

### 1. INDUSTRY

#### Mobile Phone Industry

In view of the sluggish worldwide economies, major growth of the mobile phone industry in the near future will concentrate in the Asia Pacific region. A total of 92.7 million handsets were sold in Asia-Pacific ex-Japan in 2001 (source: SCMP, 4th June 2002).

The major driving force of mobile phone sales in Mainland China is new mobile phone users. New mobile phone subscribers surpassed 5 million per month in the first four months of Year 2002. According to the official data released by the Ministry of Information and Industry (“MII”) in Mainland China, it is estimated that there will be 55 million new mobile subscribers in 2002 (source: MII, January 2002).

China is the world’s most populous and also fastest-growing mobile phone market, with 167 million users as of the end of April 2002 (source: China Daily, 4th June 2002). Given the present low penetration rate of 11% China market will continue to experience enormous growth in the near future. The high demand for mobile phones keeps on going with new monthly customers surpassing 5 million in the first four months of Year 2002.

In addition, with an average replacement rate of 25% per annum in the PRC, the replacement market is also very significant, with Asian customers’ habits of embracing more high end products, especially in the major cities of Mainland China which is one of the forces of the fastest-growing market. It is expected that the penetration rate of mobile phone in Mainland China will increase to 15% by the end of 2002.

#### Office Furniture and Related Businesses

Given the slow recovery of the Hong Kong economy and the sluggish market conditions of the Hong Kong property market, these businesses did not perform well as expected. In the circumstances, with a view to focusing on the core business and avoiding further losses, the operations of some of the Group’s furniture trading and kitchen cabinet installations and other non-core investments have been discontinued during the year under review.

### 2. BUSINESS STRENGTHS

#### China Focus

During the year under review, approximately 85% of the Group’s turnover and EBITDA\* of around HK\$48 million (before accounting for certain central unallocated costs and revenue) were generated from its businesses in Mainland China. In the near future, the Group’s focus will remain on Mainland China, the world’s fastest growing economy.

## 2. BUSINESS STRENGTHS *(Continued)*

### Products and Technologies

During the year under review, the Group's turnover shows a very strong growth since it has almost been doubled and amounted to HK\$1,480 million (2001: HK\$753 million). The management is proud to announce that Ezcom Technology Limited ("EZCOM TECH") (formerly known as Scm New Technology Limited), a company acquired by the Group in November 2001, has supplied approximately 1.7 million units of mobile phones during the relevant accounting period from 1st April 2001 to 30th April 2002.

The acquisition of EZCOM TECH proved to be a very wise move by the Group since the turnover of EZCOM TECH amounts to approximately HK\$1.7 billion and it has made a profit before taxation and profit after taxation of approximately HK\$129 million and HK\$108 million respectively during the relevant accounting period from 1st April 2001 to 30th April 2002. It has made a significant contribution with a positive EBITDA\* of approximately HK\$76 million to the Group's operating results after the completion of acquisition of 51% and 39% of EZCOM TECH in November 2001 and March 2002 respectively.

With fully understanding of the importance of diversity, the Group continues to acquire new products from high potential manufacturers. The Management will continue to explore opportunities for upgrading its R&D capabilities since the Management believes that only those enterprises with real R&D capabilities and creativity can survive in the long run in the highly competitive mobile communication market in Mainland China.

### GSM Mobile Phone

One of the Group's strengths is, obviously, its GSM mobile phone distribution and trading of relevant parts and components. During the year under review, the Group traded several models including the most trendy mobile phones like Samsung Queen Phone.

EZCOM TECH, a 90% owned subsidiary of the Group (51% and 39% acquired in November 2001 and March 2002 respectively), has supplied approximately 1.7 million units of mobile phones with a turnover of approximately HK\$1.7 billion during the relevant accounting period from 1st April 2001 to 30th April 2002. Attributable to its wide range of products from mobile phone manufacturing giants, including Samsung, the Group has successfully further developed its market position and begun to receive its recognition.

### CDMA Mobile Phone

China Unicom Limited ("China Unicom"), the first carrier to launch commercial CDMA service has launched its services to cover the major cities in Mainland China in January 2002. This represents a brand new opportunity for Ezcom and will undoubtedly benefit the Group's profitability substantially. With the introduction of the CDMA business, together with its existing well established GSM distribution network and advanced technology solutions from our strategic partners, Ezcom will experience a sharp increase in profit generated by the dual revenue from both GSM and CDMA mobile phones.

## 2. BUSINESS STRENGTHS *(Continued)*

### **CDMA Mobile Phone** *(Continued)*

Having the worldwide largest manufacturer of CDMA mobile phones, Samsung Electronics as our strategic partner, Ezcom is in an advantageous position in the CDMA market. During the first half of year 2002, Ezcom has already supplied over 100,000 units of two very successful models of CDMA mobile phones to PRC customers, namely Kejian-Samsung co-branded models SCH-N299 and A399. The Group will also supply the first model of Kejian's own CDMA phone "K1" to Kejian in August 2002. The management believes that the subscribers of CDMA phone services of China Unicom will pick up very quickly given the recent drop in price of CDMA mobile phones in Mainland China and, as a result, the turnover of the Group will increase substantially.

### **More Than A Distributor, A Solution Provider With Value-Added Services**

In Mainland China, Ezcom continuously launches latest and hottest models to meet the needs of the ever-changing PRC consumer market. Ezcom, with its in-depth understanding of local market needs and dedication to excel, has won itself an advantageous position in the PRC market. Ezcom is able to provide their customers with one-stop value-added services from provisions of mobile technology solutions, product designs, production support, quality control, purchasing, logistics, distribution networks, marketing promotion, market intelligence to after-sale services.

### **Excellent Relationship With Major Manufacturers**

Ezcom takes pride of its long-term strategic relationships with globally renowned mobile phone manufacturers like Samsung Electronic, the world's third-largest mobile phone maker (source: Gartner Dataquest and Apple Daily, 23rd May 2002).

One of our key customer, Kejian, is one of the top three mobile phone makers in Mainland China, with whom the Group has an exclusive right of supplying parts for assembling of mobile phones. According to official data recently released by the MII, the market share of domestic mobile phone makers has increased from 15% in 2001 to 17.7% in June 2002 and is expected that it will further increase to 20% by the end of 2002 (source: Hong Kong Economic Times, 30th July 2002). The Management believes the Group will benefit a lot from the increase of the sales in Kejian's mobile phones in Mainland China.

## 3. STRATEGIES IN 2002/2003

Our ultimate goal is not to just have a significant market share but also a growth that generates profits for the Company and returns to our shareholders.

### 3. STRATEGIES IN 2002/2003 *(Continued)*

The Group is determined to become a full service, fully integrated technology company with leading positions in mobile communications with solid results, margins and returns on equity. The Group's strategy for 2002/2003 is to continue its effort – in foreseeing our clients' needs and challenges and in providing mobile communication products, solutions and value-added services quicker, better and cheaper than any of our competitors. In doing so, we shall generate a competitive economic return for our shareholders.

#### **Distribution Networks**

The Group will continue to strengthen its existing market coverage by strengthening its distribution networks, currently comprising over 30 distributors and 2,500 retailers, and expanding its distribution points and capability. Moreover, EZCOM TECH, having more than 7 years of solid experience in distribution of consumer electronic products in the PRC, will also consider making use of the existing networks to distribute other consumer electronic products in order to achieve high effectiveness and efficiency of utilisation of resources.

Ezcom will also try to provide stronger marketing support and participate more actively in major marketing campaign for its key customers and partners for the sake of the common commercial interests of all parties in the near future.

In addition, Management will also explore opportunities of expanding our business to other regions like South East Asia, India and the Middle East.

#### **Acquire More Exclusive Distribution Rights In China**

Ezcom has experienced great success in working with an international leading brand, Samsung which is committed to the mobile phone business and has proven its success in producing and marketing well received, trendy and high-end mobile phones in numerous Asian markets.

In order to further strengthen the Group's product portfolio, the Group will continue to explore and acquire exclusive distribution rights for new high-end models that have high market potentials for distribution in Mainland China. Several new models will be launched together with Samsung and Kejian like Samsung's signature model colour LCD T-208 with its patented auto-folding function and Kejian K518 in coming months. The management is confident that 2002 will prove to be another exciting year for Ezcom in becoming a more well recognised company with competitive products and technology.

#### **Explore New Business Opportunities**

The Group will explore opportunities in Research and Development of relevant technologies and products, Multimedia Messaging Services (MMS) businesses, other messaging applications and advanced data encryption services or products that will also be synergetic to its existing mobile phone distribution business.

### 3. STRATEGIES IN 2002/2003 *(Continued)*

#### **Explore New Business Opportunities** *(Continued)*

In addition, based on the Group's current successful business models in Mainland China, the Management will also explore opportunities of expanding our business to other regions like South East Asia, India and the Middle East.

Given the poor performance of the office furniture business for the year under review and the fact the market condition is not expected to improve much in the coming years, the Board is considering different solutions in order to maximize the interests of the shareholders of the Company.

### 4. LIQUIDITY AND FINANCIAL RESOURCES

The Group's major source of funds was cash flows generated from its operating activities and financing from banks and share issuance. Net proceeds from share placement of 766 million new shares of approximately HK\$75 million was used as working capital.

The Group had arranged some leveraged foreign exchange trading contracts for hedging against these trade commitments. As at 30th April 2002, cash and bank balances of the Group was approximately HK\$113 million (FY2001: HK\$80 million), apart from that bank deposits of approximately HK\$51 million (FY2001: HK\$6 million) were pledged for general banking facilities.

Total borrowings of the Group, excluding convertible notes payable, amounted to approximately HK\$105 million (FY2001: HK\$63 million), comprising trust receipt loans of approximately HK\$42 million (FY2001: HK\$17 million), obligations under hire purchase contracts of approximately HK\$ nil (FY2001: HK\$3 million) and bank loans of approximately HK\$63 million (FY2001: HK\$43 million).

As at 30th April 2002, these bank loans were secured by bank deposits of HK\$51 million (FY2001: HK\$6 million) mentioned above and legal charges on the leasehold land and buildings of the Group with an aggregate net book value of approximately HK\$60 million (FY2001: HK\$182 million). The gearing ratio (total long-term liabilities/net assets) of the Group as at 30th April 2002 was 39% (FY2001: 0.4%). As at 30th April 2002, the group issued corporate guarantee of HK\$2,555,000 to certain subsidiaries disposed during the year. These guarantees were released on 27th June 2002. The Directors consider that the ability of the Group to repay all its debt remain excellent.

As at 30th April 2002, the Group had convertible notes payable of totaling HK\$158 million (FY2001: Nil), which were issued by the Group for the acquisition of the mobile phone business during the year. The notes are unsecured, interest-free and repayable on or before 27th March 2004. The noteholders have the rights to convert any part of the principal amount of the notes into ordinary shares of the Company at a price of HK\$0.10 each per share at any time on or before 27th March 2004.

The Group has no contingent liability save for those disclosed in this Annual Report.

## 5. TREASURY POLICIES

The Group's business transactions, assets and liabilities are mainly denominated in Hong Kong Dollars, Renminbi and United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group's major source of funds was cash flow generated from its operating activities and financing from banks and share issuance. Net proceeds from share placement of 766 million new shares of approximately HK\$75 million was used as working capital. The Group does not engage in foreign currency speculative activities.

## 6. EMPLOYEES

As at 30th April 2002, the Group employed approximately 300 staff (FY2001: 300) in Hong Kong and had approximately 2,000 employees (FY2001: 2,000) in the Mainland China. The staff costs, which included salaries, allowance and other benefits in kind amounted to HK\$151 million (FY2001: HK\$174 million).

The Group continues to employ, promote and reward its staff based upon their performance, experience and potential. The Group also consistently adopts a policy of employment enrichment and gives opportunities to existing staff whenever possible.

In addition to the basic salary and various medical insurance plans, the Group rewards its employees by way of performance related bonuses and share option for certain qualifying employees. The Group has also established pension schemes in accordance with the Mandatory Provident Fund Schemes Ordinance.

\* *EBITDA represents earnings before interest, tax, depreciation, minority interest, amortisation, loss on disposal of subsidiaries and long-term investments and impairment losses on leasehold land, land use rights and buildings. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*