



# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

The Group's merger with a major distributor of computer products, Videocom Technology (HK) Limited ("Videocom"), and its active development of a new computer retail brand  last year produced a satisfactory business performance.

During the year under review, the Group continued to derive most of its revenue from its two core operations, namely: (1) Trading and distribution of electronic parts, components and equipment under the Mobicon brand  and (2) Trading, distribution and retail sale of computer products and accessories under the retail brand . Overall turnover and gross profit increased substantially by approximately 77% and approximately 47% respectively, which further validated the effectiveness of the Group's "Satellite Development Strategy".

## Trading and Distribution Business of Electronic Parts, Components and Equipment

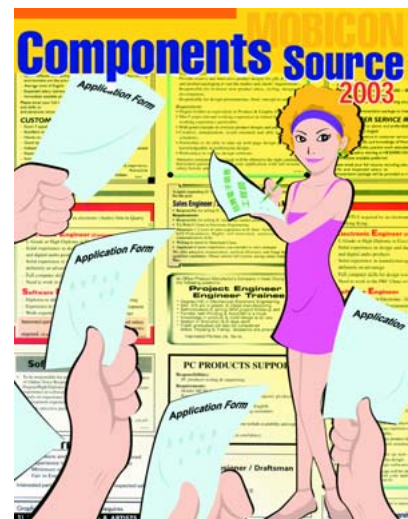
### Hong Kong and China

During the year under review, the Group consolidated and streamlined its operations, enabling its overall trading and distribution business in electronic parts, components and equipment to continue their excellent performance. Compared to the same period of the previous year, sales turnover increased 35% to approximately HK\$592 million which accounted for approximately 51% of the Group's total turnover.

Over the past two years, the Group had established seven subsidiaries in line with its "Satellite Development Strategy", namely: Arkia Advance Limited, Conwise Power Limited, MCU Power Limited, DV Power Limited, Milliard Devices Limited, MEC Quartz Limited and Sensor Power Limited. Apart from financial support, the Group had always provided professional training for its subsidiaries, and its "Professional Talent Selling Strategy" was actively implemented. This, coupled with the Group's own excellent trading platform, enabled its subsidiaries to provide comprehensive purchasing and support services to small and medium-sized enterprises. In addition, the Group made concerted efforts to introduce "Small Order Services" for customers with small quantity orders in Hong Kong. Other than expanding its customer network and income streams substantially, it also enhanced relationships with customers and brand names. Concurrently, the Group's seven subsidiaries registered a combined turnover of approximately HK\$206 million, which accounted for approximately 35% of overall sales turnover in this business line.

During the year, the Group also signed agency contracts with many brand-name vendors, including Action (provider of MP3 solutions); Avant Wave (provider of Bluetooth technology solutions), Austria Micro Systems ("AMS") (provider of speaker phone IC) and HKW (chip provider). Following the Group's successful promotion of AMS's speaker phone IC, their products became widely adopted in the market.

During the year, the Group also launched a "Components Source" purchasing guide which provides regular updates on the Group's latest business developments and that of its various subsidiaries, their corporate culture as well as their latest products and services, in a bid to strengthen customer relationship.



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As for its China market, the Group actively expanded its business during the year and relocated its China office to a 369 square metre office in Shenzhen International Trade Centre. Its staff increased to 20, who were principally engaged in the design of engineering application solutions.

### Overseas Business

Mobicon registered an increase in sales turnover in Singapore, Malaysia and South Africa. Of the three, its business performance in South Africa was the most outstanding. Due to the excellent performance of its logistics distribution business in South Africa, Mobicon was appointed by Farnell InOne, a top electronic components company in the United Kingdoms, as its sole agent in South Africa.

### Trading, Distribution and Retail Sale of Computer Products and Accessories

During the year under review, the Group undertook active development of its Videocom computer retail business, whereby the number of its retail outlets in Hong Kong's major computer centres was increased to 12.


As a result of the individual visit scheme being implemented, overall sales turnover from the Group's computers and accessories business saw a surge of approximately 160% from approximately HK\$218 million in the previous year to approximately HK\$568 million. Currently, this business line accounts for approximately 49% of the Group's overall sales turnover.



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To ensure the sustainable growth of its computer products and accessories line, the Group is now actively developing its IT Outsourcing Business. By establishing A Power Limited and the Group's two joint-venture companies, namely Create Tech Software Systems Limited and San Design (Hong Kong) Limited, the Group is offering a comprehensive range of integrated IT services, including webpage production, computer software design, hardware supply and IT security services.

The Group will further expand the number of its  retail outlets in Hong Kong's major computer centres. Plans are currently afoot to develop a giant retail outlet comprising more than 20 shops in Wonder Building in Shamshuipo to consolidate the Group's market leadership position. During this year, Videocom continued to provide premium-quality products at super-value prices. Besides, a lovely animated cartoon figure "Joyce" was created as its spokesperson, which, along with the promotional slogan "Happily Recommending: Joyce Is a True Joy", has established a trendy and approachable image for the brand. This has contributed to a record sale of 1,000 computer sets per month.



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### Liquidity and Financial Resources

The Group has had a strong financial foundation. As at 31 March 2004, the Group had cash and bank balances of approximately HK\$30 million (as at 31 March 2003: approximately HK\$21 million). The Group's total assets amounted to approximately HK\$300 million (as at 31 March 2003: approximately HK\$182 million). Net assets per share amounted to HK\$0.69 (as at 31 March 2003: HK\$0.59). Dividend earnings and basic earnings per share were HK\$0.05 and HK\$0.143 respectively (as at 31 March 2003: HK\$0.04 and HK\$0.09 respectively).

As at 31 March 2004, the Group had aggregate banking facilities of approximately HK\$93 million (As at 31 March 2003: HK\$45 million) from several banks for overdrafts, loans and trade financing, with an unused balance of approximately HK\$36 million (As at 31 March 2003: HK\$38 million).

The Directors believe that the Group's existing financial resources are sufficient to fulfill its commitment and working capital requirements.

### Capital Structure

As at 31 March 2004, the total borrowings of the Group were approximately HK\$57 million (as at 31 March 2003: HK\$7 million) which are in form of short-term bank loans for financing expansion and future development plans of its subsidiaries. The Group's bank borrowings were denominated in US dollars and Hong Kong dollars. These loans have a maturity term of two to three months and they can be rolled over afterwards at the Group's discretion. During the year, the Group's borrowings bore interest at rates ranging from 1.330% to 4.250% per annum (as at 31 March 2003: ranging from 3.656% to 3.938% per annum).

### Gearing Ratio

As at 31 March 2004, the Group's gearing ratio (calculated as a percentage of total borrowings over total assets, less current liabilities) was approximately 0.389 (as at 31 March 2003: 0.059).

### Risk Exposure to Exchange-Rate Fluctuations

Most of the Group's transactions are denominated in Hong Kong dollars, RMB and US\$. Considering the stable exchange rate of Hong Kong dollars against RMB, combined with the continual policy of HKSAR Government to link Hong Kong dollars to US\$, no hedging or other alternative measures have been undertaken by the Group. As at 31 March 2004, the Group had no significant risk exposure pertaining to foreign currency contracts, interest rates, currency swaps or other financial derivatives.

### Charges on Assets

The Group did not have any charge on its assets as at 31 March 2004.

### Contingent Liabilities

The Group had no significant contingent liabilities as at 31 March 2004.

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### Employment, Training and Remuneration Policy

As at 31 March 2004, the Group had 414 full-time employees. Employee salaries are based on individual work performance and seniority. The Group strongly believes that employees are the company's precious assets, and therefore attaches great importance to staff training.

To enhance communication with employees, the Group has set up Mobicon Walk in its office. Employees can contribute their opinions via the Mobicon Walk notice board; while the management shares its experiences with staff through the "Words for Each Day" column. This stimulates the exchange of opinions as well as enhancing staff morale.

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In addition, the Group contributes to the community and fosters a corporate team spirit by encouraging staff to join with the management in various charitable activities. For example, the Group donated the money it raised during the Yan Chai Charity Walk and internal fundraising activities to the Yan Chai Emergency Assistance Relief Fund. The Group also formed the "Rainbow Team" to participate in the Outward Bound Competition, a major event that raises funds for Outward Bound Hong Kong. Last year, it won the first-runner-up award.