

## 02 Chairman's Statement

### TO OUR SHAREHOLDERS,

The global economic and investment climate remained very tough during the year under review. Hopes of recovery in the US were time and again overtaken by a preoccupation with war talk, homeland security, and corporate venality, which in turn fuelled more uncertainty.

Across the board, such sentiment has an effect on customers' budgets for new purchases. China however offered a bright spot, and the Group recorded increased sales to China which helped to compensate for the decline in other markets. The Group's results were also helped by an established customer base made up of largely government enterprises and blue-chip corporates. Income stream from the Group's customers is characterized by the recurrent nature of revenue from network expansion and enhancement, as well as software upgrades.

#### Leading Edge in Niche Markets

The Group has been involved in the emergency services market for the past ten years. Today, we are a leader in integrated wireless networking solutions in niche markets. For example, around 60 percent of the UK healthcare market, and 85 percent of the UK fire brigades have chosen the Group as their communications services provider. Our dedicated team for Emergency Services market covers software development, hardware development, project management, systems testing, quality assurance, consultancy, implementation, and maintenance.

The Group provides bespoke solutions which integrate seamlessly with both legacy and new networks. Protocols have been developed to interface to PSTN (Public Switched Telephone Network), ISDN (Integrated Services Digital Network), GSM (Global System for Mobile), TETRA (Terrestrial Trunk Radio), and other radio networks. The team has also developed interfaces to other vendor systems at the IP (Internet Protocol) level, and work is being carried out on wireless IP integration.

#### Wireless Integrated Solutions Provider (WISP)

As a professional Wireless Integrated Solutions Provider, we are fully aware that quick responsibility and flexibility are two critical elements that in-house manufacturing can provide. Over the last ten years, we have invested heavily in assembly and testing equipment at our manufacturing plants, and maintaining a team of topnotch design engineers who handle everything from concept and prototype, to full production. It is this expertise in radio engineering, software, and integrated solutions, plus our

links with the industry that enable us to bring out design after design, raising the value-added aspect much higher than many of the industry players who use reference designs. Keeping manufacturing and pilot production in-house also enables us to offer full system build, as opposed to just supplying modules.

#### Customisation of Innovative 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.

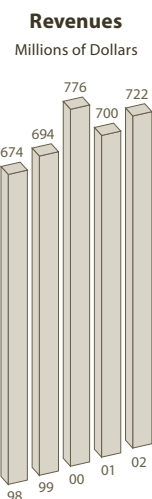
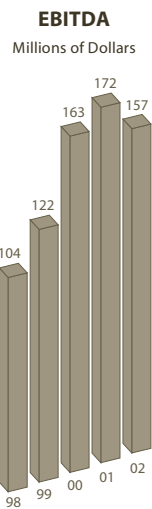
New products and services focused on high-margin communications software customization, such as mobile data systems that provide vehicle location and Geographical Information System (GIS) technology.

In China, the Group's wireless solutions operations benefited from increased sales of systems and infrastructural equipment to enterprises keen to enhance productivity and improve their communications. Wireless LANs, data and voice solutions, as well as customized integrated messaging systems were in strong demand.

#### Focus for 2003

Looking forward, 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.

As customers worldwide continue to demand cheaper solutions and lower total cost of ownership due to the global economic slowdown, we plan to leverage the cost advantages in China by expanding our facilities there for niche products. In particular, the Group is a strong believer in the provision of higher speed, higher capacity wireless communications systems based on wireless Internet Protocol for the future, and such systems are expected to be in demand both worldwide and in the China domestic market.



**Paul KAN Man Lok**  
Chairman of the Board  
25 October 2002

It was a tough year for the telecommunications industry. Globally many thousands of jobs were lost when corporates continued the restructuring of their operations, and all companies were affected significantly. The Group's results were mixed. European customers continued to defer new purchases and slowed their spending. On the other hand, demand in China remains strong as corporates and government enterprises set aside budgets to upgrade their IT and telecom infrastructure in order to enhance productivity. The demand for wireless integrated solutions and services was particularly strong.

In these conditions, the Group achieved turnover of HK\$722 million, representing a modest increase of 3 percent from last year. EBITDA (Earnings before Interest, Tax, Depreciation, and Amortisation) was HK\$157 million, compared with HK\$172 million of last year.

## OPERATIONS REVIEW

The negative impact of the global economic slowdown on the Group's results was mitigated 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 expansion and upgrade services.

The Group's business in China continued to sustain growth, benefiting from the country's strong demand for telecommunications equipment and services, which has been building up with China's accession to the WTO. To increase productivity and enhance efficiency, many of our customers have chosen to upgrade their infrastructure to wireless networks. As a result, the Group's sale of wireless equipment and solutions have gone up 4 percent to reach HK\$632 million.

In Europe, the Group's business continued to be affected by weak sentiment and market uncertainty. In some cases, we were forced to renegotiate and postpone planned delivery schedules.

The Group has maintained its leadership position as wireless integrated solutions provider. Its diverse operational base has enabled the sourcing and supply of the most competitive components and modules to meet the increasing demands of customers. For mission critical communications services for the emergency and rescue service sectors in the UK, for example, over 60 percent of the hospital market and 85 percent of the fire brigade services have chosen the Group as their communications services provider.

New systems have been designed to minimize response times and to speed up the communication of emergency alarm information. This line of business has been growing steadily as there is general recognition that investment in public safety and emergency services systems amounts to investment in public confidence. These contracts are also characterized by the

recurrent nature of revenue in the form of network expansion and upgrade services.

During the period, the Group supplied the first ever fully automated electronic breathing apparatus control system for fire fighters. The new system uses intrinsically safe radio transceivers for two-way communication of essential safety information between individual fire fighters and the Entry Control Officer, allowing exact monitoring of crew from outside an incident. These systems have become an attractive option for fire fighters since the 911 incident.

## FINANCIAL PERFORMANCE

### Results for the year

The Group recorded audited consolidated turnover for the year ended 30 June 2002 of HK\$722 million, an improvement of 3 percent over HK\$700 million for the previous year. Net profit for the year was HK\$63 million, compared to HK\$102 million last year. Basic earnings per share was HK2.85 cents.

China sales was HK\$458 million, accounting for 63 percent of the Group's turnover, and profit was HK\$99 million. European sales remained flat at HK\$222 million compared with HK\$224 million of last year, and an operating loss of HK\$16 million was incurred as a result of weak demand and deferred contracts subsequent to the 911 incident. The lower profitability was also a result of increased depreciation and amortisation of the Group's technology development and e-commerce capital assets amounting to HK\$79 million; and an impairment provision of HK\$3.9 million in relation to an Internet-related investment.

### Liquidity and Financial Resources

The Group continued to maintain a policy of financial prudence, and has kept a net cash position. As at 30 June 2002, the Group had HK\$160 million made up of deposits, bank balances and cash. The gearing ratio at the year end was 0.3 (2001: 0.3), which calculation was based on the Group's total borrowings of HK\$199 million (2001: HK\$180 million) and shareholders' funds of HK\$661 million (2001: HK\$594 million).

Total borrowings comprised bank borrowings of HK\$167 million (2001: HK\$151 million); other borrowings, which represent block discounting loans, of HK\$30 million (2001: HK\$27 million); and obligations under finance leases of HK\$2 million (2001: HK\$2 million). The bank borrowings were mainly used as working capital for the operations of the Group. Finance costs for the year ended 30 June 2002 amounted to HK\$15 million (2001: HK\$16 million).

Taking into account its internal resources and available banking facilities, the Group has sufficient financial resources for its working capital requirement. Alternatively, given the current low interest rate environment, the Group may consider other means of financing most appropriate to its requirements.

## 04 Management

Discussion and

Analysis (Continued)

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, management has endeavoured to match foreign currency income with expense. Management undertakes to continue to use appropriate hedging instrument for transactions with high exchange rate risk.

As at 30 June 2002, certain land and buildings of the Group with a net book value of HK\$9 million (2001: HK\$8 million) were pledged to a bank as security for banking facilities granted to the Group.

### Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2002 (2001: nil).

### PROSPECTS

The weak economy is obviously affecting customer purchases. We expect to see further industry consolidation in the coming year. Our plan for 2003 and beyond is to leverage the cost advantages in China by expanding our business there for niche products.

The Group has for years diversified its operations to pursue viable business opportunities. The current mix of distribution business and provision of specialized products and services to niche markets has remained a profitable source of revenue for the Group.

Barring unforeseen circumstances, we are hopeful that economic recovery should be back in sight in the not too distant future.

## Directors and Senior Management Profile

### EXECUTIVE DIRECTORS

**Paul KAN Man Lok** is the founder and Chairman. He is also the Chairman of Champion Technology Holdings Limited, which is listed on the Main Board, and the Chairman of DIGITALHONGKONG.COM, 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 Technology Group in 1987, he was the general manager of Asiadata Limited, a computing services subsidiary of Cable & Wireless PLC, where he worked for more than 15 years.

In civic duties, Mr. Kan has served twice on the Stock Exchange Working Group on Corporate Governance during 1994-1995 and 1999-2000, and is currently a member of the Listing Committee of the GEM Board. He is also Chairman of the Hong Kong Information Technology Industry Council; council committee member of the Federation of Hong Kong Industries; and member of the Hong Kong Legislative Council Election Committee for the IT sector. Other memberships include the Hong Kong Trade Development Council Electronics and Electrical Appliances Advisory Committee; the Chinese People's Political Consultative Conference of Auhui Province in the PRC; and the Election Committee for the Hong Kong representatives of National People's Congress of China.

Mr. Kan also sits on the board of CLP Holdings Limited as an independent non-executive director.

**Sunny LAI Yat Kwong** is Acting Chief Executive Officer and Chief Financial Officer of the Company. He joined the Champion Technology 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.

**Henry FUNG Kin Leung** was appointed as the Group's Executive Director in October 2002. He is also a Non-executive Director of Multitone Electronics PLC. He is responsible for managing the Group's research and development capacity to facilitate its global operations.

Mr Fung has over 20 years' experience in the field of software and product development. He joined the Champion Technology Group in 1987 as Technical Manager. In recent years, he has been focusing on the development of information delivery systems to enhance wireless Internet applications.

Mr Fung holds a Bachelor's degree in Science and Electronics from the Hong Kong Polytechnic University and a Master's degree in Electronics Engineering from the University of Hong Kong. He became a Chartered Engineer in 1997 and has been a member of the Institution of Electrical Engineers and the Hong Kong Institution of Engineers since 1997 and 2000 respectively.

## NON-EXECUTIVE DIRECTORS

**Leo KAN Kin Leung** is a Non-executive Director of Kantone. He is also Chief Executive Officer and an Executive Director of Champion Technology Holdings Limited. He is the brother of Paul Kan. He is responsible for formulating the Champion Technology Group's overall policy and development strategy as well as its global operations and management. Prior to joining the Champion Technology 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 Hong Kong Information Technology Industry Council, 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.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Professor LIANG Xiong Jian** is an 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.

**Professor YE Pei Da** has been an Independent Non-executive Director of the Company since November 2001. He is a professor and Honorary President of Beijing University of Posts & Telecommunications in China, and a director of Lucent Technologies Fibre Optic Cable Company. He is also a senior Member of the Chinese Academy of Science.

**Frank BLEACKLEY** has been an Independent Non-executive Director of the Company since November 2001. He was formerly the Managing Director of Chubb China Holdings Limited of Chubb Security Group, a manufacturer and distributor of security and safety products and systems based in the UK. He has close to 30 years of experience in the management and business development of joint venture companies in Hong Kong and Mainland China.

## SENIOR MANAGEMENT

**Terry SEDDON** is a 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.

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

**Gareth TANCRED** is Chief Executive Officer-designate of Multitone. Previously he was Chief Financial Officer and the Deputy Chief Executive of Multitone. He is responsible for all financial matters and overall corporate planning of Multitone. He is a fellow of both the Chartered Institute of Management Accountants and the Institute of Professional Financial Managers.

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

**Detlef KRULL** is 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.

**Luiz Octavio VILLA-LOBOS** is Managing Director of Multitone Elettronica 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.

**Ron WRAY** is 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.

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

**Roy GOSS**, based in Macau, is 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. He is a fellow member of the Institute of Chartered Accountants in England and Wales. Prior to joining the Champion Technology Group, he was the Finance Director of Macau Telecommunications Company, a subsidiary of Cable and Wireless PLC, where he worked for more than 17 years.

**Michelle CHEUNG Kei Yim** is Company Secretary. She holds a Bachelor's degree of Business Administration in Accounting. She is a member of the Hong Kong Society of Accountants and the Association of International Accountants. Ms. Cheung has broad Assurance and Advisory services experience. Prior to joining the Champion Technology Group in 2001, she worked for Deloitte Touche Tohmatsu.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Kantone Holdings Limited (the "Company") will be held at Room 1702, One Exchange Square, 8 Connaught Place, Hong Kong on 29 November 2002 at 10:15 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 2002.
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  
**Michelle CHEUNG Kei Yim**  
Company Secretary

Hong Kong, 25 October 2002

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.