Chairman's Statement

Dear shareholders,

Excessive competition in the mobile handset market in Asia and around the world has been inflicting profound negative impact in nearly all segments in the sector.

During the year ended 30th September, 2004, the Group recorded a turnover of approximately HK$1,896 million, representing a decrease of approximately 29% from HK$2,678 million of last year and incurred a net loss of approximately HK$184 million. During this period, the Group's overall gross margin narrowed to approximately 0.5% from 4% a year ago.

Participants ranging from network operators, handset designers, manufacturers, distributors to value-added services providers all suffered from acute deterioration in profit margin as price-cutting pressure intensifies.

However, lower prices had failed to initiate necessary spur in quantities needed to keep all players stay in business. The competitive landscape is getting increasingly rugged as more and more second- and third-tier manufacturers extend their foothold in the market despite the first-tier manufacturers are still trying to maintain the same influences and market share as before.

These second- and third-tier manufacturers do not possess original research and product development capabilities. Their products are often fully-copied or marginally-modified versions of those developed by the major brands and have no choice but to struggle in the mid to low-price segment.

In response, tier one manufacturers accelerate their pace of technological development, functionality innovation and application in order to protect their market share. New models are often introduced to the market well before the inventories of old models are consumed. This results in excessive supply of mobile handsets to the market.

This creates a serious backfire against the operations of second- and third-tier manufacturers and distributors, whose dead-stock inventories are being built up more quickly than ever as new models are launched more frequently and in bigger volume.

They are lured to undercut prices, even at below costs in some cases, to get rid of the old stocks to make room for the new ones, perpetuating a vicious cycle that squeezes margins even further. On the other hand, tier-one manufacturers are implementing strategies to perpetuate into all segments of the market by churning our models at all price brackets in order to out-compete their less well-equipped counterparts.

The Group's strategy to survive in this market landscape is to adopt a more flexible approach in inventory management in order that it can react more responsively to rapid changes in customer preferences and market changes. It will also proactively improve its distribution network by generating more promotion and effective marketing campaigns, together with our customers, to ensure that new models are available at the points-of-sales as soon as they are introduced. This will leverage fully customers' strong adherence to our supplier as their beacon of state-of-the-art technology.

With no signs of fate-twisting turnaround in sight, the Group envisages a persistent decay of the operating environment of our industry, which will further weaken our margin and profitability.

By Order of the Board

SY Ethan, Timothy
Chairman

Hong Kong, 23rd August, 2005