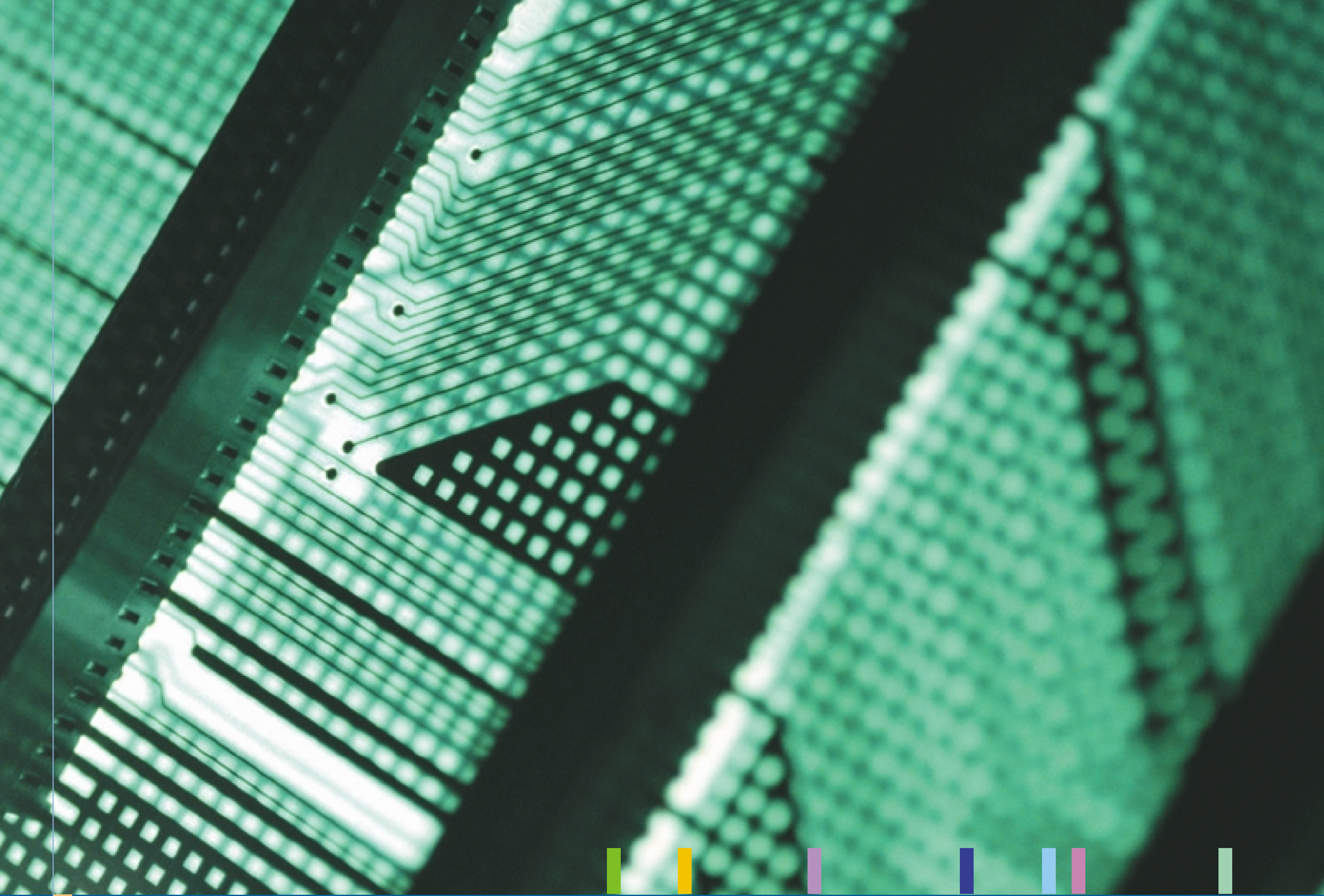

Management Discussion & Analysis

BUSINESS REVIEW AND OUTLOOK

Financial Highlights

For the year ended 30 September 2006, the Group recorded a turnover of approximately HK$1,018 million (2005: HK$1,206 million), representing a decrease of approximately 15% from the previous year.

The year was marked by continued fierce competition in the 3G market. While manufacturers raced to win consumers by incorporating the latest technologies and features into their 3G handsets, further declines in handset prices resulted in squeezed margins. To address the prevailing unfavourable market conditions in the 3G arena, the Group has proactively pursued business in the 2G sector. The success of such strategy was reflected by a slight decrease in gross profit margin from approximately 4.0% in previous year to approximately 3.8% in the current year.

The Group's loss before taxation for the year was approximately HK$63 million (2005: HK$124 million). The decrease in current year's loss before taxation was mainly attributable to the reduction in the impairment loss of trade receivables recognised. As a result of the settlement of the estimated assessment with the Inland Revenue Department, additional taxation was incurred. Net loss for the year of approximately HK$95 million (2005: HK$124 million) was recorded.

Hong Kong and Macau

Despite occasional minor fluctuations in mainland Chinese tourist arrivals, Hong Kong has already secured its position as a preferred destination for Chinese consumers shopping for high-end electronic products. This is largely attributable to Hong Kong retailers' customary practice of providing proof of authenticity and offering merchandise on the cutting edge of market trends at very competitive and transparent pricing.

This advantage is particularly important in the distribution of mobile handsets because, as mobile telecommunication becomes increasingly popular, gradually transforming into a commodity, the impetus for further hardware sales demands innovations from the network operators to create value-added services that subscribers want and, on the part of the manufacturers, to rapidly bring to market new models that can deliver the new services.

During the year the Group experienced moderate growth in 2.5G handset sales, with this segment still dominate the overall handset market.

Nonetheless, 3G mobile telecommunication currently is still struggling to launch variety of contents which can change subscribers usage pattern. Most of the 3G handsets were sold only for voice purpose. In fact 3G handset sales during the period were largely driven by promotion programmes blended with heavy purchase subsidies offered by network operators.

The market for 2G handsets, meanwhile, did not shrink as much as most observers had originally expected. On the contrary, strenuous effort made by the Group's major supplier in perfecting handset designs, such as the world's first handset equipped with a 10-megapixel digital camera, handsets compatible with more 2G protocols to enhance the roaming functions, handsets with Digital Multimedia Broadcasting ("DMB") functions to enable smoother video playback, and handsets ready for High-Speed Downlink Packet Access ("HSDPA" or "3.5G"), helped it strengthen its brand equities of sophistication and style. Its brand position has in turn helped it increase its customer franchise.

The Group will continue this two-pronged strategy, placing balanced emphasis on marketing 2G and 3G handsets, and leveraging the supplier's image as a beacon of technology, style and reliability.

Sales Mix and Profit Margins

During the year, the Group recorded a turnover of approximately HK$1,018 million (2005: HK$1,206 million). The decrease in overall sales was mainly due to the scaling down of the mobile handset distribution operations in Taiwan in prior year.

The Group's gross margin has just slightly decreased to approximately 3.8% this year (2005: 4.0%). This was mainly attributable to the successful strategy of pursing steady business growth in the mature 2G market, while maintaining a presence in the still developing 3G sector.

Short product shelf-lives continued to be a challenge, calling for more intense effort by the product developers, the suppliers, and the Group as marketer, to accurately gauge the rapid changes in customer preferences and expectations, so as to release models at the right timing, pricing and in the right volume to tap optimum demand with higher precision.

Retail Operations

The Group's retail operations generated sales of approximately HK$27 million (2005: HK$42 million) during the year. The decrease was mainly due to the closing down of one of the brand shops in prior year as a result of increasing rental cost. This operation is under constant review to achieve a more reasonable balance between maintaining the branding of the Group and its major supplier without coming under heavy cost pressure.

Liquidity, Financial and Working Capital Resources

As at 30 September 2006, the Group's net inventories have maintained at a stable level of approximately HK$39 million in 2006 and 2005, a direct result of continuous management efforts in accurately forecasting the lifecycles of new products in order to keep a low inventory level and increase the flexibility to accommodate rapid changes in the market.

As at 30 September 2006, the Group's impairment loss of approximately HK$3 million has been made for the year (2005: HK$78 million). Net trade receivables were approximately HK$183 million (2005: HK$175 million).

The Group's cash reserves as at year end stood at approximately HK$152 million (2005: HK$262 million), of which approximately HK$37 million was pledged to obtain banking facilities (2005: HK$Nil). The current ratio decreased from 2.71 in 2005 to 2.09 this year while the liquid ratio was approximately 1.9 (2005: 2.53).

As at 30 September 2006, the Group has utilised banking facilities of approximately HK$54 million (2005: HK$Nil). The bank borrowings were secured by fixed deposits of approximately HK$37 million (2005: HK$Nil) and listed securities of approximately HK$67 million (2005: HK$Nil). As a result, the gearing ratio of the Group increased to 17% (2005: 0.02%).

As it has in previous years, the Group will continue to adopt 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

Korea is leading in technology, infrastructure, hardware and applications in mobile telecommunications. It will continue to reinforce the image of the Group's major supplier as a customer window on future technologies.

Coupling the supplier's consistent performance in product quality and reliability with the Group's sustained efforts in improving staff training, distribution logistics and comprehensive after-sales service, the mobile handsets the Group distributes in Hong Kong and Macau should continue to command a premium in pricing without risking reduction in appeal and attractiveness to customers.

In coming years, the competitive advantage of first-tier manufacturers possessing proprietary design and technology capabilities will marginalise lower-tier peers without a strong edge.

The Group believes that all these combined efforts and factors not only strengthen the Group's position in the market but will also expect to have a reasonable growth in coming years.

Meanwhile, the Group will strengthen its communication and cooperative relationships with major local network operators to better tie-in releases of new models with their promotion campaigns.

Employee Information

As at 30 September 2006, the Group employed a work force of 79 (2005: 89). Staff costs, including salaries and bonuses, were approximately HK$44 million (2005: HK$52 million).

The Group has competitive remuneration policy to ensure it will motivate and retain existing employees as well as attract potential employees.

The remuneration packages mainly include salary payments, group medical insurance plan and discretionary bonuses awarded on a performance basis. The Group provides pension schemes for employees as part of their staff benefits.