

Management Discussion and Analysis



FINANCIAL REVIEW

Overall Review

For the year ended 31 December 2005, the Group continued to record increases in turnover under continuing improvements in the business environment of Asia Pacific Region. The turnover of the Group for the year ended 31 December 2005 amounted to approximately HK\$675.4 million, representing an increase of approximately 30% as compared with approximately HK\$520.4 million for the prior year.

The gross profit margin (approximately 9.1%) for the fiscal 2005 was satisfactory and comparable with the fiscal 2004 (approximately 10.1%). Though M2M integrated businesses under the business of development and provision of electronic turnkey device solutions has brought positive contributions to the Group, such increases was diluted by the negative impacts from the fierce competition in the market of semiconductors distribution, including a further provision for slowing moving inventories of approximately HK\$4.1 million.

The selling and distribution costs and general and administrative expenses was increased by approximately HK\$1.3 million and HK\$7.2 million respectively. Such increases were mainly attributable to additional costs incurred for new office, new warehouse, new team of salesman and engineers and relevant operations to match with the growth of M2M integrated businesses. As a result, including the gain on derecognition of forward contract and disposal of property, the profit of the Group for the year ended 31 December 2005 amounted to approximately HK\$9.6 million, representing an increase of approximately 64.8% as compared with that of prior year.

Financial Resources and Liquidity

As at 31 December 2005, the Group had bank balances and cash of approximately HK\$18.7 million (2004: HK\$35.5 million). The Group had total assets of approximately HK\$254.4 million (2004: HK\$231.5 million) which was financed by current liabilities of approximately HK\$161.4 million (2004: HK\$146.5 million), minority interests of approximately HK\$0.8 million (2004: HK\$0.8 million) and shareholders' equity of approximately HK\$91.7 million (2004: HK\$84.2 million). The current ratio was approximately 1.5 (2004: 1.5) and the gearing ratio of the Group was approximately 55% (2004: 47%). The gearing ratio has been calculated based on the total borrowings to the sum of total shareholders' equity and total borrowings of the Group.

Management Discussion and Analysis

The total facilities available to the Group from its bankers amounted to approximately HK\$158.0 million (2004: HK\$149.0 million). The management believes the Group has adequate financial resources for its business requirement for the year as well as its forecast requirement for the coming year.

Treasury Policies

The Group generally finances its operations with internally generated resources and banking facilities provided by the banks in Hong Kong. The banking facilities are mainly trust receipt loans and invoice finance tenor up to 60 days from the invoice date. The bank interest rate is mainly fixed by reference to either in the Hong Kong Prime rate or the Hong Kong Interbank Borrowing rate for Hong Kong dollars loans.

Bank deposits of the Group are in Hong Kong dollars, United States dollars or Renminbi.

Transactions of the Group are mainly denominated either in Hong Kong or United States dollars.

Charges on Assets

The Group's certain bank deposits, available-for-sale investments, investment properties and leasehold properties were pledged to its bankers to secure certain banking facilities granted to the Group.

Contingent liabilities

As at 31 December 2004, the Group has contingent liabilities arising from bills of exchange discounted with recourse amounting to approximately HK\$0.4 million.



Management Discussion and Analysis

BUSINESS REVIEW

With the continuing efforts in developing the M2M integrated businesses for the past few years, the Group was successfully transformed into a market-driven M2M solutions provider. Though the turnover of development and provision of electronic turnkey devices solutions attributed to approximately 16% of the Group's turnover, it has started to bring positive contribution to the Group after the transformation during the year under review.

Distribution of semiconductors

The turnover of semiconductors distribution was increased to approximately HK\$561.4 million, representing an increase of approximately 26.2% as compared with that of the prior year. It was mainly attributable to the Group's efforts to develop several electronic turnkey device solutions for multimedia products, which made the sales of semiconductors in related to multimedia products increased substantially. Though the turnover of semiconductors distribution was benefited from the new solutions for multimedia products, such benefits were diluted by the keen competition in the market of semiconductors distribution from PRC and Taiwan design houses and also caused the segment result of semiconductor distribution change in the opposition direction of the turnover.

Facing with the keen competition in the market of semiconductors distribution, the Group has put more efforts in developing more electronic turnkey device solutions for the semiconductors or components used in the M2M products during the year under review. With the existing customer base in the M2M integrated businesses, the Group expects that there will be synergies between the Group's semiconductors distribution and development and provision of electronic turnkey device solutions.

Management Discussion and Analysis

Development and provision of electronic turnkey device solutions

It was a good year for the business of development and provision of electronic turnkey device solutions. Its turnover was increased by over approximately 50% to HK\$114.0 million from HK\$75.9 million of prior year. It has started bringing positive contribution to the result of the Group since its declaration of transformation in fiscal 2003. During the year under review, the Group was successfully transformed to be a M2M solutions provider, who concentrated in the market of "Telematics" and "Telemetry", and made notable achievements in terms of research and development and market development for its M2M integrated businesses, which are:

- (1) "KENJI" 8500 and 8600 series, the family of KENJI mCar terminal was launched during the year under review. The KENJI mCar terminal integrates various advanced technologies such including GPRS communication, GPS, RFID and Interactive Voice Response System ("IVRS") into a single box. This intelligent in-vehicle telematics terminal is properly the most user friendly device in the market. With embedded IVRS function, controlling and monitoring of the vehicle status can never be earlier. The KENJI 8500 series is specially designed for vehicle safety and security purpose. It allows car owners to monitor and control their vehicles through multiple channels, such as web-based tracking application, IVRS and SMS. To cater for the increasing demand for a low cost terminal for the Logistics and Transportation industries, "KENJI" 8600 series is designed as a cost optimizer that is low cost, reliability and versatile. Advanced communication capability is built into 8600 series to further extend its functionality on controlling and automating the workflow in the fleet operations. Barcode scanner, printer and digital camera can be connected to "KENJI" 8600 and turns the terminal into a complete mobile logistics workbench.

To complement with the development of "KENJI" telematics terminal, VTrack4U fleet management platform and Wireless Logistics and Dispatch System ("WLDS") have been developed during the year under review. VTrack4U is designed to a complete vehicle safety, security and fleet management platform for controlling and monitoring of mobile assets and vehicles. VTrack4U utilizes all intelligent features provided by "KENJI" devices and collects and processes the best available information to the drivers, vehicle owners and the operators. WLDS is specially designed to provide a complete management platform for collection and delivery processes. The real-time transmission over the GPRS or 3G network empowers the customers to visualize and to manage all field activities in front of a computer terminal. Real-time job dispatch and instant proof-of-delivery are examples of key features offered by WLDS to improve operational efficiency as well as to enhance their service level. Major players in the logistics industry such as leading flight forwarder and leading cash-in-transit company have already adopted the Group's solutions into their daily operation.

Management Discussion and Analysis

- (2) Proprietary solution for Wireless Power Load Management Terminal was developed during the first half of 2005. The Terminal can collect data from the user's power meter and transmit the data via GPRS network to the Power Load Management Network System in order to have real-time recording, monitoring and managing the user's power consumption.
- (3) Due to the Group's continuing efforts in promoting Sony Ericsson's GPRS modules, Sony Ericsson's GPRS modules was approved to be one of approved wireless communication modules for the Tender of Large Customers Power Load Management System Phase II (大客戶電力負荷管理系統第二期工程現場終端技術招標) issued by Guangdong Power Grid Corporation (廣東電網公司).

Apparently, these notable achievements will not immediately contribute to the Group's turnover substantially. However, with strategic alliance, business cooperation and technology development and/or acquisitions, the Group believes M2M integrated businesses can further develop its business relationship with customers by offering them "total wireless solutions" as well as provide alternative sources of revenue in the near future.

PROSPECT

In order to match with the sales of "KENJI" 8500 and 8600 series GSM Car alarm, a control centre for vehicle tracking was set up in August 2005. With the support of control centre and strategic alliance, the Group is not only capable of providing terminals and solutions for vehicle tracking, but providing of 24 hours fleet management outsourcing service. As a result, the Group believes that there will be recurring revenue from vehicle tracking services and contribution to the Group in the near future. Although the Group started this Automatic Vehicle Location System with the functions of locationing and security only, the Group will continue to endeavor in development of relevant valued-added solutions in order to support the transportation management, then in-car information center and lastly built-in vehicle facility before 2008.

Referring to the document named "State Grid Sales [2005] No.406" issued by State Grid Corporation China (國家電網公司文件國家電網營銷[2005]406號), on or before 2007, all locations in China with Electricity Transformer over 315KVA are required to install the Power Load Management System in order to have a real-time data collection and monitoring for consumption of electricity. Such requirements will be extended to electricity transformer over 100KVA for certain locations with better economy conditions. Therefore, the Group believes that the demand for the Power Load Management System, relevant application software and the core components for Wireless Power Load Management Terminal, i.e. wireless communication modules will increase substantially before 2007. Apart from the Group's efforts in developing this market, the Group will consider forming certain strategic alliances and business cooperation with other parties in order to faster the development.

Management Discussion and Analysis

To improve the shrinking profit margin for the business of semiconductors distribution, a series of strategies will be implemented by the Group. In short to medium term, the Group will reassess the cluster of customers mixed of different profit margins and consider to focus on those customer with relatively high profit margins. More efforts in developing new and innovative solutions for semiconductors, which have higher demand such as multimedia products, will be critical to the Group's long-term development. In order to increase the synergies with M2M integrated businesses, the Group will put more efforts in getting more distributorship of semiconductors used for production of M2M products.

Nevertheless, the management remains optimistic about the Group's outlook in the year of 2006. Though distribution of semiconductors is expected to remain as the main contributor, the Group believes that the M2M integrated businesses will be the strongest growth driver and able to contribute positively to the profitability of the Group towards the end of the financial year.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group had approximately 134 employees (2004: 144). The Group remunerates its employees based on their performance and the prevailing industry practices. The Board reviews the remuneration policy and package on a periodical basis. Bonus and share option may be awarded to employees based on performance appraisal.

FOREIGN CURRENCY FORWARD CONTRACT COMMITMENTS

As at 31 December 2005, the Group had no outstanding foreign currency forward contract.

At 31 December 2004, the Group entered into certain foreign currency forward contract agreements with banks. Under these foreign currency forward contract agreements, the Group committed to purchase US dollars and sell HK dollars ranged from US\$17,000,000 to US\$34,000,000 and HK\$131,708,000 to HK\$263,416,000 respectively, depending on the spot rate on the maturity date and the pre-agreed forward contract rates of respective foreign currency forward contracts.

MOVEMENT IN SHARE CAPITAL

There is no movement in share capital during the year under review.

PURCHASE, SALES OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.