

Chairman's Statement



Dr CHOW Yei Ching

Group presented various solutions with hand-writing digitalization features such as "Cybersign" for Biometrics Signature Verification, field service automation and mobility solution with GPRS connection. The market responses were encouraging.

The performance of the Group for the year ended 31st March, 2003 was disappointing mainly due to the loss incurred in the closure of its retail operations. The Group has recorded the turnover of approximately HK\$688 million, representing a decrease of 11% over the same period last year. Loss for the year amounted to HK\$23 million and loss per share was HK13.3 cents.

Dividend

The Board of Directors does not recommend the payment of any final dividend for the year (2002: Nil). As no interim dividend was paid during the year (2002 (restated): HK5 cents), no dividend will be paid for the entire year (2002 (restated): HK5 cents).

Management Discussion and Analysis

Intense competition in PC products continued to affect the performance of the Computer Division. The Group will strive to introduce products with attractive price packages in order to increase competitiveness. In November, 2002, the Group participated in the official Microsoft Tablet PC Launch in Hong Kong. During the exhibition, the

Toshiba TECRA Professional Series Notebook Computer



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Supply and Installation of Structured Cabling System and Fibre Network in Metropolitan Area Network (MAN) for nine stations, maintenance centre and West Rail Building of KCRC West Rail

In anticipation of the continued economic uncertainties and unfavourable business environment, the Group took a difficult but necessary decision to discontinue most of the retail shops and mobile phone franchise shops. Loss was incurred as a result. The Group will strategically re-deploy resources in those business with potential for long-term growth.

The first Chevalier Shop Digital Gallery with a brand new service concept was opened in Causeway Bay in December, 2002. It aims at catering for the needs of both corporate and individual customers by providing an array of digital solutions and IT products, such as Digital Multi-functional Document Processing systems, notebook computers, pocket PCs and mobile phones. The Gallery comprises "Toshiba Customer Care Service Centre" with professional customer service staff offering tailor-made and efficient after-sales services for Toshiba notebook computers.

All the large-scale contracts of the IT & Network Solutions Division on hand including New TV City, Two International Finance Centre and KCRC West Rail were progressed well.



Supply and Installation of ELV Systems includes Digital CCTV Surveillance Systems, Security System, Giga-bit Ethernet fibre backbone, SMATV, Walkie Talkie, Radio Paging System and Public Address System at Two International Finance Center, the 88-storey class A intelligent commercial building at Central

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Demonstration of Toshiba Notebook Computer in Commart Thailand 2003 Fair



Showroom for digital solutions and business machines

The Business Machine Division and the After-sales Services Division were able to maintain stable performance. However, the overall contribution from these divisions deteriorates due to fierce competition and sluggish market condition.

The Group's operation in Thailand continues to out-perform other divisions in the Group as the economic growth in Thailand remains strong in recent years. All major businesses such as telecommunication systems and services, sale of office equipment, notebook computer and related products have achieved favorable results and partially offset the negative performance of the Group's business in Hong Kong and the Mainland during the financial year under review.

Prospects

During the year, the global economy remains sluggish as the lackluster demand and excess capacity continued to weigh on the labour market. In the US, even though the leading indicators released recently show sign of recovery due to rising stock market, robust housing market and increased supply of money flowing through the economy, companies remain extremely cautious on capital spending. Therefore, the replacement cycles in the PCs and IT equipment have been prolonged. The demand for IT products remained low and competition was intensified, creating substantial downward pressure on both prices and profit margins which in turn stifled profits and discouraged investment.

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Apart from the onerous process of economic restructuring, the Hong Kong economy has suffered another setback from the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in March this year. Although Hong Kong has been removed from the WHO's list of areas affected by SARS and the government is committed to implement various measures to boost local economic growth, the Hong Kong economy will unlikely to have genuine recovery without improvement in local labour market.

The recovery of local economy will also depend on the US economy. Though it remains uncertain what direction of the US economy is taking reflected by the recent mixed economic data, the 45-year low interest rates in the US following its consecutive rate cuts will likely to accelerate the economic growth of the US in the second half of 2003. It will favour the recovery of local economy.

Apart from creating a business-friendly environment, the government has been focusing on greater integration between Hong Kong and the Pearl River Delta aiming at creating more business and employment opportunities. The signing of the Closer Economic Partnership Arrangement ("CEPA") in June, 2003 signifies the closer economic ties between Hong Kong and the Mainland. The free-trade pact, which will become effective on 1st January, 2004, is designed to give Hong Kong firms a leg up over foreign rivals to explore the Mainland market. Although the impact of CEPA has yet to be seen, the Group will evaluate the business opportunities arisen from such Agreement both in Hong Kong and the Mainland.

Looking forward, in anticipation of the continued robust growth of the Thailand economy, the market potential looks promising. As part of its long-term growth strategy, the Group will strive to strengthen its existing business whilst actively pursuing new business opportunities in Thailand. Building on our expertise and solid foundation in local IT and network solutions sectors, the Group is confident that our success in Hong Kong will be replicated in the Thailand market over time.

Subsequent Event

Consolidation of Shares

On 30th April, 2003, the Board of the Company proposed to consolidate every five existing issued and unissued shares of HK\$0.10 each into one new share ("New Shares") of HK\$0.50 each in the share capital of the Company ("the Shares Consolidation"). The Shares Consolidation was approved by the shareholders at the Special General Meeting of the Company held on 5th June, 2003. After the consolidation, the number of authorised shares of the Company has been reduced from 1,200,000,000 to 240,000,000 and the number of issued shares reduced from 856,779,355 to 171,355,871. Details of which were contained in a circular of the Company dated 20th May, 2003.

Appreciation

2003 has been a difficult year for Hong Kong, during which the Group has been confronted with many challenges in both economic and social aspects. On behalf of the Board, I would like to take this opportunity to truly thank all staff for their concerted effort which enabled the Group to move through these rough and difficult times smoothly.

CHOW Yei Ching

Chairman

Hong Kong, 16th July, 2003