



INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2.0 cents (2005: HK2.0 cents) per share payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 19 September 2006. The dividend warrants are expected to despatch to shareholders on or about 25 September 2006.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from 18 September 2006 to 19 September 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:00 pm on 15 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Distribution of Electronic Components and Semiconductors Products

During the reporting period, riding on the booming demand for mobile phone products, electronic consumer products, computer products and communication products, the Group's electronic components and semiconductors distribution business recorded satisfactory results. In addition to developing its core business, the Group also strived to improve the quality of its value added services so as to optimize its one-stop service. The result of the move was especially obvious for the design and research and development functions. The Group also improved the quality of its logistics service to help customers shorten time-to-market of their products. These measures enabled the Group to achieve reasonable margin despite that the average price of electronic products was declining worldwide.

Mobile Phone Products

The mobile phone market faced tight competition during the period under review. The Group focused on providing diverse value-added solutions to customers, including the mobile TV solution. To capture the business opportunity for the possible issue of 3G mobile licenses in the PRC, the Group continued to promote and analysis 3G solutions that can be apply to the PRC market.

Consumer Electronic Products

New electronic consumer products, all lightweight and with multi-functions, continued to emerge in the market, and the Group's solutions for portable DVD players, MP3 and PMP sold exceptionally well during the reporting period. The sliding selling prices of LCD TV and digital cameras bred demand pushed up the sales of LCD ranging from 1.5 inches to 47 inches.

Computer Products

Rocketing demand for notebook computers and the launching of dual-core processor have given the computer industry a strong boost. The phenomenon translated into remarkable sales for the memory chip products, USB interface, 1394a/b interface, Gigabit Ethernet and connectors.

Communication Products

As for communication products, as VoIP phones continued to gain popularity, so did the Group's solutions for them. Switch ICS and interface components also suit exactly market demands. Seeing MoIP phones' advance into mainstream, the Group has beaten its peers in launching solutions for them in the market.

Distribution of Sports Products

Keen market competition and high consumption tax on luxury goods in the PRC affected the performance of the Group's sports products distribution business during the period under review. As such, the Group will closely monitor the performance of this sector or may consider disposing of the non-core business, and focus resources on developing its electronic components and semiconductors distribution business.

Prospects

The second half year is traditionally the peak season for the electronic product industry. Value added features for mobile phone products, such as mobile TV and video mail, are expected to be much sought after items. Therefore, the Group has commenced promotion of solutions for such services and related components.

Apart from a growing market demand for mobile phones, the Group sees continuous rise in demand for consumer electronics, computer products and telecommunication products as well. The rising demands for these products will boost sales of the Group's solutions and related components for them. However, stepping into the traditional peak season, supply of electronic components may become very tense. Heeding this possibility, the Group will work closely with suppliers to minimize any negative impact from the shortage.



Considering that the Group is well recognized by suppliers and customers as a leading electronic component distributor and the bright prospects of the electronic product industry, the Group will implement a series of strategies to expand its business scale and secure a bigger market share in the second half year. Also, in order to provide existing customers with comprehensive product range, the Group is studying the opportunity to manufacture electronic components module by its own.

FINANCIAL REVIEW

For the six months ended 30 June 2006, thanks to the strong sales and satisfactory results from distribution of electronic components and semiconductors products, the Group's turnover increased 3.1% to HK\$1,080,393,000 (2005: 1,047,900,000), gross profit increased by 2.6% to HK\$78,235,000 (2005: HK\$76,277,000) and EBITDA (represented earnings before interest, taxation, depreciation, amortisation and impairment loss on available-for-sale investments) grew 27.1% to HK\$43,622,000 (2005: HK\$34,328,000).

Profit attributable to equity holders of the Company was HK\$10,766,000 (2005: HK\$17,323,000), which resulted in a basic earnings per share of HK4.44 cents (2005: HK7.14 cents). Decrease of profit attributable to equity holders of the Company is mainly due to unsatisfactory results from distribution of sports products, together with other non-operating factors including higher finance costs as result of the significantly higher average interest rate and an impairment loss on available-for-sale investments in a Korean-based OLED producer.

Liquidity and Financial Resources

The Group generated net operating cash inflow of HK\$97,389,000 for the period under review, compared with net operating cash outflow of HK\$72,318,000 recorded in the last corresponding period.

On 30 June 2006, the Group's current ratio was 143.4% (31 December 2005: 141.4%), gearing ratio was 89.8% (31 December 2005: 106.7%), which is calculated based on the Group's net bank borrowings (calculated as total interest-bearing borrowings less cash and bank balances) of approximately HK\$326,274,000 (31 December 2005: HK\$389,122,000) and the equity attributable to equity holders of the Company of HK\$363,276,000 (31 December 2005: HK\$364,637,000).

There was no material change in available banking facilities when compared with the year ended 31 December 2005.

The Directors considered that the Group shall have sufficient financial resources to meet its working capital requirement after a due consideration of the net cash position and the availability of the existing banking facilities.

Pledge of Assets

At 30 June 2006, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks of the Group:

- (a) investment properties and leasehold land and buildings with total net book values of HK\$167,273,000 (31 December 2005:HK\$168,232,000);
- (b) bank deposits of HK\$83,121,000 (31 December 2005:HK\$86,647,000);
- (c) trade receivables of HK\$141,634,000 (31 December 2005:HK\$156,026,000);
- (d) available-for-sale investments of HK\$2,865,000 (31 December 2005:HK\$2,865,000);
- (e) inventories of HK\$77,635,000 (31 December 2005:HK\$70,075,000);

Foreign Exchange Risk Management

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong and United States dollars. Exchange rates between these currencies were relatively stable during the period under review.

EMPLOYEES AND REMUNERATION POLICIES

On 30 June 2006, the Group employed approximately 380 employees in the PRC and Hong Kong. They were remunerated according to their merit, qualification, competence and job nature. Other staff benefits include provident fund schemes and medical insurance.