

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend to shareholders for the six months ended 30th September, 2001 (2000/2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Over the past six months, the Group strove to improve profit margin by consolidating sales turnover. Non-profitable and non-core businesses either have been discontinued or are in the course of being discontinued. Active businesses are subject to usual scrutiny for profitability and cash flow. As a result, turnover decreased from HK\$941.8 million in last year to HK\$457.5 million for the period under review. Loss attributable to shareholders has been reduced by 89.4% from HK\$54.6 million in corresponding period to HK\$5.8 million in this period.

During the period, the Group has successfully restructured its business and organization. There are currently three main businesses: electronic dictionaries, personal digital assistants ("PDA") and original design manufacturing ("ODM"). Pager business has been scaled down and rechargeable batteries business has been disposed of. Each of the three core businesses is now operating under an independent strategic business unit ("SBU") which has separate accountability for commercial and financial performance. The SBU management has carefully reviewed their respective business directions and organizational resources to ensure maximum operational efficiency. The manufacturing plant has also performed a similar exercise to rationalize the operation. Through the concerted and intensive effort of management and staff, the Group has achieved significant savings in overhead and production cost.

The electronic components market has been stabilizing over the past 6 months. The prices of many critical components, including memory chips, central processing units and device drivers, have resumed to more reasonable levels. According to market intelligence, this market situation is the result of general demand slow-down in the computer and telecommunications industries and over-supply situation in the semi-conductor industry.

Electronic Dictionaries

With improvement in component costing and the launch of several new products in the market, operating profit contribution by



electronic dictionaries was HK\$23.2 million. Despite the market slow-down in Hong Kong, Taiwan and some Asian markets, the performance in mainland China, South Korea and Thailand was satisfactory. The SBU's plan to increase its market share in the low-end segment by leveraging its strong leadership in the high- and mid-range markets began to realize during the period. According to market feedback, the Group's products were preferred because of product features, database and value-for-money. On the other hand, it is apparent that customers are expecting to have more language learning features and content in the Group's products.

During the period, the Group has restructured its sales organization in mainland China such that sales decisions could be more responsive to market changes and that new geographical markets, mostly secondary cities and towns, could be more accessible. The process is near its completion and the benefits have begun to be seen.

PDA

In May 2001 the PDA entity ("GSPDA") placed new preference shares to a group of strategic investors for a consideration of US\$10.5 million to enhance its shareholders base and strategic value. These investors, now holding 16% equity right in GSPDA, include Intel Capital Corporation, SB China Holdings Pte Limited, SB Asia Infrastructure Fund L.P. and UTStarcom, Inc. At the same time of investment, GSPDA also entered into collaboration agreement for technology and business co-operation with Intel Semiconductor Limited. The management believes that the investors bring not only capital but also valuable business and technology contribution to GSPDA.

GSPDA launched its GSM PDA in the mainland China, Hong Kong and Singapore markets. The management envisages the mobile data market will take off very soon and the SBU's wireless PDAs would be competitive first-mover products. GSM PDA is the first wireless product of GSPDA and over the next few months more will be unveiled in mainland China market. The company is currently working intensively with different business partners on vertical applications, such as securities trading, banking, online information enquiries, etc. and enterprise solutions.

The standard PDA (i.e. without communications) market has seen very keen competition in the past six months. Coupled with delay of new products caused by technical issues, the SBU suffered a set back in turnover and an operating loss.

ODM

After a vigorous exercise to improve cost control and manufacturing efficiency, the SBU returned to positive profit contribution despite sales turnover decreased. While products shipped to North American markets saw some growth, Japan and other countries had experienced different degrees of market contraction in certain product categories.

As indicated in the Group's previous reports, the SBU is working closely with overseas customers in developing innovative wireless products for internet and data communications.

Outlook

It is now generally confirmed that the US economy has entered into a recession and the worldwide economy would be adversely affected for a considerable period of time. While the dampening export to the US and European markets would only create a manageable impact on the Group due to its relatively small contribution, the management is pleased to note that the economic momentum of mainland China remains strong. China's accession to the World Trade Organization ("WTO") would further fuel this economic impetus. It is believed that the Group is in a very advantageous position to meet up with both the opportunities and challenges that posed by the WTO entry because of its ten years' experience and knowledge of doing business in mainland China.

Electronic Dictionaries

In anticipation of the WTO entry and the forthcoming Beijing Olympic Games, people in mainland China are in general very enthusiastic in learning English as a foreign language. There are strong demands for good quality electronic dictionaries and language learning devices. It is therefore the Group's plan to further enhance its product line and to expand the marketing network to cover more local marketplaces over the months to come.

Having said that, the Group will not undermine the importance of other Asian countries and continue to develop new products for markets like South Korea and Thailand.

PDA

The SBU's latest standard PDA model V88 was launched in November and immediately became a market hit in Hong Kong and mainland China. Its elegantly designed casing and versatile functions and features have impressed not only the general users but also the usually critical industrial commentaries in the media.



It is believed that this model and its many upgrade variants that are scheduled to be launched over the next few months will help GSPDA to increase its market share and profitability in the mainland China market.

The management strongly believes that mobile data, especially vertical applications and enterprise solutions, will become a major trend and play a more important role than now in business and personal telecommunications. This vision will be realized when there is a wireless technology that could provide the benefits of high bandwidth and packet switch data communication at an affordable charge. Before the eventual 3G, this would be GPRS (General Packet Radio Service), or the so-called 2.5G. The Group is now working intensively on its GPRS solution that would most probably be ready by early 2002. With stronger revenue streams and a more established customer base, it is envisaged that wireless PDA products would pick up very quickly over the next two years.

ODM

The ODM SBU will take a cautious approach in new business development in the wake of the general economic slow-down in major markets. Higher emphasis will be placed on strategic relationship with customers and business potential. The resumption of key electronic components pricing to more reasonable levels will continue to help the SBU's profitability.

With the accumulation of product knowledge and working experience with strategic business partners over the past five years, the SBU is now adopting a more value-added approach in doing ODM business. They will first generate innovative product concepts and designs and then present to customers for approval of new product development.

Conclusion

The Group is taking a cautious view of the overall market performance in next six months in the midst of the gloomy worldwide economy. Over the next few years, the mainland China market will certainly create a wealth of business opportunities but at the same time, also increasingly intensive competitions. The management will continue to increase the Group's profit margins and firmly believes that higher winning edges could be achieved through increased value-for-money to customers, wider and deeper sales networks, particularly in mainland China, and stronger branding. The Directors remain cautiously optimistic of the financial performance of the Group in the second half of the financial year.

Liquidity and financial resources

Bank balances and cash amounted to HK\$157.6 million as at 30th September, 2001, which is HK\$32.3 million or 25.8% higher than that as 31st March, 2001. Total bank borrowings decreased from HK\$221.0 million to HK\$152.0 million, a drop of 31.2%, during the six months period.

The improvement in liquidity and bank borrowings is a result of the following factors: positive cash inflow from operating activities, continuous effort in reduction of inventories and trade receivables (particularly in pager products), proceeds from disposal of properties and issue of new shares.

Majority of the bank borrowings, around 81.8% or HK\$124.3 million, are short term borrowings that are to be due within one year. The remaining HK\$27.7 million are long term borrowings that are to be due after one year.

Gearing ratio of the Group reduced from 44.6% six months ago to 31.1% as at 30th September, 2001.

Disposal of a subsidiary

In August 2001, the Group disposed of the rechargeable batteries business with a net gain of HK\$5.2 million. The gain has been recorded in the condensed consolidated income statement for the six months ended 30th September, 2001.

Charges on assets

Certain leasehold properties are pledged as security for general banking facilities granted to the Group. As at 30th September, 2001, the carrying value of the assets pledged is HK\$104.5 million.

Contingent liabilities

As at 30th September, 2001, trade bills discounted to banks with recourse amounted to HK\$16.9 million, which is HK\$5.2 million lower than that 6 months ago.

Foreign currencies and treasury policy

Most of the Group's business transactions, assets and liabilities are denominated in either Hong Kong Dollars, United States Dollars or China Renmenbi. A small portion of the Group's purchases of raw material is denominated in Japanese Yens. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not engage in interest rate or foreign currency speculative activities.



Employees

As at 30th September, 2001, the Group has on its payroll 221 (2000: 305) employees in Hong Kong, 3,615 (2000: 6,409) in Mainland China and 99 (2000: 64) in Singapore representing decreases of about 27.5% and 43.6% and an increase of 54.7% respectively when compared with prior year. In addition to salary payment and normal fringe benefits such as annual leave, medical insurance and provident fund, the Group also has a Share Option Scheme for executive directors and senior staff.

Appreciation

On behalf of the Board of Directors, I wish to thank our shareholders, customers and suppliers for their continuing support to the Group and to extend my appreciation to all members of staff for their dedication and contribution throughout the period.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2001, the interests of the Directors and their associates in the issued share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance and in the share options of the Company were as follows:

Name of Director	Nature of interests	Number of ordinary shares held			Total options held	
		Personal interests	Family interests	Other interests		
Tam Wai Ho, Samson	Notes 1 and 2	4,000,000	-	537,877,118	541,877,118	5,100,000
Tam Wai Tong, Thomas	Notes 1 and 2	7,000,000	-	537,877,118	544,877,118	5,100,000
Tam Mui Ka Wai, Vivian	Notes 1 and 2	1,500,000	-	537,877,118	539,377,118	2,400,000
Lo Chi Chung, William	Note 2	2,150,000	-	-	2,150,000	3,300,000
Kazuhiro Otani	Note 2	-	-	-	-	7,000,000
Lee Koon Hung	Note 2	926,000	450,000	-	1,376,000	4,350,000
Chui Wing Kay, Lawrence	Note 2	1,000,000	-	-	1,000,000	1,500,000
Fok Ting Yeung, James	Note 2	-	-	-	-	1,400,000
Yung Wing Ki, Samuel	-	830,000	-	-	830,000	-