Management Discussion and Analysis

Revenue

Group revenue for the year ended 31st March 2006 increased by 17.9% over the previous financial year to US$1,204.6 million as a result of an increase in revenue from ELP business and CMS business despite a decrease in revenue at the TEL business.

The TEL business recorded a slight decrease in revenue, which fell by 2.9% to US$594.7 million. This performance reflected management's planned reduction in sales in the North American market as the Group streamlined the product lines and exited unprofitable businesses to improve profitability. Revenue from the European market, however, rose by 49.4% over the previous financial year as a result of management's success in increasing orders from existing customers and developing new markets, such as Scandinavia and Eastern Europe.

The ELP business achieved another year of substantial growth in revenue with a 60.7% year-on-year increase to US$451.7 million for the financial year 2006. The growth was attributable to strong demand for all ELP product categories. In particular, demand of the V.Smile product range remained strong supported by the broadened product portfolio following the introduction of V.Smile Pocket and the growing number of Smartridges.

For the CMS business, revenue increased by 23.2% over the previous financial year, reaching US$158.2 million. The growth mainly came from increased orders from existing customers. The CMS business continued its strategy of providing one-stop shop EMS service to small and medium sized customers.

The Group's revenue from the three core businesses was: 49.4% from the TEL business, 37.5% from the ELP business and 13.1% from the CMS business.

North America continues to be the largest market for the Group. Revenue from this market accounted for 55.8% of Group revenue for the financial year 2006. Europe and Asia Pacific accounted for 38.0% and 4.4% respectively. This change in the relative contribution of the three regions mainly reflects the sales reduction in North America and sales increase in Europe at the TEL business.

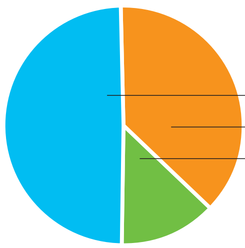
Gross Profit/Margin

The gross profit for the financial year 2006 was US$446.7 million, an increase of US$117.9 million compared to the US$328.8 million recorded in the previous financial year. Gross margin for the year improved from 32.2% to 37.1%. The increase in gross margin was due to the continuous success of the ELP product range, the rationalisation of the US operation of the TEL business which aimed to restore profitability, and management's effort to control overheads.

Operating Profit

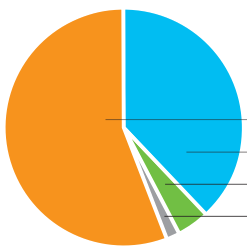
The operating profit for the year ended 31st March 2006 was US$136.2 million, an increase of US$73.5 million or 117.2% over the previous financial year. The improvement mainly came from significant improvement in gross profit and gross margin which resulting from overall growth in revenue and a change in the sales mix, in turn largely reflecting the continued success of the

Group Revenue by Product Line



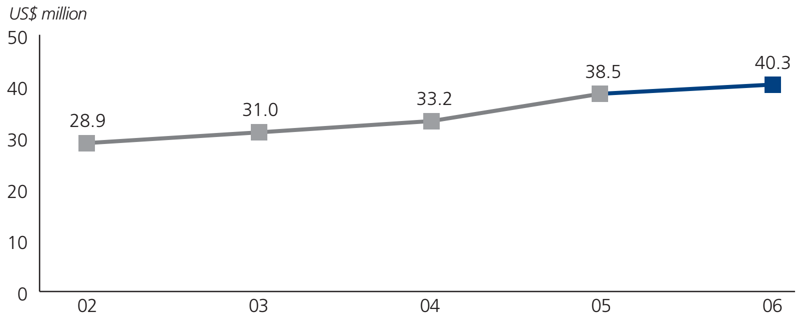
	%	2006 US$ million
Telecommunication Products	49.4	**594.7**
Electronic Learning Products	37.5	**451.7**
Contract Manufacturing Services	13.1	**158.2**
Total	100.0	**1,204.6**

Group Revenue by Region

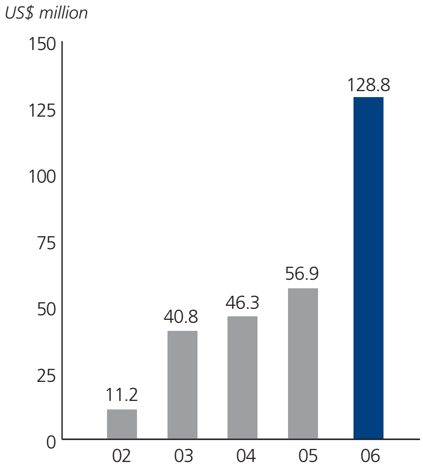


	%	2006 US$ million
North America	55.8	**671.6**
Europe	38.0	**457.8**
Asia Pacific	4.4	**53.1**
Others	1.8	**22.1**
Total	100.0	**1,204.6**

R&D Expenditure on Core Businesses in Last 5 Years



Profit Attributable to Shareholders in Last 5 Years



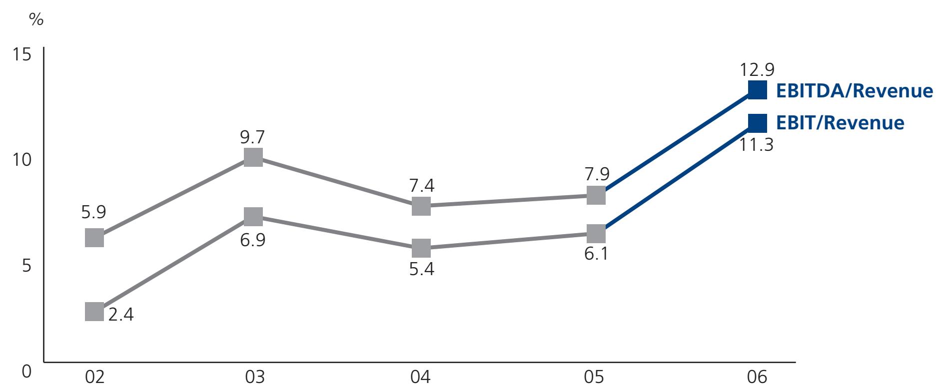
ELP product range and the improved profitability of the TEL business. In addition, improvements in operational efficiency in all three businesses mitigated the negative impacts from rising labour costs, high raw material prices and the appreciation of Renminbi.

Selling and distribution costs increased by 14.6% from US$182.6 million in the previous financial year to US$209.2 million in the financial year 2006. The increase was mainly attributable to the increased spending on advertising and promotional activities particularly to accommodate the increasing V.Smile sales. Royalty payments to licensors for the use of popular cartoon characters for certain ELPs and V.Smile Smartridges also increased which was in line with increase in sales of the V.Smile product range. Distribution costs and selling overheads, however, were maintained at level similar to the previous financial year despite higher volume of products sold, owing to the implementation of an effective cost control mechanism. The total amount of selling and distribution costs as percentage of Group revenue decreased from 17.9% in the previous financial year to 17.4% in the financial year 2006.

Administrative and other operating expenses increased from US$51.7 million in the previous financial year to US$61.0 million in the financial year 2006. The increase was mainly due to an exchange loss of US$2.6 million recorded because of the depreciation of the Euro and Sterling against the US dollar, contrasting with an exchange gain of US$3.3 million recorded in the previous financial year. In the previous financial year, the Group also realised a gain of US$1.8 million from the disposal of factories and related entities in Mexico, whereas no such gain was recorded in the financial year 2006. Excluding the effect of exchange differences and the gain on disposal as mentioned, the administrative and other operating expenses increased only slightly by US$1.6 million compared to the previous financial year. Nevertheless, the amount of administrative and other operating expenses as percentage of Group revenue maintained at 5.1% as in the previous financial year.

Research and development (R&D) activities are vital for the long-term development of the Group. During the financial year 2006, the Group spent US$40.3 million on research and development activities, which represented around 3.3% of total Group revenue.

Group EBITDA/Revenue and EBIT/Revenue in Last 5 Years



Net Profit and Dividends

The profit attributable to shareholders for the year ended 31st March 2006 was US$128.8 million, an increase of US$71.9 million as compared to the previous financial year. The ratios of EBIT and EBITDA to revenue were 11.3% and 12.9% respectively.

Basic earnings per share for the year ended 31st March 2006 were US54.9 cents as compared to US25.2 cents in the previous financial year. During the year, the Group declared and paid an interim dividend of US6.0 cents per share, which aggregated to US$14.3 million. The directors have proposed a final dividend of US26.0 cents per share, which will aggregate to US$62.1 million. Total dividend for the year amounted to US32.0 cents per share, representing an increase of US19.0 cents per share or 146.2% over the previous financial year.

Liquidity and Financial Resources

The shareholders' funds as at 31st March 2006 were US$306.2 million, a 50.6% increase from US$203.3 million reported for the financial year 2005. The net assets per share increased by 42.2% from US$0.90 to US$1.28.

As at 31st March 2006, the net cash increased to US$242.4 million, up 96.0% from US$123.7 million at the previous year-end. The Group is substantively debt-free, except for an insignificant amount in the form of a fixed-interest bearing equipment loan which is denominated in Euro and repayable within five years.

As at 31st March 2006 and 2005 All figures are in US$ million unless stated otherwise	2006	2005
Cash	242.4	123.9
Less: Total interest bearing liabilities	–	(0.2)
Net cash position	242.4	123.7
Gross debts to shareholders' funds	Not applicable	0.1%

Treasury Policies

The objective of the Group's treasury policies is to manage its exposure to fluctuation in foreign currency exchange rates arising from the Group's global operations. It is our policy not to engage in speculative activities. Forward foreign exchange contracts are used to hedge certain exposures.

Working Capital

As at 31st March 2006 and 2005 All figures are in US$ million unless stated otherwise	2006	2005
Stocks	133.8	124.2
Average stocks as a percentage of Group revenue	10.7%	10.8%
Turnover days	81 days	78 days
Trade debtors	162.9	162.3
Average trade debtors as a percentage of Group revenue	13.5%	14.7%
Turnover days	65 days	65 days

The stock balance as at 31st March 2006 increased by 7.7% over the balance at 31st March 2005 to US$133.8 million. The turnover days increased from 78 days to 81 days. The increase in stock level is primarily to cater for the increased demand for ELPs and TELs in the first quarter of the financial year 2007. The trade debtors balance as at 31st March 2006 was US$162.9 million, approximately the same as reported for the previous financial year. The turnover days were 65 days, the same as in the previous financial year. Despite higher sales in the fourth quarter as compared to the previous financial year, the trade debtors balance as at 31st March was maintained at the same level as a result of substantial debt collection efforts.

Capital Expenditure

For the year ended 31st March 2006, the Group invested US$32.1 million in construction of factory buildings, purchase of plant and machinery, equipment, computer systems and other tangible assets. All of these capital expenditures were financed from internal resources. During the financial year 2006, the new manufacturing plant for the Group in Qingyuan city, the northern Guangdong province, started operation. This plant is specialized in supplying plastic products for our TEL business.

Capital Commitments and Contingencies

The Group expects to invest approximately US$54 million on capital expenditure in the financial year 2007. Besides normal capital expenditure for ongoing business operations, the Group decided to establish a new R&D centre in Shenzhen, Guangdong province. The centre is expected to be in operation by the end of the financial year 2007. In addition, the Group expects to incur further capital investment on the new manufacturing plant in Qingyuan city in the financial year 2007.

All of these capital expenditures will be financed from internal resources.

As of the financial year end date, the Group had no material contingencies.