

OPERATIONS REVIEW

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. For the year ended 30 June 2004, China sales accounted for HK\$652 million of the total turnover (2003: HK\$526 million).

European business remained steady. The Group continued to maintain its leading position as supplier of mission critical communications services and equipment for the emergency and rescue services sectors, accounting for about 60 percent of the healthcare market in the UK, and about 85 percent of the UK fire services. Its wireless messaging systems and integrated services have great potential in both commercial and government sectors, due to the competitive advantages of reliability, cost effectiveness, wide coverage, and flexibility in integrating with new technologies and existing wireline infrastructure.

During the year, a number of systems installed by the Group at hospitals and fire brigades in Europe in the earlier years were due for replacement or upgrades. Maintenance services were also provided on a continuing basis to customers, therefore bringing to the Group steady recurrent income. Management expects the cycle of replacement and upgrades to continue. During the year, European sales accounted for HK\$282 million (2003: HK\$240 million).

In the US, the Group's activities continued to benefit from changes in the local radio regulations, which require both existing and new networks under the Federal Government and public sector to operate in the new specified narrowband radio spectrum. Installation work under a contract to put in place wireless communications systems for the nationwide chain of hospitals of Veterans Administration continued, and progress was satisfactory. A marketing office was set up in Atlanta to support the introduction of the Group's wireless solutions in the domestic market. The Atlanta location has assumed the role of spearheading the establishment of the Group's BEST (Business Enterprise Solutions Team) distribution and service organisation. The new office will also provide factory liaison, conduct training seminars, coordinate national marketing and provide system financing program assistance. In order to expand the Group's US distribution network for its wireless solutions, the US office has commenced its program of selectively seeking resellers.

FINANCIAL REVIEW

The Group achieved a turnover of HK\$1,015 million for the year ended 30 June 2004, an increase of 25 percent as compared with HK\$815 million for the previous year. Net profit for the year was HK\$155 million, an increase of 40 percent as compared with HK\$110 million for the previous year. Basic earnings per share for the year was HK6.88 cents, compared with HK4.97 cents for the previous year.

Gross profit for the year increased by 39 percent to HK\$438 million, and gross margin increased from 39 percent in the previous year to 43 percent, attributable to the Group's continuous 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 was also helped by lower finance costs of HK\$9.5 million (2003: HK\$13.5 million) as a result of reduced borrowing requirements due to increased cashflow generated by the Group's operations and more favourable lending rates obtained by the Group during the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a policy of financial prudence. As at 30 June 2004, the Group had HK\$78 million liquid assets made up of deposits, bank balances and cash. Shareholders' funds stood at HK\$827 million (2003: HK\$692 million). With net current assets of HK\$164 million, the Group maintained a comfortable level of liquidity. The gearing ratio of the Group as at 30 June 2004, defined as the Group's total borrowings to shareholders' funds, was 0.10 (2003: 0.27).

Total borrowings comprise bank borrowings of HK\$65 million (2003: HK\$165 million); other borrowings, which represent block discounting loans, of HK\$17 million (2003: HK\$22 million); and obligations under finance lease of less than HK\$1 million (2003: HK\$1 million). Finance costs for the year amounted to HK\$9.5 million (2003: HK\$13.5 million).

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 FLUCTUATION

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 HK0.65 cents per share for the year ended 30 June 2004 (2003: HK0.6 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 HK0.6 cents per share paid on 16 June 2004, total dividends for the year would amount to HK\$28.7 million, an increase of 116 percent over HK\$13.3 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.

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, 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.