Management Discussion and Analysis

OVERVIEW

The conditions for the telecommunications industry remained tough. Across the board, poor sentiment has an effect on customers' budgets for new purchases. China however continued to offer a bright spot. Even with SARS which seriously affected the economy as a result of travel restrictions, the impact has been manageable. Some of our orders were deferred during the months of March to June, and negotiations on new projects were stalled. The outstanding period of accounts receivables had also been lengthened. Post fiscal period, business momentum had resumed and by September, we had basically returned to normal.

REVIEW OF OPERATIONS

The Group continued to be the preferred supplier of mission critical communications services and equipment for the emergency and rescue services sectors. The budgetary constraints for IT purchases by major institutions and government departments actually helped the Group's business, as cost-effective narrowband communications infrastructure building on existing communications systems are preferred, especially in Europe and America.

During the year under review, the Group continued to make progress in tapping the US market. It was contracted to supply and install comprehensive narrowband communications systems for a chain of hospitals which has presence throughout the US. The status as the approved provider of onsite communications systems for the US market has opened the door to many exciting opportunities ahead, including the emergency services sector, Department of Defence and Department of Homeland Security, where many of the radio systems within the US Federal Government will soon require upgrading or replacement.

In Europe, business grew at a steady pace. While IT spending and new equipment purchases remained weak for many corporates and telcos, institutional customers such as hospitals, government departments, and fire services have maintained their spending on system upgrades. The public sector nature of our customer contracts is also characterised by the recurrent nature of revenue in the form of network maintenance and software upgrades. As a result of effective cost control and better allocation of resources by the new management at our European operations, we were able to achieve a positive contribution in the second half of the year.

Sales to China continued to gain momentum, benefiting from the country's strong demand for telecommunications equipment and services, which has been building up with China's accession to the WTO. To increase network performance and enhance capacity, many of our customers have chosen to upgrade their infrastructure to wireless networks. At the height of SARS from March to June, business activities in China slowed down, and orders scheduled for delivery were deferred. This dragged down our financial performance, but total sales to China during the period under review still registered a net growth of 15 percent to reach HK$526 million, compared to HK$458 million of last year.

During the period, the Group launched its Access Integrator Messaging System (AIMS), which has been designed as a flexible messaging system capable of adding extra functionalities to existing communications systems. Featuring DECT, Messaging, TCP/IP, and Network Messaging, AIMS has been well received as it exemplifies flexibility and versatility which allows users a lot of benefits such as:

- TCP/IP LAN connection for any PC
- Uses Internet Explorer as the interface
- Sends messages to DECT users
- Sends messages to teams of DECT users
- Alarm systems connection, security maintenance, electrical alarms, manufacturing and temperature alarms
- Remotely manages external devices – turns devices on and off
- The Integrator can be used with multi-vendor products and OEM variants.

The Group also became an accredited reseller partner for BT (British Telecom) during the period, signifying that it can offer premier products and premier services across the whole range of voice, narrowband, broadband, and IP-enabled eBusiness solutions. With this development, the Group will be able to help its customers achieve significant savings on their communications cost, thus bringing further value enhancement.

FINANCIAL PERFORMANCE

Results for the Year

The Group recorded audited consolidated turnover for the year ended 30 June 2003 of HK$815 million, an improvement of 13 percent over HK$722 million of the previous year. Net profit attributable to shareholders was HK$110 million (2002: HK$63.3 million, before prior period adjustment of HK$65.9 million due to implementation of SSAP 34). With the adoption of SSAP 34, the Group's result for last year was a restated net loss of HK$2.6 million. The Group's EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation) was HK$236 million, an increase of 158 percent compared with HK$91 million last year. Basic earnings per share for the year was HK4.97 cents. (2002: loss per share of HK0.12 cents as restated).

The adoption during the year under review of certain new and revised SSAPs (Statement of Standard Accounting Practices) issued by the Hong Kong Society of Accountants has led to a number of changes in the Group's accounting policies. In particular, the adoption of SSAP 34 in connection with the recognition of costs for the Group's retirement benefit scheme has led to a prior period adjustment of HK$65.9 million to the Group's EBITDA and net profit last year. Taking into account the costs recognition, net profit of HK$63.3 million for the year ended 30 June 2002 was restated as a net loss of HK$2.6 million whereas the EBITDA of HK$157 million was restated as HK$91.3 million. The restatement is purely an accounting treatment. It is a non-cash item and has no effect on the financial health and performance of the Group.

Gross profit increased by 24 percent to HK$314 million, a result of overall increase in sales and focus on high-margin systems and solutions. General and administrative expenses were reduced by 15 percent to HK$58 million due to effective cost control measures. Depreciation and amortisation increased by 41 percent to HK$112 million compared with the corresponding figure in the previous year, in line with the commencement of operation of some of the Group's new systems and networks. Distribution costs remained steady at HK$44 million.

China sales was HK$526 million, representing improvements of 15 percent over last year. European sales improved by 8 percent to reach HK$240 million, due to a combination of increased sales and strength of both Euro and Pound Sterling. Other markets also gathered pace, registering a 14 percent growth in sales to HK$48 million, including some promising orders for hospital installations in the US.

Liquidity and Financial Resources

The Group continued to maintain a policy of financial prudence. As at 30 June 2003, the Group had HK$81 million made up of deposits, bank balances and cash. The gearing ratio at the year end was 0.27 (2002 (restated): 0.34), which calculation was based on the Group's total borrowings of HK$188 million (2002: HK$199 million) and shareholders' funds of HK$692 million (2002 (restated): HK$589 million).

Total borrowings comprised bank borrowings of HK$165 million (2002: 167 million); other borrowings, which represent block discounting loans, of HK$22 million (2002: HK$30 million); and obligations under finance leases of HK$1 million (2002: HK$2 million). The bank borrowings were mainly used as working capital for the operations of the Group. Finance costs for the year ended 30 June 2003 amounted to HK$13 million (2002: HK$15 million).

Taking into account its internal resources and available banking facilities, the Group has sufficient financial resources for its working capital requirement. Alternatively, given the current low interest rate environment and favourable equity market conditions, the Group may consider other means of financing most appropriate to its requirements.

As at 30 June 2003, certain land and buildings of the Group with a net book value of HK$10 million (2002: HK$9 million) were pledged to a bank as security for banking facilities granted to the Group.

It is the Group's policy to manage the foreign exchange risk directly and not to undertake any speculative derivative trading activities. To mitigate the foreign exchange risk of the Group arising from transactions during the normal course of business, management has endeavoured to match foreign currency income with expense. Management undertakes to continue to use appropriate hedging instrument for transactions with high exchange rate risk.

FINAL DIVIDEND AND SCRIP DIVIDEND SCHEME

Subject to the approval of shareholders at the forthcoming Annual General Meeting, the directors proposed a final dividend of HK0.6 cents per share for the year ended 30 June 2003 (2002: nil) to shareholders whose names appear on the register of members of the Company on 26 November 2003.

The final dividend will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to the shareholders to elect 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.

It is expected that certificates for shares to be issued under the scrip dividend scheme and dividend warrants will be despatched to those entitled thereto on or before 28 January 2004.

The Group's Restated Results following the adoption of SSAP34

	For the year ended 30 June 2003 HK$'000	2002 HK$'000 (restated)	2002 HK$'000 (as per 2002 Report)
EBITDA	236,089	91,332	157,172
Net profit/(loss)	110,340	(2,578)	63,262
Earnings/(loss) per share – basic (in HK cents)	4.97	(0.12)	2.85