INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend in respect of the Period (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

For the six months ended 30 September 2005, the Group achieved a turnover of approximately HK$1,233 million. EBITDA and profit attributable to shareholders were HK$68 million and HK$17 million respectively, as compared with HK$55 million and HK$12 million for the last corresponding period.

During the Period, market demands for the Group's products remained stable. New products such as portable DVD, cable set top boxes and digital satellite receivers have been well received by the market and demands are expected to increase in the coming years. The Group has a strong product road map and the latest products being developed include DVD recorder with hard disk and VCR compatible, LCD and CRT TV incorporating DVD function, etc. Products such as DVD recorder with its much advanced features are expected to replace traditional recording products such as VCR, and technological advancements will enable selling prices to fall making those products more affordable to the mass consumers, hence generate significant demand.

Costs of certain materials such as plastic and metal parts are still high but have stabilized. The prices of other key components such as deck mechanisms and integrated circuits have been falling gradually. Although selling price of the Group's products have also been under pressure, their general profit margin was maintained.

During the Period, we set up Tonic DVB Marketing Limited ("TDML") to specifically handle the growing digital satellite receiver business. The operating unit of TDML is in Shenzhen and will initially focus on the ODM/OEM business in Europe and the Middle East. On the other hand, we closed our own brand business in Japan under our home appliance division. However, our service to ODM/OEM customers in Japan and the rest of the world will continue. The home appliance division contributed approximately 10% of the total sales of the Group during the period and bigger contributions from it are expected in the coming years.

Anticipating surge in demand for consumer electronic products in the coming years, the Group sees the extra capacity added by the Shek Pai factory providing good support. However, the new factory imposed additional financial constraints on the Group, and those constraints are expected to be relieved when the factory becomes fully operational in the coming years and our turnover and financial resources increase.

During the Period, the Group entered into agreements to purchase 19.05% interest in the issued share capital of DK Digital AG. The consideration was settled by the capitalization of accounts receivable of approximately HK$23.8 million. Details of this transaction can be found in the circular dated 10 October 2005. The investment is classified as long term investment in the financial statements.

Financial review

With customers being conservative about market demands for their products in the first quarter, sales between April and June this year were low compared with the last corresponding period. However, sales in the second quarter picked up strongly and significant sales were recorded in August and September with customers anticipating strong peak season demands. As a result, the accounts payable and receivable balances increased at the period end. Moreover, more customers have required the Company to provide trade finance, which is cheaper to obtain in Hong Kong, and that prolonged the turnover period for accounts receivable. The net proceeds from right issue of shares of approximately HK$62 million earlier this year have strengthened the capital structure of the Company and provided additional funding for working capital.

Taking advantage of the low interest environment, the Group had on 3 December 2003 signed a $3^1/_2$ year term loan facility agreement for HK$245,000,000 with a syndicate of 11 international and local banks. The loan is on Hibor basis and repayable by installment one year after drawdown. The syndicated loan has been used to refinance the Group's existing credit facility and pay the construction costs of new factory buildings. Under the terms of the loan agreement, Mr. Simon Ling is required to maintain at least 40% of the shareholdings of the Company, be the single largest shareholder and be actively involved in the management and business of the Group, otherwise it will constitute as default.

As at 30 September 2005, the Group had total borrowings of approximately HK$512 million, of which HK$482 million was in bank borrowings and HK$30 million was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly on a Hibor basis. Bank balances and cash on hand amounted to HK$121 million and are mainly denominated in Hong Kong dollars. Gearing ratio was 74%, calculated based on net borrowings over shareholders funds.

In March 2005, the Group had raised approximately HK$62 million by way of rights issue of shares. Approximately HK$30 million had been spent for the purchase of plant and machinery and the remaining used as working capital.

The Group is not exposed to material currency fluctuation risks, as most of its receivables are in US dollars and payables in Hong Kong and US dollars. The Group purchases and sells forward contracts with Bank to hedge against US dollars receipts and payments. Except for a few customers to whom we offer credit on an open account basis, we transact business with all other customers on letter of credit.

Employees relations

As at 30 September 2005, the Group had 140 staff stationed in Hong Kong and 8,300 working in PRC factories. Total salaries and wages amounted to approximately HK$63 million for the period. Salaries and wages are normally reviewed annually on the basis of staff performance appraisals and market conditions. The Group provides year-end double pay, discretionary bonuses, provident fund, medical insurance and job training to its staff. Staff welfare is set with reference to prevailing labor laws in Hong Kong and China.