OPERATIONS REVIEW

During the 2003/04 financial year, demand for the Group's wireless systems and communications software solutions remained strong, in many ways reflecting the underlying global economic environment which has much improved from the previous year of uncertainty amidst the outbreak of SARS and the war in Iraq.

China market was able to sustain its robust momentum in line with the country's economic growth, contributing HK$1,736 million to the Group's turnover, compared to HK$1,434 million in the last corresponding year. The continuing strong performance of the China market was attributable to overall increase in capital expenditure by our customers to improve the quality of their networks in order to meet increasing demands. The customised solutions provided by the Group, especially in the areas of network efficiency management, network security and enhanced wireless messaging, have proved their worth in terms of high reliability, competitive pricing, and meeting customers' requirements.

The Group also reported stable business in Europe, where earlier installations at some hospitals and fire services were due for replacement and upgrades, and new contracts were signed. Turnover attributable to the operations in Europe was HK$353 million (2003: HK$305 million). Meanwhile, sales to the US and South America was in line with expectations.

The Group has long recognised that new turnover is only possible with new investment on a continuing basis. Therefore, during the year, the Group continued to invest in technology and solutions advancement to better cater to the specific needs of its customers. Areas of focus were software enhanced wireless messaging, radio products and systems, as well as Internet access and network security products and solutions for the niche market segments.

During the year, 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, whose IP (intellectual property) rights are owned by our Japan-based partner, with worldwide invention patents pending. **i-KEY** makes use of a simple-to-use car key which is integrated with a breath analyzer for detecting the driver's legal alcohol limit, which, if exceeded, would disallow the start of the car engine.

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 has been encouraging.

Kantone Holdings Limited (Kantone)

Overall performance of Kantone for the year was satisfactory. For the year ended 30 June 2004, Kantone recorded a turnover of HK$1,015 million, which was an increase of 25 percent over the previous corresponding year. Net profit for the year was HK$155 million, representing an improvement of 40 percent compared with HK$110 million of the previous year.

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. Customers' orders were quick to pick up after the threats of SARS and bird flu were gone. Meanwhile, China's plans to develop the Northeastern and Northwestern provinces and cities have a positive impact on the demand for capital investment in telecoms infrastructure in China. The success of China's aerospace projects has also accelerated investment in the telecoms and related sectors.

European business remained steady. Kantone continued to be the preferred supplier of mission critical communications services for the emergency and rescue services sectors, accounting for about 60 percent of the UK healthcare market, and about 85 percent of the UK fire services.

Performance of the US market was encouraging, driven by changes in the local radio regulations, which require both existing and new networks under the Federal Government and other public institutions to operate in the new specified narrowband radio spectrum. Kantone's wireless messaging products are FCC (Federal Communications Commission) and NTIA (National Telecommunications and Information Administration) approved, and have great potential in both commercial and government markets. Installation work under a contract to put in place wireless communications systems for the nationwide chain of hospitals of the Veterans Administration continued, and progress was satisfactory.

DIGITALHONGKONG.COM (Digital HK)

Digital HK remained profitable in the year under review, contributing a modest amount of HK$243,000 to the Group's net profit. Amidst intense market competition and soft demand for IT services, Digital HK has taken a more conservative approach in rolling out its business objectives than was originally planned. To expand its revenue base, Digital HK has identified healthcare and related IT services as the direction for growth. Websites on healthcare, as well as online purchase of health foods, medical prescriptions and consultation are gaining increasing popularity across a broad spectrum of the population. 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.

FINANCIAL REVIEW

The Group achieved a turnover of HK$2,250 million for the year ended 30 June 2004 (the "Year"), an increase of 20 percent as compared with HK$1,874 million (as restated) for the year ended 30 June 2003 (the "Previous Year"). Net profit for the Year was HK$297 million, an increase of 55 percent as compared with HK$191 million for the Previous Year. Basic earnings per share for the Year was HK32.13 cents (2003: HK31.44 cents).

The overall improved performance during the Year 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-service metrics while driving industry-leading productivity. 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 its use of outsourcing to third parties in terms of product distribution and development, which have helped to lower depreciation and amortisation expenses by HK$87 million to HK$315 million (2003: HK$402 million). The Group's net profit was also helped by increased profit contribution from subsidiary Kantone.

The Group's finance costs for the Year were lower at HK$18 million (2003: HK$27 million) with the help of two private share placements and an issue of convertible bonds. The additional funds have helped to reduce the Group's reliance on borrowing for its working capital requirements. Total borrowing reduced by HK$383 million to HK$173 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position remained strong with a low gearing and a net cash position. In September 2003, the Group issued a new tranche of convertible bonds - Tranche 2 in the aggregate principal amount of US$8 million (equivalent to approximately HK$62.4 million) pursuant to the Subscription Agreement entered into by the Company and Credit Suisse First Boston (Hong Kong) Limited in May 2002 for the issue of up to US$24 million 1.5 percent unlisted and unsecured convertible bonds due 2005. Net proceeds raised amounted to HK$60.4 million. The Group also completed two share placements to global institutional investors in December 2003 and February 2004 respectively, which together raised net proceeds of approximately HK$398 million. The new money raised through equity financing was used as general working capital, pending viable strategic investment opportunities as these arise.

As at 30 June 2004, the Group had HK$719 million made up of deposits, bank balances and cash. Current assets were approximately HK$1,529 million (2003: HK$1,535 million) and current liabilities amounted to approximately HK$345 million (2003: HK$543 million). With net current assets of HK$1,184 million, the Group maintained a high level of financial liquidity. The gearing ratio at the end of the Year, which calculation was based on the Group's total borrowings of HK$173 million (2003: HK$556 million) and shareholders' funds of HK$4,232 million (2003: HK$3,211 million), was 0.04 (2003: 0.17).

Total borrowings comprise bank borrowings of HK$105 million (2003: HK$490 million); other borrowings, which represent block discounting loans, of HK$17 million (2003: HK$22 million); obligations under finance lease of less than HK$1 million (2003: HK$1 million); and convertible bonds of HK$51 million (2003: HK$43 million). Finance costs for the Year amounted to HK$18 million (2003: HK$27 million). The reduced level of borrowing was a result of the Group's adoption of equity financing during the Year. The new funds as mentioned above helped the Group to reduce its reliance on borrowing to meet its working capital requirements.

As at 30 June 2004, certain land and buildings of the Group with a net book value of HK$10 million (2003: HK$10 million) were pledged to a bank as security for banking facilities granted to a subsidiary of the Group.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The Group does not engage in interest rate or foreign exchange speculative activities. It is the Group's policy to manage foreign exchange risk through matching foreign exchange income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instrument will be used.

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 HK2.7 cents per share for the year ended 30 June 2004 (2003: HK2.6 cents per share) to shareholders whose names appear on the register of members of the Company on 26 November 2004. Taking into account of the interim dividend of HK1.6 cents per share paid on 16 June 2004, total dividends for the year would amount to HK$55.3 million, an increase of 100 percent over HK$27.6 million of last year.

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 26 January 2005.

BONUS ISSUE OF WARRANTS

The directors of the Company propose a bonus issue of new warrants to subscribe for shares of the Company equal to 20% of the number of shares of HK$0.10 each of the Company ("Shares") in issue on 8 February 2005, less the number of Shares issuable under the outstanding CSFB Subscription Rights (as defined below) on 8 February 2005 ("New Warrants") to the shareholders of the Company (the "Bonus Issue").

As at the date of this announcement, the Company has outstanding (a) warrants which subscription period will expire on 7 February 2005; and (b) subscription rights granted to Credit Suisse First Boston (Hong Kong) Limited to subscribe for (i) 4,949,905 Shares at HK$2.3635 per Share; and (ii) 5,881,515 Shares at HK$1.98 per Share, until 22 May 2005 ("CSFB Subscription Rights").

The New Warrants will be issued in registered form entitling their holders to subscribe for shares of the Company at any time for a period of one year from the date of issue thereof (which shall be after the expiry of the existing warrants of the Company on 7 February 2005). The Company will make further announcement on the details of the record date for the Bonus Issue and the subscription price under the New Warrants.

The Bonus Issue is conditional upon the approval of shareholders at a general meeting of the Company and the Listing Committee of The Stock Exchange of Hong Kong Limited granting listings of and permission to deal in the New Warrants and the Shares that fall to be issued on the exercise of the subscription rights thereunder.

A circular setting out the details of the Bonus Issue and incorporating a notice of a general meeting of the Company to approve the Bonus Issue will be sent to the shareholders of the Company as soon as practicable.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 November 2004 to 26 November 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend and the scrip dividend scheme, all transfers of shares accompanied by the relevant share certificates and, in the case of warrantholders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription moneys, must be lodged with the Company's Branch Share Registrars in Hong Kong, Secretaries Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on 19 November 2004.