

The directors herein present their report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates consisted of the design, development, manufacture and distribution of electronic and computer products and components along with trading of audio & video products and shares.

SEGMENTED INFORMATION

Details of turnover and segmented information are set out in notes 7 and 41 to the financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 84.

An interim dividend of HK12 cents per ordinary share was paid on 8 November 2006. The directors recommend the payment of a final dividend of HK14 cents per share in respect of the year to the shareholders on the register of members on 25 June 2007. The final dividend will be paid on or before 8 August 2007.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below:

RESULTS

	Year ended 31 December				
	<u>2006</u> HK\$ million	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million	(Restated) <u>2003</u> HK\$ million	(Restated) <u>2002</u> HK\$ million
TURNOVER	<u>9,312</u>	<u>6,038</u>	<u>6,422</u>	<u>7,723</u>	<u>6,646</u>
PROFIT BEFORE TAX	<u>394</u>	<u>315</u>	<u>407</u>	<u>445</u>	<u>313</u>
Tax	<u>(34)</u>	<u>(13)</u>	<u>(10)</u>	<u>2</u>	<u>(3)</u>
PROFIT BEFORE MINORITY INTERESTS	<u>360</u>	<u>302</u>	<u>397</u>	<u>447</u>	<u>310</u>
Minority interests	<u>-</u>	<u>-</u>	<u>41</u>	<u>3</u>	<u>76</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>360</u>	<u>302</u>	<u>438</u>	<u>450</u>	<u>386</u>

SUMMARY FINANCIAL INFORMATION (Continued)

ASSETS AND LIABILITIES

	2006 HK\$ million	(Restated)	31 December		(Restated)
		2005 HK\$ million	(Restated)	(Restated)	(Restated)
		2004 HK\$ million	2003 HK\$ million	2002 HK\$ million	
NON-CURRENT ASSETS	4,379	3,067	3,244	3,020	3,029
CURRENT ASSETS	3,608	3,635	3,095	3,493	2,646
TOTAL ASSETS	7,987	6,702	6,339	6,513	5,675
CURRENT LIABILITIES	3,198	3,113	2,981	2,740	2,245
NON-CURRENT LIABILITIES	833	423	306	394	916
TOTAL LIABILITIES	4,031	3,536	3,287	3,134	3,161
	3,956	3,166	3,052	3,379	2,514
SHARE CAPITAL AND RESERVES	2,993	2,708	2,540	2,803	1,894
MINORITY INTERESTS	963	458	512	576	620
	3,956	3,166	3,052	3,379	2,514

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 15 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in notes 42 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE PREMIUM

Details of movements in the Company's share capital and share premium are set out in notes 33 and 34 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution to shareholders, calculated under the provisions of the Companies Act 1981 of Bermuda amounted to HK\$1,202 million.

The Company's share premium account may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's largest customer and five largest customers accounted for approximately 25% and 47%, respectively, of the Group's total turnover for the year.

Purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers.

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in note 9 to the financial statements.

DIRECTORS

The directors of the Company during the year were:

Mrs. Christine L. S. Asprey
Mr. Michael A. B. Binney
Mr. Christopher W. Ho
Mr. C. F. Lam
Mr. Johnny W. H. Lau
Mr. Paul K. F. Law
Mr. Adrian C. C. Ma
Mr. Herbert H. K. Tsoi
Mr. Martin I. Wright

In accordance with clause 99 of the Bye-Laws of the Company, Mrs. Christine L. S. Asprey, Mr. Christopher W. Ho and Mr. Herbert H. K. Tsoi will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The directors who are proposed for re-election do not have any unexpired service contract with the Company.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest, either direct or indirect, in any significant contract to which the Company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

There were no unexpired service contracts which are not determinable by the Company within one year without compensation, other than statutory payments, in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The share option scheme adopted by the Company on 26 November 1990 has expired and there are no options outstanding as at the date of this report.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At the balance sheet date, the interests of the directors and chief executives of the Company in the shares and underlying shares of the Company or its associated corporations, if any, (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("HKSE") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and HKSE were as follows:

Long positions in shares:

Directors	Capacity	Number of issued ordinary shares of HK\$0.10 each in the Company held	% of the issued share capital
Mr. Christopher W. Ho	Interest in corporation	309,573,822*	67.26%
Mr. C. F. Lam	Beneficial owner	303,600	0.07%
Mr. Adrian C. C. Ma	Beneficial owner	78,000	0.02%

* Mr. Christopher W. Ho has a 100% deemed beneficial interest in The Grande International Holdings Limited which owned 309,573,822 ordinary shares in the Company through its wholly owned subsidiary, Barrican Investments Corporation.

SUBSTANTIAL SHAREHOLDERS**(a) Interest in the Company**

As at 31 December 2006, the following persons (other than the directors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and HKSE under the provisions of Division 2 and 3 of Part XV of the SFO or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name of substantial shareholders	Capacity	Number of issued ordinary shares of HK\$0.10 each in the Company held	% of the issued share capital
Mr. Gottfried Ludwig Prentice Jurick	Beneficial owner	28,324,022	6.15%
Mr. Lawrence Y. L. Ho	Corporate	24,986,000*	5.42%

* Mr. Lawrence Y. L. Ho owned 24,986,000 ordinary shares in the Company through Grand Villa Assets Limited of which he has 100% control.

(b) Interest in a member of the Group

Name of the member of the Group	Shareholding interest of the Group	Other substantial shareholder and his/her shareholding interest
Capetronic Group Ltd	85%	Starcom Pacific Trading Limited, 15%

SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above, as at the balance sheet date, none of the directors knew of any person (other than the directors or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and HKSE under the provisions of Division 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Name	Age	Position held	Number of years of service	Business experience
Board of Directors				
Mr. Christopher W. Ho	56	Chairman	16	Manufacturing, international trading and corporate finance
Mr. Adrian C. C. Ma	62	Group Managing Director and Chief Executive Officer	23	Consumer electronics industry
Mrs. Christine L. S. Asprey	58	Group Executive Director	9	International marketing, market research and industrial affairs
Mr. Michael A. B. Binney	47	Group Executive Director and Managing Director, Finance and Accounting Group	17	Finance, accounting and corporate restructuring
Mr. C. F. Lam	57	Group Executive Director and Managing Director, Electronics Manufacturing Services Group – Magnetic Media Division	32	Computer magnetic media industry
Mr. Paul K. F. Law	50	Group Executive Director and Managing Director, Electronics Manufacturing Services Group – Consumer Electronics Division	15	Consumer electronics industry
Independent Directors				
Mr. Herbert H. K. Tsoi	56	Non-executive Director	9	Solicitor
Mr. Johnny W. H. Lau	61	Non-executive Director	3	Manufacturing and consumer electronics industry
Mr. Martin I. Wright	45	Non-executive Director	3	Finance and accounting

The Company received the annual confirmation of year 2006 from each independent director and considers that they are independent.

Mr. Christopher W. Ho and Mrs. Christine L. S. Asprey are brother and sister.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF SENIOR MANAGEMENT STAFF

Name	Age	Position held	Number of years of service	Business experience
Electronics Manufacturing Services Group				
Mr. K. T. Fok	46	Director – Engineering and Operations	24	Computer industry
Mr. T. S. Wong	40	Director – Operations	8	Manufacturing management
Mr. H. T. Tang	48	Director – Operations	12	Engineering and manufacturing management
Branded Distribution Group				
Mr. Wallace W. T. Tsui	49	Managing Director	2	Consumer electronics industry
Ms. Anissa Y. Y. Choi	52	Deputy Managing Director	26	Consumer electronics industry
Mr. Takeshi Nakamichi	57	Deputy Managing Director	35	Product research and development
Mr. H. C. Yeung	48	Deputy Managing Director	23	Consumer electronics industry
Treasury				
Mrs. Eleanor Crosthwaite	53	Managing Director	21	Treasury
Mr. Tony W. M. Lam	42	Executive Director – Group Treasury	15	Banking and treasury
Legal				
Ms. Ruby Y. K. Lee	45	Group Legal Counsel	13	Solicitor

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had total assets of HK\$7,987 million which were financed by shareholders' funds of HK\$2,993 million, minority interests of HK\$963 million and total liabilities of HK\$4,031 million. The Group had a current ratio of approximately 1.13 as compared to that of approximately 1.17 at 31 December 2005.

As at 31 December 2006, the Group had HK\$734 million cash and bank balances. The Group's working capital requirements were mainly financed by internal resources and short-term borrowings which were charged by banks at fixed and floating interest rates as detailed in note 28 to the financial statements. As at 31 December 2006, the Group had HK\$828 million short-term bank borrowings and HK\$647 million bank overdrafts.

The Group had inventories of approximately HK\$953 million as at 31 December 2006 representing an increase of HK\$298 million compared to the previous year.

At the year end, the Group's gearing ratio was 30% which is calculated based on the Group's net borrowings of HK\$1,202 million (calculated as total interest-bearing borrowings less cash and bank balances) and total equity of HK\$3,956 million.

CHARGES ON GROUP ASSETS

At 31 December 2006, certain of the Group's assets with a total net book value of approximately HK\$1,666 million have been pledged to banks to secure banking facilities granted to the Group. Details are set out in note 39 to the financial statements.

TREASURY POLICIES

The Group's major borrowings are in US dollars, Singapore dollars and HK dollars. All borrowings are based on LIBOR or Hong Kong best lending rates. As the Group's revenues are mainly in US dollars, and major borrowings and payments are in either US dollars, Renminbi or HK dollars, there is a natural hedge mechanism in place and currency risk exposure is relatively low. The Group has a strong treasury management function and will continue to manage its currency and interest rate exposures.

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Group as at 31 December 2006 was approximately 9,000. The Group remunerated its employees mainly based on industry practice, individual's performance and experience. Apart from the basic remuneration, a discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as to an individual's performance. Other benefits include medical and retirement schemes.

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

SIGNIFICANT INVESTMENTS

In December 2005, the Group acquired 37% of the issued share capital of Emerson Radio Corp. The Group has increased its shareholding to 51% during the year 2006 through purchase of stock on the American Stock Exchange of United States of America.

During the year, the Group reduced its shareholding interests in Sansui Electric Co., Ltd ("SEC") from 49.51% at 31 December 2005 to 29.99% at 31 December 2006. The investment in SEC has since April 2006 been accounted for as an associate. The details are set out in note 16 to the financial statements.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had contingent liabilities of approximately HK\$15 million in respect of a guarantee for banking facilities granted to a former associate.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2006, which constitute connected transactions under the Listing Rules is disclosed in note 6 to the financial statements.

AUDIT COMMITTEE

The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the financial statements of the Group for the year ended 31 December 2006.

The Audit Committee comprises three independent non-executive directors, namely Mr. Herbert H. K. Tsoi, Mr. Johnny W. H. Lau and Mr. Martin I. Wright.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 14 to 20 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Code during the year ended 31 December 2006.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors up to the date of this report, the Company has sufficient public float as required under the Listing Rules.

AUDITORS

During the year, Messrs. Deloitte Touche Tohmatsu, who acted as auditors of the Company for the past 6 years, resigned and Messrs. Moore Stephens were appointed as auditors of the Company. Messrs. Moore Stephens retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Christopher W. Ho
Chairman

Hong Kong
11 April 2007