

BUSINESS REVIEW

Review of the first half year

The past year has been a difficult year for manufacturing industry due to the worldwide shortage of components and the rise in material costs. Despite these difficulties, the Group achieved turnover of HK\$263 million in the first six months of the financial year, approximately 25.4% increase in comparing to that of the corresponding period of last year. However, the net loss was increased due to above-mentioned factors in comparing to that of the corresponding period of last year.

Multimedia Electronic Products business

The Group's multimedia electronic products, including a series of Digital Camera, Karaoke system, Digital Voice Recorder and Data Bank, accounted for about 55.7% of the Group's turnover during the current period, increased approximately by 3 times to HK\$146.5 million in comparing to that of the corresponding period of last year, with positive contribution to the Group. Approximately 86% of this turnover came from sales of Digital Camera and Karaoke system, increased approximately by 5 times of that recorded in the corresponding period of last year, or double of that recorded in last financial year. The Directors are of the opinion that the market demand has been boomed up by the Group's broad range of digital camera products, which are of competitive price, innovative design and reliable quality.

Toys and Games Products business

The Group's toys and games products, mainly the LCD handheld games and color video games, accounted for about 23.4% of the Group's turnover in the current period, sharply decreased by 47% to HK\$61.6 million in comparing to that of corresponding period of last year. The profit margin for this saturated market is falling since the last financial year. Due to the continuing price pressure and increasingly competitive operating environment for the toy industry participants worldwide, this business line recorded a loss from operations of approximately HK\$3.9 million in this current period.

Telecommunication Products business

The Group's telecommunication products are mainly corded phones with various features, accounted for about 18.3% of the Group's turnover during the current period, increased by approximately 24% to HK\$48 million in comparing to that of the corresponding period of last year. Despite the increase in turnover, this division recorded a slight loss from operations.

As this division is focusing on higher quality European market for its products and sales to this market accounted for about 77% of total telecommunication products sales for the current period, the division faced keen price pressure from its European customers due to the weakening of Euro. Consequently, the profit margin was affected. In order to be competitive, besides imposing measures to reduce material cost, this division has expanded the research and development department in the middle of year 2000 so as to increase and accelerate the development of new telephone products and telephone-related products. This division is also positioned to expand the customer base in North America and other South East Asia countries.