

Management Discussion and Analysis

Review and outlook

Financial Review

During the year, the Group obtained nationwide distribution rights for one more Nokia's new handset model, namely E50. Nokia model E50 is belong to business-themed E-Series which is targeted at the business users and supports today's most popular and newly announced corporate mobile email solutions. Although E50 was launched in the mainland China market in last October and thus not forming a very significant part in the Group's total sales turnover, its contribution towards the Group's result was promising. The Group's sales turnover for the year was mainly contributed by other Nokia models, namely 7610, 3220, 6708 and 2600.

In September 2006, the Group reached an agreement with Nokia regarding the Fulfillment Distributorship for Nokia Stores and Nokia Professional Centres ("NPCs"). According to the said agreement, the Group was appointed as the fulfillment distributor for NPCs in mainland China and supplies to approximately 100 NPCs all over the country. The Group is entitled to certain types of rebates according to the rebate scheme as agreed with Nokia from time to time. At present, the Group is the sole fulfillment distributor for NPCs in mainland China. In order to facilitate the order placing and management processes, the Group self-invented a web-based distribution resources planning system. The NPCs can place orders and make enquiry on order status real-time on-line. The fulfillment distributorship of Nokia creates more business opportunity and generates comparatively stable revenue and profit for the Group.

In this year, the Group firstly obtained nationwide distribution rights in mainland China for eight Samsung's new handset models, namely D848, E778, E788, i858, X508, X518, X638 and X688. Together with the long-term partnership with Nokia, the Group's distribution foundation is further enhanced. The Samsung handset models D848 and E788 also had an outstanding

contribution towards the Group's sales turnover and result during the year.

The Group recorded a consolidated turnover during the year of total HK\$3,047 million as compared with that of HK\$2,664 million for last year. The total number of handsets sold in 2006 of approximately 2,802,000 sets was around 2% higher than that of 2005 which was approximately 2,760,000 sets. Both the sales turnover and the number of handsets sold increased mainly because the Group has started the new businesses as stated above. The gross margin did not have any significant change and stayed at 3.7% as compared to 3.6% last year.

To increase the geographical coverage, to deepen market penetration and to cope with the increase of models being distributed, the distribution costs showed an increase of 18% in comparison with that of last year. With tightening control over various administrative functions, the administrative expenses dropped for 15% as compared to last year. The raise in bank borrowings due to the commencement of new businesses in the year led to an increase in finance costs of 25% over last year.

As a result, the Group reported a profit before taxation of HK\$37 million for the year, an increase of HK\$17 million in comparison with that of HK\$20 million for the year ended 31st December, 2005. The net profit attributable to shareholders for the year was HK\$31 million, increased by 182% as compared with that of HK\$11 million for the year ended 31st December, 2005. The net asset value of the Group as at 31st December, 2006 amounted to HK\$396 million or HK\$1.31 per share versus HK\$354 million or HK\$1.17 per share as at 31st December, 2005. The earning per share for the year ended 31st December, 2006 was HK10.4 cents, while the earning per share for the year ended 31st December, 2005 was HK3.8 cents.

As at 31st December, 2006, the Group's aggregate borrowings amounted to approximately HK\$677 million,

of which HK\$458 million was revolving working capital loans denominated in Renminbi to provide flexibility to the Group in response to the changing monthly trading volume. The increase in bank borrowing from HK\$272 million as at 31st December, 2005 to HK\$677 million was mainly attributable to the increase in working capital requirement arising from the commencement of new businesses during the year. There was a 3-year syndicated loan of US\$13 million as at 31st December, 2006, which was raised in September 2005 and amounted to US\$16 million as at 31st December, 2005. Due to the breach in certain financial covenants, the loan was classified as short-term in accordance with the corresponding accounting standards. The Group was granted a waiver from strict compliance with the relevant covenants on 13th April, 2007. The Group did not have any gearing as the Group did not have any long-term liability as of 31st December, 2006. The total bank deposits and cash balances amounted to approximately HK\$201 million, of which HK\$151 million has been pledged to banks. The finance costs for the year of HK\$28 million were higher than that of last financial year because of the raise in borrowings which was in turn due to the commencement of new businesses. The interest cover was 2.4 times. To cope with the high bank borrowing ratio, the Group continues to monitor its working capital requirement closely with a view to reduce its total bank borrowings and lower the finance costs accordingly.

During the year, there was no material change in the Group's funding and treasury policy. As over 90% of the Group's sales and purchases are denominated in Renminbi and the exchange rate of Renminbi against Hong Kong dollar is relatively predictable, the risk of currency exposure is considered minimal.

The amount of inventory as at 31st December, 2006 was HK\$601 million, which represented approximately 75 days stock turnover as compared to 26 days stock turnover based on the inventory level of HK\$181 million as at 31st December, 2005. The increase in

stock turnover period was mainly attributable to the commencement of NPC fulfillment distribution and Samsung mobile phone distribution businesses. Inventory level tends to be higher during the preliminary stage of a new business, but it is expected to go down to a lower level as the businesses approach their maturity in the year of 2007. The Group keeps on taking a cautious approach in inventory ordering and price negotiation with the suppliers. Any drop in price of the product has no material impact on the financial position of the Group as most inventories are covered by the pre-arranged price protection rebates from the suppliers. The Group was only required to make a small provision of HK\$5 million for slow-moving and obsolete stocks for the year as most inventories were current models of mobile phones as at 31st December, 2006.

The amount of trade receivable as at 31st December, 2006 was HK\$171 million, which represented approximately 20 days debtor turnover period as compared to 11 days last year. The increase in debtor turnover period was also because of the commencement of the two new businesses during the year. As the businesses approach their maturity in 2007, the debtor turnover period is expected to decrease accordingly. The Group adopts a tight credit control policy and most of the sales are on either cash basis or limited credit period of less than 30 days. As at 31st December, 2006, more than 60% of trade and bills receivables were aged less than 30 days. Bad debts written off for the year was HK\$0.8 million or 0.03% of the Group's turnover. As normal practice and for prudence sake, the Group made an additional allowance for the year of HK\$5 million, which represented approximately 0.2% of the Group's turnover.

As at 31st December, 2006, the Group had a total number of 1,620 employees, which included 1,531 marketing representatives and non-contracted promoters in various cities in the mainland China. The increase in the number of employees was mainly due to the commencement of the two new businesses during

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the year. Employees were remunerated according to the nature of their jobs and market trend. Quarterly performance evaluation is done in order to determine rewards in motivating individual employee. The Group provided staff welfare and fund contribution to its employees in accordance with prevailing regulations in the PRC and Hong Kong. There was no material change in remuneration policy, bonus and share option scheme since 31st December, 2005. No option had been granted during the year.

Operational Review

Market Overview

According to the statistics released by the Ministry of Information Industry ("MI"), the PRC, there were more than 461 million subscribers to mobile phone services in the mainland China as at the end of 2006, equivalent to a penetration rate of 35.3 users per 100 persons. The number of mobile phone users in China increased by approximately 67.7 million during the year. The existing penetration rate is, nevertheless, still low in comparison with that of other developed countries of more than 50%. With a continuous economic growth rate of more than 8% per annum in the PRC, it is expected that the PRC mobile phone market will continue to grow at a double-digit figure per annum.

The Chinese government has not yet confirmed the time of issuing 3G licenses but it is expected that the licenses will be issued within the year of 2007 and 3G phones services will be provided during the 2008 Beijing Olympic Games, as pledged by the MI last December. The launch of 3G phones will definitely attract new customers and create additional demands for the market. However, as 3G phone requires a substantial supports and add-on services from operators, operators should then play a more active role in pushing the sales and this may differ from the existing distribution modes.

The mobile phone market remains competitive with over 1,000 models at various price ranges. Foreign brands, however, especially the top three brands: Nokia, Motorola and Samsung, continues to increase their markets shares and together capture more than half of the overall market shares. As the PRC government released the production licenses for the domestic brands, some domestic manufacturers started to produce low-end handsets. The MI recorded a figure of 480 million handsets produced in the PRC during the year. Domestic brands' low production cost and high channel profit develops a huge market of low-to-mid-end handsets, which unquestionably creates some impacts to the existing market. The senior management of the Group is closely monitoring this phenomenon.

Business Review

Mobile phone distribution continued to be the Group's core business for the year, which accounted for over 90% of the Group's turnover and operation profit. For low-end market, Nokia's models 2600 and 3220 accounted for approximately 7% and 19% respectively of the Group's turnover during the year. In mid to high-end market segment, the performance of Nokia's models 6708, 7610 and Samsung model D848 were promising which accounted for approximately 8%, 24% and 7% respectively of the Group's turnover during the year.

With continuous effort in expanding the Group's distribution network and deepening market penetration in the past few years, the Group maintained a customer base of more than 10,000 active customers by the end of 2006. The Group would continue to pay more attention on the quality of the customers and provide them with high standard services with a view to generate more sales revenue and profits per customer.

In Hong Kong, the Group's wholly-owned subsidiary, Synergy Technologies (Asia) Limited launched a number of new products, namely Slingbox and Palm Treo 680 and 750v, in the year. At the same time, the distribution of network systems continued to maintain a stable growth.

Prospect and Outlook

During the year, the Group was granted NPC Fulfillment Distributorship from Nokia. This business provides the Group with the opportunity to carry the full range of Nokia mobile phone models and generate stable revenue and profit in the future.

In the same period, the Group obtained the national distribution rights for eight Samsung handset models. This is the first Samsung distributorship for the Group and it is expected that more new models will be brought into the Group in the coming year. The development of this business will continue to improve the Group's distribution portfolio.

In earlier 2007, the Group fixed two merger and acquisition ("M&A") deals in which the Group acquired 51% stake and 50% stake in 珠海市雷鳴達通訊設備有限公司 and DW Mobile Technology Limited respectively. The Group believes that these two investments will further diversify the income sources of the Group and are in line with the Group's current business strategy. Notwithstanding the Group's diversified business scope within the industry of wireless communications, it has always maintained a key focus in the mobile phone distribution business.

The Group will continue to seek for other business opportunities which include developing other fulfillment and/or distribution modes in order to provide added value to suppliers as well as operators for the upcoming 3G phones; expanding existing brand portfolio to cover more major foreign brands of mobile phones in mainland China; and cooperating with internet services providers in providing application software based on the Group's self-invented web-based distribution resources planning system. The Group will also consider other M&A possibilities in order to further diversify its business scopes.