

# MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, Global Tech continued to excel in the mobile-handset distribution business. Contributing to the success of the Group was management's concerted efforts in deploying strategic marketing and sales strategies, maintaining strong relationships with suppliers, and securing exclusive distribution rights to new models of mobile-phones. Enhancing these efforts was the robust growth of the PRC mobile-phone subscription base, which reached 63 million in August 2000.

During the fiscal year ended 30th September 2000, the Group sold approximately 2.5 million mobile handsets, representing an increase of approximately 66.9% compared with last year. The total turnover for the year was approximately HK\$4,067 million, of which approximately 45.8% was from southern China, 17.8% from Hong Kong, 17.4% from eastern China, 13.2% from northern China and the remaining 5.8% from western China. The figures show the Group continues to diversify its revenue spread across the PRC. In northern China, sales growth was particularly encouraging with a more than 80% increase compared to last year, due largely to the Group's concerted distribution and marketing efforts in that region.

During the year, the Group continued to maintain a close relationship with leading international mobile-phone makers. Exclusive distributorship for a number of mobile-phones from Samsung and Nokia was secured in 2000.

## **The PRC Operations**

Since the PRC market accounts for more than 80% of Global Tech's turnover, the Group's core business continues to focus on distribution in the PRC.

Currently our distribution channel in the PRC has a customer base mainly situated in larger cities where mobile-phone penetration rates are relatively higher than in rural areas. The Group has worked with these customers for a number of years and they have proved invaluable in providing Global Tech with information on the needs of end-users. This has facilitated a rapid response to consumer demands and well-timed product launches, enabling the Group to win more orders and build closer ties with our suppliers.

During the year under review, sales of Samsung products was affected for two and a half months due to trade embargo triggered by garlic dispute between the PRC and Korea in June 2000. Nevertheless, it has done little to affect the Group's overall performance as we have successfully achieved the projected unit sales of handsets for this fiscal year.

## **Hong Kong Operations**

With a view to increasing revenue and profit streams, the Group has included Hong Kong in its plan for retail expansion with the addition of four retail shops during the year. The Group will make full use of the experience and market knowledge gained from Hong Kong outlets to expand into the PRC retail market, which will generate more profit margins in the future.

## **Taiwan Operations**

As part of the Group's strategy to expand further into international markets, Global Tech has also moved to tap the Taiwan market, which is powered by a mobile-phone subscription base of approximately 16 million users. In October 2000, the Group officially opened a representative office in Taipei, Taiwan. The opening of this office also marked the formal entry of Samsung mobile handsets into Taiwan with Global Tech acting as its sole distributor. In November 2000, the Group officially launched Samsung's first mobile handset in Taiwan – the SGH-A188 model. Sales of these handsets are expected to contribute to the Group's revenue in the next financial year.

## **Strategic Investments**

During the year under review, the Group invested in several high-tech companies to gain technological know-how and content services which are applicable to third generation mobile telephones.

### **Future Solutions Laboratory Limited (Future Solutions)**

In March 2000, the Group acquired a 16% equity interest in Future Solutions, a leading Hong Kong-based mobile internet technology provider that specialises in wireless and mobile commerce applications, at a consideration of HK\$10 million. Future Solutions has developed several innovative wireless products including W@City, which provides the platform for Hong Kong's first-ever wireless community, delivered to mobile users of a major mobile network operator in Hong Kong.

### **New Digital Technology Holdings Limited (NDT)**

In April 2000, the Group acquired a 15% equity interest in NDT at a consideration of HK\$45 million. NDT provides end-to-end multimedia production software, broadcast control, management systems and hardware solutions for the digital television industry in the PRC. It is currently developing an encryption and access control technology for future mobile commerce and third generation services.

### **Chinese Sports Program Syndicating Company Limited (CSS)**

In August 2000, the Group completed its acquisition of a 51% equity interest in CSS at a consideration of HK\$130 million, through issuing 10 million new shares in Global Tech at HK\$13 per share. CSS is a television producer of Chinese sports television programmes. Within the PRC, the company markets both advertising airtime for television programs and event sponsorships. The provision of sports content is expected to be popular with mobile-phone users after the application of third generation technology. It is expected that CSS's operation will break even by 2002.

## Strategic Outlook

Looking ahead, we believe business growth will remain robust and resilient since Global Tech, with a strong foothold in the PRC, is poised to take advantage of the numerous opportunities offered by the PRC's accession to the World Trade Organization (WTO) and the rollout of the PRC's Western Development Campaign.

With the PRC's entry in the WTO, it is expected that import tariffs on telecommunications and IT equipment will be eliminated by the year 2005. The resulting decrease in prices of imported handsets will further stimulate buying interest in foreign brands. To establish our retailing presence in the PRC, we will also be looking for investment opportunities in existing well-established retail networks in the PRC.

In addition, the Western Development Campaign marks a new phase in the PRC's economic reform, which has been aggressively implemented for more than two decades. Development projects in that region where telecommunications infrastructure remains underdeveloped will lead to higher demands for more effective means of communications. Wireless communications through mobile-phones will be fully exploited as it will be considerably cheaper than investment in fixed line telephone infrastructure. According to the PRC's Ministry of Information Industry, the Chinese Government proposes to raise the mobile-phone penetration rate in the western rural areas to 11% by 2005.

Global Tech also foresees the need for cheaper communications tools in the western region and hinterland far away from the rich coastal cities of the PRC. The Group plans to develop a new brand that caters to the lower market segment. In this connection, the Group has already formed a joint venture with China Kejian Corporation Limited and Samsung to establish R&D facilities for developing CDMA, GSM and 3G mobile-phones.

The close relationship between Global Tech and Samsung will also be extended to Hong Kong, with the planned opening of two concept shops for marketing Samsung mobile-phones. These shops will be located in the heart of downtown shopping districts. As more innovative and attractive Samsung models are about to be launched in the local market, the Group foresees excellent prospects in this venture.

Global Tech is also committed to developing the Taiwan market, which is expected to contribute to the Group's long-term international business growth. Despite a relatively high mobile-phone penetration rate, there remains much room for growth in Taiwan since the Taiwanese are sophisticated users who see handsets as icons of style rather than simply tools for communications. According to a market survey by Motorola, 52% of the current mobile-phone users in Taiwan wish to purchase a new mobile-phone within six months. We expect replacement demand to be our core area of expansion in Taiwan.

With the growth of mobile-phone businesses in the PRC, there are enormous needs for after sales servicing. The Group foresees the demand for after sales services and repairs to equal that of the demand for purchasing mobile-phones. The establishment of service centres will be a strategic step by the Group in providing a more comprehensive service structure for the Group's suppliers and customers, thereby making Global Tech a vital business partner. At the same time, it will also enable the Group to establish new avenues for revenue and profit growth.

Looking into the future, Global Tech's business growth will be in line with the economic growth of the PRC, undoubtedly the fastest growing telecommunications market in the world. The PRC Tenth Five-Year Plan has mapped out an economic development blueprint that aims to push the country's GDP from the current approximately US\$1,000 billion to approximately US\$2,000 billion by 2010. We are confident that Global Tech will be in an advantageous position to contribute to and benefit from the country's aggressive moves to become a world economic leader.