

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

For the first six months ended 30 June 2001, the Group's turnover was HK\$100,715,000 (Six months ended 30 June 2000: HK\$144,245,000), and the loss attributable to shareholders during the period was HK\$17,151,000 (Six months ended 30 June 2000: HK\$17,819,000).

The Group's turnover for the first six months decreased by approximately 30% as compared with the corresponding period of last year. This was mainly due to the slowdown of the global economy, the slack in the demand for consumer products and consequently the stagnation in the order by overseas buyers. The situation was further aggravated and the Group's overall results for the first half-year were plunged into a loss when the industry initiated a price war to promote sales.

During the period, the gross profit margin improved as compared with that of last year since the management had taken effective measures to control material and production costs. In the meantime, sales and distribution costs had also dropped HK\$3,932,000 as compared with that of last year. The Group adopted prudent credit policy consistently, maintaining accounts receivable at a comparatively low level of HK\$14,831,000. However, owing to the goodwill amortization of HK\$2,337,000 in the first half-year, the general administrative expenses rose HK\$3,558,000 as compared with that of last year.

### **Manufacturing Operation**

The manufacturing operation for the first half-year had recorded disappointing results, particularly the sales of car audio mechanisms, cassette deck mechanisms and components and spare parts sales dropped by HK\$18,625,000 or 34%. Besides, the sales of CD and VCD products and amplifiers reduced by HK\$13,473,000 or 26%, the sales from non-audio operation reduced by HK\$11,432,000 or 31%. In addition, as to sales by geographical area, the sales in Europe increased 32% or HK\$9,250,000, the sales in other regions including Asia decreased 48% or HK\$38,883,000 and the sales in America decreased 42% or HK\$13,897,000.

### **Internet Phone Operation**

At February 2001, the Group had successfully completed the acquisition of a 90% interest in a sino-foreign enterprise at a consideration of HK\$35,000,000, and the business of this enterprise is the sales of Internet phone sets in the PRC by way of agency and the sales of prepaid Internet phone stored-value cards. In order to cope with the rapidly changing Internet phone market, the Group endeavored to improve its technical quality to satisfy the customer requirements in the PRC. Consequently, this investment had not contributed to the Group for the first half-year.

## **Video-on-demand (VOD) system Operation**

VOD is an investment in the re-engineering of the existing HFC cable TV stations in the PRC. In March 2001, the Group increased its investment in the interest of Global Cyber by 4%. The sole asset of Global Cyber is its 80% interest in Shanghai Dazheng WorldVest Technology Company Limited, ("Dazheng WorldVest") which is principally engaging in the research, development and installation of digital and functional-by-request VOD system, involving relevant operating software, servers and set-top boxes in order to provide re-engineering services to the existing cable TV stations in the PRC. In fact, the target market of this investment is vast as there are over 100,000,000 potential re-engineering cable TV subscribers. Up to now, Dazheng WorldVest had entered into re-engineering contracts with five cable TV stations, covering over 1,000,000 cable TV subscribers. As at 30 June 2001, the Group held 14% interest in Global Cyber. In August this year, the Group acquired a further 13% stake in Global Cyber and its shareholding percentage increased to 27%, and Global Cyber became an associate company of the Group. In short, this investment will broaden the scope of business and bring about opportunities for manufacturing set-top box for cable TV subscribers in the PRC, and is beneficial to the Group in the long run.

## **Liquidity and financial resources**

As at 30 June 2001, the Group's current assets amounted to HK\$189,769,000, increased by approximately HK\$60,337,000 as compared to the end of last year. The current assets comprised of accounts receivable which decreased HK\$13,655,000 to HK\$14,831,000; prepayments and other receivables which increased HK\$73,374,000 to HK\$83,463,000; cash and cash equivalent amounted to HK\$35,475,000 which increased approximately HK\$7,821,000 as compared to the end of last year.

As to current liabilities, the amount was HK\$75,151,000, decreased HK\$25,405,000 as compared to the end of last year. Current liabilities included accounts payable amounted to HK\$26,999,000 which decreased HK\$12,048,000 as compared to the end of last year; other payables and accruals amounted to HK\$16,342,000 which decreased HK\$7,131,000 as compared to the end of last year. Interest bearing bank loans and other borrowings amounted to HK\$27,419,000 which decreased HK\$6,406,000 as compared to the end of last year. Net current assets amounted to HK\$114,618,000 increased by HK\$85,742,000 as compared to the end of last year.

As for non-current assets, the amount was HK\$273,080,000 which increased HK\$111,763,000 as compared to the end of last year. Non-current assets included long-term investments and deposits amounted to HK\$166,000,000 which increased HK\$85,000,000 as compared to the end of last year and goodwill which amounted to HK\$32,719,000. The Group's non-current liabilities was HK\$848,000, resulting in the overall gearing ratio (the ratio of total liabilities to shareholders' equity) to be approximately 20%. Generally speaking, the current assets increased as the current liabilities decreased. The liquidity ratio was 2.53. Both the liquidity of the Group and its financial resources have improved from the same period of last year.

## Capital Structure

In January 2001, the Group granted a total of 22,800,000 share options to certain employees and directors, at an exercise price of HK\$0.61 per share. As the share options were fully exercised, the Group issued and allotted 22,800,000 new ordinary shares at the cash consideration amounted to HK\$13,908,000. In addition, the Group had 434,750,673 shares in issue as at 30 June 2001 after the completion of several placing of new shares in the market. The unaudited net asset value of the Group was HK\$384,954,000, increased by HK\$197,513,000 or 105% as compared to the end of last year.

## Placing Shares and the Use of the Proceeds

Since June 2000 and up to now, the Group has successfully raised funds by placing shares in the capital markets, details of which are as follows:

<b>Date of announcement</b>	<b>Number of placing share</b>	<b>Net proceeds (HK\$'000)</b>	<b>Use of the proceeds</b>
12 June 2000	90,000,000	80,000	Acquisition of 10% interest in Global Cyber. The principal activities of the Company and its subsidiaries, are research, development and installation of VOD system in the PRC.
6 December 2000	38,000,000	24,300	General working capital.
7 February 2001	45,600,000	30,500	Acquisition of 90% interest in a sino-foreign Internet phone company.
25 May 2001	137,600,000	170,100	Two additional acquisitions of a total of 17% interest in Global Cyber.
23 August 2001	86,000,000	107,500	General working capital and future acquisition of investment projects.

On 23 August 2001, the Group announced the placing of 86,000,000 new shares with net proceeds of about HK\$107,500,000. This placing of shares was completed on 10 September 2001. Therefore, the issued shares of the Group increased to 520,750,673 and net assets value increased to HK\$492,454,000.

## **Pledge of Assets**

As at 30 June 2001 the Group pledged assets with net book value of approximately HK\$21,930,000 (31 December 2000: HK\$21,668,000) comprised of an industrial property situated in Hong Kong with net book value of HK\$8,245,000 (31 December 2000: HK\$8,298,000) and bank deposits of approximately HK\$13,685,000 (31 December 2000: HK\$13,370,000) to secure general banking facilities for the Group.

## **Prospects**

As for the manufacturing operation, the Group will continue to endeavour to capture more orders of original design manufacturing (“ODM”) and original equipment manufacturing (“OEM”) from well known brand name customers. Moreover, the Group has planned to launch various new products, including a series of mini-wall-mounted audio/visual set and air purifier in the second half year in order to meet different requirements of customers in different markets. In the near future, the Group has also planned to manufacture VOD set top boxes for the cable TV stations in the PRC.

Considering China’s accession to the World Trade Organization (“WTO”) is imminent, China economy is expected to grow continuously. China is actively advocating the policy of developing the Western Provinces, thus providing more preferential treatments to foreign investors and creating ample business opportunities. The Group will consider raising more funds from the capital market at right times to enhance the capital base as well as strengthen the cash flow of the Group in order to facilitate the diversification of the Group’s businesses. By investing in potential high yield and fast growing projects, we believe that these will bring the best return to our shareholders.

## **Employee**

As at 30 June 2001, the Group employed a total of 1,000 managerial, administrative staff and workers. The Company has adopted share option scheme and provided quarters for Mainland employees. The Group determines the salary of employees according to their performance, professional expertise and the industry practice. Both the employees and the directors in Hong Kong have participated in the Mandatory Provident Fund Schemes (“MPF Schemes”) since the implementation of MPF Schemes by Hong Kong government in December 2000.