

review of operations and prospects

For the year 2005, profit attributable to shareholders was HK\$302 million as compared to HK\$556 million for the year 2004.

The total turnover was HK\$6,038 million for the year compared to HK\$6,422 million for 2004. The gross profit from operating activities was HK\$817 million as compared to HK\$788 million for 2004.

The core business segments of the Group comprise of The Branded Distribution Group and The Electronics Manufacturing Services Group. The Branded Distribution Group will continue to become an increasingly significant contributor to sales and profits of the Group representing 61% of consolidated sales in 2005 as compared to 57% in 2004.

THE BRANDED DISTRIBUTION GROUP

The Branded Distribution Group's turnover for 2005 was HK\$3,707 million as compared to HK\$3,660 million for 2004. The Group phased out the sale of CRT TV's in 2005 so as to focus on the strong growth in flat panel display products such as Plasma and LCD TVs. Against this growth was a decrease in demand for home audio equipment in all market segments.

The Group manages the distribution and the licensing of three global Brands, namely Nakamichi, Akai and Sansui (collectively referred to as "Brands"). Both Akai and Sansui target the mass market with customers looking for mid to high end audio and video products. Nakamichi is the Group's premium brand concentrating on lifestyle systems that commands much higher market value. The Group has continued to invest in the Brands in 2005 by setting up additional Plasma and LCD production lines in The People's Republic of China ("PRC") and will continue to stay ahead of the technology curve through investment in research and development. This has resulted in the Group's ability to take full advantage of the growing demand for display products.

The Group covers the different flat panel technologies and caters to all sizes, with the aim to capture a bigger share of the market. The Group has a strong product line up and along with the current range of Plasma 42", 50" and 63", will also launch a 71" model in the second half of 2006. In addition, a 42" and 47" LCD will also join the LCD TV line up to complement the existing 20", 26"/27", 32" and 37" models.

In 2005, The Group experienced strong growth in the North American market, while the European market was sluggish. In early 2006, the Group acquired a European manufacturing facility for the production of flat panel display products so as to maximise the Brands' sales opportunities in Europe. This will also avoid having to pay the existing 14% duty on importing such products into Europe.

The Group's operating profit for 2005 was HK\$426 million as compared to HK\$411 million in 2004. The marginal profit increase was due to the Group's ongoing investment in proactive brand management programs to manage as well as license the Brands, expand the distribution network and improve the product selection.

The Group continues to expand in PRC so as to take advantage of its tremendous demand for products. The economy is expanding with an increasing affluent middle class having correspondingly higher disposable income. As PRC goes digital within 2007, flat panel products are also increasing in popularity. Significant investments have been made in advertising and marketing in PRC with the aim for the Brands to be among the pre-eminent international Brands in China for consumer electronic products. Sansui is now one of the most widely recognised brands in PRC.

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The Group will continue to invest in the infrastructure, product development and global marketing to realize the full potential of the Brands.

THE ELECTRONICS MANUFACTURING SERVICES GROUP

The Electronic Manufacturing Services Group (“EMS”) is comprised of two primary divisions, Lafe Technology Limited (“Lafe”) and Tomei Technologies Limited (“Tomei”). Lafe is a leading manufacturer of magnetic storage devices and is one of the top five manufacturers of recording heads and related assemblies for tape drives, hard disc drives and optical drives in the global storage market. Tomei manufactures consumer electronic products on behalf of major global brands whose products include DVD recorders, DVD rewritables, Hard Disc recorders and LCD projectors.

During 2005, the Group commenced the integration of Tomei’s facilities into the Branded Distribution Group and the phasing out of the production of its low margin products.

The EMS turnover for 2005 was HK\$2,331 million, as compared to HK\$2,762 million in 2004. The decrease was as a result of the phasing out of production of low margin products as noted above. Turnover was also affected by the phasing out and decrease in demand of the matured Digital Linear Tape Ferrite Head, and slower than expected sales of the new generation of Super DLT Magneto-Resistive Heads (“MR heads”).

The EMS Group suffered a net loss of HK\$54 million for 2005, as compared to an operating profit of HK\$52 million in 2004. Lafe incurred higher material content in new products and incurred additional costs in developing new products during the year. Tomei incurred losses as a result of the streamlining of its production facilities and the phasing out of production of low margin products.

In anticipation of the uncertain demand and pricing pressure on MR heads and complimentary products, Lafe is collaborating with customers in the development of more new product and increasing the value added content. We anticipate that an increasing portion of Lafe’s total revenue will be derived from sales of Linear Tape Open (“LTO”) Drive products as demand grows along with tape drives and autoloaders.

Adrian C. C. Ma
Group Managing Director

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