

Management Discussion and Analysis

▣ SEGMENTAL ANALYSIS

Distribution of Electronic Components

Electronic Consumer Products

The development of electronic consumer products is taking place at a fast pace, as customers need to shorten the time frame for launching new products to meet the demand. Hence, they look for suppliers who can provide them with competitive and unique solutions. Taking LCD TV as an example, its extra slim monitor screens and low radiation features have surpassed traditional TV sets. The Group has long identified this business opportunity. During the year, the Group was dedicated to developing the LCD TV design and solution business. Through software development and the introduction of quality board, together with flexible pricing, the Group targeted at the medium to high-end market, and the strategy was welcomed by customers from various sectors.

Apart from the LCD TV business, the Group has been striving to develop digital camera (DSC) and solutions applied to portable DVD players. Customers in China have recognized the Group's development capability in respect of these two areas. In view of the rapid development of DSC, the Group has launched a set of essential component solutions including LCD displays, chips and lenses to effectively enhance the DSC functionality. This business performed well in the year and the number of customers registered steady growth.

The Group's TFT-LCD monitor solutions recorded satisfactory progress. As TFT has become an essential component for many electronic products, there was a huge market demand. The Group recorded considerable growth in this business.

Computer Products

During the year under review, the computer products business brought steady revenue to the Group. The Group successfully raised the profit margin with the provision to its customers of one-stop total solution package services comprising design with packaged computer components. Sales of other computer-related products like memory products recorded stable growth. As there is a huge demand for notebook computers, and the popularity of Internet and online games are most welcomed by the younger generation, sales of VGA cards registered relatively good performance. Sales of USB connectors and IEEE 1394 connectors also recorded stable growth, building a solid foundation for the Group's computer products business.

Communication Products

The Group has been developing its communication products business at tilt, including electronic communications, digital transmission, video conferring, and multimedia playback. This has contributed diversified revenue for the Group. Being the Asian strategic sales partner for NMS Communications, a communication products and services provider, enables the Group to maintain stable sales of telecommunication products in the newly VOIP industry. Besides, the Group designed peripherals software for communication products and traditional connector for Legerity, a reputable American electronic communication brand, this business also recorded steady performance.

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Mobile Phone Products

The mobile phone business enjoyed rapid development in recent years. The Group's development in display solutions for mobile phones was well received by famous mobile phone manufacturers in China. Six years ago, the Group was already involved in sourcing mobile phone components and designing services, and S.A.S. could customize cost-saving, timely and effective solutions for its customers through a sizable electronic component suppliers network. This also contributed to the Group's popularity among China's famous mobile phone brand.

In addition, leveraging on the Group's position as a leading player in the industry, the Group maintains close connection with the world's leading mobile phone components supplier such as Agere Systems, enabling the Group to keep a stable supply for its customers even when the global supply of chips was generally running out of stock during the year. Moreover, the Group remained at the forefront of the industry in software development. During the year, the Group successfully replaced the original five-chip application with the two-chip application, greatly reducing the production cost for customers. With these flexible strategies, the Group secured orders from many Chinese mobile phone manufacturers, providing base band chipsets solution to them. Needless to say, the booming growth in the mobile phone industry has enabled the Group to enjoy considerable growth in sales of mobile phone components and solutions for other functions. Components for picturing applications, including the CoreLogic's JPEG decoder and HYNIX's mobile phone lens, two of the Group's exclusive distribution products, registered encouraging performance. Apart from providing customised solutions for customers, the Group also provides additional value-added services to its customers, including logistics, technical support, quality assurance and after sale services.

Distribution of Sports Equipment

As a lot of new consumers in China are golf enthusiasts, their demand for golf and golf-related products has reached international standard. This trend has created an ideal opportunity for the Group's sports equipment distribution business, especially for the world's no. 1 brand golf product – Titleist. Additionally, the Group is actively



participating in mega exhibitions of sports equipment all over the world, and involved in sponsoring a number of golf competitions, successfully consolidating the reputation of the Titleist brand. The Group also actively promoted Titleist's sales in China through the Beijing, Shanghai and Shenzhen offices, and expanded the customer network in Hong Kong and the Philippines. Other sports brands also recorded satisfactory growth, including Footjoy and Cobra. Moreover, the Group has actively expanded its merchandising network to reduce the cost of sports equipment, thus lifting overall profits for this business.

□ CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK\$304,006,000 as at 31st December 2003 from approximately HK\$282,780,000 as at 31st December 2002.

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□ LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated cash flow and banking facilities provided by its bankers.

Prudent financial management policy has enabled us to maintain a healthy financial position. As at 31st December 2003, the Group had fixed deposits and cash balances aggregated to approximately HK\$67,778,000 (2002: approximately HK\$43,154,000).

As at 31st December 2003, the Group currently had banking facilities amounted to an aggregate sum of approximately HK\$498,459,000 (2002: approximately HK\$306,479,000) with various banks.

In 2003, the current ratio was maintained at approximately 1.30 (2002: approximately 1.31) based on current assets of approximately HK\$750,487,000 and current liabilities of approximately HK\$576,252,000 and the quick ratio was approximately 0.92 (2002: approximately 0.93).

As at 31st December 2003, total indebtedness of bank borrowings amounted to approximately HK\$354,307,000 (2002: approximately HK\$233,618,000), representing approximately 116.5% of the total shareholders' equity (2002: approximately 82.6%).

The Directors considered that the Group shall have sufficient financial resources to meet its working capital requirement after a due consideration of the net cash position and the availability of the existing banking facilities.

□ FOREIGN EXCHANGE RISK MANAGEMENT

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and United States dollars. Exchange rates between these currencies were relatively stable during the period under review.

□ EMPLOYEES AND REMUNERATION POLICIES

As at 31st December 2003, the Group employed approximately 300 employees in the Greater China. They were remunerated according to the nature of the job and market conditions. Other staff benefits include a mandatory provident fund scheme, insurance, medical insurance and share option scheme.

□ MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest suppliers accounted for approximately 53.66% of the total purchases and the largest supplier accounted for approximately 17.31% of our total purchases. The aggregate turnover during the year attributable to the Group's five large customers were less than 30% of the Group's total turnover.

As at 31st December 2003, Hon Hai Precision Industry Company Limited, a shareholder holding more than 5% of the Company's share capital, had a beneficial interest in one of the Group's five largest suppliers.