

BUSINESS REVIEW

Results For The Three Months Ended September 30, 2006

Turnover of the Group for the three months ended September 30, 2006 was HK\$698.5 million, representing an increase of 9% from that in the corresponding period of the previous financial year. The launch of new innovative products in all product categories saw Oregon Scientific branded sales up 16% to HK\$473.4 million which accounted for 68% of the Group's total turnover. On the ODM/OEM side, both Electronic Learning Products and Telecommunications Products performed well, while LCD Consumer Electronic Products slowed down, resulting in a 4% decrease in sales to HK\$225.1 million.

Following an improvement to 31% in the preceding quarter, gross profit margin continued to advance further to 36% in the second quarter in comparison with 19% in the corresponding period last year.

At the increase in both turnover and profit margin, the Group's gross profit doubled to HK\$251.2 million.

Profit before tax for the period was HK\$8.9 million, compared with a loss of HK\$115.7 million for the corresponding period last year. Total operating expenses decreased by 3% to HK\$239.5 million, comparable to 34% of sales against 39% last year. Whilst administrative expenses and R & D expenses decreased by 5% to HK\$72.7 million and 23% to HK\$28.3 million respectively, selling expenses increased by 3% to HK\$138.5 million attributable to the increase in royalty fees in line with sales growth of licensed Electronic Learning Products.

Net profit attributable to equity holders of the Company for the three months ended September 30, 2006 was HK\$4.7 million, as compared with a loss of HK\$112.6 million in the corresponding period last year.

Results For The Six Months Ended September 30, 2006

Turnover of the Group for the six months ended September 30, 2006 was HK\$1,160.1 million, representing a decrease of 3% from the corresponding period in the last financial year. Strong sales growth of Oregon Scientific accounted for 62% of the Group's turnover whilst ODM/OEM sales made up the rest.

Gross profit margin for the period was HK\$392.1 million or 34% of sales, representing a 52% increase as compared with the corresponding period last year.

Total operating expenses for the period decreased by 6% to HK\$422.6 million, a comparable to 36% of sales against 38% in the same period last year, attributable to a 5% reduction in selling expenses to HK\$235.5 million, a 7% reduction in administrative expenses to HK\$128.0 million and a 9% reduction in R & D expenses to HK\$59.1 million. Consequently, loss before tax was down by 81% to HK\$34.6 million.

Net loss attributable to equity holders of the Company for the six months ended September 30, 2006 was HK\$40.6 million, a notable improvement against a loss of HK\$184.2 million in the corresponding period last year.

The major development of each business division is described below.

Oregon Scientific sales increased by 4% to HK\$715.9 million, representing 62% of the Group's turnover. The sales in Europe was down by 18% in the first half as compared with the same period last year due to loss of sales in Digital Media Products. Germany and the UK reported moderate growth of 3% and 5% in sales respectively. In the Americas, the US achieved strong double-digit growth in Electronic Learning Products, thanks to broader distribution of new innovative products. Moreover, Brazil reported strong double-digit growth in both LCD Consumer Electronic Products and Electronic Learning Products. In Asia Pacific, sales were dragged down 22% by the loss in sales of Digital Media Products and a one-time promotion order of Electronic Learning Products.

Electronic Learning Products division achieved sales of HK\$462.3 million, up 28% when compared with the same period last year and representing 40% of the Group's turnover. Oregon Scientific branded sales increased by 46% to HK\$346.5 million, which accounted for 75% of the division's total sales. Both Europe and Americas placed very strong orders for the children learning laptop computer as well as the new innovative learning products. Demand for new products such as SmartGlobe™ is expected to remain strong in the next quarter. The sales of ODM/OEM business were down by 6% to HK\$115.8 million.

LCD Consumer Electronic Products division recorded 7% drop in sales to HK\$444.4 million as compared with last year as a result of late delivery of new products. The amount represented 38% of the Group's turnover. Oregon Scientific branded sales were HK\$299.4 million which accounted for 67% of the division's total sales in the period as compared to last year's 64%. Meanwhile, ODM/OEM sales reported a 16% decline to HK\$145.0 million which was attributable to substantial reduction of orders from a few major ODM/OEM customers due to realignment of the product lineup and business strategies.

Telecommunications Products division sales increased by 39% to HK\$204.5 million in the period, accounting for 18% of the Group's turnover, against 12% for the same period last year. During the period, sales of the Oregon Scientific brand grew by 6% to HK\$40.1 million, which accounted for 20% of the division's total sales. The surge was mainly driven by the successful launch of keyless touch phone products. ODM/OEM sales were HK\$164.3 million, a 50% improvement when compared with the same period last year.