KANTONE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1059)

2009/2010 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover was HK$1,290 million
- Profit for the year increased by 17 percent to HK$80 million
- Adjusted EBITDA (excluding impairment) was HK$548 million
- Profit attributable to owners of the Company rose 17 percent to HK$83 million
- Earnings per share was HK1.61 cents

The board of directors (the "Board") of Kantone Holdings Limited (the "Company" or "Kantone") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2010 with comparative figures for 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Turnover	*2*	**1,289,616**	1,299,684
Cost of sales		**(982,529)**	(903,496)
Gross profit		**307,087**	396,188
Other income		**6,492**	8,718
Distribution costs		**(39,455)**	(42,300)
General and administrative expenses		**(107,624)**	(92,255)
Impairment losses recognised for available-for-sale investments		**-**	(56,014)
Impairment losses recognised for development costs for systems and networks		**-**	(100,425)
Impairment losses recognised for deposits and prepaid development costs		**(85,800)**	(40,560)
Finance costs		**(470)**	(3,983)
Profit before taxation		**80,230**	69,369
Taxation	*4*	**(121)**	(1,062)
Profit for the year		**80,109**	68,307
Other comprehensive income			
Exchange difference arising on translation of foreign operations		**5,001**	15,352
Total comprehensive income for the year		**85,110**	83,659
Profit for the year attributable to:			
Owners of the Company		**82,955**	71,068
Non-controlling interests		**(2,846)**	(2,761)
		80,109	68,307

	Notes	2010 HK$'000	2009 HK$'000
Total comprehensive income for the year attributable to:			
Owners of the Company		**87,929**	86,444
Non-controlling interests		**(2,819)**	(2,785)
		85,110	83,659
Earnings per share	6		
- Basic		**HK1.61 cents**	HK1.61 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment		**39,471**	34,835
Development costs for systems and networks		**1,272,570**	1,094,033
Goodwill		**36,795**	36,795
Intangible assets		**590**	2,950
Available-for-sale investments		**-**	95,084
Deposits and prepaid development costs		**1,099,864**	1,062,892
		2,449,290	2,326,589
Current assets			
Inventories		**24,775**	24,541
Trade and other receivables	7	**457,294**	505,545
Taxation recoverable		**11**	25
Deposits, bank balances and cash		**126,547**	138,340
		608,627	668,451
Current liabilities			
Trade and other payables	8	**71,202**	85,276
Warranty provision		**1,142**	1,513
Taxation payable		**8**	1,051
Bank loans - amount due within one year		**18,183**	3,043
Other borrowings - amount due within one year		**-**	176
		90,535	91,059
Net current assets		**518,092**	577,392
Total assets less current liabilities		**2,967,382**	2,903,981
Non-current liabilities			
Bank loans - amount due after one year		**29,050**	37,026
Retirement benefit obligations		**61,786**	71,289
Deferred taxation		**281**	143
		91,117	108,458
Net assets		**2,876,265**	2,795,523
Capital and reserves			
Share capital		**523,421**	514,212
Reserves		**2,349,517**	2,275,165
Equity attributable to owners of the Company		**2,872,938**	2,789,377
Non-controlling interests		**3,327**	6,146
		2,876,265	2,795,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2010

1. Basis of preparation and application 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 (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.

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

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements. The application of the new and revised HKFRSs in the current year has had no impact on the prior year reported amounts in the primary statements. Therefore, the statement of financial position as at the beginning of the earliest comparative period is not presented.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments.

2. Turnover and segment information

(a) Turnover

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.

The turnover of the Group comprises the following:

	2010	2009
	HK$'000	*HK$'000*
Sales of systems products	**745,499**	714,182
Rendering of services and software licensing	**518,962**	549,165
Leasing of systems products	**22,247**	21,193
Guaranteed distribution income	**2,908**	15,144
	1,289,616	1,299,684

(b) Segment information

The Group has adopted HKFRS 8 Operating Segments with effect from 1 July 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), which is a group of executive directors of the Company, for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

In prior years, primary segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions (i.e. sales of general systems products, provision of services and software licensing, leasing of systems products, investments in e-commerce projects and strategic investments). However, information reported to the CODM is analysed by systems sales and licensing, leasing of systems products, and strategic investments for the purpose of resources allocation and performance assessment. Financial information in relation to the provision of services and software licensing and investments in e-commerce projects is not separately reported but included in "systems sales and licensing" and "strategic investments" respectively under HKFRS 8 consistent with how the CODM assesses performance and allocates resources. The redesignation of the Group's reportable segment under HKFRS 8 has no material impact on the results reported in the current and prior years.

Three reportable segments are identified as follows:

- Systems sales and licensing - includes income from sales of systems products, software licensing and customisation, and provision of related services
- Leasing of systems products - includes income from leasing of systems products
- Strategic investments - includes income from investments

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the financial statements. Segment results represent the profit before taxation earned by each segment, excluding interest income, finance costs, unallocated corporate income and expenses such as central administration costs and directors' salaries. This is the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance.

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

	Systems sales and licensing	**Leasing of systems products**	**Strategic investments**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 30 June 2010				
TURNOVER				
External and total revenue	**1,264,461**	**22,247**	**2,908**	**1,289,616**
RESULTS				
Segment result	**96,101**	**864**	**1,404**	**98,369**
Interest income				**4,710**
Finance costs				**(470)**
Unallocated corporate expenses, net				**(22,379)**
Profit before taxation				**80,230**
Year ended 30 June 2009				
TURNOVER				
External and total revenue	1,263,347	21,193	15,144	1,299,684
RESULTS				
Segment result	117,963	2,605	(41,663)	78,905
Interest income				5,933
Finance costs				(3,983)
Unallocated corporate expenses, net				(11,486)
Profit before taxation				69,369

	Systems sales and licensing *HK$'000*	Leasing of systems products *HK$'000*	Strategic investments *HK$'000*	Consolidated *HK$'000*
Year ended 30 June 2010				
Amounts included in the measure of segment profit or loss:				
Depreciation and amortisation	**380,541**	**737**	**-**	**381,278**
Impairment losses recognised for deposits and prepaid development costs	**85,800**	**-**	**-**	**85,800**
Loss on disposal of property, plant and equipment	**15**	**-**	**-**	**15**
Year ended 30 June 2009				
Amounts included in the measure of segment profit or loss:				
Depreciation and amortisation	330,974	298	-	331,272
Impairment loss recognised for available-for-sale investments	-	-	56,014	56,014
Impairment loss recognised for development costs for systems and networks	100,425	-	-	100,425
Impairment losses recognised for deposits and prepaid development costs	40,560	-	-	40,560
Gain on disposal of property, plant and equipment	(31)	(2)	-	(33)

No assets and liabilities are included in the measure of segment reporting as they are not regularly reviewed by the CODM.

(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**	
	2010 *HK$'000*	2009 *HK$'000*	**2010** *HK$'000*	2009 *HK$'000*
People's Republic of China including Hong Kong and Macau	**832,124**	836,269	**2,411,988**	2,199,100
Europe (mainly United Kingdom and Germany)	**363,959**	354,233	**34,854**	30,173
Others	**93,533**	109,182	**2,448**	2,232
	1,289,616	1,299,684	**2,449,290**	2,231,505

Note: Non-current assets exclude the Group's available-for-sale investments.

3. Depreciation and amortisation

	2010 *HK$'000*	2009 *HK$'000*
Amortisation on:		
Development costs for systems and networks, included in cost of sales	**371,310**	321,725
Intangibles assets, included in general and administrative expenses	**2,360**	2,360
Depreciation of property, plant and equipment, included in general and administrative expenses	**7,608**	7,187
Total depreciation and amortisation	**381,278**	331,272

4. **Taxation**

	2010	2009
	HK$'000	*HK$'000*
The charge comprises:		
Current tax:		
Other jurisdictions	**-**	1,062
	-	1,062
Deferred taxation charge	**121**	-
	121	1,062

Hong Kong Profits Tax is calculated at 16.5% (2009: 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.

5. **Dividends**

	2010	2009
	HK$'000	*HK$'000*
Final dividend proposed in scrip form equivalent to HK0.20 cents (2009: HK0.15 cents) per share, with a cash option	**10,468**	7,713
Interim dividend paid in scrip form equivalent to HK0.20 cents (2009: HK0.25 cents) per share, with a cash option	**10,357**	10,148
Underprovision in prior year	**-**	930
	20,825	18,791

The proposed final dividend for 2010 is calculated on the basis of 5,234,207,576 shares (2009: 5,142,120,870 shares) in issue on 30 June 2010.

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$82,955,000 (2009: HK$71,068,000) and on the weighted average number of shares of 5,161,273,000 shares (2009: 4,405,134,000 shares) in issue.

The computation of diluted earnings per share in 2009 did not assume the exercise of warrants as the exercise price was higher than the average market prices of shares of the Company. The warrants expired in January 2009.

No diluted earnings per share is presented for the year ended 30 June 2010 as there were no potential dilutive shares during the year.

7. **Trade and other receivables**

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**331,412**	339,130
Guaranteed distribution receivables	**-**	44,838
Advance to suppliers and other receivables	**125,882**	121,577
	457,294	505,545

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 guaranteed distribution receivables, advances to suppliers and other receivables are unsecured, non-interest bearing and repayable on demand, which 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:

	2010	2009
	HK$'000	*HK$'000*
0 - 60 days	**149,575**	176,575
61 - 90 days	**111,772**	106,104
91 - 180 days	**70,065**	51,326
> 180 days	**-**	5,125
	331,412	339,130

8. Trade and other payables

As at 30 June 2010, the balance of trade and other payables included trade payables of HK$12,908,000 (2009: HK$10,712,000). The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 - 60 days	**11,122**	8,029
61 - 90 days	**547**	775
91 - 180 days	**1,239**	874
> 180 days	**-**	1,034
	12,908	10,712

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

Other payables mainly represent receipt in advance and accruals.

FINAL DIVIDEND AND SCRIP DIVIDEND SCHEME

Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the Board have proposed a final dividend of HK0.20 cents per share for the year ended 30 June 2010 (2009: HK0.15 cents per share) to shareholders whose names appear on the register of members of the Company on 29 November 2010. Taking into account the interim dividend of HK0.20 cents (2009: HK0.25 cents) per share paid on 11 June 2010, total dividend per share would be HK0.40 cents (2009: HK0.40 cents); and total dividend for the year would be HK$20.8 million, compared with HK$18.8 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 17 January 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 25 November 2010 to 29 November 2010, 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 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the year under review (the "Year'), the Group's turnover remained stable at HK$1,290 million, as compared with HK$1,300 million of the previous year (the "Previous Year"). Profit for the Year was HK$80 million, a rise of 17 percent, and profit attributable to owners of the Company was HK$83 million as compared with HK$71 million of Previous Year. Earnings per share for the Year was HK1.61 cents, same as the Previous Year. Amid slow economic recovery, gross margin continued to be under pressure, declining to 23.8 percent from 30.5 percent of Previous Year. The drop was exacerbated by sluggish turnover growth on one hand and increasing amortisation on the Group's continued investment in the development of advanced technology products on the other. EBITDA for the Year increased by 14 percent to HK$462 million from HK$405 million of Previous Year. Faced with the ongoing uncertain economic environment and challenging market conditions, the Group had taken prudent measures to recognise impairment losses of HK$85.8 million for deposits and prepaid development costs for systems and networks. Excluding the impairment losses, adjusted EBITDA for the Year was HK$548 million, compared with HK$602 million of Previous Year.

The Group continues to review and implement cost controlling measures. Increases in some operating expenses were partially offset by decreases in other expense items. Distribution costs dropped 7 percent to HK$39.5 million. General and administrative expenses went up 17 percent to HK$108 million (2009: HK$92 million), attributable to the increase in research and development expenses to HK$13 million (2009: HK$5.5 million) aimed at maintaining product competitiveness and market niche. Staff costs increased to HK$103 million from HK$96 million. Depreciation and amortisation expenses went up 15 percent to HK$381 million (2009: HK$331 million) as a result of the continued roll-out of new projects.

Finance costs for the Year were further reduced to HK$0.5 million compared with HK$4 million of Previous Year as a result of the prevailing low interest rate. The Group's financial position remains positive with net cash.

Review of Operations

In China, the Group has benefited from the Central Government's backing of the science and technology 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 Year, China sales remained stable at HK$832 million, compared with HK$836 million of Previous Year.

In Europe, the global economic climate continued to influence the Group's trading position. The austerity measures adopted by the governments across Europe have slowed spending and delayed project rollout. The Group was however able to maintain momentum and registered profit due to its product niche and new offerings that met customers' requirements. Sales and marketing activities in emergency services, fire control projects, as well as the NHS (National Health Services) projects in the UK continued. Delay in a significant emergency project in England was compensated by new orders in other sectors, where the Group's range of personal security products was well-received. German market was sluggish but the Group managed to maintain turnover, reflecting the success in revamping our German team and the introduction of new products. The fundamentals of the overall economy in Europe, however, remained quite fragile.

Turnover of European operations was HK$364 million, compared with HK$354 million of Previous Year.

For e-gaming and online entertainment, Kantone continued to provide integrated gaming technology solutions, online payment channels and sales networks. As new legislation and provisions governing the operation of lottery in Mainland China come into force, Kantone has to adjust its business model accordingly. Such investments were subject to periodic review to determine if progress was in line with original plans, and if the anticipated benefits could be achieved. Where required, impairment provisions at appropriate level are made.

OUTLOOK

The directors remain alert to further difficulties and challenges that may arise, despite some signs of easing of the global economic slowdown. Markets are expected to remain unsettled as fears grow over the health of the European economy, and the concerns of a double dip recession in the United States as government rescue efforts have failed to turn around the unemployment rate. Aggressive spending has further undermined the financial health of the US. Fortunately, the Group has built, and will continue to build on China's large economy which is marked by stable growth, gradual structural improvement, and basic price stability, thanks to "massive stimulus measures that have proved timely, forceful, effective and specially suited to the Mainland's realities", according to Premier Wen Jiabao who spoke at the World Economic Forum held in September. Meanwhile, in formulating the "12th Five-Year" National Plan which covers the years from 2011 to 2015, Central Government has emphasised promoting science and technology innovation. Notwithstanding some bright spots in China's economic outlook, Premier Wen issued a stark warning on the overheated property market, and the need to introduce measures to rein in inflation and maintain social stability.

The cautious attitude was reiterated at the Asia-Europe Meeting (ASEM) held in Brussels in early October, when Premier Wen warned that "currently the world economy sees slow recovery but still faces great uncertainty." Premier Wen added that "all countries should continue to prioritise consolidating the momentum of the economic recovery and maintain proper macroeconomic policies. They should take prudent and sound approach to decide when and how fast they should apply the exit policy." (6 October, Xinhua News Agency, Beijing). As such, we will continue our prudent stand on financial planning and management.

The Group's strategy going forward will be continued focus on expanding our portfolio of products and services to maintain growth and 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 a broad spectrum of industry sectors. The Group will also strive to strengthen its position in the niche markets tailored to customers' specialised requirements by focusing on developing a wide range of mission critical 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.

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 2010, the Group had HK$127 million (2009: HK$138 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK$609 million (2009: HK$668 million) and current liabilities amounted to approximately HK$91 million (2009: HK$91 million). With net current assets of HK$518 million (2009: HK$577 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings of HK$47 million (2009: HK$40 million) to equity attributable to owners of the Company of HK$2,873 million (2009: HK$2,789 million), was 0.016 (2009: 0.014).

Total borrowings mainly comprised bank loans of HK$47.2 million (2009: HK$40.2 million, comprising bank loans and other borrowings of HK$40 million and HK$0.2 million respectively). Finance costs for the Year amounted to HK$0.5 million (2009: HK$4 million).

The bank loans comprised amount of HK$18.2 million (2009: HK$3.0 million) repayable within one year, HK$4.2 million (2009: HK$4.6 million) repayable in the second year and HK$24.8 million (2009: HK$32.5 million) repayable in the third year. Bank loans of HK$33.2 million were secured by the Group's land and buildings with a carrying value of HK$7.9 million (2009: HK$10.3 million).

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 2010, the Group's capital commitments authorised but not contracted for was HK$76 million (2009: HK$90 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 provisions in the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on the Exchange during the Year.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Group the 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, 19 October 2010

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.