

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend in respect of the Period (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

For the six months ended 30 September 2006, the Group achieved a turnover of approximately HK\$1,578 million, representing an increase of 28% over the corresponding period of 2005. EBITDA and profit attributable to shareholders were HK\$75 million and HK\$22 million respectively, representing a 11% and 27% increase over the corresponding period of 2005.

During the Period, the Group registered increased demands for its various products. New features were added to enhance the products developed by the Group in the past few years. Products such as VCR+DVD combo, VCR+DVD/RW combo, digital satellite receivers and cable set top box delivered better profit margins and sales.

Costs of certain materials such as plastics and metal parts stabilised but was still relatively high thus continued to pose pressure on the production cost. The Group's own power generators ensure production is not affected by power shortages, but the cost of powering them was affected by high oil price during the Period. The Group's cost structure also felt the impact of the elevated minimum wage level in Guangdong Province, effective in September 2006. The Group is committed to keeping its cost under control and thus maintaining its competitiveness in the industry.

The Group complies with the European Union's RoHS Directives that came into effect on 1 July 2006, restricting the use of certain hazardous substances in electrical and electronic equipment imported by EU countries. New electrical and electronic equipment containing more than agreed levels of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE) flame retardants are banned from the EU market. In the advent of the Directives, the Group had implemented procedures and policies and purchased facilities that enable to assure compliance. The Group expects other markets such as the US to impose similar requirements and is ready to meet those standards with all adequate facilities already set up and running.

The United States Federal Communications Commission ("FCC") has adopted the major elements of the Advanced Television System Committee ("ATSC") Digital Television (DTV) Standard. In time, ATSC will replace NTSC, which is an American organisation overseeing analog TV transmissions, and digital TV transmissions is expected to be gradually implemented in the US in 2007. Based on the market responses gauged so far, demands for ATSC products such as digital high definition television (HDTV), standard definition television (SDTV), data broadcasting, and interactive television are expected to rocket in the coming year. The Group will inject more resources into research and development of ATSC products to cope with the anticipated rising demand.

The Group believes that the demand for digital products e.g. LCD-TV, DVD recorders, ATSC and DVB products will be tremendous in coming years and the Group's wide variety of digital products will be able to cater for the rising demand. The Group is committed to improving operational efficiency and cost effectiveness continuously and is optimistic in the business prospects.

Financial review

Demand for the Group's electronic products especially those with advanced features increased during the Period with demand from the American markets standing out. Sales for the Period increased by 28% as compared with those of the last corresponding period. Accordingly, cost of sales also increased against the last corresponding period. Significant sales were recorded between August and October. As a result, the accounts payable, receivable balances and stock balances were all gone up at the Period end.

On 23 March 2006, the Group signed a 3-year term loan facility agreement for HK\$150,000,000 with a syndicate of 7 international and local banks. The loan is on HIBOR basis and repayable by installment starting 18 months after the date of the loan agreement. This syndicated loan was used to fully repay the syndicated loan obtained on 3 December 2003. The balance of approximately HK\$27 million will serve as the Group's working capital. Pursuant to the terms of the loan agreement, Mr. Ling Siu Man, Simon, Chairman of the Group, is required to maintain at least 40% shareholding of the Company, be the single largest shareholder and be actively involved in the management and business of the Group, otherwise it will constitute as a default.

As at 30 September 2006, the Group had total borrowings of approximately HK\$498 million, of which HK\$467 million was bank borrowings and HK\$31 million was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly on HIBOR basis. Bank balances and cash on hand, mainly denominated in Hong Kong dollars, amounted to HK\$106 million. Gearing ratio was 75%, calculated based on net borrowings over shareholder funds.

The Group is not exposed to any material currency fluctuation risks, as most of its receivables are in US dollars and its payables are also in US dollars. The Group purchases forward contracts from banks to hedge against confirmed US dollar receipts. In addition, it has Renminbi receipts from domestic sales to off set Renminbi expenses of factories in the PRC. Inflation of the Renminbi has no material impact on the Group in the short run. Except for a few customers to whom the Group offers credit on an open account basis, the Group transacts business with all other customers on letter of credit.

Employee relations

As at 30 September 2006, the Group had 160 Hong Kong and 8,300 PRC employees. Total spending on salaries and wages amounted to approximately HK\$70 million for the Period. Salaries and wages are normally reviewed annually based on staff performance appraisals and market conditions. The Group provides year-end double pay, discretionary bonuses, provident funds, medical insurance and job training to its employees. Staff welfare and benefits are set with reference to prevailing labour laws and practices in Hong Kong and the PRC.