

## BUSINESS REVIEW AND PROSPECTS

The turnover of the Group for the six months ended 30 June 2006 (“current period”) was HK\$3,879 million as compared with HK\$2,623 million for the six months ended 30 June 2005 (“corresponding period”).

Profit before tax for the current period was HK\$158 million, as compared to HK\$192 million for the corresponding period.

The core business segments of the Group comprises of the Branded Distribution Group and the Electronics Manufacturing Services Group.

### The Branded Distribution Group

The Group manages the distribution and licensing, including all trademarks and patents, of three global brands, namely Nakamichi, Akai and Sansui (the “Brands”). In addition, since the acquisition of a 37% interest in Emerson Radio Corp (“ERC”) in December 2005, the Group has increased its shareholding through purchase of stock on the exchange and as of today is almost at the 50% level.

The Branded Distribution Group’s turnover for the current period was HK\$2,751 million as compared to HK\$1,555 million for the corresponding period. This was largely as a result of significant growth in sales of flat panel display products, Plasmas, and LCD TVs in the North American market, as well as the People’s Republic of China.

The Group has recently completed the rationalization of the flat panel display production factory in Denmark acquired in March this year. This will enable the Group to compete much more actively for European business, where otherwise the 14% import duty on non-European flat panel products makes it very difficult to market. The Group’s operating profit for the current period was HK\$141 million compared to HK\$167 million for the corresponding period.

The home audio market continued its global decline from 2005 to be replaced by the growth in flat panel display products. Due to its investment over the years in both research & development and production lines, the Group is well positioned to be a dominant player in the flat panel display market. With the increased HDTV programming and widespread adoption of digital broadcasting across the globe over the next few years, the Group is confident on maximizing the Brands expansion and growing turnover, not only for the rest of 2006 but for the years ahead.

The synergies of the Group’s acquisition of ERC are already having an impact in 2006 and greater benefit will be derived going forward. The Group will continue to invest in infrastructure, product development and global marketing to realize the full potential and competitiveness of all its Brands.

## **BUSINESS REVIEW AND PROSPECTS (continued)**

### **The Electronics Manufacturing Services Group**

The Group's turnover for the first half of 2006 was HK\$1,128 million, compared to HK\$1,068 million for the first half of 2005. There was continuing increase in sales of Linear Tape Open ("LTO") Drive products along with new complementary products, namely tape drives and tape autoloaders, which mitigated lower than expected sales of Super DLT Magneto-Resistive Heads ("MR Heads").

The Group's operating profit for the first half of 2006 was HK\$36 million, compared of HK\$38 million for the first half of 2005.

The Group expects to continue to increase the production of heads and complementary products for the LTO Drive market as demand grows.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2006, the Group had total assets of HK\$8,707 million which were financed by shareholders' funds of HK\$2,940 million, minority interests of HK\$959 million and total liabilities of HK\$4,808 million. The Group had a current ratio of approximately 1.06 as compared to that of approximately 1.17 at 31 December 2005.

As at 30 June 2006, the Group had HK\$672 million cash and bank balances. The Group's working capital requirements were mainly financed by internal resources and short-term borrowings which were charged by banks at fixed and floating interest rates. As at 30 June 2006, the Group had HK\$1,128 million short-term bank borrowings and HK\$734 million bank overdrafts.

The Group had inventories of approximately HK\$1,081 million as at 30 June 2006 representing a increase of HK\$426 million compared to that at 31 December 2005.

At the balance sheet date, the Group's gearing ratio was 50.31% which is calculated based on the Group's net borrowings of HK\$1,479 million (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to shareholders of the Company of HK\$2,940 million.