earnings per share for the Year was HK1.61 cents, compared with HK3.99 cents for the Previous Year after adjustment for the rights issue during the Year. Profit was affected by the decrease in turnover and lower profit margins amid the economic slowdown. Gross margin fell from 40 percent to 30 percent as a result of price reduction aiming at maintaining customer relationship in a difficult operating environment. Impairment losses of approximately HK$197 million made on development costs for systems and networks, available-for-sale investments, and deposits and prepaid development costs also impacted adversely on profit. Such provisions reflected prevailing market conditions and a prudent and conservative assessment of the investments and assets concerned. Excluding the non-cash items of impairment losses, adjusted profit for the Year was HK$265 million, and adjusted profit attributable to equity holders was HK$268 million.

For investment projects, the Group had adopted a conservative approach to delay implementation in light of the economic uncertainties.

Strict discipline in cost management continued to be maintained, resulting in reduced operating expenses. Distribution costs were reduced by 12 percent to HK$42.3 million (2008: HK$48.1 million) while general and administrative expenses were reduced by 31 percent to HK$92.3 million (2008: HK$134.4 million). In light of the continued roll-out of new systems and networks during the Year, depreciation and amortisation expenses went up by 17 percent to HK$331.3 million (2008: HK$282.2 million).

Finance costs for the Year were stable at HK$4.0 million compared with HK$4.2 million for the Previous Year.

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

<u>Critical Financial and Accounting Policies</u>

The continuing uncertainties in the global market require management to exercise ongoing caution with our financial and accounting policies. In particular, the preparation of our financial statements and certain accounting policies require that management applies significant judgment in defining the appropriate assumptions integral to financial estimates. On an ongoing basis, management will evaluate those estimates, including those relating to the estimated lives of depreciable assets, asset impairment, allowances for doubtful accounts, contingencies and other items. Judgments are based on historical experience, term of existing contracts, industry trends and information available from outside sources, as appropriate. However, by their nature, judgments are subject to an inherent degree of uncertainty, and therefore actual results could differ from our estimates. Details of the policies will be provided in the Notes to the Consolidated Financial Statements in the Annual Report.

Review of Operations

The second half of the Year saw a rapid deterioration of business climate globally as the full impact of the financial crisis in late 2008 began to be felt, resulting in a rapid downturn of the global economy.

In China, the Group benefited from the Central Government's backing of the IT and telecommunications sector as a core industry under its stimulus package. 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 Year, China sales fell by 18 percent to HK$836 million, compared with HK$1,023 million for the Previous Year.

In Europe, several new contracts for the supply of alarm monitoring solutions to hospitals in the United Kingdom, and contracts in Eastern Europe for the supply of Lone Worker and Personal Security solutions were secured. Business in the fire services sector picked up, with the resumption of some projects after initial delays. The German market was down for the bulk of the financial year due to the recession, but has begun to show signs of recovery in the last two months. Turnover of the European operations registered a 21 percent fall to HK$354 million, as compared with HK$451 million in the Previous Year. The decrease was 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. Its paperless lottery project in China is making progress, as the Group's e-lottery platform with secure micropayment systems connected to banks and other payment channels facilitates one-stop-shop automated betting transactions for multiple lottery games. The lottery legislation passed in China early this year meant that the China lottery market will be better regulated, and that China will open up its market gradually, boding well for innovative service providers like Kantone to expand its activities into various parts of the lottery value chain. Nonetheless, these investments are subject to review periodically to determine if progress is in line with the original plan and if the anticipated benefits can be achieved.

PROSPECTS

Globally the economic conditions have shown signs of stabilisation, thanks to strong actions by various governments, such as massive public financing and aggressive monetary easing. In particular, the Mainland market, which accounts for a significant portion of our business, has maintained a reasonable level of growth due to strong macro-economic stimulus measures implemented by the Central Government since the beginning of 2009. China appears well placed to recover at a faster pace than many other countries and its long-term economic prospects remain positive.

Nevertheless, the directors remain alert to further difficulties and challenges that may arise, despite some early signs of easing of the global economic downturn. We should heed the latest remarks from the Central Government that "the recovery would be slow and tortuous" amid a continuing slump in exports, and that "the foundation of the economic rebound was not yet firm, while uncertainties remained globally and domestically." The Group will remain vigilant and continue to adopt a conservative approach. Cost control measures will continue to be focused upon.

The Group's projects and investments in both technologies and privately held companies may be subject to impairment, especially those in the start-up or development stages. We will continue to exercise prudence in managing project and investment risks and take a critical review of the Group's portfolio, making provisions and write-downs where deemed appropriate in compliance with the requirements of the latest international accounting standards. The continuing uncertainties in the global market require management to exercise ongoing caution with our financial and accounting policies.

The Group's strategy going forward will be focused on higher margin and higher growth sectors to achieve an overall margin improvement. Such strategy naturally entails further research and development, as well as investments, especially in China which continues to present enormous opportunities, in order to expand our portfolio of products and services. The Group will also strive to strengthen its position in the niche markets of providing wireless integrated solutions tailored to customers' specialised requirements, as well as enhancing its value-added services to help customers achieve significant savings. In consolidating its leadership position in providing mission critical communications systems and solutions, the Group will focus on developing core platform technologies and customised personal security solutions. The Group may also pursue investments and related opportunities in the arena of information medicine and green technology where global demand continues to surge.

The Group is delighted with the latest award to Brazil to host the 2016 Olympics. As part of the Group's global strategy and positioning to expand into emerging markets, we established operations in Brazil back in 1999 under Kantone New Ventures, a unit within the Group, which is managed by Luiz Octavio Villa-Lobos, a native Brazilian with an MBA from the London Business School. He is now Managing Director of the Group's Brazilian operations, as well as Vice President of Interactive Knowledge Delivery for international clients at Champion Technology group level. Our offices in São Paulo and Rio de Janeiro provide wireless communications that catered to the special needs of a wide range of customers, covering hospitals, supermarket chains, government departments, manufacturing plants and international hotel chains.

With 190 million people and ranking the world's tenth largest economy, Brazil will serve as a blueprint for the Group's expansion into other Latin American countries. Ahead of the Olympics in seven years' time, significant spending will be allocated to infrastructure, security and transportation. Our establishment in Brazil hopefully will enable us to seize new business opportunities, in particular in providing telecommunications and IT solutions.

Barring unforeseen circumstances, we expect that our positive financial position and niche technologies will enable us to cope with the ongoing global economic uncertainties, and more importantly, to continue to invest in our businesses to better serve our customers.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Position and Gearing

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

As at 30 June 2009, the Group had HK$138 million (2008: HK$106 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK$668 million (2008: HK$526 million) and current liabilities amounted to approximately HK$91 million (2008: HK$115 million). With net current assets of HK$577 million (2008: HK$411 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK$40 million (2008: HK$55 million) to equity attributable to equity holders of the Company of HK$2,789 million (2008: HK$2,279 million), was 0.014 (2008: 0.024).

Total borrowings comprised bank borrowings of HK$40.1 million (2008: HK$54.3 million) and other borrowings, which represented block discounting loans, of HK$0.2 million (2008: HK$0.7 million). Finance costs for the Year amounted to HK$4.0 million (2008: HK$4.2 million).

The bank borrowings comprised bank loans of HK$3.0 million (2008: HK$4.9 million) repayable within one year, HK$4.6 million (2008: HK$4.7 million) repayable in the second year and HK$32.5 million (2008: HK$44.3 million) repayable in the third to fifth year. The mortgage loan of HK$0.4 million outstanding as at 30 June 2008 was repaid during the Year. The bank loans and mortgage loan were secured by the Group's land and buildings with a carrying value of HK$10.3 million (2008: HK$12.6 million).

The other borrowings of HK$0.2 million (2008: HK$0.7 million) were unsecured and repayable within one year (2008: HK$0.5 million repayable within one year and the remaining balance repayable in the second year).

In May 2009, the Company raised approximately HK$99 million from a rights issue on the basis of one rights share for every four existing shares held. The proceeds serve as general working capital for the Group.

Treasury Policy

The Group is committed to financial prudence and maintains a positive financial position with low gearing. The Group 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 2009, the Group's capital commitments authorised but not contracted for was HK$90 million (2008: HK$110 million). The Group has 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.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Exchange at any time during the year.

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 annual results.

By Order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 20 October 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 Mr Frank Bleackley, Prof Julia Tsuei Jo and Ms Miranda Ho Mo Han.