

Dear Shareholders,

Fiscal 2004 was a rewarding year for Kantone, as the global economy had started to recover, and both SARS and the war in Iraq were behind us. For several years in a row, we were affected by the overhang of global economic and political uncertainty, and the turbulent times experienced by the twin sectors of IT and telecommunications have further dampened customers' budgets for new purchases. Had it not been for China which offered a bright spot in the earlier years of near global recession, our growth and profitability, if at all, would be interrupted.

As the saying goes, "You live long enough to live forever." Kantone has survived several tough periods brought by macro events outside anyone's wildest imagination. Thanks to our motto of survival, "Maximum prudence in financial management", we have been able to achieve sustainable earnings year after year for the ninth year.

OUR RESULTS

For fiscal 2004, 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 25 percent to HK\$1,015 million
- Net profit rose 40 percent to HK\$155 million
- Shareholders' funds grew 20 percent to HK\$827 million

The underlying demand for innovative communications systems and integrated solutions remained strong, especially in the fast-growing China market. I'm also encouraged by the progress we made in penetrating the US market, where Kantone is the approved supplier of narrowband communications equipment and services to the public sector. The increasing concern about public safety and personal privacy post September 11 has resulted in a surge of demand for tightened security and defense quality radio systems 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.

DIVIDENDS

The Board has recommended a final dividend of HK0.65 cents per share, which together with the interim dividend of HK0.6 cents per share, represents a total dividend of HK1.25 cents per share. Total dividend payment for the year would be HK\$28.7 million, an increase of 116 percent over HK\$13.3 million of the previous year.

LEADING EDGE IN WIRELESS INTEGRATED SOLUTIONS

The Group has been providing mission critical communications systems to the emergency services market for over a decade. Today, we are widely recognised as 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 customisation team provides a broad spectrum of expertise ranging from software development, network monitoring, network security, hardware development, project management, systems testing, quality assurance, consultancy, to implementation and maintenance.

Kantone 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), GPRS (General Packet Radio Service), 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 recent projects focus on wireless IP integration.

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 applied in commercial networks such as retail, manufacturing, aerospace, power generation, hospitality, and the food processing industry, to name but a few.

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.

China continues to be a major growth market for the Group. The recent macro-economic measures are targeted at the 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. To seize a bigger share of cross-border trade and investment opportunities which have been further facilitated by a new round of CEPA rapport and the recent Pan-PRD (Pearl River Delta) Agreement, the Group is actively reviewing the opportunities provided and making plans on how best to capitalise on such favourable arrangements.

Paul KAN Man Lok

Chairman

21 October 2004