

## FINANCIAL REVIEW

### Overall Review

For the financial year ended 31 December 2003, the economy of the PRC and the Greater China Region was battered by the sudden and unforeseeable outbreak of Severe Acute Respiratory Syndrome ("SARS"). As the Group's customers are mainly in Hong Kong and the PRC and suppliers are mainly in Taiwan, SARS has adversely affected the Group's operation to a large extent. As a result the Group recorded a turnover of approximately HK\$356.5 million for the year ended 31 December 2003, representing a drop of approximately 19% from the fiscal year 2002.

SARS has also delayed the demonstration of its proprietary embedded software for semiconductors and electronic turnkey device solutions to our customers and suppliers. Such delay in the provision of these value added services has brought a negative impact on the synergies among the Group's various businesses and its gross profit margin. Nevertheless, the Group still spent expenses of HK\$8.3 million ("Expenses") in improving its marketing network and design and development capability after SARS was subdued in order to meet the customers' demand in coming future. As a result, the Group's gross profit margin decreased from approximately 17% to 11% during the year and reported a loss attributable to shareholders of approximately HK\$11.7 million (2002 : profit attributable to shareholders of approximately HK\$30.7 million). Excluding the provision against trade receivables and slow moving stock of approximately HK\$4.0 million and the Expenses, the Group would record a profit attributable to shareholders of approximately HK\$0.6 million for the year ended 31 December 2003.

### Segment Results

Due to the outbreak of SARS, the sales performance of distribution of semiconductors decreased from approximately HK\$406.1 million to HK\$324.0 million, representing a decrease of 20% from the fiscal year 2002. The segment result of distribution of semiconductors also decreased from approximately HK\$35.3 million to HK\$3.0 million, representing a decrease of 92% from the fiscal year 2002.

For development and provision of electronic turnkey device solutions, the turnover was substantially impacted by SARS as the progress of development was delayed but the sales of Sony Ericsson's products brought a turnover of approximately HK\$18.0 million to the Group in the second half of the year 2003. As a result, there was no material change in the turnover for the business of development and provision of electronic turnkey device solutions between the fiscal year 2003 and year 2002. However, in order to increase the sale volume of Sony Ericsson's products and advance the Group's techniques for Information Appliances ("IA") and Global Positioning System ("GPS"), the Group allowed low profit margin for Sony Ericsson's products and spent more expenses for marketing and development. Therefore, the segment result for the business of development and provision of electronic turnkey device solutions was at a loss of approximately HK\$10.0 million (2002 : profit of HK\$5.8 million).

### **Financial Resources and Liquidity**

As at 31 December 2003, the Group had cash and bank balances of approximately HK\$23.6 million (2002: HK\$26.3 million). The Group had total assets of approximately HK\$235.3 million (2002: HK\$221.7 million) which was financed by current liabilities of approximately HK\$166.1 million (2002: HK\$162.0 million), minority interests of approximately HK\$0.7 million (2002: HK\$1.0 million) and shareholders' equity of approximately HK\$68.5 million (2002: HK\$58.7 million). The current ratio was approximately 1.3 (2002: 1.3) and the gearing ratio of the Group was approximately 54 % (2002: 52%). The gearing ratio has been calculated based on the total borrowings to the sum of total shareholders' equity and total borrowings of the Group.

The total facilities available to the Group from its bankers amounted to approximately HK\$135.7 million (2002: HK\$92.5 million). The management believes the Group has adequate financial resources for its business requirement for the year as well as its forecast requirement for the coming year.

### **Treasury Policies**

The Group generally finances its operations with internally generated resources and banking facilities provided by the banks in Hong Kong. The banking facilities are mainly trust receipt loans and invoice finance tenor up to 60 days from the invoice date. The bank interest rates are mainly fixed by reference to either in the Hong Kong Prime rate or the Hong Kong Interbank Borrowing rate for Hong Kong dollars loans.

Bank deposits of the Group are in Hong Kong dollar, United States dollar or Renminbi.

Transactions of the Group are mainly denominated either in Hong Kong or United States dollars. The risk of exposure to fluctuations in exchange rates is therefore low. The Group did not do any hedging for the foreign currency transactions during the year.

### **Charges on Assets**

The Group's certain bank deposits, investment in securities, investment properties and leasehold land and buildings were pledged to its bankers to secure certain banking facilities granted to the Group.

### **Contingent Liabilities**

As at 31 December 2003, the Group has contingent liabilities arising from bills of exchange discounted with recourse amounting to approximately HK\$2.2 million.

### **DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2003.

## **BUSINESS REVIEW**

The year under review was adversely impacted by the outbreak of SARS, so that the Group's performance was below expectation. The Group is a "one-stop" semiconductors service provider, it develops proprietary embedded software for semiconductors and electronics turnkey device solutions for its customers as well as sells the semiconductors and electronics modules to its customers. With these value added services, the Group enjoyed a higher gross profit margin and synergies between its different businesses in the past few years. However, the Group's customers are mainly in Hong Kong and the PRC and its suppliers are in Taiwan, the progress of development of proprietary embedded software for semiconductors and electronics turnkey device solutions was materially dragged down by the SARS in the first half of year 2003. Although the Group tried to speed up the progress of development of proprietary embedded software for semiconductors and electronics turnkey device solutions, it could not catch up all the customers' and suppliers' schedules in second half of year 2003. Therefore, the Group's turnover and result for 2003 were adversely impacted.

### **Distribution of semiconductors**

SARS has delayed the negotiation of purchase orders and demonstration of its proprietary embedded software for semiconductors to its customers and suppliers, then the orders from its customers have been postponed in first half of year 2003. While SARS has been subdued in late June and the demand for semiconductors was increased then, however, the Group's development schedule for proprietary embedded software could not catch up with the customers' schedule. Under this situation, the Group's bargaining power for purchase of standardised semiconductors from the suppliers was also weakened. Therefore, the demand for semiconductors from the customers was high during the second half of year 2003 but the Group still recorded a drop in turnover and profit margin for distribution of semiconductors under the situation of supply shortage of semiconductors.

On the other hand, with the efforts in advancing itself in the techniques for the development of electronic turnkey device solutions for IA and GPS last year, the Group got distributorships from several semiconductors' suppliers, who has strength in providing semiconductors for wireless communication products, such as Silicon Data Inc., Improcomm, Inc., etc, during the year.

### **Development and provision of electronic turnkey device solutions**

The Group has planned to pay much effort in the development of electronic turnkey device solutions for IA, GPS and Household Appliances ("HA") after listing and sell the relevant products or solutions to the ultimate users directly. Although the progress is affected by SARS, most of the basic development works for IA, GPS and HA have been completed by the end of year 2003. However, after detailed studying and testing the markets, the Group noted that the most cost efficient and effective way for the Group to enter into the market is by selling its electronics modules to existing suppliers of IA, GPS and HA suppliers instead of the ultimate users.

In October and November 2003, the Group made a distributorship agreement with Sony Ericsson for distributing Sony Ericsson's "M to M" products (excluding mobile phone) in the PRC. The existing Sony Ericsson's products — GC75 GPRS PC Modem Card and GM47 GSM Modules which are important ingredients for IA products and GPS products. For the second half of year 2003, the sales of Sony Ericsson's products amounted to HK\$18.0 million.

Although the progress of development of electronics turnkey device solutions for the products (excluding Sony Ericsson's product) was substantially impacted by SARS and most of them could not match with customers' schedule, the effect of decrease in turnover was diluted by the increase in sales of Sony Ericsson's products. As a result, the turnover for year 2003 is nearly as the same as that for year 2002.

#### *Information Appliances (or communication products)*

For the development of electronic turnkey device solutions for IA, we believe that one of the important parts is how to handle the communications for "Man to Machine", "Machine to Machine" and/or "Machine to Man". Therefore, in the initial stage, the Group has concentrated on the development of those communication products including GPRS PC Modem Cards and GSM Modules.

In October and November 2003, the Group made distributorship agreements with Sony Ericsson for "M to M" products and GPRS Modem Cards. Regarding the latter, the group became the principal distributor of Sony Ericsson. The Group also provide the technical supports in Asia Pacific Region. The sales of GPRS PC Modem Cards amounted to HK\$18.0 million during the second half of year 2003 and we believe the demand will be increased in year 2004. Therefore, in order to further extend the marketing networks, the Group has made over 10 distributorship agreements through one of its agents in PRC to cover over 10 provinces in PRC.

Although the demand is expected to be high, there are many requirements for distribution of communication products in PRC such as WLAN Authentication and Privacy Infrastructure, band width, China Compulsary Certification, etc. However, the Group will keep tracking on the development of IA or communication products in PRC and adjust its strategies accordingly.

#### *Global Positioning System*

With 2008 Olympic Games in Beijing and 2010 World Expo in Shanghai, we believe that there will be many infrastructure development in Beijing and Shanghai and the demand for GPS will be increased as well. In order to facilitate the Group to enter into the market quickly, the Group purchased the technology know-how of GPS from an independent third party with a consideration of approximately HK\$5.5 million.

One of Sony Ericsson's products named GM47 GSM Modules is an important component of GPS. With this component, the effectiveness and stability of GPS will be improved and it will become the Group's competitive advantage.

#### *Household Appliances and others*

As the progress of development of HA and others are substantially affected by SARS, most of the design and development could not match with customers' schedule and the sales are dropped substantially.

There are over 130 million people in the PRC now. We believe the demand of HA is very large. Therefore, the Group has designed and developed several new models of Induction Cooker in year 2003 and passed to its subcontractors to produce a small lot for its customers as samples.

## PROSPECTS

The Group holds a cautiously optimistic view for the coming year. Indeed, the situation in the Middle East remains tense and the ramifications of the confirmed cases of SARS in the PRC and the outbreak of Asian Flu in South East Asia remains uncertain. However, the latter half of year 2003 and first quarter of year 2004 did show a high demand of semiconductors and we are highly confident to the growth of demand of semiconductors. With the favourable market sentiment initiated by the PRC's accession to the World Trade Organisation, 2008 Beijing Olympic Games and 2010 Shanghai Expo, all of them are favourable to the Group's business of development of electronic turnkey device solutions.

However, with the experience of impact of SARS, the Group will try to expand its customers' and suppliers' profile to other countries and improve its abilities in design and development of proprietary embedded software and electronic turnkey device solution in order to reduce the impact of SARS or similar situation.

## USE OF THE PROCEEDS FROM THE INITIAL PUBLIC OFFER

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 3 March 2003 amounted to approximately HK\$22 million. During the year, the proceeds were fully applied as follows:

- Amount of HK\$5 million was expended and/or prepaid for marketing the Group's products and collecting latest market information and obtaining feedback from customers in the PRC;
- HK\$2 million was prepaid for developing and testing new electronic turnkey device solutions for HA;
- HK\$6 million was expended and prepaid for developing and testing new electronic turnkey device solutions for IA and GPS; and
- HK\$7 million was expended/or prepaid for improving its design and development abilities of the electronic turnkey device solution.
- HK\$2 million was used as general working capital of the Group.

The actual applications of net proceeds are consistent with the plans as set out in the prospectus of the Company dated 18 February 2003.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## EMPLOYEES

As at 31 December 2003, the Group had approximately 136 employees (2002: 128). The Group remunerates its employees based on their performance and the prevailing industry practices. The Board reviews the remuneration policy and package on a periodical basis. Bonus and share options may be awarded to employees based on performance appraisal. These are drives and encouragements for personal performance. Up to now, the Group has granted no share option to its employees.