

REVIEW OF OPERATIONS

During the period under review, the Group continued to strengthen its software capabilities. It also made a number of corporate moves targeted at expanding its product offerings and technology base, with a focus on secure communications and high value-added systems. In the wake of the terrorist attacks in New York, there has been a surge in demand for tightened security and defense quality radio systems by the public as well as the private sectors across the board. A summary of the key developments during the period is provided below:

Command and Control Communications

A new unit to pursue Command and Control Communications (CCC) opportunities in China, Hong Kong, and Asia Pacific markets has been set up. CCC is commonly used for dispatch, logistics control and command transmission, and is vital for the effective and efficient operation of organic units in government and private enterprises such as police, fire and emergency services, as well as industrial and commercial enterprises like fleet control and personnel dispatch in transportation, public utilities and service industries. Several projects in the region involving public safety organizations have been identified for active pursuit, and the Hong Kong team worked closely with our communications experts from Multitone Electronics of UK.

MuteTone™ Wireless Solutions

MuteTone™ is a cost-effective solution for unwanted mobile communications, applying proprietary technology that mutes mobile signals from the base station to the phones themselves within a confined and controlled area. The Group is the first to develop and market such products on a global scale. MuteTone™ solution comprises several different signal muting systems catered to the specific regulatory and cultural requirements of the local market, and it has been designed so that it will not interfere with any other communications or electronic equipment inside or outside the affected area, making it safe to use in almost any working environment.

The launch has coincided with increasing global demand for security products and has attracted great interest from many prospective customers both in the public and private sectors. The Group is finalizing distributorship agreements in several major markets.

Alongside the launch of MuteTone™, the Group also acquired an interest in a wireless solutions company which owns significant IP (intellectual property) rights in advanced signal detection and jamming technologies, covering such products and trademarks as SignalJammer™, StopMobile™, and FrequencyBlocker™. This acquisition further enhanced the Group's portfolio of security solutions.

G-SIGMA™ (Global Security Intelligent Generation Monitoring Appliances) – PeepTone™ Monitoring Solutions

PeepTone™ is a rich-featured real-time digital video monitoring and recording solution specially designed for remote management and security applications, seamlessly combining video multiplexing, digital recording, motion detection, and motion tracking. PeepTone™ system compresses and transmits high-resolution video signals through various communications channels, including ISDN (Integrated Services Digital Network), PSTN (Public Switched Telephone Network), Mobile network, LAN (Local Area Network), and the Internet. Each module of PeepTone™ can be integrated with password authentication, smart card, and biometrics technology for multiple users for high degree security, and can be connected up to 16 surveillance cameras, which can be monitored over one or multiple display units. The Group is marketing the product on a global scale.

DIGITALHONGKONG.COM (Digital HK)

Digital HK has adjusted and repositioned itself to expand its revenue base. Its efforts are already paying off, as evidenced by four consecutive profitable quarters since March 2001.

While Digital HK continues to provide online payment solutions and services through its payment platform, and technical consultation on e-commerce integration, management has decided to broaden its business scope to embrace other prospective revenue-generating activities such as systems development in innovative merchandising and advertising kiosks; security and smart card related opportunities; as well as IT consulting services.

Kantone Holdings Limited (Kantone)

Kantone continued to realign its product and service mix to target at higher margin business. China business remained on target, and the Group has achieved outstanding results in providing mission critical communications services for the emergency and rescue services sectors in the UK. In addition to an ongoing engagement to test and audit TETRA (Terrestrial Trunk Radio Access) wireless communications systems used by the Police Forces in the UK, Kantone also won several new contracts in the public sector, including a contract to supply emergency communications system for London Fire and Emergency Planning Authority.

With a renewed focus on high-margin communications software customization business, Kantone is developing a suite of mobile data systems that provides vehicle location and Geographical Information System (GIS) technology.

The Group, through its UK subsidiary, Multitone, has commenced negotiation with a leading telecommunications equipment supplier for the transition of nationwide wireless messaging business in the US to the Group. Upon such transition, the Group will assume such supplier's role in the messaging industry as a provider of certain protocol-based devices. The new product lines and expanded customer base will complement Kantone's current distribution of Wireless Integrated Networking (WIN) products in the US, where advanced messaging for enterprise applications is in strong demand and has good growth potential. Management believes that two-way messaging applications using cost-effective bandwidth solutions will open up new opportunities, further reinforcing the Group's leadership position in integrated wireless messaging. Detailed arrangements are being finalised.