

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

The Group's two core business operations, namely: (1) the distribution of electronic components, automation parts and equipment under the **MOBICON** serving branding (the "Electronic Trading Business"); and (2) computer related business (the "Computer Business") which includes (i) the retail sales of computer products and accessories under the **VideoCam** retail branding (the "Computer Retail Business") and (ii) the provision of IT outsourcing and solution services to small and medium enterprises in Hong Kong (the "IT Outsourcing Services"), respectively accounted for 69% and 31% of the Group's total turnover for the fiscal year ended 31st March 2006.

Electronic Trading Business

Hong Kong and China

During the year under review, the Group's sales performance in Electronic Trading Business remained stable and the gross profit margin experienced a slight increase. The growth is mainly due to the unification and standardization of the Group's product database. It also mass-produced product catalogues in full color and allowed distributors worldwide to access the most updated and comprehensive product information and prices in a more convenient and efficient way. This enabled the "Small Order Services" business mode to attain satisfactory development and broaden the Group's market coverage.

Under the direction of specialization, the sales performance of wafer chips for radio-controlled cars under Actions branding was satisfactory. With a turnover of HK\$11 million, Actions pushed the sales volume of other electronic products forward and brought the Group to become one of the key suppliers in the electronic toys industry.



Two satellites under the Group, Arkia Advance Limited and Milliard Devices Limited, were devoted to exploring the telecommunication market by providing clients with all-round and professional cordless telephone application solutions and Family Radio System solutions, which helped speed up the production processes. This raised the Group's turnover of telecommunication business from last year's figure of HK\$2.3 million to HK\$15 million of this year by a remarkable surge of 550%.

During the year under review, the Group signed agency contracts with a number of brand-name vendors. These included Hong Kong agents Innochips (a provider of chip varistors), Anpec Electronics (a provider of mosfets and hall sensors), Arnold (a provider of flex magnetic), Pelikon (a provider of intuitive touch displays) as well as Singapore agent Linx Technologies (a provider of radio frequency transceivers and broad-band amplifiers).

Overseas

Within the year under review, the business of the Group's overseas subsidiaries also grew stably. With the infrastructure development in South Africa, the branch started to run the "Small Order Services" business model during the fiscal year. In total, the branch accounted for a pleasing growth of approximately 6% in its turnover.

To better construct the Asian supplying network, the Group set up a sales office at Neihu district in Taiwan in March 2006, which is responsible for exploring the Taiwan SME market as well as purchasing and selling electronic components, automation parts and equipment. Taiwan, as an international information technology export centre and a manufacturing station of electronic industrial products, allowed the satellite companies to contribute positively on the satellites' procurement power and synergized Hong Kong Headquarters to become the central trading hub of the electronic industry.

As at 31st March 2006, the aggregate turnover of all the Group's overseas subsidiaries was approximately HK\$83 million, stating a growth of approximately 14% compared with last year's figure. In terms of geographical segments, the turnover of each region was almost as great as in the corresponding period of last year; and the contributions of Hong Kong, the Asia-Pacific region (other than Hong Kong), South Africa, Europe and other regions, accounted for: 86%, 8%, 3%, 2% and 1% respectively of the Group's total turnover.

Computer Business

Computer Retail Business

During the year under review, the continuous price drop of computer accessories and the corresponding rent surge, recorded a notable decrease in the turnover of Computer Retail Business. To improve the profit-making ability of Computer Retail Business, the Group began to restructure all outlets under  retail branding in February 2006 and developed a regional strategy. Two retail outlets were opened in Yuen Long area and Sheung Shui area with lower rental expenditure in September and December 2005 respectively to expand the retail network of computers and accessories.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

IT Outsourcing Services

The Group continued to amplify the scope of IT Outsourcing Services within the fiscal year. A Power Limited, one of the Group's subsidiaries, actively explored the SME market and engaged in the distribution and direct sales business in IT products. Simultaneously, with a strategic partnership with Fortress Limited, a local retailer with chain stores selling home appliances and communication equipment, A Power Limited promoted digital earphones, computer memory cards and computer accessories under **Jt** branding with all its strength, contributing to the success of A Power Limited as a key vendor of IT products.

With an aim to diversify and specialize the IT Outsourcing Services, the Group set up AESI (HK) Limited to launch IT maintenance business. Utilizing the latest internet technologies, AESI (HK) Limited focused on providing professional consulting services, including real-time technical support, basic system maintenance, sudden disaster handling, equipment acquisition and upgrade, business software development as well as e-commerce solutions to small and medium enterprises and organizations. Through the corporation of AESI (HK) Limited, A Power Limited and Create Tech Software Systems Limited, the Group initiated a one-stop IT maintenance system and became a qualified IT product solutions provider.



LIQUIDITY AND FINANCIAL RESOURCES

The Group has a strong financial foundation. As at 31st March 2006, it had cash and bank balances of approximately HK\$50 million (as at 31st March 2005: HK\$48 million). About 45% and 39% were denominated in Hong Kong dollars and US dollars respectively. The balance of approximately 9%, 2%, 2%, 2% and 1% of its total cash and bank balances were correspondingly denominated in South African Rand, New Taiwan dollars, Malaysia Ringgit, Chinese Renminbi and Singapore dollars. The Group's total assets amounted to approximately HK\$322 million (as at 31st March 2005: HK\$352 million). Net assets per share amounted to approximately HK\$0.90 (as at 31st March 2005: HK\$0.84). Dividend earnings and basic earnings per share were approximately HK\$0.050 and HK\$0.097 respectively (as at 31st March 2005: HK\$0.060 and HK\$0.162 respectively).

As at 31st March 2006, the Group had banking facilities for overdrafts, loans and trade finance from several banks totaling approximately HK\$228 million (as at 31st March 2005: HK\$202 million), with an unused balance of approximately HK\$174 million (as at 31st March 2005: HK\$122 million).

The Directors believe the Group's existing financial resources are sufficient to fulfill its commitments and working capital requirements.

CAPITAL STRUCTURE

As at 31st March 2006, the total borrowings of the Group were approximately HK\$54 million (as at 31st March 2005: HK\$80 million). These were in the form of short-term bank loans (including short-term loans and trade finance) for financing the daily business operations and future development plans. The Group's bank borrowings as at 31st March 2006 were denominated in Hong Kong dollars. The short-term loans and trade finance were secured by the Company's corporate guarantees of around HK\$234 million (as at 31st March 2005: HK\$202 million), with a maturity term of two to three months, and such short-term loans can be rolled over afterwards at the Group's discretion. During the year under review, the Group's borrowings bore interest at rates ranging from 3.2% to 6.1% per annum (as at 31st March 2005: ranging from 1.7% to 4.1% per annum).

GEARING RATIO

As at 31st March 2006, the Group's gross borrowing, which was repayable within one year, amounted to approximately HK\$54 million (as at 31st March 2005: HK\$80 million). After deducting cash and cash equivalents of approximately HK\$50 million, the Group's net borrowings amounted to approximately HK\$4 million (as at 31st March 2005: HK\$32 million). The decrease in borrowings was mainly due to the decrease in inventory. Total equity at 31st March 2006 was approximately HK\$180 million (as at 31st March 2005: HK\$167 million). Accordingly, the Group's net gearing ratio, based on net borrowings to total equity, decreased to 1.9% (as at 31st March 2005: 19.0%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the Group's transactions were denominated in Hong Kong dollars, RMB and US dollars. Given that the exchange rate of Hong Kong dollars against the RMB has been and is likely to remain stable, the HKSAR Government's policy of linking the Hong Kong dollars to the US dollars remains in effect, the directors consider that the Group's risk on foreign exchange will remain minimal. In order to properly hedge against its demand for US dollars, the Group has entered into a forward contract to buy US\$500,000 per month at a rate of HK\$7.75 for the coming eleven months. Other than that, as at 31st March 2006, the Group had no significant risk exposure pertaining to foreign exchange contracts, interest rates, currency swaps, or other financial derivatives.

CHARGES ON ASSETS

The Group did not have any charge on its assets as at 31st March 2006.

COMMITMENTS AND CONTINGENT LIABILITIES

During the year under review, two successive forward contracts were enforced, whereby the Group has committed to buy US dollars on each specified monthly settlement date and the subsisting contract will be enforced up to 15th February 2007. Pursuant to the contract, the Group is committed to buy US\$500,000 in the event that the spot USD-HKD rate at expiration date is greater than or equal to the contract forward rate (i.e. US\$1.00 = HK\$7.75). Otherwise, the Group is committed to buy US\$1,000,000 in the event that the spot USD-HKD rate at expiration date is less than the contract forward rate.

As at 31st March 2006, the Group had total outstanding operating lease commitments of approximately HK\$29 million (as at 31st March 2005: HK\$13 million). In view of the Group's high level of liquid funds, it is expected that the Group will be able to fulfill all these commitments without any difficulty.

The Group had no contingent liabilities as at 31st March 2006.



EMPLOYMENT, TRAINING AND REMUNERATION POLICY

As at 31st March 2006, the Group had a total of 455 full-time employees. The Group has also developed its human resources policies and procedures based on performance, merits and market conditions. Discretionary bonus is linked to the performance of the Group as well as individual performances. Benefits include staff accommodation, medical schemes, share option scheme, Mandatory Provident Fund Scheme for employees in Hong Kong, Employee Provident Fund Scheme for employees in Malaysia, Central Provident Fund Scheme for employees in Singapore, and state-sponsored retirement plans for employees in the PRC.

In February 2006, the Group held its second Asian Sales Conference in Indonesia to introduce and share the Group's development strategies and product knowledge with its overseas staff. More than 60 staff members from Hong Kong, Malaysia, Singapore and South Africa gathered to exchange experience about the operation systems in the Group's different regional offices. The event greatly enhanced communication over business development and market trend between local and overseas staff.

In order to commend their contributions to the Group and to boost their morale, the Group awards certificates to staff members in each department who perform outstandingly every quarter. It also presents rewards of the best attendance, the cleanest working environment and the greatest breakthrough in sales performance according to staff's attendance record, the sanitation of different departments and the results recorded in turnover of all satellites respectively. Monthly birthday parties and festival celebrations are regularly held to strengthen the bonds between staff members and enhance their sense of belonging.

SOCIAL RESPONSIBILITIES

The Group is committed to contributing to the community, and it fosters a corporate team spirit by encouraging staff to take part in various charitable activities. Every year, the Group helps those in need by taking part in the Yan Chai Charity Walk, The Community Chest's 'Hong Kong and Kowloon Walk' and the Hong Kong Red Cross Blood Donation Day. Last year, the Group also participated in the Outward Bound Competition which raises funds for Outward Bound Hong Kong. In addition, the chairman of the Group fully supported the establishment of the Development Fund of De LaSalle Secondary School, N.T. by offering scholarships to students and actively participated in activities on poverty via subsidizing the Candlelight Educational Fund in China to set up a primary school in remote areas.

Apart from actively participating in the Industrial Attachment Scheme of the City University of Hong Kong, the Group also provided graduates of the Yan Chai Hospital Tung Chi Ying Memorial Secondary School with 30-day on-the-job training as part of a career-orientation programme. The Group will maintain its caring spirit and continuous support for the society, as its enterprise culture through developing consecutive strategic cooperation with tertiary educational associations and charity organizations for positive contribution to the society.