

The Board of Directors of Hanny Holdings Limited (the "Company") has pleasure to present to Shareholders the Interim Report of the Company and its subsidiaries (the "Group") for the six months ended September 30, 2005.

The directors have resolved to declare an interim dividend of HK4 cents per share in cash with scrip option for the six months ended September 30, 2005 (9/30/2004: Nil) to those shareholders whose names appear on the Register of Members of the Company on January 4, 2006. The relevant dividend warrants or share certificates will be dispatched to shareholders on or around March 3, 2006.

The Register of Members of the Company will be closed from Tuesday, January 3, 2006 to Wednesday, January 4, 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed share transfers forms, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch registrars, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, December 30, 2005.

## Management Discussion and Analysis

### RESULTS AND FINANCIAL REVIEW

#### Results

For the period ended September 30, 2005, the Group's unaudited consolidated profit was HK\$48.0 million (9/30/2004: loss of HK\$15.1 million), which comprised of profit after operating income and expenses of HK\$139.2 million (9/30/2004: HK\$117.7 million), positive change in fair value of financial assets of HK\$15.6 million (9/30/2004: Nil), finance costs of HK\$24.1 million (9/30/2004: HK\$9.3 million), share of net losses of associates of HK\$24.1 million (9/30/2004: HK\$30.4 million, as restated), gain on disposal of subsidiaries and associates of HK\$4.2 million (9/30/2004: net loss of HK\$11.4 million), impairment loss on goodwill arising on acquisition of an associate of HK\$14.4 million (9/30/2004: Nil) and income tax expense of HK\$48.4 million (9/30/2004: HK\$67.7 million, as restated). In addition, there was amortization of goodwill arising on acquisition of associates of HK\$14.0 million for the period ended September 30, 2004, whereas there was nil for the period ended September 30, 2005 as a result of the change in accounting policy.

錦興集團有限公司(「本公司」)董事會欣然向股東提呈本公司及其附屬公司(「本集團」)截至二零零五年九月三十日止六個月之中期報告。

董事議決宣派截至二零零五年九月三十日止六個月之中期股息每股現金4港仙(可選擇以股代息)(二零零四年九月三十日:無)予於二零零六年一月四日名列本公司股東名冊上之股東。相關之股息單或股票將約於二零零六年三月三日寄發予各股東。

本公司將於二零零六年一月三日(星期二)至二零零六年一月四日(星期三)(首尾兩天包括在內)期間暫停辦理股份過戶登記手續。股東為符合享有中期股息之資格,務請將所有填妥之股份過戶表格連同有關之股票,於二零零五年十二月三十日(星期五)下午四時前交回本公司之股份過戶登記處香港分處秘書商業服務有限公司,地址為香港灣仔告士打道56號東亞銀行港灣中心地下以作登記。

## 管理層討論及分析

### 業績及財務回顧

#### 業績

截至二零零五年九月三十日止期間,本集團之未經審核綜合溢利為48,000,000港元(二零零四年九月三十日:虧損為15,100,000港元),包括扣除經營收入及開支後溢利139,200,000港元(二零零四年九月三十日:117,700,000港元)、財務資產公平價值之正面轉變為15,600,000港元(二零零四年九月三十日:無)、財務費用24,100,000港元(二零零四年九月三十日:9,300,000港元)、應佔聯營公司虧損淨額24,100,000港元(二零零四年九月三十日:30,400,000港元(經重列))、出售附屬公司及聯營公司之收益為4,200,000港元(二零零四年九月三十日:虧損淨額為11,400,000港元)、收購一間聯營公司產生之商譽減值虧損14,400,000港元(二零零四年九月三十日:無)及所得稅支出48,400,000港元(二零零四年九月三十日:67,700,000港元(經重列))。此外,截至二零零四年九月三十日止期間,收購聯營公司產生之商譽攤銷為14,000,000港元,而截至二零零五年九月三十日止期間,由於會計政策變動,故有關數字為零港元。

## Management Discussion and Analysis (Continued)

### RESULTS AND FINANCIAL REVIEW (Continued)

#### Segment Results

For trading of computer related products, segment turnover amounted to HK\$1,898.8 million, increased by HK\$91.4 million (5.0%) and segment result recorded HK\$89.6 million, decreased by HK\$7.0 million (7.2%).

For trading of consumer electronic products, segment turnover amounted to HK\$670.9 million, decreased by HK\$242.7 million (26.5%) and segment result recorded HK\$13.1 million, decreased by HK\$1.7 million (11.5%).

For trading of securities, segment turnover amounted to HK\$113.9 million, increased by HK\$112.6 million (over 100%) and segment result recorded HK\$18.6 million, increased by HK\$8.2 million (78.8%).

For property development and trading, segment turnover amounted to HK\$118.8 million, increased by HK\$118.8 million (100%) and segment result recorded HK\$10.7 million, increased by HK\$10.8 million (over 100%).

This year, the Group still enjoyed steady growth without lowering gross profit margin. This sales growth was due to our persistent efforts to control cost on inventory pricing, our strong and extensive business network worldwide and promotional efforts made.

The results of the Group was critically turned from loss of HK\$15.1 million for the period ended September 30, 2004 to profit of HK\$48.0 million for the period by the reduction of amortization of goodwill arising on acquisitions of subsidiaries and associates during the period of approximately HK\$39.1 million as compared to the period ended September 30, 2005 as a result of the change in accounting policy. Furthermore, the Group suffered less net losses under "Share of results of associates" during the period of HK\$24.1 million, a decrease by HK\$6.3 million (20.7%). In addition, the investment in unlisted convertible notes recorded an unrealized gain of HK\$15.5 million.

#### Liquidity

Net bank and cash balances at September 30, 2005 decreased significantly to HK\$28.2 million (3/31/2005: HK\$332.6 million), accounting for 2.0% (3/31/2005: 23.7%) of the net tangible asset value of the Group. The cash was mainly used for daily operations and investments in unlisted convertible notes during the period. The current ratio of the Group at September 30, 2005 was 1.39 (3/31/2005: 1.91).

## 管理層討論及分析 (續)

### 業績及財務回顧 (續)

#### 分類業績

就電腦相關產品貿易而言，分類營業額為1,898,800,000港元，增加91,400,000港元（5.0%），而分類業績則錄得89,600,000港元，減少7,000,000港元（7.2%）。

就消費電子產品貿易而言，分類營業額為670,900,000港元，減少242,700,000港元（26.5%），而分類業績則錄得13,100,000港元，減少1,700,000港元（11.5%）。

就證券買賣而言，分類營業額為113,900,000港元，增加112,600,000港元（超過100%），而分類業績則錄得18,600,000港元，增加8,200,000港元（78.8%）。

就物業發展及買賣而言，分類營業額為118,800,000港元，增加118,800,000港元（100%），而分類業績則錄得10,700,000港元，增加10,800,000港元（超過100%）。

於本年度，本集團仍可取得穩定增長而毋須減低毛利率。是項銷售增長乃由於本集團不斷努力控制存貨價格之成本、強大而廣泛之全球業務網絡及所作出之推廣工作。

本集團業績由截至二零零四年九月三十日止期間之虧損15,100,000港元轉為本期間溢利48,000,000港元，由於期內之會計政策變動，故本期間收購附屬公司及聯營公司產生之商譽攤銷較截至二零零四年九月三十日止期間減少約39,100,000港元。此外，本集團期內在「應佔聯營公司業績」方面錄得24,100,000港元之虧損淨額，比去年同期減少6,300,000港元（20.7%）。此外，於非上市可換股票據之投資錄得未變現收益15,500,000港元。

#### 流動資金

於二零零五年九月三十日之銀行及現金結存淨額大幅減至28,200,000港元（二零零五年三月三十一日：332,600,000港元），佔本集團有形資產淨值之2.0%（二零零五年三月三十一日：23.7%）。期內，該等現金主要用作日常營運及投資於非上市可換股票據。本集團於二零零五年九月三十日之流動比率為1.39（二零零五年三月三十一日：1.91）。

## Management Discussion and Analysis (Continued)

### RESULTS AND FINANCIAL REVIEW (Continued)

#### Financial Review

The net current assets of the Group at September 30, 2005 decreased by HK\$406.6 million (35.9%) to HK\$724.9 million (3/31/2005: HK\$1,131.5 million).

Such decrease was mainly attributable to the decrease in bank balances and cash, other asset, investments, short-term loan receivables from related companies, margin loan receivables and net tax payable of HK\$304.4 million, HK\$108.0 million, HK\$42.1 million, HK\$5.7 million and HK\$45.2 million, respectively, at period end as compared to the previous year, and offset by the increase in inventories, trade and other receivables, investments, short-term loan receivables, trade, bills and other payables and borrowings of HK\$498.8 million, HK\$10.1 million, HK\$56.8 million, HK\$146.9 million, HK\$164.9 million and HK\$539.3 million, respectively.

Other asset of HK\$108.0 million as at March 31 2005 were fully disposed of at a consideration of HK\$118.8 million during the period, with a profit of HK\$10.7 million.

Inventories increased from HK\$587.1 million as at March 31, 2005 to HK\$1,085.9 million as at September 30, 2005. This was attributable to the increase in inventory levels of the subsidiaries in the United States and United Kingdom at period end, as management foresaw an increasing sales trend in the coming months. In addition, there was inventories buyback from a customer for conversion to consignment.

Trade and other receivables increased from HK\$766.3 million as at March 31, 2005 to HK\$776.4 million as at September 30, 2005. The number of days for debtors turnover remained steady from 38 days last year to 39 days in current period.

Trade and other payables increased from HK\$1,011.8 million as at March 31, 2005 to HK\$1,180.3 million as at September 30, 2005. The number of day for creditors turnover decreased from 54 days last year to 45 days in current period. The decrease in creditors turnover days was mainly attributable to the early settlement of trade payables in lieu of cash discount on goods purchased during the period.

## 管理層討論及分析 (續)

### 業績及財務回顧 (續)

#### 財務回顧

本集團於二零零五年九月三十日之流動資產淨值減少406,600,000港元(35.9%)至724,900,000港元(二零零五年三月三十一日:1,131,500,000港元)。

流動資產淨值減少主要由於在期末·銀行結存及現金·其他資產·投資·應收有關連公司之短期貸款·應收孖展貸款及應付稅項淨額與去年相比分別減少304,400,000港元·108,000,000港元·42,100,000港元·5,700,000港元及45,200,000港元·並因存貨·貿易及其他應收款項·投資·應收短期貸款·應付票據·貿易及其他應付款項以及借款分別增加498,800,000港元·10,100,000港元·56,800,000港元·146,900,000港元·164,900,000港元及539,300,000港元抵銷。

期內以118,800,000港元代價悉數出售於二零零五年三月三十一日為108,000,000港元之其他資產·錄得10,700,000港元溢利。

存貨由二零零五年三月三十一日之587,100,000港元增加至二零零五年九月三十日之1,085,900,000港元·原因是管理層預料未來月份美國及英國之銷售額呈增長趨勢·而於期末增加當地附屬公司存貨量。此外·向一名顧客購回存貨以轉換作託賣用途。

貿易及其他應收款項由二零零五年三月三十一日之766,300,000港元上升至二零零五年九月三十日之776,400,000港元。應收賬款流轉期則保持穩定由去年之38日至本期間之39日。

貿易及其他應付款項由二零零五年三月三十一日之1,011,800,000港元增加至二零零五年九月三十日之1,180,300,000港元。應付賬款流轉期由去年之54日減至本期間之45日。應付賬款流轉期減少主要由於就期內所購貨品提早償還貿易應付賬款以代替現金折讓所致。

## Management Discussion and Analysis (Continued)

### RESULTS AND FINANCIAL REVIEW (Continued)

#### Financial Review (Continued)

At September 30, 2005, total borrowings of the Group amounted to HK\$1,026.2 million (3/31/2005: HK\$293.3 million), of which HK\$382.2 million (3/31/2005: HK\$160.0 million) were not repayable within one year. The borrowings included bank borrowings of HK\$371.3 million (3/31/2005: HK\$82.0 million), other loans of HK\$636.5 million (3/31/2005: HK\$161.3 million), overdrafts of HK\$18.4 million (3/31/2005: HK\$47.0 million). In addition, there were obligations under finance leases and amount due to a minority shareholder of HK\$0.5 million and HK\$2.5 million, respectively, as at March 31, 2005. The increase in borrowings was due to new borrowings totaled of HK\$1,163.4 million obtained during the period for the purposes of investment and daily operation, but with the total repayment of only HK\$430.5 million.

#### Interests in associates

At September 30, 2005, interests in associates amounted to HK\$645.1 million (3/31/2005: HK\$635.7 million, as restated), represented share of net assets of HK\$604.1 million (3/31/2005: HK\$581.0 million, as restated), goodwill on acquisition of an associate of HK\$39.0 million (3/31/2005: HK\$51.1 million), loan to an associate of HK\$1.4 million (3/31/2005: HK\$1.4 million) and amounts due therefrom of HK\$0.6 million (3/31/2005: HK\$2.2 million). The increase in balance was mainly due to the acquisition of additional equity interest in an associate of HK\$24.1 million, currency translation loss of HK\$8.8 million, share of associates' increase in other reserves and losses, of HK\$32.6 million and HK\$24.1 million, respectively, during the period. Furthermore, goodwill arising on acquisition of an associate was impaired by HK\$14.4 million at period end.

#### Pledge of assets

At September 30, 2005, certain assets of the Group amounting to HK\$1,386.9 million (3/31/2005: HK\$240.2 million) were pledged to banks and financial institutions for loan facilities granted to the Group.

#### Gearing ratio

The gearing ratio (borrowings/shareholders' funds) at September 30, 2005 significantly increased to 55.9% (3/31/2005: 16.2%).

## 管理層討論及分析 (續)

### 業績及財務回顧 (續)

#### 財務回顧 (續)

於二零零五年九月三十日，本集團借款總額為1,026,200,000港元（二零零五年三月三十一日：293,300,000港元），其中382,200,000港元（二零零五年三月三十一日：160,000,000港元）毋須於一年內償還。有關借款包括銀行借款371,300,000港元（二零零五年三月三十一日：82,000,000港元）、其他貸款636,500,000港元（二零零五年三月三十一日：161,300,000港元）、透支18,400,000港元（二零零五年三月三十一日：47,000,000港元）。此外，於二零零五年三月三十一日，融資租約承擔及應付一名少數股東款項分別為500,000港元及2,500,000港元。由於期內就投資及日常營運而取得合共1,163,400,000港元之新增借款，惟還款總額僅為430,500,000港元，以致借款增加。

#### 聯營公司權益

於二零零五年九月三十日，聯營公司權益為645,100,000港元（二零零五年三月三十一日：635,700,000港元（經重列）），分別為應佔資產淨值604,100,000港元（二零零五年三月三十一日：581,000,000港元（經重列））、收購一間聯營公司產生之商譽39,000,000港元（二零零五年三月三十一日：51,100,000港元）、向一間聯營公司作出之貸款1,400,000港元（二零零五年三月三十一日：1,400,000港元）及應收聯營公司款項600,000港元（二零零五年三月三十一日：2,200,000港元）。該結餘增加主要由於期內增購一間聯營公司之股本權益24,100,000港元、貨幣換算虧損8,800,000港元、應佔聯營公司其他儲備增加及虧損分別為32,600,000港元及24,100,000港元。此外，收購一間聯營公司產生之商譽於期末減值14,400,000港元。

#### 資產抵押

於二零零五年九月三十日，本集團將1,386,900,000港元（二零零五年三月三十一日：240,200,000港元）之若干資產抵押予銀行及財務機構以取得本集團之貸款融資。

#### 資本與負債比率

於二零零五年九月三十日之資本與負債比率（借款／股東資金）大幅增加至55.9%（二零零五年三月三十一日：16.2%）。

## Management Discussion and Analysis (Continued)

### RESULTS AND FINANCIAL REVIEW (Continued)

#### Exchange rate and interest rate risks exposure

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars and United States Dollars. The risk of foreign exchange fluctuation had not been significant to the Group. Interest rates of import loans are mainly referenced to LIBOR or HIBOR plus whereas that of bank and other loans are Prime plus. At the balance sheet date, the Group did not enter into any interest rate speculative and hedging contracts. However, the recent weakening of the Euro Dollars against United States Dollars would bring certain exchange losses to the European subsidiaries so far. In view of the possible persistent exchange losses, the Group will consider entering into hedging contracts to eliminate exposure to downside risks, whenever the Group and the concerned foreign subsidiaries think fit.

#### Contingent liabilities

At September 30, 2005, the Group has no contingent liabilities in relation to guarantees given to banks and other financial institutions for facilities granted to an outsider (3/31/2005: Nil).

#### Employees and remuneration policies

As at September 30, 2005, there were approximately 485 staff (3/31/2005: 500) employed by the Group. The remuneration policies are formulated on the basis of performance of individual employees and the prevailing salaries' trends in the various regions. They are subject to be reviewed every year. The Group also provided employee training programs, mandatory provident fund scheme, medical insurance and discretionary bonus. Share options are awarded to employees on merit basis. However, no share options were granted during the period.

### BUSINESS AND OPERATIONS REVIEW

#### Trading Operations Review

The Group continued to strengthen the market position in CD, DVD and USB Flash Category. In summary, the Memorex® brand awareness was growing to bring along with continuous growth in revenue and operating margins.

## 管理層討論及分析 (續)

### 業績及財務回顧 (續)

#### 匯兌及利率風險

本集團大部分之業務交易、資產及負債均以港元及美元計值，外匯波動風險對本集團而言並不重大。進口貸款之利率主要參照倫敦銀行同業拆息率或香港銀行同業拆息率以上水平計算，而銀行及其他貸款之利率則主要參照最優惠利率以上水平計算。於結算日，本集團並無訂立任何利率投機及對沖合約。然而，由於最近歐元兌美元表現疲弱，將會對歐洲附屬公司構成若干匯兌虧損。預見可能持續之匯兌虧損，本集團將考慮於其本身及有關之海外附屬公司認為合適時訂立對沖合約以對銷下調風險。

#### 或然負債

於二零零五年九月三十日，本集團並無就任何有關集團以外人士獲授之融資而向銀行及其他財務機構作出擔保之或然負債（二零零五年三月三十一日：無）。

#### 僱員及薪酬政策

於二零零五年九月三十日，本集團僱用約485名員工（二零零五年三月三十一日：500名）。本集團之薪酬政策乃根據個別僱員之表現及不同地區當時之薪酬趨勢而制定。每年均會作出檢討。本集團亦提供培訓計劃、強制性公積金計劃、醫療保險及酌情花紅予僱員，表現優異之僱員會獲得購股權之獎勵。然而，期內並無授出購股權。

### 業務及經營回顧

#### 貿易業務回顧

本集團繼續穩固於光碟、DVD及USB Flash類別之市場地位。概括而言，隨著Memorex®品牌認知提高，收入及經營利潤亦有所增加。

## Management Discussion and Analysis (Continued)

### North America

Memorex® North America recorded record revenues and operating income in the first two quarters of Fiscal 2006. Growth in USB Flash and Accessories revenues were the primary drivers of the record revenues achieved during the period. Unit sales of USB Flash nearly tripled in FY06 providing over 150% revenue growth in the category. Revenue growth was also fueled by aggressive expansion of its sales of Accessories products with revenues growing by 22%. Media revenues were nearly flat from previous year as increased volumes were offset by decreased average selling prices. In the United States, according to industry trade publications, Memorex® continues to be the American market leader in DVD sales with a 27% share and CDR sales with also a 32% share. We expect DVD volumes to grow substantially in fiscal 2006 while CDR volumes should continue to decline at single digit rates. We continue to expand our presence in Latin America through distribution channels and to explore new market opportunities in Canada. Memorex® continues to be the top brand among the largest retailers in North America. We currently have one or more of our products in 95% of the top twenty retailers in the United States.

Operating margins in North America also achieved record levels. The Company's global purchasing enabled us to improve our gross margins, which we continue to use to leverage our cost structure. We consolidated our Canadian operations into our U.S. operation has yielded operating efficiencies compared to prior year.

### Europe

The European market continues to be challenging. CDR and DVD prices continue to come under pressure from a variety of competitors and directly from the disk manufacturers. In addition, levies in Italy and France have negatively impacted the retail demand for CDRs and DVDs as consumers look for alternative channels to purchase media and media alternatives such as MP3 players. On a positive note, The USB Flash business in Europe has grown by 57%. The Group has continued the successful strategy of supplying key retailers on a direct basis and is currently in more the half of the top European retailers.

### Asia

The Asian market continues to be emerging. The revenue was slightly increased by 7%, which was originated by Japan market. Due to low margin in DVD recorders and keen competition in CD and DVD sector, the overall margin was dropped. Research has been made as to launching new products to leverage the Memorex® brand in Asia. The current strategy is to collaborate with more distributors over Asian countries, promote sales of the CDR & DVD and launch new products (like USB flash and Accessories) in line with that of the Group.

## 管理層討論及分析 (續)

### 北美

在北美，Memorex®於二零零六年財政年度首兩季錄得創新高之收入及經營收入。USB Flash及配件收入增長為期內收入創新高之主要動力。USB Flash之銷售量於二零零六年財政年度增長接近三倍，為該類別提供超過150%之收入增長。收入增長亦由配件產品銷售之積極擴展帶動，而收入增長達22%。媒體收入因平均售價下跌而抵銷銷售量增加以致收入與去年相比接近持平。於美國，根據工業貿易刊物，Memorex®繼續於DVD及一次收錄光碟銷售成為美國市場領導者，各分別擁有27%及32%佔有率。本集團預計DVD數量將於二零零六年財政年度大幅增加，而一次收錄光碟數量則繼續以個位數字比率下降。本集團繼續透過分銷渠道擴張於拉丁美洲之業務，並開拓加拿大之新市場機遇。Memorex®繼續為北美各大零售商當中之最佳品牌。本集團現有一種或以上產品於美國百分之九十五之二十大零售商中售賣。

北美之經營利潤亦達致紀錄水平。全球採購使本公司改善毛利率，而本集團亦繼續用此以改善成本結構。本集團開始將加拿大業務綜合至美國業務，並因而較往年相比產生經營效益。

### 歐洲

歐洲市場仍富有挑戰性。一次收錄光碟及DVD之價格仍面臨來自各方競爭者及直接來自光碟生產商之壓力。此外，意大利及法國實施徵稅，促使消費者尋求通過其他途徑來購買媒體產品及其他媒體產品如MP3機等，對一次收錄光碟及DVD之零售需求造成負面影響。利好消息方面，歐洲之USB Flash業務增長57%。本集團繼續採取直接向主要零售商供貨之成功策略，目前已與歐洲半數以上頂級零售商建立業務關係。

### 亞洲

亞洲市場仍處於冒起階段。在日本市場帶動下，收入微升7%。由於DVD錄影機利潤偏低，加上光碟及DVD類別競爭激烈，導致整體利潤下跌。本集團已在推出新產品進行研究，以提高Memorex®品牌在亞洲之知名度。本集團目前於亞洲之策略為與亞洲國家更多分銷商合作，推廣一次收錄光碟及DVD銷售以及推出符合本集團產品線之新產品（如USB flash及配件）。

## Management Discussion and Analysis (Continued)

### Business and Corporate Developments

#### *Disposal of 15.3% interests in China Strategic Holdings Limited ("CSHL") & the acquisition of interests in Group Dragon Investments Limited ("GDI")*

On March 10, 2005, the Company and PYI Corporation Limited (formerly known as Paul Y.-ITC Construction Holdings Limited) entered into a share sale agreement (the "Share Sale Agreement") with Nation Field Limited for the disposal of an approximately 15.3% interests in CSHL at the consideration of approximately HK\$26 million ("Disposal"). The completion of the Disposal is subject to, among others, the group re-organization of CSHL ("CSHL Re-Organization"). Subject to, inter alia, the completion of the CSHL Re-Organization, the Company will make a voluntary offer to acquire all the issued shares in GDI which are not owned or agreed to be acquired by the Company (the "GDI Offer"). The ordinary resolution approving (i) the making of the GDI Offer (including the allotment and issue of the new shares under Option 1, and the issue of the bonds and the allotment and issue of the conversion shares under Option 2); and (ii) the Share Sale Agreement and the transactions contemplated thereunder was duly passed at the special general meeting of the Company held on 7 October 2005. Details of the aforesaid transaction are set out in the joint announcement of CSHL, the Company and other parties to the transaction dated April 19, 2005 and the circular of the Company dated September 14, 2005.

The transaction has not yet completed as at the date of this interim report.

#### *Subscription of convertible note of Cheung Tai Hong Holdings Limited ("CTH")*

On April 20, 2005, Loyal Concept Limited, an indirect wholly-owned subsidiary of the Company, and CTH entered into a subscription agreement (the "CTH Subscription Agreement") to subscribe a zero coupon convertible note due 2010 of CTH in a principal amount of HK\$450 million at an initial conversion price of HK\$0.44 per conversion share subject to adjustments from time to time.

The subscription and the transactions contemplated under the CTH Subscription Agreement were approved by the shareholders in the special general meeting of the Company held on June 24, 2005 and the CTH Subscription Agreement was completed on August 11, 2005. Details of the transaction are set out in the circular of the Company dated June 7, 2005.

## 管理層討論及分析 (續)

### 業務及企業發展

#### *出售於中策集團有限公司(「中策」)之15.3%權益及認購群龍投資有限公司(「群龍」)之權益*

於二零零五年三月十日，本公司及保華集團有限公司(前稱保華德祥建築集團有限公司)與Nation Field Limited 訂立一份股份銷售協議(「股份銷售協議」)，以出售中策約15.3%之權益，代價約為26,000,000港元(「出售」)。完成出售須待(其中包括)中策集團重組(「中策重組」)完成後方可作實。待(其中包括)完成中策重組後，本公司將提出自願性收購建議，以收購並非由本公司擁有或同意由本公司收購之群龍所有已發行股份(「群龍收購建議」)。批准(i)提出群龍收購建議(包括根據方案一配發及發行新股份及根據方案二發行債券及配發及發行可兌換股份)；及(ii)股份銷售協議及據此進行之交易之普通決議案，已於二零零五年十月七日舉行之本公司股東特別大會上正式通過。上述交易之詳情載於中策、本公司及交易各方日期為二零零五年四月十九日之聯合公佈及本公司日期為二零零五年九月十四日之通函。

於本中期業績報告日期，該項交易尚未完成。

#### *認購祥泰行集團有限公司(「祥泰行」)之可兌換票據*

於二零零五年四月二十日，本公司之間接全資附屬公司Loyal Concept Limited與祥泰行訂立認購協議(「祥泰行認購協議」)以認購祥泰行於二零一零年到期及本金金額為450,000,000港元之零息可兌換票據，其初步兌換價為每股轉換股份0.44港元，可不時予以調整。

祥泰行認購協議項下擬進行之認購及交易已於二零零五年六月二十四日舉行之本公司股東特別大會上獲股東批准，而祥泰行認購協議已於二零零五年八月十一日完成。交易詳情載於本公司日期為二零零五年六月七日之通函。

## Management Discussion and Analysis (Continued)

### *The underwriting agreement and subscription of convertible note of See Corporation Limited (formerly known as Ruili Holdings Limited) ("SCL")*

On April 21, 2005, the Company, SCL and Tai Fook Securities Company Limited entered into an underwriting agreement, pursuant to which, the maximum number of rights shares to be taken up by the Company was 320 million rights shares at a subscription price of HK\$0.10 per rights share. On the same date, the Company and SCL entered into a convertible note subscription agreement (the "SCL Subscription Agreement") to subscribe a zero coupon convertible note due 2010 of SCL in a principal amount of HK\$170 million at an initial conversion price of HK\$0.12 per conversion share, subject to adjustments from time to time.

On July 22, 2005, the Company has subscribed 320 million rights shares of SCL at HK\$0.10 per rights share. The SCL Subscription Agreement was completed on August 10, 2005. Details of the transaction are set out in the circular of the Company dated May 24, 2005.

### *Subscription of convertible note of Wo Kee Hong (Holdings) Limited ("WKH")*

On August 18, 2005, the Company and WKH entered into a convertible note subscription agreement (the "WKH Subscription Agreement") to subscribe the 7.25% convertible note due 2008 of WKH in a principal amount of HK\$30 million at an initial conversion price of HK\$0.10 per conversion share, subject to adjustments from time to time.

The WKH Subscription Agreement was completed on September 7, 2005. Details of the transaction are set out in the circular of the Company dated September 9, 2005.

## OUTLOOK

The Group is well positioned to expand its presence around the globe. We believe that growth in the DVD segment will continue, and prices should stabilize. The overall CDR market will continue to decline for the foreseeable future. We continue to be the market share leader in CDR and DVD media in the United States and expect to leverage that position through expanded product offerings and expanded geographic distribution. In North America and Europe our goal is to expand the products sold within our existing retailers including an expanded accessories offerings, especially media products and USB Flash products. Now that we have achieved a sizable market share in USB Flash we will attempt to improve our margins in the category. Recent market studies indicate that consumers have significant recognition of the Memorex® brand in this segment of the market.

## 管理層討論及分析 (續)

### *包銷協議及認購漢傳媒集團有限公司(前稱瑞力控股有限公司)(「漢傳媒」)之可兌換票據*

於二零零五年四月二十一日，本公司、漢傳媒及大福證券有限公司訂立一份包銷協議，據此，本公司將予認購之供股股份上限為320,000,000股供股股份，認購價為每股供股股份0.10港元。同日，本公司與漢傳媒訂立可兌換票據認購協議(「漢傳媒認購協議」)，以認購漢傳媒於二零一零年到期及本金金額為170,000,000港元零息可兌換票據，其初步兌換價為每股轉換股份0.12港元，可不時予以調整。

於二零零五年七月二十二日，本公司以每股供股股份0.10港元認購320,000,000股供股股份。漢傳媒認購協議已於二零零五年八月十日完成。交易詳情載於本公司日期為二零零五年五月二十四日之通函。

### *認購和記行(集團)有限公司(「和記行」)之可兌換票據*

於二零零五年八月十八日，本公司與和記行訂立可兌換票據認購協議(「和記行認購協議」)以認購和記行於二零零八年到期可兌換票據及本金金額為30,000,000港元之7.25厘可兌換票據，其初步兌換價為每股轉換股份0.10港元，可不時予以調整。

和記行認購協議已於二零零五年九月七日完成。交易詳情載於本公司日期為二零零五年九月九日之通函。

## 展望

本集團已準備就緒，致力在全球各地擴大市場佔有率。本集團相信，DVD類別業務之增長將會持續，而價格亦會趨於穩定。於可預見之未來，一次收錄光碟市場將會繼續萎縮。本集團在美國一次收錄光碟及DVD媒體仍繼續佔據領導地位，並期望透過擴大產品種類及地域分佈，因應市場領導地位而受惠。在北美及歐洲，本集團之目標為擴大在現有零售商網絡內銷售之產品種類，尤其是媒體產品及USB Flash產品。本集團於USB Flash市場方面已佔有龐大市場佔有率，並將竭力提升本集團於此類別之利潤。近期之市場研究顯示，Memorex®品牌在業內市場深受消費者歡迎。