

Management Discussion and Analysis

FINANCIAL REVIEW

Overall Review

For the year ended 31 December 2006, 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 2006 amounted to approximately HK\$807.7 million, representing an increase of approximately 19.6% as compared with approximately HK\$675.4 million for the prior year.

The gross profit margin (approximately 10.0%) for the fiscal 2006 was satisfactory as compared with the fiscal 2005 (approximately 9.1%). Though the business of devices and 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 slow moving inventories of approximately HK\$0.1 million.

The selling and distribution costs was decreased by approximately HK\$5.1 million while general and administrative expenses was increased by approximately HK\$4.8 million. The decrease of the selling and distribution costs was mainly due to fewer expenses incurred for team of salesman in the current year. The increase of general and administrative expenses was mainly attributable to additional costs



incurred for new engineers and relevant operations to match with the growth of devices and solutions business. As a result, including the gain on disposal of property, the profit of the Group for the year ended 31 December 2006 amounted to approximately HK\$25.3 million, representing an increase of approximately 163.5% as compared with that of prior year.

Financial Resources and Liquidity

As at 31 December 2006, the Group had bank balances and cash of approximately HK\$29.7 million (2005: HK\$18.7 million). The Group had total assets of approximately HK\$317.1 million (2005: HK\$254.4 million) which was financed by current liabilities of approximately HK\$196.7 million (2005: HK\$161.4 million), minority interests of approximately HK\$0.8 million (2005: HK\$0.8 million) and shareholders' equity of approximately HK\$119.3 million (2005: HK\$91.7 million). The current ratio was approximately 1.6 (2005: 1.5) and the gearing ratio of the Group was approximately 54.2% (2005: 54.8%). The gearing ratio has been calculated based on the total borrowings to the sum of total shareholders' equity and total borrowings of the Group.

The total facilities available to the Group from its bankers amounted to approximately HK\$163.0 million (2005: HK\$158.0 million). The management believes that 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 and available-for-sale investments, were pledged to its bankers to secure certain banking facilities granted to the Group.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2006.

Employees and Remuneration Policies

As at 31 December 2006, the Group had approximately 122 employees (2005: 134). 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 the performance appraisal.

BUSINESS REVIEW

During the period under review, backed by a robust global economy and implementation of effective business strategies, the Group continued to grow steadily. Its total turnover boasted double-digit growth when compared with 2005. While the turnover of semiconductors business was comparable to that in 2005, the turnover of devices and solutions business grew and accounted for nearly 35.2% of the Group's turnover. The high profit margin of the devices and solutions business and successful restructuring of the semiconductor business together brought the Group the best profit return since listing on the main board of the Hong Kong Stock Exchange Market in 2003.

Semiconductor Business

The business segment reported turnover was nearly the same as that in 2005. The flat performance was the result of the segment adjustment during the year at the Group's effort to re-focus on higher profit margin customers. It also injected more resources into developing new and innovative solutions in higher demand such as multimedia products. These moves, despite their short implementation period, are bearing fruits enabling the segment to maintain its profit margin.

The Group will continue these measures to strengthen edges of the semiconductors business to make sure that it will continue to thrive in the highly competitive market and contribute profit to the Group continuously. The Group foresees growing synergies between the segment and the devices and solutions business as the latter continues to be mature, and these synergies ultimately help to boost the Group's overall profit.

Devices and Solutions Business

During the period under review, the segment achieved proud results. Its turnover increased by approximately 149.2% to HK\$284.1 million from HK\$114.0 million in 2005 and accounted for approximately 35.2% to the Group's total turnover. It has become the key profit generator of the Group. The contributing factors to the increases in turnover and profit of the devices and solutions segment are as follows:

- (1) Increase in sales of automobile communication devices and modules. The worldwide demand for vehicle tracking devices is rising and is expected to continue to rise in the coming years. The Group has been capturing related business opportunities by providing clients with wireless terminals and/or key components such as GPRS modules. Wireless terminals, when equipped with GPS positioning modules, can be used for vehicle tracking and security and other land transport applications. With the two-year's research and development effort and intensive laboratory and road tests, our wireless terminals are proven to be the most reliable and cost effective automobile communication devices in the world.

- (2) Increase in sales of GPRS modules and data terminal units for power metering industry. Our previous efforts in creating demands for GPRS modules and data terminal units were very successful resulting in large-scale adoption of our products in Guangdong and Zhejiang. The high quality of our products complemented by strong pre-sale and after-sale support ensured the satisfactory profit margin of the product category. With its GPRS modules having been adopted by the Guangdong Power Grid Corporation as the de facto standard for other power grid operators in other provinces, the Group stood favourable in winning more orders for the product group.
- (3) Increase in sales of multimedia and household appliance devices and solutions. Heeding latest market trends, the Group developed and launched more products to the market during the year.

During the year under review, the Group focused on improving production quality, expanding and strengthening its sales channels to facilitate marketing and promotion of its products in the Asia Pacific region and mainland China. It also established partnerships and strategic alliances in countries such as Australia, China and Singapore. Tests on our automobile communication devices conducted by world-leading logistics industry and security systems and services industry players affirmed the reliability and cost effectiveness of terminals. Power metering and auto parts & devices under the devices and solutions business segment have become the Group's major profitability and turnover drivers.

PROSPECT

As expected, devices and solutions business has become the major source of profit for the Group. The Group will step up the development of the two growing businesses, namely power metering and auto parts & devices in the coming year. The management anticipates there is apparent potential for the two product categories to become the major driving forces for the Group in terms of turnover and profit growth in the next few years. The partnership with Wavecom SA, our improved manufacturing process and outstanding industrial knowledge and expertise will give us the platform to achieve success.

The management has laid down two main approaches to help expanding the power metering business. Firstly, the Group will continue to expand its business network to cover more provinces in China, which will enable the Group to increase its share in the country's power metering device market. Secondly, riding on its knowledge and expertise in semiconductors, the Group will actively develop more power metering solutions to attract new clients as well as unearth business potential in its existing clientele.

Semiconductor business will remain as the major source of revenue for the Group in this coming year. The management will continue the proven strategy in the past year to maintain the segment's profit margin. In addition, the management will pay special attention to boost the synergies between its semiconductor business and the growing power metering and auto parts & devices businesses to strengthen its overall business performance. However, the Group must point out that the operating environment is not free from uncertainty. It anticipates recent fluctuation of cruel oil price and material costs possibly prompt customers to tighten cost control which may in turn affect the businesses.

Auto parts & devices business will be the key strategic direction of the Group in the coming years. The Group is keen to deploy its products and solutions for logistics and vehicle safety and security applications. Our experience in such applications allows us to expand this business into mainland China effectively. Furthermore, the Group has planned to develop new and innovative automobile devices for different markets. Heeding feedback and comments from clients and partners, the Group will increase investment in development of devices such as mobile data terminals and rearview mirror systems. These devices can be connected to the communication terminal to provide additional information to the driver and owner of a vehicle to enhance efficient use of the vehicle and driving experience. These value-added devices will differentiate us from other market players and facilitate deployment of our products to the logistics and public transport markets.

The management is optimistic about the Group's outlook in 2007. With improved technical knowledge and strengthened partnership supports, the Group will actively explore and pursue different expansion possibilities. It will invest in the promising auto parts & devices business while continuing to sustain the solid performance of its semiconductors business and grow the power metering business in the coming year.

MOVEMENT IN SHARE CAPITAL

There is no movement in share capital during the year.

PURCHASE, SALE OF REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

