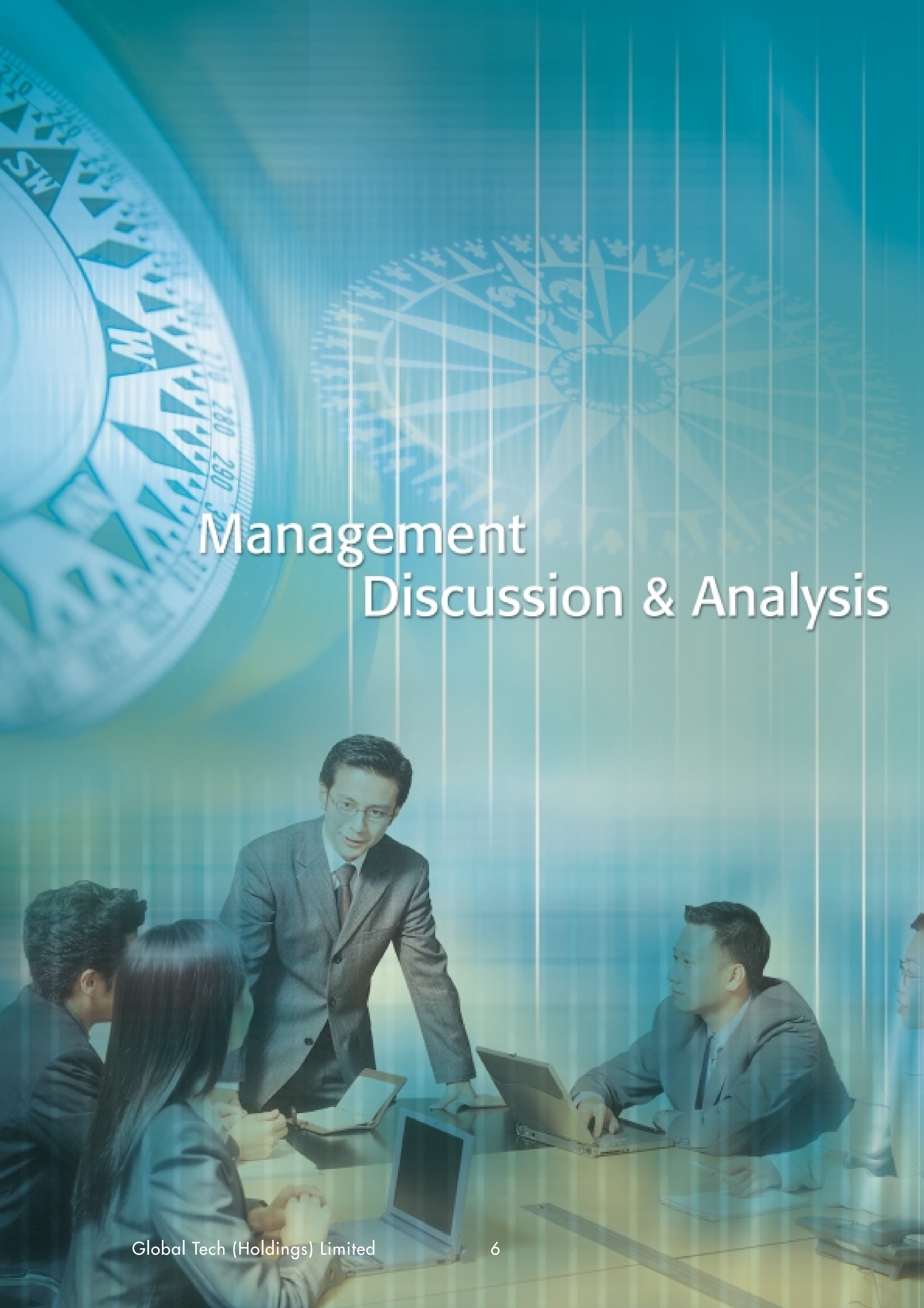

Management Discussion & Analysis

Financial Highlights

During the year ended 30th September, 2004, the Group recorded a turnover of approximately HK$1,896 million (2003: HK$2,678 million), representing a decline of approximately 29% for the year. The Group incurred a net loss of approximately HK$184 million (2003: HK$115 million) or a loss per share of HK$0.036 (2003: HK$0.022). The loss was attributable to the overall reduction in gross profit margin from that of approximately 4% in 2003 to that of approximately 0.5% in 2004.

Hong Kong and Macau

Hong Kong continued to play well its role as a hub for latest mobile phone models serving not only local consumers but also visitors from around the region, notably those from mainland China under individual capacities.

The optimism about sustainable rapid growth in sales driven by mainland tourists had proven itself to be largely overshot. While digital consumer electronics, mobile handsets included, continued to be in the top categories of must-buy items for the mainland tourists, the per-capita spending is in nowhere pointing to further increases. Moreover, there are over hundreds of similar products available for customers to choose. The benefits that would bring are limited.

The launch of third-generation mobile communication network progressively in Hong Kong and Macau has yet to spur substantial demand for new handsets. This had been largely driven by the fact that significantly less investment compared with other parts of Asia had been channeled to content providers to create contents that subscribers like.

Sales in these cities amounted to approximately HK$1,207 million (2003: HK$1,789 million). Unless there are changes to the current situation, demand in these cities are expected to continue their sluggish momentum in the coming years.

Taiwan

In December 2004, the Board of Directors had resolved to significantly scale down with immediate effect the Group's operations of mobile handsets distribution in Taiwan ("the Taiwan operations") amid fierce competition.

Commenced in 2003, Taiwan operations accounted for approximately 34% of the Group's turnover for the year ended 30th September, 2004.

The Board had resolved that the Taiwan operations would be scaled down to a minimum. A majority of the workforce will not be retained when the inventories on hand are sold out.

The Board believes that the scale down will not have significant impact on the Group because the operations had been loss making.

Sales Mix and Profit Margins

The Group recorded a turnover of approximately HK$1,896 million (2003: HK$2,678 million). The decrease in overall sales compared to the previous year was largely due to the intensifying competition in the mobile handset markets across the region.

During the year, the Group's main supplier had launched a series of new mobile handsets models in the region which, some of them, have received good market response and feedback. However, the selling prices for those models decreased rapidly as many new models were launched by other manufacturers at a similar time. This, together with the shortening of product life cycle of mobile handsets and unforeseen product delays of our suppliers, has imposed increasing pressure on the Group's pricing strategy and thus profit margins of the already highly competitive mobile handset market. This has caused the profit margin of the Group to decrease substantially from 4% in 2003 to 0.5% in 2004.

The Group has been working very hard with its suppliers to streamline the product launching procedures in order to ensure timely introduction of new models to the market and, hence, maximize the Group's margin. Moreover, the Group will use its best endeavour to increase the varieties of different products. The Group will also continue to adopt its existing inventory management approach to maintain inventory level at its optimal in order that it can react more responsively to rapid changes in the market and minimise the impact on profit margin.

Retail Operations

The Group's retail operations generated sales of approximately HK$48 million (2003: HK$58 million) during the year. In view of the extremely tough retail market conditions, the Group will exercise additional caution in evaluation of opportunities in further investments in retail operations.

Liquidity, Financial and Working Capital Resources

The current ratio and liquid ratio of the Group remained fairly stable at 4.01 (2003: 4.03) and 3.14 (2003: 3.42) respectively.

The trade receivable of the Group decreased from approximately HK$419 million to approximately HK$245 million. A provision for doubtful debts of approximately HK$72 million was made during the year with reference to the Group's internal policies as well as the recoverability of the trade receivables under the prevailing economic conditions. The reduction in receivables was due to the Group's continuing effort to tighten the credit policies as well as a decrease in credit sales.

The Group's aging profile of receivables shows that approximately 61% and 36% (2003: 36% and 32%) of receivables at year end were current and overdue for less than 90 days respectively. Trade receivables overdue for more than three months have decreased 95% to approximately HK$8 million (2003: HK$161 million).

The net inventories of the Group have slightly increased to approximately HK$145 million in the year (2003: HK$138 million). In fact, total inventories decreased from approximately HK$220 million of 2003 to approximately HK$171 million in this year, together with a more significant decrease in the provision for inventories from approximately HK$82 million to approximately HK$25 million. Such improvements demonstrate the Group's continuing effort to reduce inventory level as a response to the shortening of product life cycle of mobile handsets, as well as improving efficiencies in applying its working capital.

As at 30th September, 2004, the Group had banking facilities of approximately HK$174 million (2003: HK$181 million), which were not utilized (2003: HK$26 million). Further details of the Group's banking facilities are given in notes to the accounts.

As at 30th September, 2004, the Group had cash in hand of approximately HK$118 million (2003: HK$192 million). The Group has adopted, and will continue to adopt, a conservative cash management policy.

Currencies

The Group conducts its core business transactions mainly in Hong Kong and US denominated currencies. Over 99% of the Group's cash and bank balances are in either Hong Kong or US dollar denominated currencies. The Hong Kong dollar's peg to the US dollar provides a natural hedge against short-term currency fluctuations under normal trading circumstances.

Contingent Liabilities

As at 30th September 2004, the Group had the following contingent liabilities:

(a) One of its subsidiaries provided corporate guarantees to several banks for securing banking facilities granted to another subsidiaries of the Group.

(b) Included in the terms of the sale and purchase agreement in connection with the acquisitions of Calaview Assets Limited and SMG (the "Acquired Companies") in 2000, the Group is liable to pay the vendor approximately HK$35 million, contingent on the successful listing on any recognised stock exchange by any one of the Acquired Companies. SMG has already begun statutory liquidation procedures and the Group has no plan to list either of the Acquired Companies.

(c) As stated in note 6(c) to the accounts, the Inland Revenue Department of Hong Kong ("IRD") issued estimated assessments to certain subsidiaries of the Group in respect of their potential taxation liabilities for the years of assessment from 1996/1997 to 2001/2002. However, no provision for tax penalties have been made in the accounts as, in the opinion of the Directors of the Company, the estimated assessments were incorrect and it would be premature to endeavour to determine whether any tax penalty will arise.

Charges on Group Assets

As at 30th September, 2004, there were no charges on group assets (2003: HK$4,309,000). The charges for prior year represent trade receivables of a subsidiary of the Group that have been pledged for banking facilities granted to certain subsidiaries of the Group.

Prospects and Strategic Outlook

Despite the general economic recovery in Hong Kong, the Group envisages a continuing tough operating environment in coming years due to intense competition in the mobile handset market . It will continue to direct its resources to further enhance its existing distribution network to take fuller advantage of customers' loyalty to products from the suppliers.

Meanwhile, as the Group adopts this strategy to embrace rapid changes in market trends and customers' tastes, it will continue to lower inventory level to add flexibility to accommodate fast-moving new models.

With the appointment of three new independent non-executive directors and the establishment of a new audit committee, the Group is confident that its operational effectiveness and efficiencies will further improve, providing an extra layer of confidence for the public.

All these changes take time to reap harvest and management is of the view that it is responsible to set realistic targets for the Group for next year. The Group's objectives remain to consolidate operations, exploit its strengths and transform embracing challenges ahead.

Employee Information

As at 30th September, 2004, the Group employed a workforce of 149 (2003: 134). The staff costs including salaries and bonuses were HK$58 million (2003: HK$65 million).

The remuneration policy of the Group is to ensure the fairness and competitiveness of total remuneration in order to motivate and retain existing employees as well as to attract potential employees. The remuneration packages mainly include salary payments, medical subsidies and discretionary bonuses on performance basis. The Group provides pension schemes for the employees as part of their staff benefits.