

## **INTERIM DIVIDEND AND SCRIP DIVIDEND SCHEME**

The directors have resolved to pay an interim dividend of HK1.7 cents per share for the six months ended 31 December 2004 (2003: HK1.6 cents per share) to shareholders whose names appear on the register of members of the Company on 7 April 2005. Such interim dividend will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an option to the shareholders to receive such dividend (or part thereof) in cash in lieu of such allotment (the "Scrip Dividend Scheme").

The Scrip Dividend Scheme is subject to the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of a listing of and permission to deal in the shares to be issued pursuant thereto. A circular setting out the details of the Scrip Dividend Scheme together with the form of election will be sent to the shareholders of the Company as soon as practicable.

The relevant certificates for the new shares and dividend warrants will be dispatched to those entitled on or before 8 June 2005.

## **CLOSURE OF REGISTER OF MEMBERS**

In order to determine entitlement to the interim dividend and the Scrip Dividend Scheme, the register of members of the Company will be closed from 31 March 2005 to 7 April 2005, both days inclusive, during which period no transfer of shares of the Company will be effected. All transfers, accompanied by the relevant share certificates, and in the case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies, must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on 30 March 2005.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Amidst an improved operating environment and a more conducive investment environment, the Group had enjoyed steady progress in its major business activities during the period under review.

### **Financial Results**

The Group achieved a turnover of HK\$1,154 million for the six months ended 31 December 2004 (the "Period"), an increase of 19 percent as compared with HK\$974 million for the six months ended 31 December 2003 (the "Previous Period"). Net profit for the Period was HK\$231 million, an increase of 56 per cent as compared with HK\$148 million for the Previous Period. Basic earnings per share for the Period was HK\$19.3 cents. (2003: HK\$20.2 cents).

The overall improved performance during the Period reflected strong recurrent demand for the Group's customised solutions in wireless communications, where ongoing investments in our systems and networks have allowed us to significantly improve customer-focused offerings while driving industry-leading productivity. The Group continued to maintain a clear competitive edge in providing customised communications solutions for niche markets.

The Group also realigned its operating activities targeted at achieving a higher return and a more stable income, while reducing the risks associated with an increased volume of business activity. In particular, the Group increased outsourcing of product distribution and development work, which has helped to lower operating expenses across the board during the Period. Distribution costs decreased by HK\$22 million to HK\$29 million; general and administrative expenses decreased by HK\$16 million to HK\$62 million; whereas depreciation and amortisation expenses decreased by HK\$25 million to HK\$92 million. Meanwhile, finance costs reduced by 62% to HK\$4.2 million (2003: HK\$11.2 million), as equity-based financing concluded in the prior years has reduced the Group's reliance on borrowing for its working capital requirements. The Group's net profit also benefited from increased profit contribution from its subsidiaries, Kantone Holdings Limited and DIGITALHONGKONG.COM.

### Review of Operations

China market maintained its steady growth in line with the country's thriving economy. In particular, China's plans to develop the Northeastern and Northwestern provinces and cities have a positive effect on the demand for the Group's products and services. The success of China's aerospace projects has also impacted favourably the telecoms and related sectors. For the six-month period, China sales accounted for HK\$883 million of the Group's turnover (2003: HK\$745 million).

The Group also reported stable business in Europe, where healthcare and fire services continued to be core sectors for the Group's wireless messaging solutions. During the Period, several new installations were implemented which were accompanied by enhanced applications to deliver clinical efficiencies and improve emergency response times. Turnover attributable to the operations in Europe was HK\$187 million (2003: HK\$158 million). Sales to the US and South America was in line with expectations. Meanwhile, the Group had also seen expansion of its activities in the Middle East with the installation of onsite communications systems at a number of prestigious hotel and hospital sites throughout the region during the Period.

During the Period, the Group's *Champion In-Car Telematics* division was engaged in the brand-building, marketing, promotion, and product development of **i-KEY**, a technological breakthrough solution for drink driving prevention. As the global partner for **i-KEY**, *Champion In-Car Telematics* has embarked on a global marketing programme targeted at building a network of partners and licensees for the product launch. Initial market reception to the soft launch in Japan was encouraging. Within China, **i-KEY** was exhibited at two major hi-tech and automotive showcases which drew a large audience and high profile publicity.

***Kantone Holdings Limited (Kantone)***

Kantone's performance continued to improve. It recorded a turnover of HK\$530 million, an increase of 14 per cent over the Previous Period. Net profit was HK\$127 million, representing an increment of 130 per cent compared with HK\$55 million of Previous Period.

Kantone continued to expand on its dominant position within the emergency services markets in Europe. Meanwhile, new applications have been installed for the National Health Service (NHS) in the UK to deliver clinical efficiencies and improve emergency response times. Kantone's ability to adapt some of its core emergency services technologies specifically with respect to alarm monitoring and centralisation of services has enabled it to win a number of contracts with key health authorities from its competitors.

In the US, Kantone continues to benefit from the changes in the regulations with respect to new narrowband radio networks. The Federal Government has continued to upgrade the hospitals of the Veterans Administration throughout North America, of which Kantone has secured 65-70 per cent market share in terms of installation works. This has further enhanced Kantone's position in securing more businesses in the next phase of the band shift, which includes the Department of Defence.

Sales in China was in line with the country's economic growth, as the telecom operators were under competitive pressure to invest in core network equipment to provide greater network capacity as well as to improve the quality of their networks, hence the demand for enhanced network monitoring, network security equipment and software continued.

Meanwhile, investments in new products continued, with a focus on wireless IP (Internet Protocol) integration and introduction of new VoIP (Voice over Internet Protocol) applications including mobility integration with various systems and standards.

***DIGITALHONGKONG.COM (Digital HK)***

The profit contribution of Digital HK was HK\$426,000, compared with HK\$98,000 for the Previous Period. Amidst intense market competition and soft demand for IT services, Digital HK had taken a more conservative approach in rolling out its e-commerce initiatives than was originally planned. To expand its revenue base, Digital HK had identified healthcare and related IT services as a direction for growth. Digital HK intends to participate more actively in the marketing and promotion of information medicine and online healthcare services through new investments and partnerships in order to achieve enhanced return. During the Period, Digital HK acquired a 40 per cent interest in a company engaged in investing in bioinformatics and related software solutions which are targeted at empowering the process of drug discovery as applied in infectious diseases.