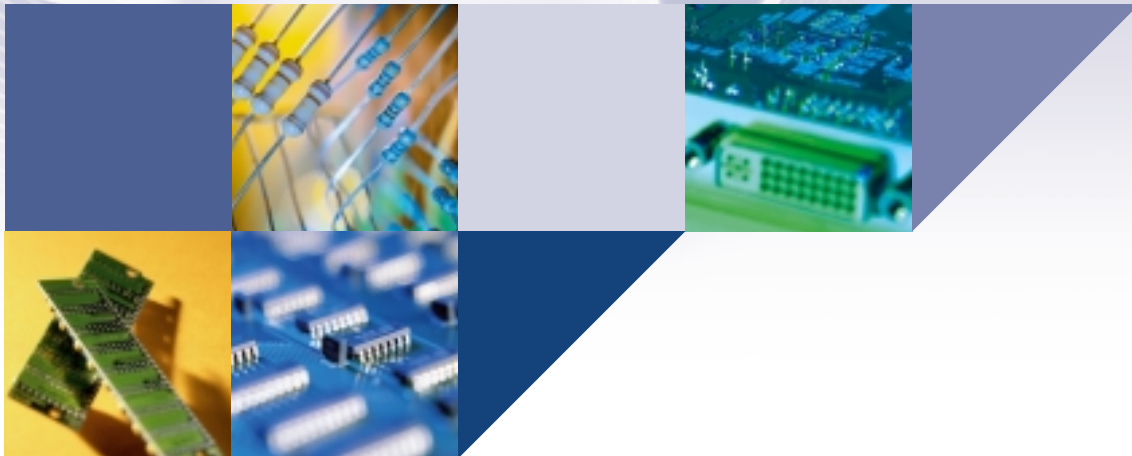


MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

Distribution of Electronic Components and Semiconductors Products

Mobile Phone Products

During the year under review, apart from perfected its exiting value-added solutions including mobile TV solutions, the Group also completed PHS solution research and development. The Group is making the necessary deployment to introduce its PHS solutions to the corporate market in India where the general mobile phone penetration rate is much lower than that of China.

Having gained experiences in providing games, entertainment and video services to certain 3G communication providers in Hong Kong and Taiwan during the year, the Group attracted the interest of several telecom corporations in Mainland China to discuss with it regarding 3G cooperation projects. With products applicable to different 3G operation standards and considerable operational experiences, the Group stands with obvious advantages when 3G is launched in China.

Electronic Consumer Products

Digital TV is now available in most cities in China. During the year under review, the Group completed the development of DVB-T solution. It has also started discussion with suppliers regarding solutions for the environmentally friendly energy-saving LED lighting system. It expects the new solutions to bring contribution to the Group.

Other products of the Group, from portable DVD players, MP3, PMP, LCD TV and digital camera to solutions for TFT-LCD with 1.5 inch to 47 inch screens to register stable sales during the reporting period.



Computer Products

Application of new technology has hastened replacement of notebook computers. Fast becoming prevalent in the market and fuelled by the launch of Window Vista, dual-core processor has tremendous potential in technological advancement and gaining market acceptance. This translated into remarkable rises in the Group's memory chip product sales. VGA card and high-end motherboard also reported very satisfactory sales.

Communication Products

The Group has been constantly developing new solutions to keep up with the fast changing communication product market. Its online multi-media videophone (MoIP) solution has been well received by the market and its mature VoIP phone solutions also continue to bring in strong contributions.

Distribution of Sports Products

Keen market competition and hefty consumption tax imposed on luxury products in the PRC undermined the performance of the Group's sports products distribution business during year under review.

FINANCIAL REVIEW

For the year ended 31 December 2006, because the market somewhat weakened towards the end of the year, the Group's turnover decreased 6.2% to HK\$2,301,140,000 (2005: HK\$2,453,638,000), gross profit decreased by 6.4% to HK\$156,180,000 (2005: HK\$166,884,000) and EBITDA (represented gross profit plus interest and other income minus distribution costs and administrative expenses plus depreciation and amortization) declined 1.7% to HK\$81,872,000 (2005: HK\$83,271,000).

Profit attributable to equity holders of the Company was HK\$18,201,000 (2005: HK\$40,110,000), which resulted in a basic earnings per share of HK7.50 cents (2005: HK16.54 cents). Distribution of electronic components and semiconductors products continues to be the key contributor to the Group's profit. Decrease of profit attributable to equity holders of the Company is mainly due to unsatisfactory results from distribution of sports products, together with other non-operating factors including raising interest cost and the one-off impairment loss on the whole available-for-sale investments of the Korean-based OLED producer. The Group will continue to focus on its key markets and strengths while does not rule out the possibility of disposing those non-performing business units so as to ensure the Group continues to be profitable in the long run.

Liquidity and Financial Resources

On 31 December 2006, the Group's total cash and bank balances amounted to HK\$294,198,000 (31 December 2005: HK\$188,114,000). The Group generated net operating cash inflow of HK\$159,684,000 in the year under review, against net operating cash outflow of HK\$19,760,000 recorded in 2005.

On 31 December 2006, the Group's net gearing ratio was 83.0% (31 December 2005: 104.8%), which is calculated based on the Group's net bank borrowings (calculated as total bank borrowings minus total cash and bank balances) of approximately HK\$310,454,000 (31 December 2005: HK\$389,122,000) and total equity of HK\$373,841,000 (31 December 2005: HK\$371,147,000).

There was no material change in available banking facilities when compared with last year.

The Directors considered that the Group's current cash and bank balances, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the Group's current and the committed expansion needs.

Foreign Exchange Risk Management

The Group had limited exposure to fluctuation in foreign currencies as most of its business transactions were conducted in Hong Kong and United States dollars and RMB. During the year under review, exchange rates among these currencies were relatively stable and no instrument has been applied for hedging purposes.

EMPLOYEES AND REMUNERATION POLICIES

On 31 December 2006, the Group employed approximately 330 employees in the PRC and Hong Kong. They are remunerated according to their merit, qualification, competence and job nature. Other staff benefits include provident fund schemes and medical insurance. Discretionary bonus may be granted to eligible employees based on the Group's financial results and individual performance.



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Stepping into 2007, the Group will direct its attention on effecting integration of the operations of Hi-Level Technology Limited ("Hi-Level") and Kitronix Limited ("Kitronix") with its businesses. It expects the two new members of the Group to bring instant benefits to the Group's mobile handset products and consumer electronics segments.

The acquisition of Hi-Level has not only enlarged the Group's supplier network and clientele, but integration of the two companies' logistics and information system has also improved the overall operation efficiency and lowered operating costs for the Group. The acquisition has also given the Group the platform to establish business relations with Sunplus Technology Company Limited, one of the top global consumer chip design companies.

In addition, with the formation of Kitronix, the Group has expanded its business to also cover the manufacture and sale of LCM and related products. Products manufactured by Kitronix were tailored according to customers' specific product requirements. Kitronix's products make strong complements to the Group's other products thus are capable of boosting the Group's revenue. Phase one of Kitronix's production plant has commenced operation in the first quarter this year.

The huge demand of electronic products in the market is presenting the Group with bright prospects. The sales of electronic products improved significantly in the first quarter of 2007. As the spending power of consumers in the PRC continues to grow, the sales of mobile phone products, consumer electronics, computer products and communication products will remain satisfactory.

Taking advantage of the synergies presented by Hi-Level and Kitronix and drawing on its own strengths, the Group looks forward to exert its best in the provision of value-added services including comprehensive solution design services. It will also strive to guard its leading position in the electronic components distribution market. Its ultimate goal is to bring more fruitful returns to shareholders.