


# 08 MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group's two core business operations, namely: (1) the distribution of electronic parts, components and equipment under the **MOBICON** brand; and (2) retail sales of computer products and accessories under the  **VideoCom** retail brand, respectively accounted for 62% and 38% of the Group's total turnover for the fiscal year ended 31st March 2005.

## DISTRIBUTION OF ELECTRONIC PARTS, COMPONENTS AND EQUIPMENT

### Hong Kong and China

During the year under review, the Group's electronic parts, components and equipment distribution business achieved remarkable results, posting an increase in turnover of 35% to around HK\$798 million. A significant part of this growth is attributable to the success of the Group's "Satellite Development Strategy". In addition, the Group obtained exclusive rights to produce and sell wafer chips carrying the brand name of Actions Semiconductor Co. Ltd. ("Actions") for radio-controlled cars, as well as agency rights for various electronic component brands, all of which helped to diversify and expand its business.

On the other hand, the Group further extended its well-established "Small Order Services" to satellite companies, in order to cope with the trend towards the predominance of consumer electronic products, the abundant variety of electronic products available, and the low demand for large-volume orders for individual products in the Hong Kong market. This helped to expand further the Group's client network as well as revenue opportunities.

During the year, the Group signed agentship contracts with a number of brand-name vendors. These included Hong Kong agents Tak Cheong (a provider of Zener diodes), LRC (a provider of transistors and diodes), Chesen (a provider of USB controllers and OTG full/high speed controllers), Philson (a provider of USB pen controllers and memory card controllers), Chiplus (a provider of compo chips and SRAMs) as well as South Africa agents ELAN (a solution provider for embedded consumer and industrial applications), DUCATI (a provider of capacitors), E-LAB (an electronic product developer) and CRC (a specialty chemicals provider).

Since last year, the Group's subsidiary, MCU Power Ltd., has committed to expanding its professional MP3 application solution development and product design team to offer MP3 solutions, such as comprehensive interface design and innovative functionalities. Besides speeding up the production processes of MP3 manufacturers, this capability also raised the company's turnover rapidly from several million Hong Kong dollars during the previous year to around HK\$100 million this year. Milliard Devices Ltd., another subsidiary of the Group actively introduced brands of high-quality electronic parts from Europe, the United States and Japan for deployment in the illumination and power-supply industries.

To expand its overall electronic components business further, the Group succeeded in obtaining exclusive rights to produce and sell wafer chips for radio-controlled cars worldwide for Actions, a major radio-controlled car wafer manufacturer in Asia. In addition, Actions offered the Group's personnel six months of training in knowledge management and associated technology, enabling the Group to establish a wafer production and packaging process team, and giving it the required knowledge and capability for wafer outsourced production and packaging processes. This has made the Group a major supplier of wafer chips for radio-controlled cars, and enables it to target numerous toy manufacturers in Hong Kong and China, who already accounted for over 90% of the global market. More importantly, it allows the Group to rapidly transform itself from a trader of electronic parts, components and equipment into a developing distributor that possesses its own intellectual properties.



#### **Overseas Business**


During the year under review, the businesses of the Group's overseas subsidiaries also grew rapidly. With the effective implementation of "Small Order Services" and the successful development of local services in Singapore, the Group's turnover in this market increased considerably. The performances of its Singapore and Malaysia subsidiaries were the most outstanding, with substantial increases in turnover of around 35% and 37%, respectively, compared to the previous fiscal year. As at 31st March 2005, the overall turnover of all the Group's overseas subsidiaries was approximately HK\$72 million.

In terms of geographical segments, the turnover of each region was almost as great as in the corresponding period of last year; and the contributions of Hong Kong, the Asia-Pacific region (other than Hong Kong), South Africa, Europe and other regions, accounted for: 88%, 6%, 3%, 2% and 1% respectively of the Group's total turnover.

## RETAIL SALES OF COMPUTER PRODUCTS AND ACCESSORIES

Following the positive market response to the , which opened in August last year, this business model has since been extended to all its retail outlets. To increase profit margins, selected electronic consumer products priced at less than HK\$100 were sold in special-offer corners in each retail outlet, while computer accessories and electronic consumer products continued to be sold in . Furthermore, the new  logo reinforced the brand image of its retail electronic consumer products, while simultaneously strengthening the leading position of . The Group expects the turnover of  to increase from 5% to 10% of the total turnover of the Group's computer products business.

As the market price of computer products declined continuously during the year under review, the Group gradually scaled down its computer hardware distribution business of A Plus 2 Computer Limited and shifted its focus onto promoting and selling its own MP3 brands,  and  through A Power Limited. The Group's computer product and accessory business grew steadily, thanks to recovery of the Hong Kong and Macau economies. To cater for increasing demand for uninterrupted power supply (UPS) and computer security and maintenance services, as well as to reduce its operating costs, the Group re-allocated manpower from A Plus 2 Computer Limited to A Power Limited.

Furthermore, the Group continued to develop the  retail brand. By becoming an authorised exclusive distributor of Acer LCD monitors for retail outlets and a selection of the latest Acer notebook computer models, the Group strives to provide consumers with more choices of high-quality computer products.



## LIQUIDITY AND FINANCIAL RESOURCES

The Group has a strong financial foundation. As at 31st March 2005, it had cash and bank balances of approximately HK\$48 million (as at 31st March 2004: HK\$30 million). About 1%, 3%, 3%, 2% and 15% of its total cash and bank balances were denominated in Singapore dollars, Chinese Renminbi, Malaysia Ringgit, South African Rand and US dollars respectively. The balance of approximately 76% was denominated in Hong Kong dollars. The Group's total assets amounted to approximately HK\$352 million (as at 31st March 2004: approximately HK\$300 million). Net assets per share amounted to HK\$0.79 (as at 31st March 2004: approximately HK\$0.69). Dividend earnings and basic earnings per share were HK\$0.06 and HK\$0.162 respectively (as at 31st March 2004: approximately HK\$0.05 and HK\$0.143, respectively).

As at 31st March 2005, the Group had banking facilities for overdrafts, loans and trade financing from several banks totalling approximately HK\$202 million (as at 31st March 2004: HK\$93 million), with an unused balance of approximately HK\$122 million (as at 31st March 2004: HK\$36 million).

The Directors believe the Group's existing financial resources are sufficient to fulfil its commitments and working capital requirements.

## CAPITAL STRUCTURE

As at 31st March 2005, the total borrowings of the Group were HK\$80 million (as at 31st March 2004: HK\$57 million). These were in the form of short-term bank loans for financing the expansion and future development plans of its subsidiaries. The Group's bank borrowings were denominated in US dollars and Hong Kong dollars. These loans were secured by the Company's corporate guarantee of around HK\$202 million (as at 31st March 2004: HK\$103 million), with a maturity term of two to three months, and they can be rolled over afterwards at the Group's discretion. During the year, the Group's borrowings bore interest at rates ranging from 1.7% to 4.1% per annum (as at 31st March 2004: ranging from 1.3% to 4.3 % per annum).

## **GEARING RATIO**

The Group's gearing ratio as at 31st March 2005 was 47.6% (as at 31st March 2004: 38.8%), which was measured on the basis of total borrowings of approximately HK\$80 million (as at 31st March 2004: HK\$57 million) as a percentage of total assets less current liabilities of approximately HK\$168 million (as at 31st March 2004: HK\$147 million).

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES**

Most of the Group's transactions were denominated in Hong Kong dollars, RMB and US dollars. Given that the exchange rate of Hong Kong dollars against the RMB has been and is likely to remain stable, and the HKSAR Government's policy of linking the Hong Kong dollars to the US dollars remains in effect, the directors consider that the Group's risk on foreign exchange will remain minimal. In order to properly hedge against its demand for US dollars, the Group has entered into a forward contract to buy US\$500,000 per month at a rate of HK\$7.75 for the coming eleven months. Other than that, as at 31st March 2005, the Group had no significant risk exposure pertaining to foreign exchange contracts, interest rates, currency swaps, or other financial derivatives.

## **CHARGES ON ASSETS**

The Group did not have any charge on its assets as at 31st March 2005.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

During the year under review, the Group had entered into a foreign exchange contract as mentioned above and committed to buy US dollars on each specified monthly settlement date under the contract from 15th September 2004 to 15th February 2006. Pursuant to the contract, the Group is committed to buy US\$500,000 in the event that the spot USD-HKD rate at expiration date is greater than or equal to the contract forward rate (i.e. US\$1.00 = HK\$7.75). Otherwise, the Group is committed to buy US\$1,500,000 in the event that the spot USD-HKD rate at expiration date is less than the contract forward rate.

As at 31st March 2005, the Group had total outstanding operating lease commitments of approximately HK\$13 million (as at 31st March 2004: HK\$18 million). In view of the Group's high level of liquid funds, it is expected that the Group will be able to fulfill all these commitments without any difficulty.

The Group had no contingent liabilities as at 31st March 2005.

## EMPLOYMENT, TRAINING AND REMUNERATION POLICY

As at 31st March 2005, the Group had 472 full-time employees. Employee salaries are based on individual work performance and seniority. The Group strongly believes that employees are the company's precious assets, and it therefore attaches great importance to staff training. In February 2005, the Group held its first Asian Sales Conference in Malaysia to introduce and share the Group's development strategies and product knowledge with its overseas staff. More than 60 staff members from Hong Kong, Malaysia, Singapore and South Africa gathered to exchange experience about the operation systems in the Group's different regional offices. The event greatly enhanced communication between local and overseas staff. The Group also encourage staff members to enrol for the "RoHS Compliance Management Seminar" organised by the City University of Hong Kong in May, in which provided them with an opportunity to learn more about the electronic product manufacturing industry and equip themselves better.

In order to commend their contributions to the Group and to boost their morale, the Group awards certificates to staff members in each department who perform outstandingly every quarter; and it announces these via the "Mobicon Walk" notice board in its office. Monthly birthday parties and festival parties are regularly held to strengthen the bonds between staff members and enhance their sense of belonging.

## SOCIAL RESPONSIBILITIES

In addition, the Group is committed to contributing to the community, and it fosters a corporate team spirit by encouraging staff to take part in various charitable activities. Every year, the Group helps those in need by taking part in the Yan Chai Charity Walk, The Community Chest's "Hong Kong and Kowloon Walk" and the Hong Kong Red Cross Blood Donation Day. Last year, the Group's "Jaguar Team" participated in the Outward Bound Competition, which raises funds for Outward Bound Hong Kong. The team's invincible spirit enabled it to win the divisional championship and the







“Greatest Number of Supporters Award”. In tribute to its contribution to society and its continuous support for the development of tertiary education, lecture halls and classrooms at the City University of Hong Kong and the Hong Kong Polytechnic University were named in honour of the Group in October and December 2004, respectively. Apart from delivering sales engineer training at the City University of Hong Kong, the Group also provided graduates of the Yan Chai Hospital Tung Chi Ying Memorial Secondary School with 30-day on-the-job training as part of a career-orientation programme.



On the district level, the Group organised a visit to its office for youngsters from the Sham Shui Po district, and discussed career opportunities in the industry with them in November 2004. This formed part of a youth campaign co-organised by bodies including the Hong Kong Police Force Sham Shui Po District Division, the Sham Shui Po District Fight Crime Committee, and the Boys’ and Girls’ Clubs Association of Hong Kong, which aimed to educate youngsters to live a positive life, so as to reduce the incidence of juvenile crime.

