

Management Discussion and Analysis

Results

The consolidated turnover of the Group for the year ended 30 June, 2001 increased by approximately 9.7% to HK\$382.8 million (2000: HK\$348.8 million). The Net Loss for the year was HK\$32.7 million (2000: loss of HK\$22.1 million).

The Directors do not recommend the payment of a final dividend for the year ended 30 June, 2001. (2000: HK\$Nil)

Operations Review and Prospects

Multimedia Electronic Products Division

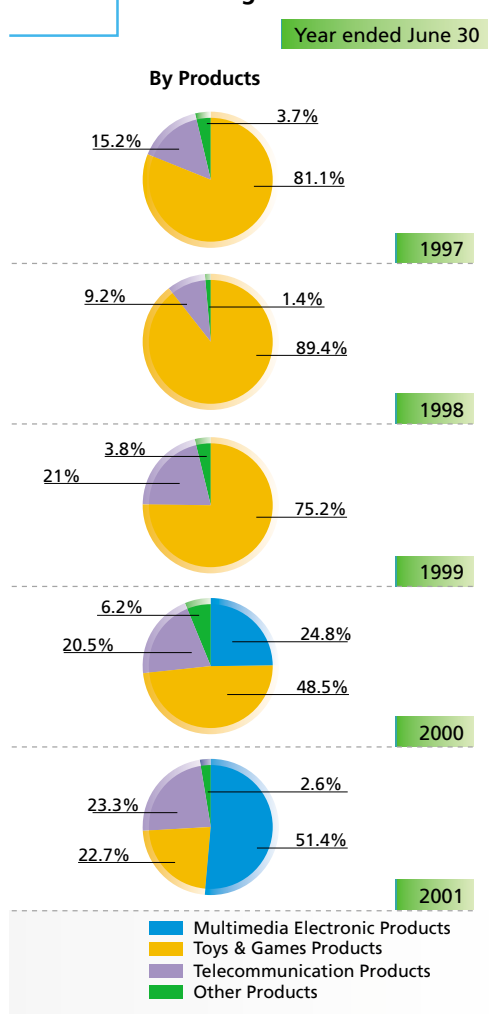
The turnover of the Group's multimedia electronic products for the financial year under review increased by about 128% to HK\$196.7 million compared to that of last financial year. Approximately 85.3% of this turnover came from Digital Cameras and Karaoke Systems. As this was the first complete financial year since the restructuring took effect, improvements to the Group's cost control system were still being made. As such, this business line recorded a loss from operations of approximately HK\$10 million during the financial year under review.

The division introduced digital camera products with photo resolution of 100,000 pixels to the market in June 2000 and further launched various advanced models with photo resolution of 300,000 pixels to the United States and Japan markets in November 2000. Both of these models were well received by the market. However, the Group's plans to launch a digital camera model with photo resolution of 1.3 million pixels during this financial year had to be held over because of the delays in the development of software by the vendor. However, with the assistance of the software vendor, this division succeeded in launching such a model in August 2001. The Directors are of the opinion that the turnover of such digital camera models will contribute significantly to the Group's earnings in the next financial year.

Results for the year (HK\$ million)



Percentage of Total Turnover



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This division is still in the process of developing an internet-related musical instrument in the form of a Karaoke product. It was hoped to launch this product during the financial year under review, but it has been unfortunately delayed because of technical problems. Development work is continuing.

The Group's existing manufacturing facilities were further equipped and modified in the middle of the year 2001 so as to increase manufacturing capacity for hi-tech electronic products in order to meet customer demand.

The Directors are concerned to note the inevitable negative effects on the global economy of the Terrorist attacks on the United States on 11 September, 2001. However, looking ahead, the Directors are of the opinion that there will be more room to expand the Group's multimedia electronic products that are digital and internet-related because of the continued development of the digital and internet world. They recognize that the market is keenly competitive and that price pressures from customers will lead to lower profit margins for such products. In order to be competitive and to expand its market share, this division is in the process of lowering material costs and improving production efficiency and product quality.

Toys and Games Products Division

The turnover of the Group's toys and games products for the financial year under review decreased by 48.7% to HK\$86.9 million compared to that of the last financial year. In the year 2001, the LCD games market remained sluggish, especially in the United States. Profit margins have also fallen since the last financial year.

Looking ahead, the Directors are of the opinion that the worldwide LCD games market will further consolidate in the developed countries, although growth is still attainable elsewhere. In order to utilize the Group's existing production facilities in a more cost effective manner, the Group further restructured part of its existing production facilities to handle multimedia electronic products during this financial year.

Meanwhile, the management of this division is closely working with the Group's customers in the development of the LCD games market, especially with a view to expediting expansion into the China market. The Directors expect that strong market demand in China will benefit the Group's LCD handheld games products, which are of competitive price, innovative design and reliable quality, and they are optimistic that significant sales will be achieved during the 2002 financial year.

In order to ensure profitability, the division needs to further reduce its running costs, strengthen its inventory management, develop and launch new products in a timely manner in order to cope with market demand and changes in consumer behaviour.

Telecommunication Products Division

The Group's telecommunication products are mainly corded phones which incorporate a range of features. The division achieved a turnover of HK\$89.2 million during the financial year under review, representing an increase of 24.8% when compared to that of last financial year. This division is maintaining its positive contribution to the Group.

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The division is focusing on the higher quality European market for its products, and sales to this market accounted for about 78% of the total sales of telecommunication products for the financial year under review. Due to the weakening of the Euro since the last quarter of 2000, the division faced keen price pressure from its European customers, and consequently, profit margins were affected. In order to be competitive, besides imposing measures to reduce material costs, this division will accelerate the development of new telephone products and telephone-related products. The division is also positioned to expand its customer base in North America and South East Asian countries.

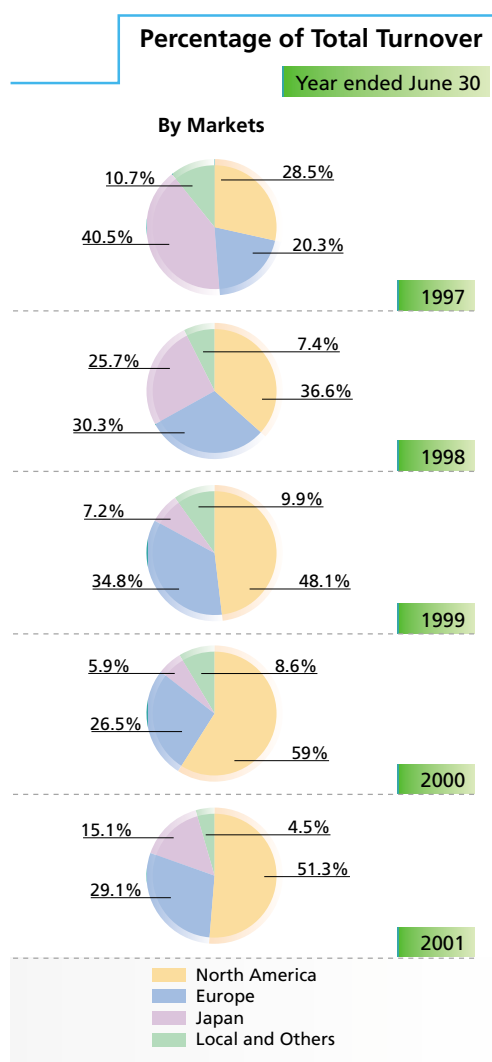
Geographical Review

In the year 2001, the consumption climate remained sluggish in the United States market. The Group's sales to North America during the financial year, which accounted for about 51.2% of the Group's total turnover, fell slightly by 4.6% to HK\$196.2 million compared to the last financial year. However, sales to Japan increased sharply by 182% to HK\$57.8 million compared to that recorded last year and accounted for about 15% of the Group's total turnover. Approximately HK\$42.7 million of this turnover resulted from the sales of digital cameras. The Directors are working hard to increase the Group's global market share but particularly in Japan and Europe.

Financial Review and Liquidity

In order to reduce the interest burden of the Company, with the agreement of the convertible bondholders, the Company redeemed early all outstanding 3% convertible bonds in the amount of HK\$20 million on 17 November, 2000 and 6 February, 2001 respectively. However, during the year, the Group acquired a new mortgage loan for a property held for resale and three new finance leases for plant and machinery amounting to HK\$26.6 million. As a result, the Group's gearing ratio increased from 13.2% at the beginning of the year to 20.6% as at 30 June, 2001, based on the non-current secured term loans and other loans of approximately HK\$24.5 million (30 June, 2000: HK\$20 million) and net worth of HK\$119 million (30 June, 2000: HK\$152.6 million).

As at 30 June, 2001, the Group's net asset value stood at HK\$119 million with total assets of approximately HK\$255.5 million and total liabilities of approximately HK\$136.5 million. The current ratio (current assets divided by current liabilities) was 1.76 as at 30 June, 2001, compared to 1.90 as at 30 June, 2000. The Group's bank balances and short-term deposits at 30 June, 2001 amounted to HK\$25.8 million. The Group also spent approximately HK\$13 million on machinery and moulds to upgrade its manufacturing capabilities during the year 2001, an increase of HK\$8 million over the last financial year.



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The Group has total banking facilities of HK\$66 million to finance the operations of the Group. Total bank borrowings, including secured term loans, finance leases, import loans and overdrafts, amounted to HK\$58.2 million as at 30 June, 2001 (30 June, 2000: HK\$19.2 million).

Exchange Rate Exposure

While the sales of the Group are mainly denominated in US dollars, the purchases of raw materials are mainly in US dollars, Hong Kong dollars and Renminbi. Bank borrowings are also denominated in Hong Kong dollars and US dollars with interest being charged on a fixed rate basis. As the exchange rates of US dollars against Hong Kong dollars and Renminbi were relatively stable during the year, the Group's exposure to fluctuations in exchange rates was minimal.

Employee Schemes

As at 30 June, 2001, the Group had about 1,349 employees of whom 80 are based in Hong Kong and 1,269 are based in the Group's factories in Shenzhen PRC. The number of workers employed by the Group varies from time to time depending on production needs and they are remunerated based on industry practice.

The remuneration policy and package of the Group's employees are periodically reviewed and approved by the executive directors. Apart from pension funds and in-house training programmes, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

Other Matter

During this financial year, the Company issued a sole guarantee and a wholly-owned subsidiary had pledged its properties to the bank for obtaining credit facilities to the extent of HK\$27 million which can be jointly utilized by a wholly-owned subsidiary and a 71.6% owned subsidiary of the Company. As at 30 June, 2001, there was no outstanding amount of facilities utilized by the 71.6% owned subsidiary (30 June, 2000: HK\$Nil).

Audit Committee

The Audit Committee, which comprises two independent non-executive directors of the Company, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters during this financial year. The Audit Committee met with the external auditors three times to review the interim and final results for the financial year ended 30 June, 2001, to consider the Group's significant accounting policies and to discuss the Group's internal control system.

On behalf of the Board

Fong Wing Seng
Managing Director

Hong Kong, 28 September, 2001