Management Discussion and Analysis

1. INDUSTRY

Mobile Phone Industry

The major driving force of mobile phone sales in Mainland China is new mobile phone users. New mobile phone subscribers amounted to 4.8 million per month in average in the first seven months of Year 2003. According to the official data released by the Ministry of Information and Industry ("MII") in Mainland China, it is estimated that there will be 65 million new mobile subscribers in 2003 (source: MII).

China is the world's most populous and also one of the fastest-growing mobile phone markets, with almost 240 million users as of the end of July 2003 (source: MII). As China has a population of around 1.45 billion, given the present low penetration rate of 16.2% China market will continue to experience enormous growth in the near future. The high demand for mobile phones keeps on going with new customers surpassing 65 million in the Year 2003.

In addition, with an average replacement rate of 25% per annum in the PRC, the replacement market is also very significant, with Asian customers' habits of embracing more high end products with novel outlook and numerous functions, especially in the major cities of Mainland China which is one of the forces of the fastest-growing market. It is expected that the penetration rate of mobile phone in Mainland China will increase to 20% by the end of 2003, i.e. there will be almost 300 million users.

Office Furniture and Related Businesses

The office furniture and related businesses did not perform well as expected. In the circumstances, with a view to focusing on the core business and avoiding further losses, the operations of the Group's furniture trading and other non-core investments have been discontinued and/or disposed of during the year under review.

2. BUSINESS STRENGTHS

China Focus

During the year under review, approximately 94% of the Group's turnover was generated from its businesses in Mainland China. In the near future, the Group's focus will remain on Mainland China, the world's fastest growing economy.

2. BUSINESS STRENGTHS *(continued)*

Products and Technologies

During the year under review, the Group's turnover shows a very strong growth since it has almost increased by about 82% and amounted to HK$2,700 million (FY2002: HK$1,480 million). The Group has sold approximately 2.9 million units of mobile phones in total (including complete handsets and sets of knock-down components) during the year under review.

In order to accomplish our mission of "Bring Technology to Life", the Group has therefore invested in Ezze Mobile Tech., Inc. ("Ezze Mobile") to upgrade the Group's R&D capabilities since the Management believes that only those enterprises with their own R&D capabilities and creativity can survive in the long run in the highly competitive mobile communication equipment market in Mainland China. Several new products designed by Ezze Mobile with high market potentials will be launched in the coming months.

GSM Mobile Phone

One of the Group's strengths is, obviously, its GSM mobile phone distribution and trading of relevant parts and components. During the year under review, the Group traded several models including the most trendy and high-end mobile phones like Samsung T208 and T508 colour display models and Kejian's models like J390, K508, K518, K528, K308 and K320.

CDMA Mobile Phone

China Unicom Limited ("China Unicom"), the first carrier to launch commercial CDMA service has launched its services to cover the major cities in Mainland China in January 2002. This represents a brand new opportunity for Ezcom and will undoubtedly benefit the Group's profitability substantially. With the introduction of the CDMA business, together with its existing well established GSM distribution network and advanced technology solutions from our strategic partners, Ezcom will experience a sharp increase in profit generated by the dual revenue from both GSM and CDMA mobile phones.

Having the worldwide largest manufacturer of CDMA mobile phones, Samsung Electronics as our strategic partner, Ezcom is in an advantageous positioned in the CDMA market. During the year under review, Ezcom has already supplied over 290,000 units of two very successful models of CDMA mobile phones to PRC customers, namely Kejian-Samsung co-branded models SCH-A399 and N299. Since the subscribers of CDMA phone services of China Unicom in Mainland China has been increasing during the recent months, as a result, the turnover of the Group will increase substantially.

2. BUSINESS STRENGTHS *(continued)*

We Are A Solution Provider With Value-Added Services

Ezcom is able to provide their customers with one-stop value-added services from provisions of mobile technology solutions, product designs, production support, quality control, purchasing, logistics, distribution networks, marketing promotion, market intelligence to after-sale services.

The Group has successfully assisted China Kejian Corporation in its sponsorship to Everton Football Club, as the first Chinese sponsor to a football team at the English Premier League.

Excellent Relationship With Major Manufacturers

One of our key customers, Kejian, is one of the biggest mobile phone makers in Mainland China, with whom the Group has an exclusive right of supplying parts for assembling of mobile phones from overseas. In fact, a recent national survey on brand identity in China ranked Kejian number one in brand visibility for mobile phones in the country. According to official data recently released by the MII, the market share of domestic mobile phone makers has increased from 39.4% in 2002 to 51.3% in April 2003. The Management believes the Group will benefit a lot from the increase of the sales in Kejian's mobile phones in Mainland China.

In addition, the Group has excellent relationship with various major suppliers of parts like Taiyo Yuden, Toshiba, Yamaha, ADI, Murata, ROHM, RENESAS, EPCOS, Fujitsu, Sharp, Samsung and Seiko.

Ezcom takes pride of its long-term strategic relationships with globally renowned mobile phone manufacturers like Samsung Electronic, the world's third-largest mobile phone maker (source: Gartner Dataquest).

3. STRATEGIES IN 2003/2004

Our ultimate goal is not to just have a significant market share but also a growth that generates profits for the Company and returns to our shareholders.

The Management is determined to develop the Group into a full service, fully integrated technology company with leading positions in mobile communications with solid results, margins and returns on equity. The Group's strategy for 2003/2004 is to continue its effort in foreseeing our clients' needs and challenges and in providing mobile communication products, solutions and value-added services quicker, better and cheaper than any of our competitors. In doing so, we shall generate a competitive economic return for our shareholders.

3. STRATEGIES IN 2003/2004 *(continued)*

Formulate Global Strategy

After China's entry into WTO, while focusing on the Mainland China, the world's fastest growing economy, the most important prerequisite for an enterprise to further develop itself is to internationalize its operations and pursue well established presence in the global market in light of keen market competition in China.

In fact, since May 2003 Ezcom has already been distributing Kejian K308 mobile phones in Hong Kong and Macau with satisfactory results as its first step for expanding its business outside Mainland China. Ezcom will continue to distribute Kejian's new models of mobile phones outside Mainland China.

In addition, Management will also explore opportunities of expanding our business to other regions like South East Asia, India, the Middle East and Europe.

Strengthen Distribution Networks

The Group will continue to strengthen its existing market coverage by strengthening its distribution networks, currently comprising over 30 distributors and 2,500 retailers in China, and expanding its distribution points and capability. Moreover, since EZCOM TECH has more than 8 years of solid experience in distribution of consumer electronic products in the PRC, the Group has considered to make use of the existing networks which are mature and effective to distribute other consumer electronic products in order to achieve high effectiveness and efficiency of utilisation of resources.

Given the Group's success in assisting Kejian's sponsorship to Everton Football Club at the English Premier League, Ezcom will also try to provide stronger marketing support and participate more actively in major marketing campaign for its key customers and partners for the sake of the common commercial interests of all parties in the near future.

Introduce New Models

The Group has experienced great success in working with an international leading brand, Samsung which is committed to the mobile phone business and has proven its success in producing and selling trendy and high-end mobile phones that are well received by consumers in various markets in the world.

While the Group will maintain its business in distributing Samsung's high end mobile phones, in order to further strengthen the Group's product portfolio, the Group may also distribute mid-to-low end models of Kejian as well.

3. STRATEGIES IN 2003/2004 *(continued)*

Explore New Business Opportunities

The Management will explore opportunities with due care in Research and Development of relevant technologies and products for 3G mobile handsets, Multimedia Messaging Services (MMS) businesses and advanced data encryption products like digital broadcasting set-top boxes that will also be synergetic to its existing mobile phone distribution business.

In addition, based on the Group's current successful business models in Mainland China and Hong Kong, the Management will also explore opportunities of expanding our business to other regions like South East Asia, India, the Middle East and Europe.

4. LIQUIDITY AND FINANCIAL RESOURCES

The Group's major source of funds was cash flows generated from its operating activities and financing from banks and share issuance.

The Group had arranged some leveraged foreign exchange trading contracts for hedging against these trade commitments. As at 30th April 2003, cash and bank balances of the Group was approximately HK$102 million (FY2002: HK$113 million), apart from that bank deposits of approximately HK$75 million (FY2002: HK$51 million) were pledged for general banking facilities.

Total borrowings of the Group, excluding convertible notes payable, amounted to approximately HK$116 million (FY2002: HK$105 million), comprising trust receipt loans of approximately HK$100 million (FY2002: HK$42 million) and bank loans of approximately HK$16 million (FY2002: HK$63 million).

As at 30th April 2003, these bank loans were secured by bank deposits of HK$75 million (FY2002: HK$51 million) mentioned above and legal charges on the leasehold land and buildings of the Group with an aggregate net book value of approximately HK$14 million (FY2002: HK$60 million). The gearing ratio (total long-term liabilities/net assets) of the Group as at 30th April 2003 was 20% (FY2002: 39%). The Directors consider that the ability of the Group to repay all its debt remain excellent.

As at 30th April 2003, the Group had outstanding convertible notes payable of totaling HK$72 million (FY2002: HK$158 million), which were issued by the Group for the acquisition of the mobile phone business. The notes are unsecured, interest-free and repayable on or before 27th March 2004 and 7th November 2004. The noteholders have the rights to convert any part of the principal amount of the notes into ordinary shares of the Company at a price of HK$5.00 each per share at any time on or before 27th March 2004 or 7th November 2004 (as the case may be).

5. TREASURY POLICIES

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 engage in foreign currency speculative activities.

6. EMPLOYEES

As at 30th April 2003, the Group employed approximately 30 staff (FY2002: 300) in Hong Kong and had approximately 40 employees (FY2002: 2,000) in the Mainland China. The staff costs, which included salaries, allowance and other benefits in kind amounted to HK$49 million (FY2002: HK$151 million). The decreases in staff headcount and staff costs were mainly due to the disposal and discontinuation of office furniture business during the year under review.

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.