

## Management Discussion and Analysis

### ▶ FINANCIAL REVIEW

#### Overall Review

For the year ended 31 December 2004, the Group has resumed to profitability with a profit of approximately HK\$5.8 million after the Group reported a loss of approximately HK\$11.7 million for the fiscal 2003. The improved operating result was mainly attributable to the recovery in the Group's sales performance, which was adversely affected by the negative impact of Severe Acute Respiratory Syndrome ("SARS") on the Group's business in the same period last year.

The turnover of the Group for the year ended 31 December 2004 amounted to approximately HK\$520.4 million, representing an increase of approximately 46% as compared with approximately HK\$356.5 million in the corresponding period of the previous year. Apart from the recovery in the Group's sales performance, the provision of Sony Ericsson's "M2M" products under and relevant technical supports to its customer under the business of development and provision of electronic turnkey device solutions has also brought a substantial contribution to the turnover for the business of development and provision of electronic turnkey device solutions.

The overall gross profit margin for the first half of 2004 was 10.1%, which is lower as compared to 10.5% in the previous year. Such decrease is mainly due to less new products launched by its vendors in the first half of 2004. Usually, its vendors will take at least one year to develop new products. As its vendors are mainly in Taiwan, the outbreak of SARS last year has also delayed the development of new products.

#### Financial Resources and Liquidity

As at 31 December 2004, the Group had bank balances and cash of approximately HK\$35.5 million (2003: HK\$23.6 million). The Group had total assets of approximately HK\$231.5 million (2003: HK\$235.3 million) which was financed by current liabilities of approximately HK\$146.5 million (2003: HK\$166.0 million), minority interests of approximately HK\$0.8 million (2003: HK\$0.7 million) and shareholders' equity of approximately HK\$84.2 million (2003: HK\$68.5 million). The current ratio was approximately 1.5 (2003: 1.3) and the gearing ratio of the Group was approximately 48% (2003: 57%). 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\$149.0 million (2003: HK\$135.7 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.

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### 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.

### 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 2004, the Group has contingent liabilities arising from bills of exchange discounted with recourse amounting to approximately HK\$0.4 million.

## FOREIGN CURRENCY FORWARD CONTRACT COMMITMENTS

At 31 December 2004, the Group has entered into certain foreign currency forward contract agreements with banks. Under these foreign currency forward contract agreements, the Group has committed to purchase US dollars ranged from US\$17,000,000 to US\$34,000,000 (equivalent to HK\$131,708,000 to HK\$263,416,000), depending on the spot rate on the maturity date and the pre-agreed contract forward rates of respective foreign currency forward contracts.

At 31 December 2003, the Company had no commitments for foreign currency forward contract commitments.

## MOVEMENT IN SHARE CAPITAL

On 20 February 2004, a placing and subscription agreement ("Agreement") was entered into between the Company, Best Eagle International Ltd. ("Best Eagle"), a substantial shareholder of the Company, and an independent placing agent. Pursuant to the Agreement, Best Eagle agreed to place through the placing agent not less than 60,000,000 shares and up to 80,000,000 shares at the price of HK\$0.138 per placing share and Best Eagle would subscribe for the same number of shares sold under the placing at the same price of HK\$0.138 per share. The subscription was completed on 4 March 2004 and a total of 73,000,000 shares have been placed and subscribed. Net proceeds of HK\$10,074,000 was used as general working capital of the Group.



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### **DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2004.

### **BUSINESS REVIEW**

The Group restructured its business over the last two years in response to the keen competition in the market of semiconductors distribution. Through this restructuring, the Group is seeking to better position itself for profitable growth in the market segment where the Group believes it has a sustainable competitive advantage. Being the excellent partner of Sony Ericsson in 2004, the Group believes the area where it has advantage is the "M2M" market. ("M2M" includes all the communication products between "Man to Machine", "Machine to Machine" and "Machine to Man").

#### **Distribution of semiconductors**

The turnover of semiconductor distribution was increased by approximately 37.2% in fiscal 2004 when compared with the fiscal 2003. That increased resulted from the demand of semiconductors was recovered gradually after the SARS has been subdued in late June 2003.

Though the turnover for semiconductor distribution was improved and returned to the level of the fiscal 2002, the segment result of semiconductor distribution has not much improvement. It is mainly attributable to the regression of the consumer electronic markets, such as the global market of mobile phone was dropped substantially and license issue of DVD players had hindered manufacturers' production for overseas markets. Besides, the progress of new application software for semiconductors was delayed by the outbreak of SARS in the fiscal 2003 and few customised semiconductors was developed during 2004, therefore the Group's profit margin in the business of semiconductor distribution was reduced.

In the last quarter of fiscal 2004, the Group has developed several electronic turnkey device solutions for MP3 player and electronic scale, which made the sales of the semiconductors in related to MP3 player and electronic scale increased substantially and expected to be continued in the fiscal 2005.

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

This was a year of change for the Group's business of development and provision of electronic turnkey device solutions. In the past two years, the Group has paid much effort in the development of electronic turnkey device solutions for Information Appliances ("IA"), Global Positioning System ("GPS") and Household Appliances. During the fiscal 2004, the Group has tried to consolidated its product knowledge of Sony Ericsson's GSM/GPRS Module and PC Modem Cards, GPS technology know-how, wireless design skill and experiences in application software development to help open the door to become a system integrator in the "M2M" market.

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### *M2M businesses*

In order to enter the M2M market and reinforce the distributorship of Sony Ericsson's M2M products including GPRS PC Modem Card and GSM/GPRS Modules, the Group has sold Sony Ericsson's M2M products and provided technical supports directly to many system integrators or operators during year 2004. As a result, the sales of Sony Ericsson's M2M products has not only made the turnover of development and provision of electronic turnkey device solutions increased by approximately 114.3%, but also was awarded "Excellent Partner 2004" by Sony Ericsson.

On the other hand, the Group noted that the industrial uses of Sony Ericsson's GPRS modules have been cultivated in quite a few industrial sector, they are Power Load Management Network System and Fleet Management System ("AVL"). Apparently, the industries of these two sectors have shown their great potential in size, especially in PRC. Recently, the Group's customers claimed that Sony Ericsson's GPRS Module has captured over 80% of the industry total volume of Wireless Power Meters.

### *Household Appliances, Multimedia and others*

There are synergies between the businesses of semiconductors distribution and development and provision of electronic turnkey devices solutions as we can develop customised semiconductors by developing proprietary application software according to the electronic turnkey device solutions developed. Therefore, the Group still paid much effort in developing of electronic turnkey devices solutions for household appliances, multimedia and others in ordering to support the sales of semiconductors during year 2004.

In the forth quarter of year 2004, the Group has developed several electronic turnkey device solutions for MP3 player and electronic scale, which help the Group recorded a nearly 150% and 50% increase in the sales of the components in related to MP3 player and electronic scale. In particular, these development will also support the Group's ODM finished product business.

Due to the production capacity of the subcontractors, the sales of induction cookers for the Group was only approximately HK\$2 million but the responses from customers is good. The Group has applied for certain quality certificates such as CE and planned for export in year 2005.

## **PROSPECTS**

The Group believes that there will be many infrastructure building for 2008 Beijing Olympic Games and 2010 Shanghai Expo in PRC and the demand for communication system and products will increase, therefore the Group expects that the development and provision of electronic turnkey device solutions for communication products and systems will account for a bigger share of the Group's total turnover in the foreseeable future. With the technology know-how for GPS and distributorships for Sony Ericsson communication products, the Group believes that it is not difficult for the Group to become a leading system integrator in communication field.



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For the core business — distribution of semiconductors, the Group continues to focus on maintaining its relationship with its purchasing network, so that it can maintain the quality of its goods and keep its prices competitive. In addition, the Group believes that there should be synergies between the businesses of distribution of semiconductors and development and provision of electronic turnkey device solutions. Therefore, the Group will expand its customers' and suppliers' profile to communication field in order to increase the synergies between these businesses.

### **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 2004, the Group had approximately 144 employees (2003: 136). 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.