



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The results for the period under review proved to be encouraging for the three core business focus of the Group, namely (i) distribution of Samsung mobile phones in China (ii) distribution of Kejian mobile phones in overseas markets; and (iii) acting as International Purchasing Office.

#### (i) Distribution of Samsung Mobile Phones in China

The Group relies on the long-term solid relationship with Samsung Electronics Limited, and has been acting as an exclusive agent of several models of the Samsung's mobile phones selling in Mainland China. During the period under review, the Group has achieved a favourable sale results in China in respect of Samsung's mobile phone models distributed by the Group like models T208 and T508, which is the main source of income of the Group.

Attributable to the effort of the Management, the Group's distribution network of mobile handsets in China has been further expanded to 26 major cities, provinces and autonomies with support from more than 100 core distributors and over 5,000 registered retail shops by the end of FY2004. In addition, we have maintained excellent relationship with our main supplier, Samsung, the world's third largest manufacturer of mobile phones in terms of market share. In fact, Samsung performed very well and took part of market share of its major competitors not only in China, but also in the worldwide market during the last year and is generally recognized as the most trendy mobile phone brand name in China given their stylish looks and usability.

#### (ii) Distribution of Kejian Mobile Phones in Overseas Markets

During the period under review, feature-rich models with colour display came onto the market, especially K698, K699 and K606 are high-end stylish phones with camera, and also K388 which adopted technologies of PHILIPS such that its standby time can last for 10 days and therefore our consumers became motivated to purchase new models of our products. Ezcom intends to capitalize on this trend by offering a series of new models with advanced features, to simulate demand among our targeted consumers. The Group continued to renew its product line-up, launching several new fashionable models with colour screens, camera and multimedia capability.

The period under review also marked the initial rollout of our products outside Mainland China. Since May 2003 Ezcom has already been successfully distributing few popular models of Kejian brand mobile phones in Hong Kong and Macau to pave the way for our growth in other regions like India, Russia, Middle East and other developing countries.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### BUSINESS REVIEW *(continued)*

#### (iii) International Purchasing Office

The Group has more than 10 years of solid experience in the business of purchasing of electronic components. During the period under review, we have acted as “one-stop” electronic components purchasing office for a number of GSM mobile phone manufacturers in China and South Korea by utilizing the Group’s good relationship with international leading manufacturers of electronic components.

“One-stop” purchasing of electronic components, which generated stable income for the Group, has become the Group’s new focus of growth in profitability apart from the Group’s business of distributing mobile phones.

#### (iv) Batteries

We believe that, following the development of technology, people require more and more mobile/portable electronics products and good quality, durable, compact but thin batteries are critical to the further development of electronic gadgets and mobile technology. The Group has therefore invested in a joint venture company located in Shanghai that specifically engaged in the manufacturing of high-tech polymer cell from which we hope it can generate additional earnings growth for the Group.

### Research and Development

In respect of technology and research & development, our 33.98% interest in Ezze Mobile Tech., Inc. (“Ezze Mobile”), proved to be highly valuable to the Group’s vision to become a full mobile telecommunications solutions provider with premium-value-added services possessing unsurpassed strengths in areas of up-to-date mobile solutions, innovative product designs, production support, quality control and provision of after-sale services.

Apart from assisting in our customer, Kejian’s sponsorship to Everton Football Club of English Premier League, the Group has also successfully assisted Kejian in its jersey sponsorship to Hong Kong Representative Team in “Invest Hong Kong Football Challenge 2003 against Liverpool”, in July 2003. The programme has reinforced our customer, Kejian’s sports-driven branding initiatives as part of a series of carefully planned sports sponsorship events in soccer and also supported one of the community events in the Hong Kong’s bounce back activities after the outbreak of SARS.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### BUSINESS REVIEW *(continued)*

#### Financial Position

The Group continued to be able to sustain its sound financial position. At 31st March 2004, the Group's total cash on hand and total bank borrowings aggregated to HK\$81 million and HK\$59 million (30th April 2003: HK\$102 million and HK\$116 million) respectively, in which bank borrowings amounted to HK\$56 million (30th April 2003: HK\$112 million) were repayable within one year from 31st March 2004. The bank borrowings were secured by bank deposits of HK\$75 million (30th April 2003: HK\$75 million) and legal charges on the properties of the Group with an aggregate net book value of HK\$13 million (30th April 2003: HK\$14 million) as at 31st March 2004.

The Group's business transactions, assets and liabilities are mainly denominated in Hong Kong Dollars, Renminbi, Japanese Yen 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. The Group does not conduct any foreign currency speculative activities.

The Group had contingent liabilities in respect of bills of exchange discounted with recourse amounted to HK\$76 million (30th April 2003: HK\$89 million) as at 31st March 2004.

Shareholders' funds were maintained at a level of HK\$523 million (30th April 2003: HK\$411 million) and the gearing ratio as measured by total bank borrowings to net assets dropped to 11% as at 31st March 2004 (FY2003: 27%).

#### PROSPECTS

We anticipate that stable growth in revenue and profits from the Group's distribution of fashionable mobile handsets in China, Hong Kong, Macau and also overseas markets and supply of mobile phone, electronic components and technology to a number of Chinese and Korean mobile phone manufacturers will enable the Group to achieve continual strong organic growth.

In light of the highly competitive market and rapidly changing environment, innovative ideas offered by our associate, Ezze Mobile brings the Group closer to cutting edge developments in the mobile telecommunications industry, including multi-media messaging, mobile high-speed data transmission via GPRS, 3G or other platforms and development of smartphones.

We will keep our eyes on business opportunities in 3G handsets since it is likely that the transition from 2G to 3G will span several years and significant volume sales of new 3G mobile phones only possible with the timely and successful construction of pricey new 3G networks and debut of 3G services by carriers and availability of high quality 3G-enabled mobile phones in the Greater China Region, in particular, China is still nurturing its own domestic standard for the 3G technology.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### PROSPECTS *(continued)*

The combination of Ezze Mobile's handset design capabilities with Samsung's advanced technology support and Kejian's manufacturing strength will provide the Group with a unique edge over our competitive peers in implementing solutions. In fact, a national survey performed in 2003 on brand identity in China ranked Kejian number one in brand visibility for mobile phones in the country.

Across the Asia, selected industries and geographic regions have their individual challenges, but the overall business environment seems to have become stabilized. The prospect for modest but emerging growth is further enhanced by the implementation of CEPA, other supportive measures for Hong Kong Companies introduced by the Chinese government in 2004 and the gradual de-regulation of China's telecom market under WTO in 2005. The Management therefore anticipates that there will be more opportunities for the Group's business to grow in the PRC of telecommunication market.

In 2004, IDC expects total worldwide market volumes in mobile handsets to grow by 12% or slightly more. Volume growth in 2004 is expected to be driven by the combined effects of an expanding subscriber base especially in developing countries like China and India and a stabilizing replacement cycle. Just over a quarter of current PRC subscribers upgrade their handsets annually, which translates into a replacement cycle of roughly 2.5 years. We note that consumer sentiment has already rebounded and retail sales figures have been improving significantly in Hong Kong and China since the normal buying pattern has resumed.

We also envisage the landing of our products in other new overseas markets. Based on the Group's current successful business models in PRC and Hong Kong, the Group will continue its geographical expansion and enhance its market presence in the other regions since our products have already landed on India's booming handset sector which has a very low mobile penetration rate of 3 to 5% and is set to emerge as the fourth-largest handset market in the world according to industry estimates.

While the Group will maintain its business in distributing Samsung's premium, high-end models, in order to further strengthen the Group's products portfolio, the Group may also consider to distribute smartphones which are now very popular in China and mid-end models of Kejian with advanced functionality to cater for the customer's needs in overseas markets and developing countries and will try to provide high quality value-added services to our customers. With a corporate vision to "Bring Technology to Life", Ezcom is committed to becoming a regional leader in the mobile telecommunications industry.

For the benefits of the shareholders and the Company as a whole, the Board will also explore new business expansion and investment opportunities to diversify our business.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### EMPLOYEES

As at 31st March 2004, the Group employed approximately 30 (30th April 2003: 30) staff in Hong Kong and had approximately 40 (30th April 2003: 40) employees in the Mainland China. The staff costs, which included salaries, allowance and other benefits in kind amounted to approximately HK\$14 million (FY2003: HK\$50 million). The decreases in staff headcount and staff costs were mainly due to the disposal and discontinual of office furniture business during FY2003.

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.