

# review of operations and prospects

For the year 2004, profit attributable to shareholders was HK\$551 million as compared to HK\$450 million for the year 2003.

The total turnover was HK\$6,422 million for the year compared to HK\$7,723 million for 2003. For 2003, this included HK\$1,328 million attributable to the foreign exchange business that was sold in October 2003. The gross profit from operating activities was HK\$788 million as compared to HK\$897 million for 2003.

The core business segments of the Group currently comprise of The Branded Distribution Group and The Electronics Manufacturing Services Group. As noted above the Group disposed of its foreign exchange business which was the primary component of the Financial Services Group, this is therefore no longer considered a core business segment.

The Branded Distribution Group will continue to become an increasing contributor to sales and profits representing 57% of consolidated sales in 2004 as compared to 28% in 2003.

## **The Branded Distribution Group**

The Branded Distribution Group's turnover for 2004 was HK\$3,660 million as compared to HK\$2,128 million for 2003. This was largely a result of increased market penetration and expansion of its product lines to cover flat panel display products, such as Plasma and LCD TV's.

The Group manages the distribution and licensing, including all trademark and patents, of three global Brands, namely Nakamichi, Akai and Sansui (collectively referred to as "Brands"). Both Akai and Sansui target the mass market with customers looking for mid to high end audio and video products. Nakamichi is the Group's premium brand concentrating on lifestyle systems that have much higher market potential. The Group has continued to invest in the Brands in 2004 by setting up Plasma and LCD assembly lines in China. The Group will continue to stay ahead of the technology curve through its investment in research and development. This has resulted in the Brand's being able to take full advantage of the growing demand for display products. Sales of the Akai Plasma 42" TV were particularly encouraging in the US holiday season towards the end of 2004 and this momentum has continued into 2005. Along with the recent inclusion of a value-for-money Plasma 50" TV, then Akai intends to further maximize on this demand.

With the continuation of increased HDTV programming and DVD sales then wide-screen TV demand will continue to grow world wide and the Group is well positioned to take full advantage of this.

The Group's operating profit for 2004 was HK\$411 million which was a 29% increase compared to HK\$318 million in 2003. The increase in profit is due to the Group's proactive brand management program to manage as well as license the Brands, expand the distribution network, improve the product selection and maintain an efficient cost structure.

The strong Euro has been beneficial to Distributors in Europe in reducing the cost of products from Asia and leading to increased sales. The Group continues to expand in China so as to take advantage of the tremendous demand for products. Contracts have been made with the largest home appliance stores such that Akai and Sansui are now represented in all major cities and territories in China. In addition, significant investment has been made in the advertising and brand marketing in China with the aim that the Brands will become the pre-eminent international Brands in China for consumer electronic products.

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The Brands will continue to diversify into other product categories of a like nature, such as home appliances (white goods) for Akai. This has arisen by popular demand from existing distributors, where the retailers sell such products alongside consumer electronic products. Furthermore, the Brands have not yet fully developed the distribution networks in all countries and will target the introduction of products into these untapped markets for increased revenue growth.

The Group will continue to invest in the infrastructure, product development and global marketing needed to realize the full potential of the Brands.

## **The Electronic Manufacturing Services Group**

The Electronic Manufacturing Services Group (“EMS”) is comprised of two primary divisions, Lafe Technology Limited (“Lafe”) and Tomei Technologies Limited (“Tomei”). Lafe is a leading manufacturer of magnetic storage devices and is one of the top five manufacturers of recording heads and related assemblies for tape drives, hard disc drives and optical drives in the global storage market. Tomei manufactures consumer electronic products on behalf of major global brands, such products include DVD recorders, DVD rewritables, LCD projectors and flat panel monitors.

The EMS turnover for 2004 was HK\$2,762 million, as compared to HK\$4,089 million in 2003. The decrease was as a result of (1) the successful shift to higher value added consumer products such as DVD recorders and LCD projectors, (2) The closure of the Group’s LCD manufacturing operations in Thailand and the transfer of business to the Group’s Zhongshan facility, which began at the end of 2003 and was completed in June 2004; and (3) The phasing out and decrease in demand of the matured Digital Linear Tape Ferrite Head, prior to the build up of turnover of the new generation of Super DLT Magneto-Resistive Heads (“MR heads”).

The EMS Group achieved an operating profit of HK\$52 million for 2004, as compared to HK\$222 million in 2003. In addition to the above factors, Lafe incurred higher material content in new products and continuous pricing pressure from customers, along with increased costs in developing new products during the year.

In anticipation of the uncertain demand and pricing pressure on MR heads for 2005 and the continuing phasing out of ferrite tape heads, Lafe is collaborating with customers in the development of new product designs. This includes new heads as well as other complementary products and we anticipate that an increasing portion of Lafe’s total revenue will be derived from such sales in 2005 as compared to 2004. Lafe has also made good progress in the development of heads and complementary products for the Linear Tape Open (“LTO”) Drive market. The product qualification process has commenced and volume production is expected to be launched within 2005. This will allow Lafe to enter the LTO Drive market and contribute to the Group’s revenue in the near future.

We have not budgeted significant growth in the EMS Group for 2005 but rather expect EMS to provide solid cash flow generation.

The Group is well positioned in terms of technological development to handle customers’ demand for new products and will continue with its strategy of both increasing the value added content in its operation and diversifying its product lines, as well as expanding its customer base.

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