

PROSPECTS

The Group achieved encouraging recovery results in the first half of this financial year bolstered by rising gross profit margin and lowering operating costs, particularly noteworthy as the Group has yet to enter its peak selling seasons.

Oregon Scientific has had strong business growth with its Electronic Learning Products boasting strong appeal across all markets. The Group's Electronic Learning Products division will secure a 3-year Star Wars license for children learning laptop computers and hand-held electronic learning products for worldwide distribution. The Group will continue to invest in widening scope of its learning products for children adding to it new product categories.

LCD Consumer Electronic Products division has been a leader in the market of time and weather and sports and fitness products with innovative features and applications. The Group launched the world first daylight projection clock and the world first touch-screen heart rate monitor in the second quarter. It will continue to introduce new products of unique design and supported by innovative technology to meet market and customer demands.

The Group's world first keyless touch phone has received strong interest from customers in Europe, the US and Hong Kong. This innovative phone product has enabled the Telecommunication Products division to increase Oregon Scientific branded sales and sales from private label customers in both Europe and the US. The Group will continue its strategy of providing advanced technological solutions in cordless phones, private mobile radios and marine radio products.

Initiatives to enhance cost and operational efficiencies and effectiveness have been implemented in all product divisions and Oregon Scientific subsidiaries. The Group is ready to transform challenges into business opportunities. Committed to executing those improvement initiatives and new business strategies, it is confident of achieving stronger results in the future.

WORKING CAPITAL AND TREASURY MANAGEMENT

Net current assets as at September 30, 2006 amounted to HK\$398.7 million, increased by 9% from last year. In comparison with the same period last year, inventories dropped by 12% to HK\$541.0 million trade receivables increased by 9% to HK\$531.7 million and trade payable increased by 32% to HK\$239.6 million. Inventories turnover was 129 days, up from 120 days last year and debtors turnover was 84 days, up from 74 days last year.

Net cash balances at September 30, 2006 were HK\$91.4 million, compared with net cash deficit of HK\$29.4 million last year. After completing the rights issue of HK\$124.2 million in July this year, the Group's working capital situation has been much strengthened.

As at September 30, 2006, short-term bank borrowings was HK\$422.0 million, it was significantly lower than HK\$612.0 million of last year. Short-term bank borrowings were in relation to bills payable, import loans, revolving bank loans used for currency hedging purposes and bank overdrafts.

The Group maintained with Double-A rated financial institutions the level of HK\$273.0 million high yield deposits as at September 30, 2006 which is the same as last year. These instruments do carry a level of risk because interest earnings could be nil if certain conditions are met.

The Group's exposure to foreign currency mainly stems from the net cash flow and net working capital translation of its overseas subsidiaries. Hedging of foreign currency exposures is actively done through natural hedges, forward contracts and options. As at September 30, 2006, there were forward contracts in place to hedge against possible exchange differences from future net cash flows. Speculative currency transactions are strictly prohibited. The responsibility of currency risk management rests with the Group's headquarters in Hong Kong.

DIVIDEND

The board of Directors has resolved not to declare any interim dividend for the year ending March 31, 2007 (2006: nil).

CONTINGENT LIABILITIES

As at September 30, 2006, the Group had no contingent liabilities (2005: nil).

DIRECTORS' INTERESTS IN SECURITIES

As at September 30, 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under the provisions of the SFO) or which were recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

| Name | No. of Shares held | | | Total no. of shares | % of the issued capital | Number of underlying shares held under equity derivatives (Note 3) |
|-----------------------------|--------------------|---------------------------|---------------------------|---------------------|-------------------------|---|
| | Personal interests | Family interests | Corporate interests | | | |
| Raymond Chan | 88,729,102 | 293,948,303 (Note 1) | 1,010,730,270 (Note 2) | 1,393,407,675 | 55.69% | 3,120,000 |
| Chan Pau Shiu Yeng, Shirley | 88,757,431 | 1,099,459,372 (Note 1) | 205,190,872 (Note 2) | 1,393,407,675 | 55.69% | 2,080,000 |
| Lo Kai Yiu, Anthony | 1,711,779 | - | - | 1,711,779 | 0.07% | 1,040,000 |
| Kao Ying Lun | - | - | - | - | - | 1,040,000 |
| Jack Schmuckli | 1,667,200 | - | - | 1,667,200 | 0.07% | 1,040,000 |
| Kenichi Ohmae | - | - | - | - | - | 1,040,000 |
| Woo Chia Wei | - | - | - | - | - | 1,040,000 |
| Yoram (Jerry) Wind | - | - | - | - | - | 1,040,000 |

All interests disclosed above represent long positions in the shares/underlying shares of the Company.

Notes:

- (1) Mrs. Chan Pau Shiu Yeng, Shirley is the spouse of Dr. Raymond Chan. The personal and corporate interests of Mrs. Chan Pau Shiu Yeng, Shirley are disclosed as the family interests of Dr. Raymond Chan. The personal and corporate interests of Dr. Raymond Chan are disclosed as the family interests of Mrs. Chan Pau Shiu Yeng, Shirley.
- (2) 1,010,730,270 ordinary shares are held by Integrated Display Technology Limited, a company incorporated in the British Virgin Islands, which is wholly owned by Dr. Raymond Chan. 205,190,872 ordinary shares are held by Raymax Time Company Limited, a company incorporated in the British Virgin Islands, which is wholly owned by Mrs. Chan Pau Shiu Yeng, Shirley.
- (3) These represent the interests in underlying shares in respect of the share options granted by the Company, the details of which are set out in the sub-section entitled "Share Option Schemes" below.

Save as disclosed above, none of the directors or the chief executives of the Company or any of their associates had, as at September 30, 2006, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under the provisions of the SFO) or which were recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at September 30, 2006, the following persons (other than the directors or the chief executives of the Company), had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or as otherwise notified to the Company were as follows:

| Name | No. of shares held | % of the issued share capital |
|---|--------------------|-------------------------------|
| Integrated Display Technology Limited (<i>Note 1</i>) | 1,010,730,270 | 40.39% |
| Raymax Time Company Limited (<i>Note 2</i>) | 205,190,872 | 8.20% |

All interests disclosed above represent long positions in the shares of the Company.

Notes:

- (1) Integrated Display Technology Limited, a company incorporated in the British Virgin Islands, is wholly owned by Dr. Raymond Chan. Such corporate interests are also disclosed in the sub-section entitled "Directors' Interests in Securities" above.
- (2) Raymax Time Company Limited, a company incorporated in the British Virgin Islands, is wholly owned by Mrs. Chan Pau Shiu Yeng, Shirley. Such corporate interests are also disclosed in the sub-section entitled "Directors' Interests in Securities" above.

Save as disclosed above, the Company had not been notified by any person (other than the directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company as at September 30, 2006 which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.