SEGMENT INFORMATION

The Group has one business segment, being the manufacturing and marketing of consumer electronics and communications products and software development.

The results and prospects of its various products within this segment are as follows:

Mobile Phone Accessories

During the twelve months ended 31 December 2006, the Group recorded sales of mobile phone accessories of approximately US$103.47 million, representing 58.0% of the Group's turnover and a significant growth of approximately 135.2% when compared to US$44.00 million for the same period last year as a result of the robust growth in sales of products featuring Bluetooth® wireless technology. This category is expected to be continuously strong in view of the growing market demand for mobile phones featuring Bluetooth® wireless technology in 2007.

Home Entertainment Devices

During the twelve months ended 31 December 2006, sales of home entertainment devices were approximately US$36.47 million, representing a decrease of approximately 31.1% from approximately US$52.94 million for the same period last year. The Group is seeking more opportunities from existing and new customers for new product proposals, and it is expected that this category will remain one of the Company's major businesses in 2007.

Educational Products

During the twelve months ended 31 December 2006, the Group's educational product business achieved sales of approximately US$25.56 million, representing a slight increase of approximately 5.0% as compared to the sales of approximately US$24.35 million for the same period last year. The Group is actively widening its customer base and seeking opportunities to manufacture diversified products for its existing customers in order to achieve a higher growth in the coming years.

Optical Devices

During the twelve months ended 31 December 2006, sales of optical devices dropped to approximately US$9.83 million, representing a reduction of approximately 76.8% as compared to the sales for the same period last year of approximately US$42.35 million. Extremely competitive pricing environment for camera modules in the mobile phone market continues to erode the Company's market share and margin. It is expected that realignment into camera module market for notebook computer will help the Company achieve a more moderate margin and revenue growth in this category.

Software Development Services

During the twelve months ended 31 December 2006, sales amounted to approximately US$3.00 million which comprised mainly the sales of the dictionary business, representing a decrease of approximately 18.9% from approximately US$3.70 million for the same period last year. The Company will continue its development efforts on navigation system and seek more business opportunities from its current and new customers for growth in this segment.

RESEARCH AND DEVELOPMENT

In order to maintain its competitive position in the market, the Group will continue to develop resources in its research and development. As at 31 December 2006, the Group had 263 engineers specializing in design and engineering functions and will continue to recruit appropriate staff members to support related products and technology required by our customers.

Using its experience in manufacturing headsets featuring Bluetooth® wireless technology, the Group managed to develop more products for existing customers and break into new customer base in the mobile phone accessories. This success has brought new opportunities in other mobile phone accessory products.

The Group developed new CMOS camera modules which will be incorporated into computer notebooks of leading brands. Regarding educational products, the Group developed a new customer base to manufacture learning devices based on digital pen solution. For home entertainment devices, new versions of game accessories with Bluetooth® wireless technology and USB 2.0 interfaces had also been developed for our customer.

The Group successfully developed for customers over 20 software projects in dictionaries and products using 3D sensor. The Group also developed a prototype of navigation product for the purpose of demonstrating its technology to new customers and will continue its development efforts on navigation products and their related technology with an aim to entering this market in the future.

ENHANCEMENT OF PRODUCTION CAPABILITIES

Manufacturing technology

As at 31 December 2006, the Group has 12 SMT production lines to cope with future growth and expansion. For SMT development, we continue to attain excellent achievements in following global trends of technology, while complying with customer requirements and environmental protection policy at the same time. We will strive to enhance our SMT capability with critical technologies through industry and academic cooperation.

Production space

The existing factory premises have a total area of approximately 24,500 square metres. The office building and staff quarters, and ancillary facilities have a total area of approximately 4,400 square metres and 19,500 square metres respectively. We believe these office and factory premises can cater for our expansion in the next couple of years.

Quality Assurance

During 2006, we continued our work in relation to Six Sigma training and certification programs to further upgrade our overall quality management. A total 59 and 6 staff received green belt training and black belt training respectively. We completed 72 programs and successfully reduced manufacturing defects, improved process capability and testing system stability by applying DMAIC (Define, Measure, Analysis, Improve, Control) methodology and other six sigma tools. In the fourth quarter of 2006, we started to conduct Lean Six Sigma training and achieved loss time reduction by above 50% by the end of 2006.

The Group expects to have more consolidation training and practice for black belts and to obtain the relevant certification from China Association for Quality of PRC Government in year 2007. More Lean Six Sigma trainings and about 100 programs will be implemented for further improvement in quality and efficiency in 2007. We are confident that the successful implementation of the Six Sigma training and certification programs will provide the Group with higher market competitiveness due to better quality management, higher production efficiency and flexibility as well as elimination of unnecessary inspection and rework.

ENVIRONMENTAL FRIENDLY MEASURES

RoHS Directives

The directives of Restriction of Certain Hazardous Substances (RoHS) restrict the use of certain hazardous substances in electrical and electronic equipment and has been in force throughout the European Community since 1 July 2006.

As a manufacturer of electrical and electronic products, the Group recognizes its responsibilities of contributing to the protection of human health and the environmentally sound disposal of waste electrical and electronic equipment. All our products are lead free and RoHS compliant.

During 2006, the Group was awarded “SONY Green Partner Certificate” and Canon’s “Certificate of Green Activity”. It has also successfully obtained renewal of its ISO 14001:2004 certification in relation to its environmental management system. The Group was awarded “Green Enterprise” by State Environmental Protection Administration of PRC since 2003 and passed the biennial examination in 2006.

Waste water treatment

To ensure that any waste water discharged from our factory does not contaminate the environment, we have a waste water treatment system in our factory premises. The water treatment system will remove harmful pollutants from liquid waste so that it is safe to return to the environment. The waste water which has been treated can also be used for other purposes including irrigation and flushing water.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

The Group continued to maintain a sound financial position during the year 2006, with 6.9 US cents (2005: 5.0 US cents) of cash per share ("Share") of HK$0.01 each of the Company and 19.2 US cents (2005: 16.2 US cents) of net asset per Share based on 881,670,588 (2005: 881,670,588) issued ordinary Shares. As at 31 December 2006, the Group had a cash to current liabilities ratio of 1.67 (2005: 1.51), a current ratio of 3.52 (2005: 3.05), a total assets to total liabilities ratio of 5.66 (2005: 5.85), and approximately US$60.5 million (2005: US$44.5 million) of bank balances and cash.

At the year end, the Group had no external loans of any kind. The gearing ratio was nil. The Group recorded debtors turnover days of approximately 61 days for the 12 months ended 31 December 2006 (approximately 44 days for the 12 months ended 31 December 2005) based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 365 days.

The Group recorded an inventory turnover days of approximately 24 days for the 12 months ended 31 December 2006 (approximately 25 days for the 12 months ended 31 December 2005) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days.

FOREIGN EXCHANGE EXPOSURE

Since most business transactions conducted by the Group and payments made to suppliers are either in Hong Kong Dollars, United States Dollars or Renminbi, the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

INVESTMENT IN TCL CORPORATION ("TCL CORP.")

Pursuant to the Split Share Structure Reform ("SSR") of TCL Corp., the Group's interest in TCL Corp. has been changed from 95,516,112 promoter's shares to 80,600,173 A-shares. As a result of the reduction in the Group's interest in TCL Corp., the Group recorded a loss of US$1.87 million. The A-shares held by the Group will be tradable on the Shenzhen Stock Exchange after 12 months from 20 April 2006, which was the first trading day after the SSR was formally implemented. Based on available information, the Group believes there is a risk that the Group may suffer losses at the time of disposal of its interest in TCL Corp. The Group therefore believes it would be prudent to make an impairment on this investment. However, according to the applicable accounting standards, the investment is recorded at fair value. As the fair value of the Group's investment in TCL Corp. exceeded the original investment cost at 31 December 2006, no impairment loss is required. The Group will however continue to monitor the situation and may consider making an impairment should it become appropriate under applicable accounting principles.

FINAL DIVIDEND

In view of the funding required for expanding operation and capital expenditure in the years ahead, the Board (the "Board") of Directors (the "Directors") has resolved that no final dividend will be declared for the year ended 31 December 2006 (2005: 0.45 US cent, equivalent to 3.50 HK cents), as compared to interim dividend of nil (2005: 0.38 US cent, equivalent to 3.00 HK cents) per Share. The total dividends declared for the year ended 31 December 2006 amounted to nil (2005: 0.83 US cent, equivalent to 6.50 HK cents) per Share.