Moving forward, the Group will continue to explore new business opportunities with its business partners with an aim to further strengthen its core business. The Group will expedite business growth by devoting its resources to extend its business solution profile serving the complete product chain as well as to further diversify its product and customer profile. In addition, the Group will actively pursue new investment opportunities, in particular the business opportunities in the development of cable television service and digital media broadcasting in China. The management will work proactively with China Electronics Corporation ("CEC"), the controlling shareholder of the Company, in this area so as to materialise quantum growth in shareholder's return.

FINANCIAL REVIEW

The Group generally finances its operation by internal resources and short term bank facilities. The Group had cash and bank balances of HK$256.4 million as at 30 June 2006 (31.12.2005: HK$306.4 million), which were primarily denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 30 June 2006, the Group had unsecured short term bank borrowings of HK$187.5 million (31.12.2005: HK$230.8 million), which were all denominated in Renminbi and were borrowed at contracted fixed interest rate. The Group's available bank facilities were approximately RMB600 million. As at 30 June 2006, the Group did not have any pledged assets or guarantee.

The Group's export sales are predominantly invoiced in United States dollars and its domestic sales are invoiced in Renminbi. The Group imports some of its raw materials and production and testing equipment from overseas suppliers which are paid in United States dollars, Japanese Yen and Euro. The Group will make use of hedging contracts, where appropriate, to leverage the risk of foreign exchange fluctuation arising from its operation.

As at 30 June 2006, the Group had net current assets of HK$462.5 million (31.12.2005: HK$470.7 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 63% (31.12.2005: 71%).

As at 30 June 2006, the Group had contracted but not provided for capital commitments of HK$1.5 million (31.12.2005: HK$3.2 million) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liabilities outstanding as at 30 June 2006.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2006, the Group had approximately 3,000 employees, the majority of whom were based in China.

The Group recognises the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration packages are largely in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. Bonus and other merit payments are linked with the performance of the Group and of the individuals as incentive to optimise performance. The Company has in place a share option scheme, pursuant to which share options may be granted to selected personnel of the Group, with a view to encouraging employees to work towards enhancing the value of the Group.

CONTINUING CONNECTED TRANSACTIONS

On 21 January 2006, the Group's principal operating subsidiary, Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei") entered into a maintenance service agreement with Philips (China) Investment Company Limited ("Philips China"), whereby Sang Fei will provide mobile phone maintenance service to Philips China. The term of the agreement is for one year commencing from 1 January 2006. Upon expiry of the one-year term, the agreement may be extended for one year unless either party objects. The maintenance service fee is determined after arm's length negotiation between the parties with reference to the estimated costs incurred by Sang Fei for the provision of maintenance service plus a service charge which is determined in accordance with market rate. The annual cap for the aggregate consideration to be received by Sang Fei from Philips China in relation to the provision of maintenance service is RMB60 million for the year ending 31 December 2006.

As the Philips Group owns 25% interest in Sang Fei, the transactions contemplated under the agreement constitute continuing connected transactions of the Company. The Directors are of the opinion that it is in the best interest of the Company and the shareholders of the Company as a whole for Sang Fei to enter into the agreement. CEC, as the controlling shareholder of the Company, has approved the agreement, the continuing connected transactions contemplated thereunder and the related annual cap by way of written approval.

On 3 March 2006, Sang Fei entered into a plastic supply agreement with Shenzhen Sang Da Baili Electronics Co. Ltd. ("Baili"), whereby Sang Fei will purchase from Baili the plastic parts used for the manufacture of mobile phones. The agreement is for a term of 3 years commencing from 1 April 2006. The price of the plastic parts supplied by Balli to Sang Fei under the agreement is determined after arm's length negotiation with reference to market rate. The pricing terms are no less favourable than those offered to Sang Fei by other third party suppliers. The Company estimated that the aggregate amount of consideration to be paid by Sang Fei to Baili for the purchase of plastic parts for the nine months ending 31 December 2006, for the two financial years ending 31 December 2007 and 2008 and for the three months ending 31 March 2009 will be RMB43.5 million, RMB104.5 million, RMB120 million and RMB30 million respectively.

As Baili is an indirect non wholly-owned subsidiary of CEC, the transactions contemplated under the agreement constitute continuing connected transactions of the Company. The transactions were approved by the independent shareholders in the special general meeting held on 21 April 2006.