

Chairman's Statement

Dear Shareholders,

Competition in the mobile communications markets continued to intensify during the period under review as network operators stepped up introduction of new applications and services in an effort to entice subscribers. These increasing activities, however, had yet to translate into incremental increases in revenues from significantly higher network usage or handset sales. Network operators undercut their service charges and offered generous handset purchase subsidies to maintain their subscriber market share, in the expectation of improved exposure through network marketing campaigns with other marketers.

During the year ended 30 September 2006, the Group recorded a turnover of approximately HK\$1,018 million, representing a decline of approximately 15% from HK\$1,206 million of the previous year. During this period, the Group's overall gross margin was slightly decreased from approximately 4.0% in previous year to approximately 3.8% in the current year. This ability to maintain a relatively stable gross margin in a fiercely competitive market translated to a net loss of approximately HK\$95 million, compared with a net loss of HK\$124 million in the previous year.

The industry has now apparently entered a period of consolidation, with every segment seeking out better business and revenue models and awaiting a more promising direction. The launch of third-generation ("3G") services and handsets has yet to prove itself a catalyst for increased handset sales and network usage in either the new demand or replacement markets. The general expectation of a repeat of the replacement spree seen in the early 1990s, stimulated by the switch from analog to digital data and voice transmission, has yet to be realised.

Meanwhile the market for second-generation ("2G") handsets did not go into free fall to make way for deepening penetration of 3G services, as most critics had originally forecast. Instead, this market segment continued to exhibit steady growth in demand for new handsets. Consumers were rediscovering the value of major handset brands in their continuous introduction of newer and better-designed products and of more comprehensive after-sales service.

Under these circumstances, the Group found its continued collaboration with the major brands and dedication to providing best-in-class service starting to bear fruit. Demand for 2G handsets was steady during the period under review. 2G handset sales also generated comfortable margins despite heavy subsidising of subscribers by network operators on handset purchases to encourage their migration to 3G.

This reinforced the Group's commitment to its two-pronged strategy of maintaining a balanced emphasis on the 2G and 3G market segments. The Group believes that these two market segments will develop in parallel until such time as mobile telecommunications technologies and applications have advanced to a stage where the new value-added services most users aspire to are deliverable only on sophisticated 3G handsets.

The Group, meanwhile, will continue to leverage its competitive edge in branding and marketing to target the more discerning consumers who acquire new models to fulfil their aesthetic aspirations rather than just satisfy their desire for advanced functionalities. The Group believes this is where the value chain for the replacement market begins and where steady demand for new handsets is being cultivated.

Against a backdrop of disorientated developments in the market, the Group will continue to focus on appropriate carefully formulated strategies to maintain demand without launching into uncharted waters.

SY Ethan, Timothy

Chairman

Hong Kong, 21 December 2006