

BUSINESS REVIEW

Results for the three months ended September 30, 2005

Turnover of the Group for the three months ended September 30, 2005 was HK\$642.2 million, representing a decrease of 23% from the corresponding period of the previous financial year. Oregon Scientific branded sales were 10% higher than the corresponding period last year, accounting for 63% of the Group's turnover, compared with 44% for the corresponding period last year. The growth was attributed to a 53% increase in the sales of Digital Media Products and a 23% increase in the sales of Electronic Learning Products. ODM/OEM sales were 50% lower than the corresponding period last year and accounted for 37% of the Group's turnover. ODM/OEM sales in Digital Media Products, Telecommunications Products and LCD Consumer Electronic Products dropped 86%, 65% and 23% respectively compared with the corresponding period last year.

One-off stock provision of HK\$78.3 million was made in this quarter:

- Owing to the fierce market competition, approximately 70% of the one-off stock provision was made to cover the losses to be incurred in liquidating the inventory of MP3 players and digital cameras of Oregon Scientific. After thorough consideration, the Group is committed to developing and manufacturing unique lifestyle products with higher margins than MP3 players and digital cameras. Hence, limited investments will be made with regard to the development of carefully selected new MP3 and digital camera products under profitable business model.
- Stock provision on Telecommunications Products was made on obsolete items for the changes in product strategy on the development of new main stream product categories including broadband, VoIP and other new wireless technology telephony products.
- Selective stock provision on some LCD Consumer Electronic Products was also made to reflect the fair value of the inventory in the course of inventory clearance at repositioned prices.

The Group recorded a gross profit of HK\$125.9 million compared to HK\$314.2 million last year. The gross profit margin before and after the one-off stock provision was 32% and 20% respectively in comparison with the gross profit margin of 37% last year.

Loss from operations was HK\$110.0 million, compared with profit from operations of HK\$113.1 million for the corresponding period last year. Total operating expenses increased by 15% to HK\$248.6 million, representing 39% of sales in comparison with last year's 26%. Selling expenses increased by 10% to HK\$134.1 million and administrative expenses increased by 13% to HK\$77.7 million. The 46% increase in R&D expenses to HK\$36.8 million was mainly attributable to the one time write-off of product development costs for aborted projects, totalling HK\$7.5 million.

Net loss attributable to equity holders for the three months ended September 30, 2005 was HK\$112.6 million, compared with profit of HK\$87.9 million in the corresponding period last year. Excluding the one-off stock provision and the R&D expenses written off, the net loss of this period was HK\$26.8 million.

Results for the six months ended September 30, 2005

Turnover of the Group for the six months ended September 30, 2005 was HK\$1,197.0 million, representing a decrease of 11% from the corresponding period of the previous financial year. Oregon Scientific branded sales were 17% higher than the corresponding period last year, accounting for 58% of the Group's turnover, compared with 44% for the corresponding period last year. The growth was attributed to a 111% increase in the sales of Digital Media Products and a 29% increase in the sales of Electronic Learning Products. ODM/OEM sales were 33% lower than the corresponding period last year and accounted for 42% of the Group's turnover. ODM/OEM sales in Electronic Learning Products increased 14% whereas Telecommunications Products, Digital Media Products and LCD Consumer Electronic Products dropped 64%, 24% and 19% respectively compared with the corresponding period last year.

As a result of the one-off stock provision of HK\$78.3 million made to fully cover the financial impact from the inventory clearance in MP3, digital camera, Telecommunications Products and LCD Consumer Electronic Products categories, gross profit decreased by 46% to HK\$259.1 million. The gross profit margin before and after the one-off stock provision was 28% and 22% respectively in comparison with the gross profit margin of 36% last year.

Loss from operations was HK\$171.4 million, compared with profit from operations of HK\$142.1 million for the corresponding period last year. Total operating expenses increased by 25% to HK\$450.7 million, representing 38% of sales in comparison with last year's 27%. Selling expenses increased by 30% to HK\$247.5 million and administrative expenses increased by 14% to HK\$138.5 million. R&D expenses increased by 29% to HK\$64.7 million. The increase in R&D expenses was contributed mainly by an amount of HK\$7.5 million attributable to the one time write-off of product development costs capitalised in prior periods.

Net loss attributable to equity holders for the six months ended September 30, 2005 was HK\$184.2 million, compared with profit of HK\$105.1 million in the corresponding period last year. Excluding the one-off stock provision and the R&D expenses written off, net loss was HK\$98.4 million.

The Group has been driven by its mission to create innovative consumer electronic products and services to enhance people's daily lives. It will continue to develop, design and manufacture unique life-style products in the future. However, in the short-run, in view of the competition and the new green rules to be adopted by the European countries, the Group will focus on selling out its latest products on hand through mass distribution channels. In the meantime, limited investments will be made in the development of carefully selected new MP3 and digital camera products under profitable business model. Instead, the Group has developed and launched a new product category of uniquely designed digital audio products, named StyleFi, which will have a higher margin than MP3 players and digital cameras.

Major business developments of each business division is described below.

Oregon Scientific achieved sales growth of 17% to HK\$691.3 million, representing 58% of the Group's turnover. Sales in Europe were at the same level of last year. Sales of LCD Consumer Electronic Products in Europe dropped 15%, a result of the focus on selling out products on hand. In the Americas, growth was recorded in sales of all product categories. US continued to deliver double-digit growth in sales and the sales in Brazil exceeded last year's level by 161%. Meanwhile, total sales in Asia Pacific grew by 58% and the major market, Australia, recorded an increase of 47% in sales. However, the market conditions in the UK and Germany remained sluggish. The management will continue to restructure the organization in Germany in the second half of this year.

LCD Consumer Electronic Products division recorded sales of HK\$475.2 million, down 12% from last year. This division accounted for 40% of the Group's turnover and remained the largest division of the Group. Oregon Scientific branded sales were HK\$302.8 million, down 7% as compared with last year and accounted for 64% of the division's total sales in the period. This was mainly caused by weakened sales in Europe offsetting the growth in the Americas and Asia Pacific. ODM/OEM sales were also down by 19% as fewer shipments were made to these three regions.

Telecommunications Products division sales decreased by 55% to HK\$147.1 million for the period. This division represented 12% of Group's turnover, down from 24% last year. During the period, sales of the Oregon Scientific brand were HK\$37.8 million, which accounted for 26% of the division's total sales, up from 9% last year. ODM/OEM sales were lower than last year's by 63%, reporting HK\$109.3 million.

Digital Media Products division recorded sales of HK\$211.9 million, representing 18% of the Group's turnover and an increase of 15% from last year. 53% of this division's sales were made through Oregon Scientific, compared with 29% last year. As a result of the clearance actions on MP3 and digital camera products, Oregon Scientific sales were HK\$111.7 million, up 111%. Meanwhile, ODM/OEM sales recorded a decrease of 24% to HK\$100.2 million because the business of its ODM/OEM customers was also affected by the competitive market conditions. The Group has decided to make limited investments in carefully selected new MP3 and digital camera products under profitable business model. The focus of branded sales activities in the rest of the year is to liquidate all inventories. A new digital audio product category, named StyleFi, was launched at the end of the review period and the order level was ramping up satisfactorily. This unique collection is expected to generate sales and higher gross profit margin to the branded sales in the second half of this year.

Electronic Learning Products division recorded sales of HK\$360.3 million for the period, representing 30% of the Group's turnover and an increase of 24% from last year. Sales under the Oregon Scientific brand were HK\$237.4 million, accounting for 66% of the division's total sales. Sales under the Oregon Scientific brand and ODM/OEM were up by 29% and 14% respectively as compared with last year. The new licensed products drove the strong growth of branded sales in Europe, the Americans and Asia Pacific. Moreover, more products were shipped to major ODM/OEM customers.