



Chairman's Statement

Dear Shareholders,

The global economic and investment climate remained tough during the year under review. Hopes of recovery were dashed by the outbreak of war in Iraq in March, closely followed by the widespread infection caused by SARS (Severe Acute Respiratory Syndrome). Fortunately we ended fiscal year 2003 relatively unharmed, and both the war and SARS were shortlived. As sentiment improves, the underlying demand for communications services continues to grow across the board.

Decisive actions

To stay on course during tough times and to position ourselves for the recovery, we took some decisive actions last year. We continued to reorganise and consolidate our resources, drive down costs and expenses, improve our systems and processes, and enhance our performance in serving customers. While we still have much work to do, we did make significant progress in a number of important areas under the difficult market conditions.

Our progress, in terms of improved financial performance, increased productivity, and new market expansion, is a clear indication of our employees' incredible resolve and continued dedication to the business and to supporting our customers during this prolonged industry downturn. These efforts have been instrumental in maintaining Kantone's leading position in the niche markets of emergency services, hospitals, and fire services. In the U.K. alone, we have over 12,000 installed networks.

I'm particularly encouraged by the progress we made in penetrating the US market, where Kantone is the approved provider 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.

Our results

For fiscal year 2003, we showed consistent improvement in our operational and financial performance. With a focus on higher profitability and better return on our invested capital, we re-prioritised our initiatives to reduce the ongoing level of capital expenditure and streamline our cost structure through increased use of outsourcing and third party distributors to promote our products and services. Our performance improved across the board:

- revenues reached HK\$815 million, 13 percent over the previous year.
- EBITDA was HK\$236 million, 158 percent over HK\$91 million of last year.*
- net profit was HK\$110 million as compared with net loss of HK\$2.6 million of last year.*

* Due to adoption of SSAP 34, last year's EBITDA and net profit were restated. Had it not been for the restatement, EBITDA was HK\$157 million and net profit was HK\$63 million. See Management Discussion and Analysis for details.

In view of the satisfactory results, our directors have recommended the payment of a final dividend of HK0.6 cents per share.

Strong demand for customisation of innovative systems

The Group's reputation for innovation and excellence is not limited to the emergency services arena. The high value-added systems and services provided by the Group's customised communications solutions, integrating both hardware and software, are also widely applied in private networks such as retail, manufacturing, aerospace, power generation, hospitality, and the food processing industry, to name but a few.

Our new products focused on high-margin communications software customisation, such as mobile data systems that provide vehicle location and GIS (Geographical Information System) technology.

In China, the Group's wireless solutions benefited from increased sales of systems and infrastructural equipment to enterprises keen to enhance productivity and improve their communications services. Wireless LANs, data and voice solutions, as well as customised integrated messaging systems have been in strong demand.

Outlook

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 mobile data systems.

China is widely recognised as the world's most dynamic economy today. Kantone will continue to participate actively in the growth of this market. The conclusion of CEPA (Closer Economic Partnership Arrangement) in June this year, which aims at accelerating the development of trade and investment relations between China and Hong Kong, has placed Hong Kong based companies in a particularly favourable position. As cross-border trade is enhanced, there will be strong demand for more sophisticated and advanced communications equipment and rich service offerings.

The latest addition of five types of VAS (value-added services) under the liberalisation of the telecoms sector within the CEPA framework last month has further boosted the opportunities in mobile communications and wireless services.

We plan to leverage the cost advantages in China by expanding our facilities there for niche products and increase our investment in telecom VAS. In particular, the Group is a strong believer in the provision of higher speed, higher capacity wireless communications systems based on wireless Internet Protocol for the future, and such systems are expected to be in demand both worldwide and in the China domestic market.

Paul KAN Man Lok
Chairman
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