INTERIM DIVIDEND AND SCRIP DIVIDEND SCHEME

The directors have resolved to pay an interim dividend of HK1 cents per share for the six months ended 31 December 2004 (2003: HK0.6 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

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 registered. In order to qualify for the above interim dividend and the Scrip Dividend Scheme, all transfers, accompanied by the relevant share certificates, 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

The global telecommunications industry has shown signs of recovery after several years of stagnant to negative growth. Thanks to our continued investment in product development and prudent financial management, the Group has been able to achieve sustainable earnings growth.

Financial Results

The Group achieved a turnover of HK$530 million for the six months ended 31 December 2004 (the "Period"), an increase of 14 per cent as compared with HK$463 million for the six months ended 31 December 2003 (the "Previous Period"). Net profit for the Period was HK$127 million, an increase of 130 per cent as compared with HK$55 million for the Previous Period. Basic earnings per share for the Period was HK5.51 cents, more than double that of HK2.49 cents for the Previous Period.

Gross profit increased by 20 per cent to HK$219 million, and gross margin rose to 41 per cent from 39 per cent in the Previous Period. Such results were attributable to the Group's continued investment in product development and systems advancement, thereby enhancing the value-added features of its products and solutions, and in turn helping drive industry-leading productivity. Net profit benefited from an across-the-board reduction in operating expenses, as a result of the Group's increased outsourcing of product distribution and development work. Distribution costs decreased by HK$9 million to HK$24 million; general and administrative expenses decreased by HK$8 million to HK$30 million; whereas depreciation and amortisation expenses decreased by HK$17 million to HK$35 million. Finance costs at HK$3.5 million were also lower (2003: HK$5.7 million) as a result of reduced borrowing requirements and more favourable lending rates obtained by the Group during the Period.

Review of Operations

The Group continued to expand on its dominant position within the emergency services markets in Europe. Healthcare continued to be a core sector of the Group's wireless messaging solutions on a global basis. The Period saw the installation of new applications to deliver clinical efficiencies and improve emergency response times for the National Health Service (NHS) using wireless technology in one of the leading teaching hospitals in the UK. The ability to adapt some of the Group's core emergency services technologies specifically with respect to alarm monitoring and centralisation of services has enabled the Group to win a number of contracts for key health authorities from its competitors.

In the US, the Group has continued 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 the Group has secured a market share of 65-70 percent in terms of installation works. This places the Group in a favourable position to secure more businesses in the next phase of the band shift, which includes the Department of Defence.

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.

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.

During the Period, much of the telecom equipment production has been transferred to the Group's manufacturing plant in Malacca, Malaysia, in order to fully utilise the existing production facility there. This enabled the UK facility to concentrate on high margin system integration solutions.

Kantone has continued to invest in new products and solutions, specialising in application software suites for use in healthcare, hospitality, and industrial markets. The Group has also overseen the introduction of new VoIP (Voice over Internet Protocol) applications including mobility integration for use with various systems and standards.