

Management Discussion and Analysis



SEGMENTAL ANALYSIS

Distribution of Electronic Components

Mobile Phone Products

The Group achieved satisfying development in total solutions for mobile phones. It expanded its supplier network and engaged with more mobile phone components suppliers. The Group also successfully established partnerships with the top 10 renowned mobile phone producers in the PRC, hence enlarged its client base. Furthermore, the Group also promoted solutions for multimedia mobile phones to create more channels for their release.

The Group applied its industrial design techniques and R&D abilities to develop CMD ESD and EMI protection solutions for mobile phone. The SAMSUNG monitor solutions and imaging components such as CoreLogic's JPEG decoder, Hynix's image sensor, and Sharp's Combo Flash, which the Group distributed also recorded encouraging sales.

To help customers further lower production costs, the Group introduced mobile phone solutions with two-chip application designs. Among the first producers to do so, it successfully attracted many new customers. Maintaining close cooperation with world leading mobile phone component providers, such as Agere Systems, the Group continued to provide base band chipsets solutions to many Chinese mobile phone manufacturers.

During the year, the number of customers who used the Group's value-added services such as logistics, technical support, after-sale services and quality control increased notably, bringing in stable revenues for the Group. Furthermore, the Group added new sales point in Ninbo, Kunshan, and Suhang to its sales network and integrated its sales and technical support functions in China, which resulted in improved services to the rapidly developing China mobile phone market.



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Electronic Consumer Products

During the year, the Group made great research and development advances, and successfully launched the power management solution for PALM, the critical module solution for DSC, MP3 player solution, and also a DVD R/W solution in the market.

Furthermore, the Group maintained steady development of its LCD TV and digital TV design solutions, and attained significant results in the export market. These progresses were mainly attributable to the strong industrial design and R&D capabilities of its expanded R&D specialist team and Field Application Engineers ("FAE").

The number of clients who turned to the Group for portable DVD player solutions also grew drastically during the year under review. The Group recorded encouraging growth in the TFT-LCD monitor business. As for the audio and visual business, the sales of related components from National Semiconductor, Fairchild, and Texas Instruments all recorded considerable growth.

Computer Products

In line with the steady growth of the computer industry, the Group's sales in memory products for VAG card, USB connectors, IEEE 1394 connectors, and AVX components also registered stable growth.

Communication Products

The deregulation of the telecommunication market has fueled the demand for value-added telecom services and the highly effective network equipment. The RingBack Tone service in particular became the most applauded service, boasting not only high subscription rate, but also enabling telecom service operators to break-even within a short period of time.

As more and more 3G operators enter the market, the demand for video services has been increasing in folds. The phenomenon plus the market prevalence of Color RingBack Tone has contributed considerable income to the Group's telecommunication sector.

Armed with years of experience in distributing different telecommunication products, the Group is the main agent of NMS Communications in the Greater China region and sustains stable sales for the client.

Distribution of Sports Equipment

As for its sports equipment distribution business, the demand for golf equipments continued to increase in the Hong Kong and PRC market, increasing the segment's turnover by 50% in the PRC. As the interest in tennis increased in the PRC, tennis brands such as Wilson and Babolat recorded significant sales during the year.

The Group also actively expanded its sales and supplier network, effectively reducing distribution costs, which in turn increased the overall profit for the business.

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK\$342,369,000 as at 31st December, 2004 from approximately HK\$304,006,000 as at 31st December, 2003.

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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, 2004, the Group had fixed deposits and cash balances aggregated to approximately HK\$122,799,000 (2003: approximately HK\$67,778,000).

As at 31st December, 2004, the Group currently had banking facilities amounted to an aggregate sum of approximately HK\$877,000,000 (2003: approximately HK\$513,000,000) with various banks.

In 2004, the current ratio was improved to approximately 1.4 (2003: approximately 1.3) based on current assets of approximately HK\$833,765,000 and current liabilities of approximately HK\$587,095,000 and the quick ratio was approximately 1.0 (2003: approximately 0.9).

As at 31st December, 2004, total indebtedness of bank borrowings amounted to approximately HK\$373,158,000 (2003: approximately HK\$354,307,000), representing approximately 109.0% of the total shareholders' equity (2003: approximately 116.5%).

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.

ADVANCE TO AN ENTITY

As at 31st December, 2004, disclosure under rule 13.13 continued to exist. In accordance with rule 13.20 of the Listing Rules, the details are as follows:

As at 31st December, 2004, there were 242,540,720 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.786 as stated in the Stock Exchange's daily quotation sheets for trading days from 24th December, 2004 to 31st December, 2004 (both days inclusive), being the five business days immediately preceding 31st December, 2004, the total market capitalisation ("Market Capitalisation") of the Company was HK\$190,637,000 as at 31st December, 2004.

On 31st December, 2004, trade receivables due to the Group from Shenzhen Sze Hung Imports & Exports Ltd ("Sze Hung") and Time Speed Electronic (Taiwan) Company Limited ("Time Speed") amounted to approximately HK\$28,968,000 and HK\$23,831,000 respectively, representing approximately 15.2% and 12.5% respectively of the Market Capitalisation. Such trade receivables are unsecured, interest-free and with credit terms 120 days. They primarily arose from sales of electronic components.

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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 year under review.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2004, the Group employed approximately 350 employees in the Greater China. They were remunerated according to their merit, qualification, competence and job nature. 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 39.41% of the total purchases and the largest supplier accounted for approximately 11.24% 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, 2004, 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.