

# Market Overview



## HONG KONG

Hong Kong continues to maintain its unique standing in the Greater China region, being a mobile telecommunications market where service providers and handsets manufacturers perform pilot tests on innovative services and model designs. As a free port with no sales tax, Hong Kong is also prestigiously positioned to enjoy earlier launches of new and latest models at lower prices in advance of its Asian counterparts. These features have increased Hong Kong's attractiveness to region-wide customers looking to collect handsets as fashionable items or special-usage devices, and have played a significant role in sustaining Hong Kong's robust replacement market for mobile handsets.

The recent relaxation of Mainland China's traveling rules for individuals to visit Hong Kong is expected to drive up handsets demand in the market, especially for new models with Chinese character displays as they are the most sought-after items by tourists from Mainland China.

Locally, Hong Kong's mobile subscriber base continued to grow at a steady pace as network operators continued to lower their charges on mobile telecommunications. According to the Office of Telecommunications Authority, Hong Kong's subscriber base rose from 6.21 million in December 2002 to 6.75 million in September 2003. With the launch of 3G by one of the operators in December 2003, Hong Kong's replacement market is set to remain strong with users switching to new models featuring colour LCD displays, online gaming and digital camera functionalities.

Despite the healthy signals on replacement demands, Hong Kong's mobile handsets market continues to face severe pricing and margin pressures brought about by the immense emergence of new suppliers from both Mainland China and overseas. With this in sight, the Group will continue to leverage on its strong network with its manufacturers, distribution outlets and network operators in Hong Kong. We will continue our efforts in developing effective promotion and distribution strategies that are in line with prevailing and anticipating market trends. We will also strive to improve our business viability through careful exploitation of any feasible opportunities that may arise in the market.

### TAIWAN

Taiwan's mobile handsets market remained relatively stable during the year, with approximately 24 million mobile handsets users consuming about 6.5 to 7 million new units a year. According to surveys conducted by a Taiwan-based research institute, Taiwan's penetration rate of mobile handsets had exceeded 106% in 2002, being highest in the world.

Similar to Mainland China, the Taiwan mobile handsets market also saw a gradual increase in domestically manufactured models competing head-on with their imported counterparts. In an effort to lure customers back to imported handsets, a major international manufacturer initiated a large-scale promotion during the year, offering handsets with key basic functions at substantial discounts. This had further intensified the pricing pressure in the market, causing further trim to the already razor-thin margins.

Looking ahead, the future Taiwan's mobile handsets market will continue to be driven by replacement demands, focusing towards newer models with more intelligent functions, colour displays, built-in digital cameras and online gaming capabilities. Nevertheless, given the fierce competition already in place, this replacement drive is unlikely to bring in huge sales increases to manufacturers and distributors in this market. As such, the Group plans to increase its collaborations with its manufacturers as well as local content providers in Taiwan. By forming closer alliances with these business partners, the Group intends to develop more effective promotional events and attractive sales and services packages as measures to boost its sales performance in this market.

## CHINA

China's mobile handsets market over last year had been dominated by aggressive competitions driven by domestic manufacturers and a slow-down of sales resulting from the outbreak of SARS in the country.

In response to the intensifying competition, local manufacturers and distributors have been offering disproportionately large discounts to customers in order to drive sales. This had resulted in the substantial erosion of both profit margins and market shares of competing imported brands. Since the second half of 2003, domestic handsets brands have achieved an aggregate market share of over 55%.

According to the Ministry of Information Industries ("MII"), China's 2003 mobile handsets consumption was projected at around 70 million units. However, in the year's first three quarters alone, domestic manufacturers had already produced a total of 129 million handsets, exceeding the year's projected annual consumption by almost 85%. Coupled with the slow-down of sales following the SARS outbreak, the country's inventory had climbed to an excessive 35 million handsets at the end of July 2003. This overstocking situation is expected to add further intensity to the increasingly competitive PRC market, causing further margin cuts to mobile handsets suppliers and distributors in this region.

As China gradually progresses into the era of third generation mobile telecommunication, handsets with high-volume and high-speed data transmission functions, stable performance and good after-sales services will be in high demand. As such, overseas manufacturers with proven track records in these aspects will have immediate distinct advantages over their domestic rivals to reclaim their dominance in this market. With the Group's established experiences and expertise in distributing products of this calibre, this may present potential opportunities for it to regain its competitiveness in the region. To this end, the Group will be taking a prudent approach to evaluate these upcoming opportunities and their associated business risks. We will be assessing our business strengths carefully to ascertain the Group's future business role, sustainability and profitability within this region.