

DIRECTORS

Paul KAN Man Lok (Chairman)
Sunny LAI Yat Kwong
Michael WALKER

NON-EXECUTIVE DIRECTOR

Leo KAN Kin Leung

INDEPENDENT NON-EXECUTIVE DIRECTORS

POON Shun Kwok
Ronald CHOW Mei Tak
LIANG Xiong Jian

PRINCIPAL PLACE OF BUSINESS

5th Floor
Kantone Centre
1 Ning Foo Street
Chaiwan
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

COMPANY HOMEPAGE/WEBSITE

<http://www.kantone.com>

STOCK CODE

1059

COMPANY SECRETARY

Sunny LAI Yat Kwong

PRINCIPAL BANKERS

Citibank N.A.
Dao Heng Bank
Midland Bank plc
Standard Chartered Bank
The Hongkong and Shanghai Banking
Corporation Ltd.
The Sanwa Bank Ltd.
The Sumitomo Mitsui Banking Corp.

AUDITORS

Deloitte Touche Tohmatsu

Corporate Information

SHARE REGISTRARS

Cayman Islands:
The Harbour Trust Co. Ltd.
P.O. Box 1787
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One Capital Place
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong:
Secretaries Limited
5th Floor
Wing On Centre
111 Connaught Road Central
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INFORMATION AND ENQUIRIES

Investor Relations
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Hong Kong

e-mail: ir@kantone.com

Chairman's Statement

Dear Shareholders,

It has been a stormy year for telecom companies. Every inch of the industry seems to be hurting.

Amid all this uncertainty, there is a place to seek refuge, and this is your company Kantone, whose primary business is to supply and support high performance customized and secure dedicated wireless networks for public safety organizations such as hospitals, fire services, emergency rescue bureau, and the police, as well as large corporations and enterprises. The Government sector, as it turns out, is the only one in the market which is spending, and will continue to spend, even in times of uncertainty. Meanwhile the Group continued to enjoy the prosperity of China's economic growth through participation as a supplier of customized solutions.

LEADING EDGE IN EMERGENCY AND RESCUE SERVICES

The Group, through its subsidiary Multitone Electronics PLC, has been involved in the emergency services market both in the UK and several other countries for the past ten years. Today,

we are a leader in integrated wireless networking, accounting for over 60 per cent of the UK hospital market, and over 85 per cent of the UK fire brigade services. Our dedicated team for Emergency Services market covers software development, hardware development, project management, consultancy, implementation, and maintenance.

In the field of software development, the Group has the capability to provide bespoke solutions, which integrate seamlessly with both legacy and new networks. Protocols have been developed to interface to PSTN, ISDN, GSM networks, TETRA networks, and other Radio networks. The team has also developed interfaces to other vendor systems at the IP level.

SECURE COMMUNICATIONS THROUGH MOBILE DATA SYSTEMS

From fixed location communications links, the Group is moving towards mobile data systems, in particular, VMDS (Vehicle Mounted Data Systems), which are mounted in ambulances, police vehicles, or fire brigades. The primary aim of the VMDS is to minimize the risk of

injury to mobile crews by using Mobile Data and Geographical Information System (GIS) technology, enabling the crews to visualize the whole picture at an incident.

Future development will include a central database management system which manages risk information for distribution to front line personnel and appliances. The data, or more appropriately, knowledge, base will include a variety of mapping, premises data, road network data, non-addressable locations, immediate response plans, CAD plans, photographs and operational procedures.

CONTINUED CUSTOMISATION OF INNOVATIVE AND VALUE-ADDED SYSTEMS

The Group's reputation for innovation and excellence is not limited to the emergency services arena. The high value-added systems and services provided by the Group's customized communications solutions, integrating both hardware and software, are also widely applied in private networks such as retail, manufacturing, aerospace, power generation, hospitality,

and the food processing industry, to name but a few.

In April this year, the Group won a contract to test a 2.5 billion pound sterling TETRA (Terrestrial Trunked Radio Access) wireless communication system for use by the public safety services. Commissioned by PITO (Police Information Technology Organisation), the TETRA system will allow police services in different countries to communicate directly with one another and the ambulance and fire services.

TETRA is the new European Telecommunications Standards Institute (ETSI) standard for digital mobile communications, and has gained rapid global acceptance as the pre-eminent technology in its field. It combines the benefits of cellular telephony, PAMR (Public Access Mobile Radio) and packet-switched data transfer, and is specially suited for deployment in mission critical work group communications, cellular telephony, and data communications.

MANAGING CHANGE

Coping with change is one of the biggest challenges for an IT business in the digital

age. In this economic order, the biggest change is speed, as exemplified by recent events. How far one can adapt one's goals is the main measure of what kind of company one has got. In this respect, we pride ourselves in coping with very difficult circumstances and anticipating change all these years to achieve results of which we can all be proud.

To our dear shareholders, once again we are living proof of being good stewards of your investment, and a safe harbour in tumultuous waters.



Paul KAN Man Lok
Chairman of the Board
October 2001

Management Discussion and Analysis

OPERATIONS REVIEW

The year under review was marked by a significant contraction in consumer and enterprise spending; yet the Group's business has been protected by the largely public sector nature of its customers which have not drastically reduced their IT budget. These contracts are also characterized by the recurrent nature of revenue in the form of network maintenance and upgrade services.

The Group's business in China has benefited from the country's robust economic growth and strong demand for telecommunications, which has been building up with the imminent accession to the WTO by the world's biggest economy. In Europe, the Group's customers are largely government bodies, whose IT budget had not been greatly affected by the global economic slowdown. Elsewhere business was tough as customers deferred their IT spending.

The Group added a new dimension to the exciting world of wireless communications. Called MultitoneNoMobile, the new division has been set up to develop, manufacture and market a unique range of electronic devices for detecting and blocking

mobile phone signals in specified areas. These products and technologies are designed to manage safety, security and privacy risks associated with mobile telephones by providing a user-friendly and automated regulatory technology platform.

The Group is the first company to market such products on a global scale. It is targeting at the airline industry, petrol/gas industry, hospitals and medical establishments, schools and educational establishments, and aims at addressing health risks, social disturbances, and workers' productivity.

In the area of emergency services, the Group has achieved distinguished results in supplying and supporting high performance wireless networks for public safety organizations. Over 60 per cent of the UK hospital market and over 85 per cent of the UK fire brigade services have chosen the Group as their communications provider.

New contracts signed during the year included the installation of emergency communications system for various Fire Services; the installation of private messaging systems for hospitals; and the contract to test a 2.5 billion pound

sterling new TETRA wireless communications system for use by the emergency services and which was commissioned by PITO (Police Information Technology Organisation).

Customised wireless applications with web-based functionalities have also been installed in retail, manufacturing, aerospace, hospitality, power generation, and food processing industry, to name but a few.

FINANCIAL PERFORMANCE

Results for the year

The Group recorded audited consolidated turnover for the year ended 30 June 2001 of HK\$700 million, compared with HK\$776 million for the previous year. The turnover was a result of the continued realignment of its product and service mix targeted at achieving enhanced return, in particular, discontinuing lower margin hardware manufacturing activities, while focusing on high-margin communications software customisation business.

The Group is after enhanced profitability, not increased market share. New products, such as mobile data systems that provide vehicle location and

Geographical Information System (GIS) technology, require a significant amount of software development. The profit margins, on the other hand, are quite high.

Net profit for the year ended 30 June 2001 was HK\$102 million, compared to HK\$110 million last year, and basic earnings per share was HK9.17 cents. Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) was HK\$172 million, an improvement of 6 per cent over HK\$163 million of last year. The lower profitability reflected the time required to adjust and implement the Group's realignment of operations towards high margin business. Already such realignment efforts are being rewarded in higher profit margin in the Group's core telecoms business, despite a lower turnover figure.

The Group's results were also affected by the amortisation of its new e-commerce investments, which was not matched by corresponding revenue growth as is common in the initial start-up phase of new business development, and this has the effect of negatively impacting on the bottom line.

Liquidity and Financial Resources

Management's attitude towards financial planning has always been one of prudence, and throughout the years, the Group has maintained a net cash position. As at 30 June 2001, the Group had HK\$147 million made up of deposits, bank balances and cash. The gearing ratio at the year end was 0.30 (2000: 0.37) which is calculated based on the Group's total borrowings of HK\$179.6 million (2000: HK\$181.5 million) and the shareholders' funds of HK\$594.5 million (2000: HK\$492.9 million).

The total borrowings comprise bank borrowings of HK\$151.1 million (2000: HK\$147.9 million), other borrowings, which represent block discounting loans, of HK\$26.7 million (2000: HK\$30.1 million) and obligations under finance leases of HK\$1.8 million (2000: HK\$3.5 million). The bank borrowings are mainly borrowed as the working capital for the operations of the Group. The finance costs for the year ended 30 June 2001 amounted to HK\$16.2 million (2000: HK\$17.0 million).

Barring unforeseen circumstances, management is confident that the Company has sufficient funds to meet

its daily business operation requirements as well as to finance new product development currently being planned. Should management decide to seek financing for some of the telecom projects it intends to speed up, the Group has sufficient room to draw on its unutilized credit line. Alternatively, given the current low interest rate environment, the Group may consider other means of financing most appropriate to its requirements.

It is the Group's policy to manage the foreign exchange risk directly and not to undertake any speculative derivative trading activities. To mitigate the foreign exchange risk of the Group arising from transactions during the normal course of business, the management endeavoured to match foreign currency income with expense. The management will undertake to use appropriate hedging instrument for transactions with high exchange rate risk.

At 30 June 2001, certain land and buildings of the Group with a net book value of HK\$7,932,000 (2000: HK\$8,692,000) were pledged to a bank as security for banking facilities granted to the Group.

Bonus Issue of Shares

On 28 March 2001, the Board of Directors proposed a bonus issue to the shareholders of the Company on the register of members on 23 April 2001 on the basis of two shares of HK\$0.10 each of the Company for every share held by the shareholders of the Company (the “Bonus Issue”). The Bonus Issue was approved at an extraordinary general meeting on 23 April 2001 and 740,320,584 shares of the Company of HK\$0.10 each, credited as fully paid share capital, were allotted and issued to the shareholders of the Company on the register of members on 23 April 2001 by the capitalisation of the accumulated profits of HK\$74,032,058.

Details of the Bonus Issue were disclosed in the Company’s announcement dated 28 March 2001 and the Company’s circular dated 11 April 2001.

The directors propose a bonus issue of shares of the Company to the shareholders of the Company on the register of members on 30 November 2001 on the basis of one share of HK\$0.10 of the Company (“Share”) for every one Share held by such shareholders on such date (the “Proposed Bonus Issue”).

The Proposed Bonus Issue is conditional upon the approval of shareholders at an extraordinary general meeting of the Company and the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the Shares to be issued pursuant to the Proposed Bonus Issue.

Final Dividend

In order to conserve cash for the pursuit of new product development and enhancement, the directors do not intend to recommend a final dividend at the upcoming Annual General Meeting.

PROSPECTS

The economic outlook is clouded by lingering uncertainty in the wake of the attacks of September 11. However, there has been a surge in demand for tightened security and defense quality radio systems and secure communications by law enforcement agencies as well as the private sector across the board, giving promise to new opportunities for the Group’s products and services.

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 customized software for mobile data systems. Meanwhile, efforts in e-commerce and mobile commerce projects will continue which shall fulfill the Group’s vision of digital convergence in this new digital era.

In Asia Pacific, the Group is considering participation in several public mobile communications projects in Hong Kong, Australia, and China. In particular, the Group has definite plans to expand its fire services and command control communications capabilities into China, where demand for secure communications in the run-up to the 2008 Olympic Games is expected to be strong. China’s communications market is further helped by its imminent accession to WTO.

Directors and Senior Management

BOARD OF DIRECTORS

Mr. Paul KAN Man Lok is the Chairman. He is also the Chairman of Champion Technology Holdings Limited, the holding company of Kantone, and the Chairman of DIGITALHONGKONG.COM (“Digital HK”), which is listed on the GEM Board of the Stock Exchange of Hong Kong Limited. He holds a Master’s degree in Business Administration from the Chinese University of Hong Kong, and brings over 30 years of experience in the computing and telecommunications industries to bear on fully leveraging the e-commerce technology that is a key success factor for business today. As the author of the books in The Hong Kong e-Commerce Studies Series published by Digital HK, he has forged a strong link between his IT legacy and the promise of an online-assisted life.

Prior to setting up the Champion Group in 1987, he was the general manager of Asiadata Limited, a computing services subsidiary of Cable & Wireless PLC. In 1992, Mr. Kan won the Young Industrialist Award. He has served twice on the Stock Exchange Working Group on Corporate Governance during 1994–95 and 1999–2000, and is currently a

member of the Listing Committee of the GEM Board of the Stock Exchange of Hong Kong Limited. He is also the elected Chairman of Software and Information Technology Group of the Federation of Hong Kong Industries, and an elected member of the Hong Kong Legislative Council Election Committee for the IT sector. Recently, he has been appointed as an independent non-executive director of CLP Holdings Limited.

Mr. Sunny LAI Yat Kwong is the Executive Director and the Chief Financial Officer of the Company. He joined the Champion Group in March 1994 as Vice President of Internal Audit and Control. In July 1997, he took on responsibility as the Chief Financial Officer of Kantone. He holds a Bachelor’s degree in Business Administration from the Chinese University of Hong Kong and has over 25 years of experience in accounting, auditing and company secretarial matters. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants, and is also a certified public accountant.

Mr. Michael WALKER is the Executive Director of the Company. He is also the Chief Executive of Multitone, with

responsibilities for formulating Multitone’s overall policy and development strategy. He joined Multitone in January 1996. He has over 28 years of experience in the consumer electronics and telecommunications industries. Prior to joining the Group, he was group sales and marketing director of a leading European electronics group and managing director of its UK subsidiary.

Mr. Leo KAN Kin Leung is the Non-executive Director of Kantone. He is also the Chief Executive Officer and the Executive Director of Champion Technology Holdings Limited. He is the brother of Paul Kan. He is responsible for formulating the Champion Group’s overall policy and development strategy as well as the Champion Group’s global operations and management. Prior to joining the Champion Group in 1988, he held management positions in several international companies in Hong Kong. He holds a Master’s degree in Business Administration from Dalhousie University in Canada and a Master’s degree in Economics from the University of Alberta in Canada.

Mr. Kan serves on a number of sub-committees of the Software and

Information Technology Group of the Federation of Hong Kong Industries, including International Development and Co-operation Sub-committee, China Development and Co-operation Sub-committee, and Government and Sub-vented Funding Sub-committee. He also serves on the IT Committee of the Young Industrialist Council.

Professor LIANG Xiong-Jian is the Independent Non-executive Director of the Company. He has over 30 years of experience in telecommunications in China. He is presently a Professor of the Department of Management Engineering at the Beijing University of Posts and Telecommunications (BUPT), a post he has held since 1986, and the Director of the Institute of Telecommunications Management of BUPT. From 1986 to 1993, he was the Dean of Management Engineering Department of BUPT. His other positions include Member of National Committee of Chinese People's Political Consultative Conference (CPPCC); Representative of the People's Congress, Beijing Municipality; and Director of Communication Economy & Management Society, China Institute of Communications. He is also an independent director of PRC company

Unicom Guomai Communications Limited, which is listed on the Shanghai Stock Exchange and is a member of China Unicom Group responsible for data communications, messaging, and wireless telecommunications.

Professor Liang is well-known to the telecom community in Hong Kong, having been invited on numerous occasions to chair and lecture at major wireless and various other telecom conferences held in Hong Kong and the Region.

Mr. POON Shun Kwok is the Independent Non-executive Director of the Company. He is also the chief executive officer of Carlington Holdings Corporation, a property development and investment company. Mr. Poon has over 25 years of commercial and management experience in Hong Kong, and was the managing director of a major property company, where he worked for over ten years. He also held senior positions in a number of large local organisations, including Mass Transit Railway Corporation, the Hongkong & Shanghai Banking Corporation, and the Lands Department of the Hong Kong Government. Mr. Poon is actively involved in community services and has served as a member of the Urban Council

for 6 years and the Southern District Board for 12 years. Other organisations on which Mr. Poon is serving, or has previously served, include the Hong Kong Housing Authority, Caritas, the Society for Aid & Rehabilitation of Drug Abuses, the Appeal Tribunal of the Building Authority and the Real Estate Developers' Association of Hong Kong.

Mr. Ronald CHOW Mei Tak is the Independent Non-executive Director of the Company. He is a unit manager of a leading international insurance firm. He has held a number of consultative managerial positions in government and commercial organisations, as well as advisory committees. He is active in community services, and was a former Legislative Councillor, and an appointed member of the Hospital Authority. Mr. Chow holds a Bachelor's degree in Social Science from the University of Hong Kong. He is currently the honorary secretary of the Hong Kong Southern District Industries and Commerce Association.

SENIOR MANAGEMENT

Mr. Terry SEDDON is the Non-executive Director of Multitone which he joined in 1996 as the Technical

Director. From 1988 to 1993, he was the Chief Executive Officer of Asia Satellite Communications Company Limited. He is a fellow of the institute of Electrical Engineers, and is a member of the Institute of Directors.

Mr. Paul KIRBY is the Non-executive Director of Multitone. He was formerly the Director of Corporate Affairs of Cable & Wireless PLC where he worked for 16 years.

Mr. Gareth TANCRED is the Chief Financial Officer and the Deputy Chief Executive of Multitone. He is responsible for all financial and accounting matters of Multitone. He is a fellow of both the Chartered Institute of Management Accountants and the Institute of Professional Financial Managers.

Mr. Stephen GENTRY is the Commercial Director, with responsibilities for the sales, commercial and contractual activities of the Company. He is a member of the Institute of Directors.

Mr. Detlef KRULL is the Managing Director of Multiton Elektronik GmbH, and a member of the board of directors of Multitone. He is responsible for central European activities. He holds a degree

(Diplom-Ing) in both Electronics and Business Administration.

Mr. Luiz Octavio VILLA-LOBOS is the Managing Director of Multitone Eletronica Ltda, with responsibility for running the Brazilian subsidiary of Multitone. He holds a Master's degree in Aerospace Engineering from Sup'Aero in France and an MBA degree from the London Business School.

Mr. Ron WRAY is the Marketing Director of Multitone and oversees the company's marketing operations in Europe. He is an Associate Member of the Institute of Sales and Marketing Managers.

Mr. Graeme HULL is the Head of International Sales and has vast experience in the telecommunications industry, especially in managing large multi-national accounts.

Mr. Roy GOSS, based in Macau, is the Director of International Business. He is a seasoned expert in finance and telecommunications, having served in the Middle East and Macau with Cable and Wireless companies for almost 20 years.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the abovenamed company (the “Company”) will be held at Room 1702, One Exchange Square, 8 Connaught Place, Hong Kong on 30 November 2001 at 10:10 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 30 June 2001.
2. To elect directors and to authorise the board of directors to fix their remuneration.
3. To appoint auditors and to authorise the board of directors to fix their remuneration.

By Order of the Board
Sunny LAI Yat Kwong
Company Secretary

Hong Kong, 22 October 2001

Principal Office:
5th Floor
Kantone Centre
1 Ning Foo Street
Chaiwan
Hong Kong

Note: A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company’s principal office in Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.