

Chairman's Statement

DEAR SHAREHOLDERS,

I AM PLEASED TO PRESENT THE ANNUAL REPORT OF KANTONE HOLDINGS LIMITED ("KANTONE" OR THE "COMPANY") FOR THE YEAR ENDED 30 JUNE 2005. THE GROUP'S CORE BUSINESSES ONCE AGAIN SHOWED IMPROVED RESULTS, AND HAVE ALSO BENEFITED FROM THE REMARKABLE RESILIENCE DISPLAYED BY THE GLOBAL ECONOMY ACROSS THE BOARD, DESPITE AN ENVIRONMENT MARKED BY SURGING OIL PRICES AND HIGHER INTEREST RATES.

WORLDWIDE DEMAND FOR CUSTOMISED COMMUNICATIONS SOLUTIONS, SPURRED BY A ROBUST REPLACEMENT MARKET, CONTINUED TO GATHER STRENGTH. THANKS ALSO TO OUR CONTINUED INVESTMENT IN PRODUCT DEVELOPMENT AND PRUDENT FINANCIAL MANAGEMENT, THE GROUP HAS BEEN ABLE TO MAINTAIN ITS MARGINS AND ACHIEVE SUSTAINABLE EARNINGS GROWTH.

A YEAR OF SOLID ACHIEVEMENTS

For fiscal 2005, we have shown consistent improvement in our operational and financial performance. With a focus on higher profitability and better return on our invested capital, we have continued to review and re-prioritise our initiatives to streamline our operations and cost structure through increased use of outsourcing and third party distributors to promote our products and services. Our performance has improved across the board:

- Turnover increased by 11 percent to HK\$1,127 million
- EBITDA was HK\$350 million, an increase of 31 percent
- Net profit jumped 73 percent to HK\$268 million
- Shareholders' funds grew 31 percent to HK\$1,081 million
- Earnings per share rose 67 percent to HK11.52 cents

The underlying demand for innovative communications systems and integrated solutions remained strong, especially in the fast-growing China market, which has enjoyed nine straight quarters of annual growth of 9 percent or more, making it the world's seventh biggest economy. I'm also encouraged by the progress we made in penetrating the US and the Middle East markets, where in the former, Kantone is the approved supplier of narrowband communications equipment and services to the public sector; and in the latter, the Group has completed the installation of onsite communications systems at a number of prestigious hotel and hospital sites throughout the region.

FINAL DIVIDENDS

The Board has recommended a final dividend of HK1.1 cents per share, which together with the interim dividend of HK1 cents per share, represents a total dividend of HK2.1 cents per share. Total dividend payment for the year would be HK\$49.8 million, an increase of 73.5 percent over HK\$28.7 million of the previous year.

LEADING EDGE IN NICHE MARKET COMMUNICATIONS SOLUTIONS

Kantone is widely recognised as a global leader in providing integrated wired and wireless networking solutions in the mission critical services sector. Since our early foray into China in the late eighties with our customised nationwide wireless messaging networks, China has remained our major market accounting for over 60 percent of the Group's results. With China's continued economic prosperity, Kantone's products and services have grown from strength to strength. The success of China's aerospace projects, notably the recent launch of Shenzhou 6, China's second manned spaceship, has also accelerated investment in the telecoms and related sectors.

The successful roll-out of command and control communications (CCC) solutions over multiple networks such as two-way radio, public safety radio (TETRA, or terrestrial trunk radio), Wi-Fi, wireless messaging and SMS (short messaging services) or email has helped to consolidate Kantone's dominant position in the emergency services markets. In markets where comparative figures are published, Kantone lays claim to some significant achievements. For example, Kantone currently provides wireless messaging solutions to around 60 percent of the National Health Service (NHS) hospitals in the UK, and around 85 percent of the UK fire brigades. In the US, the Group has secured a market share of approximately 70 percent of the installation works of the hospitals of the Veterans Administration throughout North America.

The Group's reputation for excellence and unrivalled radio technology experience is not limited to the emergency services arena. The high value-added customised systems and solutions, integrating hardware and software, are also widely used in commercial networks such as retail, manufacturing, aerospace, power generation, hospitality, and the food processing industry, to name but a few.

E-GAMING OPPORTUNITIES

Kantone has a long history of and extensive expertise in developing online telephone call data handling systems and call centre software applications. Since the arrival of the Internet in the mid-nineties, management projected that online borderless gaming would be a profitable business, if done properly. With that objective, Kantone has committed a lot of resources in building its Internet capabilities and researching extensively into e-gaming, covering global gaming practices and operations. The result of such efforts was reflected in a book published in 2002 titled "e-Gambling : In Search of an Intelligent Policy". Kantone continues its pursuit in e-gaming by investing in betting software solutions and various gaming websites, covering a wide range of gaming plays from horse racing, soccer betting, mahjong, to lottery and Mark 6.

Access to China's Rapidly Evolving e-Lottery Market: A Unique Opportunity

In August 2005, Kantone announced the acquisition of 60 percent interest in an investor (the "Investor") of a paperless betting systems developer and service provider in China, Shenzhen Helper Science Development Co. Ltd. ("Shenzhen Helper"), for a consideration of HK\$52 million. Kantone also committed to subscribe for new shares of the Investor in proportion to its shareholding at HK\$18 million for contribution to the Investor's working capital. Shenzhen Helper will be accounted for as a subsidiary of Kantone.

Through this acquisition, Kantone now holds a leading position in the e-lottery market in China, with existing paperless betting platforms in Shenzhen and Shanghai, where long-term agreements have been signed with the regional Welfare Lottery Issue Centres to develop telephone betting operating systems in return for recurring revenue sharing of betting turnover. Welfare lottery is one of the two government authorised streams of betting in China, the other stream being sports lottery. The Group now owns the IP (intellectual property) rights of a comprehensive e-lottery platform with secure micropayment systems linked to banks which facilitated one-stop automatic betting transactions for multiple gaming plays.

e-Lottery is a new distribution channel for China lottery, and ties in well with the ongoing reforms promulgated by the Chinese Ministry of Finance, which is responsible for the administration of the lottery market and supervision of the issue and sales activities of lotteries. Bettors can access the paperless betting systems through electronic platforms, currently comprising fixed telephones, mobile phones, WAP phones and selected websites. At the moment, the Group has co-operation agreements with eight banks, three telecom companies, and three web portals in China, which act as its sub-agents.

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The market of e-lottery is still at its developing stage, but turnover has almost doubled in the last year with the introduction of micropayment through banks, while the overall welfare lottery market is growing at 40 percent CAGR (compound annual growth rate), with forecast turnover for 2005 to reach RMB40 billion. Taking into account the increasing popularity of the Internet and mobile phone as means of communication in China, the Directors expect the emergence of e-lottery will have a significant impact on China's overall lottery market in the years to come. The acquisition presents a timely opportunity for the Group to gain entry to the rapidly evolving e-lottery market in China, and if e-lottery follows the trend of adoption of other technologies such as mobile phones, SMS, and the Internet, it has the potential to contribute to the Group's results positively in the future.

PROSPECTS

Benefiting from the Twin Markets of High Growth: Wireless and e-Gaming

The global economy is expected to maintain its momentum in the coming year. China's economy in particular is marked by a continuation of robust growth, and is forecast to continue booming at 9 percent plus growth rate for the rest of the year. Despite the forging ahead of its economy on all cylinders, China's inflation has been tame and remains under control, therefore laying the foundation for continued strong growth. A combination of factors such as natural economic growth, improved standards of living and upcoming international events to be held in China such as the 2008 Olympics, the 2010 World Expo, and the 2010 Asian Games are expected to sustain spending in telecommunications and IT solutions.

We will continue to strengthen our position in the niche markets of providing wireless integrated solutions tailored to customers' specialised requirements, as well as enhancing our value-added services to help our customers achieve significant savings.

Kantone's e-Gaming Strategy - Global Marketplace and Responsible Gaming

The advance in information technology and the wide adoption of Internet usage and mobile technologies have brought about great challenges as well as unprecedented opportunities. Just as Kantone is a frontrunner in the information technology space, we are committed to be a winner in the online gaming arena, leveraging the Group's core competence in providing IT solutions. Above all, we are committed to responsible gaming, and we aim at promoting probity and responsibility in the conduct of the online gaming industry.

The access to the lottery market in China signifies a major corporate milestone, and management is committed to the smooth integration of the e-lottery business to ensure that we can build on our first mover advantage to solidify our captive position. The combined expertise and strengths will enable the Group to extend the e-gaming business model within China and internationally, and to develop further products and services for a growing online customer base. In particular, the Group's comprehensive one-stop e-gaming and betting solutions as well as other software applications will be licensed in the global marketplace.

Professional e-Gaming Management

In order to capture the exciting e-gaming opportunities on a global basis, and to build widespread awareness and trust in the e-gaming arena, we are committed to meeting the highest standards in terms of risk management and compliance. To this end, we will continue to seek experienced professionals to join our management team.

I would like to extend a warm welcome to the new members of Kantone's e-Gaming management team. At the same time, to provide support to the subsidiaries engaged in e-gaming, new appointments will also be added to the management team at parent company Champion Technology. These new members will have responsibilities for Kantone's as well as Champion Technology group's global e-gaming business, overall strategy, legal framework, licensing arrangements, business planning and development, as well as integration activities of global operations.

- *Wang Yu Peng*, who joined as Kantone's Chief Operating Officer, e-Lottery Business in September 2005. Wang is founder of Shenzhen Helper, and a graduate of Tsing Hua University in Computer Science. He owns two invention patents in telephone betting systems.
- *John Schreck*, who joined as Kantone's Director of e-Lottery in September 2005. John has served as Chief Stipendiary Steward of the Hong Kong Jockey Club, Director of Racing in Macau, and Chief Stipendiary Steward of the Australian Jockey Club.

The following senior members will join in November 2005 at the holding company level and Kantone respectively:

- *Michael Thornhill*, as Champion Technology group's Director, e-Gaming Division. Michael has served as a steward of the Hong Kong Jockey Club and Senior Partner of Johnson Stokes and Master.
- *David Gairns*, as Champion Technology group's Director, e-Gaming Division. David has served as a steward of the Hong Kong Jockey Club, Chairman of Hong Kong Lotteries Board, and Senior Partner of KPMG (Hong Kong).

- *Timothy McNally*, as Kantone's Security Adviser for e-Lottery. Tim has served as Director of Security and Corporate Legal Services of the Hong Kong Jockey Club, and Assistant Director-In-Charge of the Federal Bureau of Investigation (FBI), Los Angeles, California.

A NOTE OF CAUTION

While the Group is reinforcing its core wireless business and striving for other growth drivers such as e-gaming to pave way for top-line growth and bottom-line improvement in the years ahead, there emerges increasingly different macro-economic dynamics that may affect the performance of global corporations and therefore their results, ourselves included. Such concerns range from the increase and volatility in energy costs, utility shortage in China, higher interest rates, continuing terrorist attacks, threats of natural catastrophes and outbreaks of contagious diseases. Above all, the combination of new accounting standards and more stringent compliance requirements may lead to greater volatility in earnings and higher demands on management time and resources, thereby raising the cost of doing business.

Against this environment, we'll continue to be prudent in our financial management and deliberate in new business development.

APPRECIATION

I would like to thank my fellow directors and management for their valuable contribution, and all our employees throughout the world for their hard work and dedication which are key to achieving the results of which we can all be proud of. And to our dear shareholders, once again we are living proof of being good stewards of your investment, and I am grateful to you all for your continuing support.

Paul KAN Man Lok

Chairman

27 October 2005