Operational review

The first half of the year saw a significant improvement in performance over the comparable period of last year. Sales grew 47% and we achieved a positive gross profit, a major turnaround from the loss-making position last year.

The net loss for the period was HK$23.6 million, approximately 50% less than the same period last year. The loss for the period under review should be read in the context that the first half of the year is traditionally our slow season, and the bulk of our sales usually occur in the second half of the year.

Our restructuring program continued to produce benefits with a 61% reduction in loss from operations from HK$36.2 million last year to HK$14.2 million this year. We also were able to reduce finance costs by approximately 12%.

I am pleased to report that our third quarter is looking exceptionally strong and we are confident on a strong second half. Shipments for July and August have already reached HK$116 million. This is an increase of 81% from the first half of this year on a monthly basis.

In the last six months we have released new products and aggressively expanded our customer base to include customers in Italy, Switzerland, Germany, India, Portugal and a number of new customers in France, where the benefit of the representative office we opened last year is clearly coming through.

After the period under review, we announced that Sichuan Top, a listed company in Shenzhen and the major PRC software and IT development group, had taken a 24% interest in our manufacturing facilities in China and that we were working with them on manufacturing new GSM mobile phones for sale domestically in China. We have already manufactured our first run of mobile phones for Sichuan Top and progress to-date has been very encouraging.

A major result of our joining with Sichuan Top is that our balance sheet, and particularly our debt position, has been significantly improved. This is clearly shown in the pro-forma balance sheet set out below.

Condensed consolidated balance sheet

	Unaudited 30 June 2001 *HK$'000*	Proforma* 30 June 2001 *HK$'000*
Non current assets	195,631	32,984
Interest in a jointly controlled entity	—	(3,173)
Current assets	86,876	27,996
Current liabilities	(296,409)	(67,931)
Net current liabilities	(209,533)	(39,935)
	(13,902)	(10,124)
Financed by:		
Capital and reserves	(49,723)	(33,049)
Minority interests	8,574	447
Long term liabilities	27,247	22,478
	(13,902)	(10,124)

* *The proforma balance sheet is prepared based on an assumption that the transaction with Sichuan Top as mentioned above had taken place on 30 June 2001.*

Prospects

Despite the challenging global economic environment, we continue to see strong demand for our new and existing products. We expect a strong sales performance for the second half of the year, both in Europe and Australia, which are our traditional markets, and also in China with the added support of our new partner Sichuan Top.

Liquidity and financial resources

Pursuant to the restructuring of the Group effected on September 1999, secured Convertible Notes with an aggregate principal value of approximately HK$39,563,000 was issued by the Company. The principal amount of the Convertible Notes, which bear interest at 7% per annum payable semi-annually in arrears, are to be repaid by the Company within the period of 24 to 36 months after the issuance of the Convertible Notes. As at 30 June 2001, the Company had outstanding Convertible Notes with an aggregate face value of HK$37,057,634.

As at 30 June 2001, the Group had net current liabilities of approximately HK$210 million total assets of HK$283 million and deficiency of shareholders' funds of approximately HK$50 million. This has been caused primarily by the operating losses incurred as we sought to recover after the re-organisation. During the period under review, agreement has been reached with certain banks in the PRC to reschedule the repayment date of approximately HK$34 million of borrowings to 2002. The directors of the Company remain in discussion with the PRC banks with a view to further rescheduling the remaining borrowings.

As at 30 June 2001, the cash balance of the Group stood at HK$26 million.

Employees and emoluments policies

As at 30 June 2001, the Group has approximately 2,700 employees. Total payroll costs amounted to approximately HK$30 million.

The Board may exercise its discretion to grant share options to the executive directors and employees as an incentive to their contribution to the Group. During the period under review, the Company had granted a total of 1,500,000 share options to the executive directors and the employees in accordance with the share option scheme adopted on 7 September 1999.

Pledge of assets

As at 30 June 2001, the Group has pledged leasehold land and buildings with an aggregate net book value of HK$140,041,000, plant and machinery with an aggregate net book value of HK$15,297,000 and a bank deposit of HK$775,000 to secure credit facilities granted to the Group.

All the Company's assets and its entire equity interests in two wholly owned subsidiaries were pledged to secure the Convertible Notes.

Contingent liabilities

The Company has outstanding guarantees of approximately HK$80 million to secure general banking facilities granted to certain subsidiaries.

Segmental information

Customers in the United Kingdom accounted for approximately HK$161 million or 78% of total turnover. Other European countries accounted for approximately HK$12 million or 6% of total turnover.

Disposal of interest a subsidiary

On 18 April 2001, the Group entered into a conditional agreement with an independent investor, pursuant to which the Group agreed to, among others, procure a subsidiary of the Company to issue new shares to the independent investor and the independent investor agreed to inject a total sum of HK$17,250,000 by way of cash in five tranches in four stages to subscribe for a 35% interest in that subsidiary.