

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 2006. The Group continued to report satisfactory growth in profitability and turnover across its core businesses amid broadly favourable operating conditions and generally conducive investment climate.

Worldwide demand for customised solutions, spurred by China's intrinsic economic growth, continued to gather strength. With a track record established over half a century in delivering high security, high reliability and high integrity communications networks, the Group proudly maintains its leadership position in the niche market of narrowband wireless communications, serving a broad range of customers from hospitals, hotels, aerospace, manufacturing, retail, power plants, food processing, government departments, to fire and rescue services.

Mr Kan was conferred the CBE honour by Her Majesty Queen Elizabeth II at Buckingham Palace in July 2006.

OUR RESULTS

For fiscal 2006, we have achieved 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 prioritise our initiatives to streamline our operations and cost structure through increased use of outsourcing and third party business partners and distributors to enhance our product offerings and promote our services. Our performance is summarised as below:

- Turnover increased by 20% to HK\$1,347 million
- Profit attributable to equity holders of the Company was HK\$333 million, up 24%
- Profit before taxation (excluding HK\$51.3 million loss on change of fair value of convertible bonds) was HK\$383 million, up 43%
- EBITDA rose 28% to HK\$448 million
- Equity grew 54% to HK\$1,669 million
- Earnings per share went up 8% to HK12.45 cents
- The Group maintains a strong financial position with net cash

FINAL DIVIDENDS

In line with the favourable results, the following is proposed:

- Final dividend of HK2 cents per share, with dividend yield of 6.2%
- Total dividend payment of HK\$93 million, up 87%

The Board has recommended a final dividend of HK2 cents per share for approval by the shareholders at the forthcoming annual general meeting. At the above proposed level, together with the interim dividend of HK1.1 cents per share, total dividend per share would be HK3.1 cents, an increase of 48 percent over last year, and total dividend payment for the year would amount to HK\$93 million, an increase of 87 percent over HK\$50 million of the previous year. At that level, the dividend yield amounts to 6.2 percent.

STRONG DEMAND FOR CUSTOMISED SOLUTIONS

The underlying demand for innovative communications systems and integrated solutions remained strong, especially in the fast-growing China market. Globally, the increasing concern about public safety and security amid recurrent terrorist attacks has resulted in pressing need for defense quality radio systems and detection devices for liquid bombs and poisonous gases by law enforcement organisations as well as the private sector across the board, giving promise to new opportunities for the Group's products and services.

The Group has a proven track record in providing mission critical communications systems to the healthcare and emergency services sector. 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 its dominant position in the public safety and secure communications arena.

In markets where comparable figures are published, Kantone lays claim to some significant achievements. For example, it 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 75 percent of the installation works of the hospitals of the Veterans Administration throughout North America.

E-GAMING AND ONLINE ENTERTAINMENT

In striving for other growth drivers and building on its expertise in integrated IT solutions and telephone data management, the Group continued to expand its portfolio of investments in betting software solutions and various gaming and entertainment websites. In October 2005, Kantone completed its acquisition of a controlling stake in a PRC-based technology solutions developer which pioneered telephone or paperless betting in China. Through the acquisition, Kantone now holds a leading position in the e-lottery market in China, laying claim to a stable of IP (intellectual property) rights of a comprehensive e-lottery platform complete with secure micropayment systems linked to banks which facilitated one-stop automatic betting transactions for multiple gaming plays.

In line with the global shift to digital media and online lifestyle, bettors in China are beginning to migrate to paperless betting systems which are accessible through a combination of fixed phones, mobile phones, WAP phones, and dedicated websites, whose interfaces and integration are developed by the Group. Still in its infancy, paperless betting is enjoying steady growth, and appeals particularly to the more well-off white collar workers prone to modern technologies and interactivity.

The paperless lottery project in China represents a significant addition to Kantone's e-Gaming and Online Entertainment business with its growing portfolio of assets, complementing its mainstream Telecoms and IT business. At this early stage of investment, Kantone's primary focus is on laying a solid foundation for future growth and expansion, which includes ongoing technology enhancement of the betting platform, development of more user-friendly betting interfaces and solutions, together with the launch of a marketing programme aimed at building awareness of and capturing a larger market share for such an alternative and emerging mode of betting.

The market of e-lottery in China is still at its developing stage, but if it were to follow the trend of the high adoption rate of other technologies such as mobile phones and Internet usage, e-lottery will have a significant impact on China's overall lottery market, and in turn, will contribute to Kantone's results in a meaningful way in future years.

OUTLOOK

The Board remains positive about the Group's future, and feels that demand for specialised communications solutions will remain strong. The Group will continue to strengthen its position in the niche markets of providing mission critical communications systems and solutions to the emergency services and public safety sectors, as well as enhancing its value-added services such as developing customised software for radio systems and wireless IP integration. At the same time, as the digital media takes precedence and online lifestyle is gaining popularity, the Group is confident in the prospect of its e-Gaming and Online Entertainment business, and will continue to actively engage in technological development and enhancement of its offerings and solutions.

China continues to be a major growth market for the Group. The recent macro-economic measures are targeted at certain overheated sectors of the economy, and as such, have little adverse impact on critical infrastructure projects such as telecommunications. In fact, such measures are conducive to the healthy development of China's economy in the long run.

As a growing global entity, the Group will continue to keep a tight rein on costs and implement essential measures to ensure that we remain competitive in the international market. Meanwhile, we look to our pool of talented employees and technology partners to continue to contribute to our portfolio of innovations and expertise in integrated radio and mobile technologies.

APPRECIATION

Underpinning the solid performance throughout the years has been a substantial effort led by the management team to manage resources and deliver greater productivity. I take this opportunity to thank our colleagues on the Board, the staff members of the Group and our diligent employees worldwide for their hard work, loyal service, and contributions during the year.

Paul KAN Man Lok
Chairman

23 October 2006