Management Discussion and Analysis

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Financial Highlights

During the year ended 30th September, 2005, the Group recorded a turnover of approximately HK$1,206 million (2004: HK$1,896 million), representing a decline of approximately HK$690 million from the previous year. The Group incurred a net loss of approximately HK$124 million (2004: HK$184 million) or loss per share of approximately HK$0.024 (2004: HK$0.036).

Hong Kong and Macau

Hong Kong's position as the freest trading port in the Greater China region has reinforced its status as a beacon for the latest mobile telecommunication technologies and applications. Feedback from visiting tourists has confirmed that, despite relatively high operating costs, consumer telecommunication devices and gadgets available in Hong Kong are still one of the cheapest among all markets in the region and offer the widest range of choice.

This special status has helped Hong Kong earn a strong reputation as the testing ground of choice for new models and applications among major manufacturers, network operators and technology developers.

During the year, the Group launched its first 3G mobile phone in Hong Kong as more and more network operators rolled out their 3G services. The Group considers that 3G applications in Hong Kong are still in their infancy but are poised for exponential growth in subscribers. Though it contributes a good business opportunity, the Group expects serious subsidies to be offered by network operators, which in return, could harm the margin of distributing the 3G handset. The Group will continue to work closely with network operators and its manufacturing partners to better embrace this opportunity.

Concerns about potential slowing of Mainland tourist arrivals have been largely averted, thanks to efforts by all segments of the Hong Kong business community to improve services and value to tourists. Arrivals by long-haul visitors also registered healthy growth during the year, and this trend is set to continue in the run-up to Beijing's hosting of the Olympic Games in 2008. Strengthening distribution channels to tourists will thus be one of the core focuses for the Group in 2006.

The Macau market follows more or less the same pattern as Hong Kong because of the geographical proximity of the two cities. The Group expects that the similar replacement demand pick up will occur in 2006 after the city issue two 3G licenses. However, this effect is likely to be diluted as parallel imports had in the past, and will continue, dominating the market which will hinder the Group's development in the area.

Taiwan

Since December 2004, the Group's mobile handset distribution operations in Taiwan (the "Taiwan Operations") have been scaled down amid fierce competition. A majority of work force was retrenched and inventory was sold out. In the Group's assessment, the move has not only inflicted minimal impact on the overall business platform, but will also in due course be positive to the financial position because the Group will be ring-fenced from any repercussions from the loss-making unit.

Meanwhile, the Group is actively looking for new business partners and products and will exercise additional caution when evaluating opportunities in new investments in the Taiwan market.

Sales Mix and Profit Margins

During the year, the Group recorded a turnover of approximately HK$1,206 million (2004: HK$1,896 million). The decrease in overall sales was largely due to the scaling down of the Group's Taiwan Operations which showed a reduction in the turnover to approximately HK$98 million from the region as compared with approximately HK$644 million in 2004.

However, the Group's margin has improved from approximately 0.5% in 2004 to 4.0% this year, mainly attributable to the Group's strategy in accommodating rapid changes in customer preferences and market conditions, in working with major suppliers in more timely launches of new models and in managing the inventory levels.

The scaling down of the Taiwan Operations has also contributed positively to the overall margin of the Group as the profit margin of the Taiwan Operations last year was largely affected by the cut-throat price competition in that market.

Top tier brands try to take advantage of their strength, original designs and technologies to marginalize lower-tier manufacturers and wish to reinforce their customer loyalty. However, compared with last few years, customers are less willing to buy top-tier premium products whereas only a small proportion still seriously consider to pay more for the premium value, reliability and functionalities promised by top-tier products.

The ongoing shortening of product shelf life and thus the monitoring of inventory levels will remain a key challenge. This pushes product developers, manufacturers and distributors to work with extra diligence and speed to embrace the changes.

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Retail Operations

The Group's retail operations generated sales of approximately HK$42 million (2004: HK$48 million). While the Hong Kong economy continues to recover from years of deflation, rent is one of the key operating costs to pick up an upward trend more rapidly than others, especially for major commercial and tourist areas like Causeway Bay. As a result, one of the brand shops was forced to close down during the year after its tenancy expired as the rent was significantly increased and it was difficult for the Group to maintain a balance between the improved business opportunities and the significant increase in its cost base.

The retail strategy is currently under a major review to identify tactics that will help the Group survive the tough operating environment while embracing opportunities from increasing numbers of inbound tourists.

Liquidity, Financial and Working Capital Resources

As at 30th September, 2005, the Group's trade receivables remained relatively steady at approximately HK$298 million (2004: HK$306 million). The receivable ageing profile continued to improve over the previous years and approximately 86% and 12% of the receivables as at year end were current and less than 90 days overdue respectively, as compared with those of approximately 61% and 36% respectively in 2004. Receivables overdue for more than 90 days also experienced a slight reduction to approximately HK$6 million (2004: HK$8 million).

Notwithstanding the continuous improvement in the receivable ageing profile, the Group has adopted a conservative approach and a provision for bad and doubtful debts of approximately HK$78 million (2004: HK$73 million) was made during the year. This prudence approach would help the Group to better equip for the challenges and uncertainties ahead in the competitive business environment of the mobile phone industry.

The net inventories of the Group reduced from approximately HK$145 million in 2004 to HK$39 million this year, thanks to the continuous management effort in closely monitoring the inventory levels and tightening of inventory controls in a response to shortening of product life cycles and fast-changing market conditions. The scaling down of the Taiwan Operations was another major contributing factor to the reduction.

During the year, the Group has revamped its trade arrangements with major suppliers. With more efficient use of the Group's working capital resources, the Group's cash reserves as at year end significantly increased to approximately HK$262 million from HK$118 million in 2004.

With a more prudence provisioning approach on trade receivables, the current ratio decreased from approximately 4.01 in 2004 to 2.71 this year while the liquid ratio was only reduced slightly to approximately 2.53 (2004: 3.14).

Liquidity, Financial and Working Capital Resources (Continued)

As at 30th September, 2005, no banking facility was maintained by the Group (2004: approximately HK$174 million which were not utilized) and there had been no charge against any of Group's assets (2004: Nil). The gearing ratio of the Group remained fairly stable at a minimal of 0.02% (2004: 0.02%).

The Group will continue to adopt, as it has had in previous years, a conservative cash management policy.

Currencies

The Group conducts its core business transactions mainly in Hong Kong and United States dollars. The majority of the Group's cash and bank balances are also denominated in these two currencies. Hence, the Hong Kong dollar peg to the US dollar provides a natural hedge against short-term currency fluctuations under normal trading circumstances.

Prospects and Strategic Outlook

Hong Kong is entering a third year of uninterrupted economic recovery. Improving prospects will see the arrival of more competitors as well as products in the available distribution and retail space. Operating costs, meanwhile, are set to be under mounting pressure to rise as the city escapes from years of deflation.

The Group will leverage its solid expertise in the industry to stretch its presence in its core markets while keeping costs under more stringent control than the new market entrants.

Working in concert, the Group has reaffirmed its beliefs that its value rests in the strong brand images of its major manufacturing partners and in the maintenance of highly efficient services for both suppliers and end-customers.

Ongoing enhancements to supply-chain management will be assimilated into the day-to-day operations of the Group, expanding its capacity and its ability to cope with the difficulties which may lie ahead.

The Group will also implement a thorough review of key business processes in an effort to further streamline its operations to deliver greater efficiencies. Meanwhile, it spares no effort to keep all staff abreast of latest changes in the market and technology landscapes of the industry to make them better prepared for the opportunities that will arise.

Employee Information

As at 30th September, 2005, the Group employed a work force of 89 (2004: 149) while staff costs, including salaries and bonuses, were approximately HK$52 million (2004: HK$58 million). The reductions were mainly due to the scaling down of the Taiwan Operations as a majority of the work force has not been retained.

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