

Other Developments

In prior years, the Group did not directly sell its products to the People's Republic of China (the "PRC") market. Before the approval of China's accession to the World Trade Organisation, the Directors anticipated that such a move would lead to a potential market to the Group's products and incorporated a foreign investment enterprise, Ruian Weiye Technology (Shenzhen) Limited, in Shenzhen, PRC on 26 June 2001 in order to expand into the PRC market. This company has been approved for 50% domestic sales and has commenced to engage in the manufacture and distribution of multimedia electronic products and LCD handheld games worldwide and in the PRC.

Acquisition of an Associated Company

In November 2001, the Group acquired 23.7% of the issued share capital of Gen-Wan Technology Corp ("Gen-Wan") at a total consideration of HK\$60 million. Gen-Wan is principally engaged in the development of Wideband Code Division Multiple Access ("WCDMA") and Orthogonal Frequency Division Multiplexing ("OFDM") technology and also in the sales and distribution of related system networks and products. Broadband wireless is the first delivery mechanism that can be deployed quickly and cheaply outside business districts to enable new and existing Internet Service Providers ("ISPs") to compete with wired networks for the delivery of broadband services. This technology allows simultaneous transmission of data over a common channel by assigning each signal a unique code and breaking it up into many high-speed packets. These methods are both resilient to fading and provide higher security. The performance of WCDMA in combination with OFDM is by far superior to any existing technology including the 3G systems. The product concept has been well accepted in the PRC communication markets and other emerging Asian communication markets. Currently, the subsidiary in the USA is conducting a trial with a large institution.

Future Business Prospects and Plans

Looking ahead, in view of the diversification of the Group's existing businesses, the directors consider that it is in the interests of the Group to dispose of 49% equity interest in Welback International Investments Limited ("Welback International") held by the Company. Welback International and its subsidiaries are engaged in the manufacture and sale of electronic and LCD products and trading in telecommunication products. The Company has recently announced the proposed disposal of 49% interest in Welback International. Upon completion of the transaction, the Company will reduce its exposure in Welback International, which has been suffering losses in the past years and is unlikely to turn profitable in the foreseeable future. The net proceeds to be derived from the disposal will be used to reduce the indebtedness of the Group. Although it has no current intention to dispose of the remaining interest in Welback International, the Company will review the benefit and the possibility to dispose of the remaining interest in Welback International at a later stage.

Apart from the Company's existing indirect equity interest of 12.8%, through Gen-Wan, in Widax, at the current reporting date, Quicky Technologies Limited ("Quicky"), a wholly-owned subsidiary of the Company, has recently announced that it has intention to subscribe for and Widax has agreed to issue 1,500,000 shares of Series A of preferred convertible stocks of Widax at US\$1.00 each. Widax is a company incorporated in the USA and engaged in the development of High Speed Internet Access Products in the USA. Upon full conversion of an aggregate of 4,000,000 shares of Series A of preferred convertible stocks issued by Widax, Widax will be effectively owned as to approximately 19.4% by the Company. The Company is also in active negotiation to increase its equity interest in Gen-Wan and the consideration thereof may be satisfied by means of the issue of new shares of the Company.

The Company also intends to enter into an agreement with Gen-Wan and Widax in respect of the formation of a new joint venture company (the "JV company") whereby the JV company will be appointed as the sole and exclusive agent of Widax regarding the sale and distribution of Widax wireless Internet equipment in the PRC, Hong Kong and Macau.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2001, the Group's net assets value stood at HK\$115 million with total assets of approximately HK\$309 million and total liabilities of approximately HK\$194 million. The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.49 as at 31 December 2001 (at 30 June 2001: 1.76). The Group had retained bank balances and short-term deposits of approximately HK\$30.9 million as at 31 December 2001 (at 30 June 2001: HK\$25.8 million).

The Group has total banking facilities of HK\$59 million to finance the operations of the Group. Total bank borrowings, including secured term loans, finance leases, import loans and overdrafts, amounted to HK\$50.2 million as at 31 December 2001 (at 30 June 2001: HK\$58.2 million).

The Group's gearing ratio as at 31 December 2001 was 58.7% (at 30 June 2001: 20.6%), which is calculated on the basis of the total of non-current secured term loans and other loans over total shareholders' funds. The increase of the Group's gearing ratio is mainly due to certain promissory notes with an aggregate sum of HK\$44 million were issued during the current reporting period for satisfying partial consideration in respect of the acquisition of Gen-Wan as mentioned above. The said promissory notes are repayable on written demand after two years and bear interest at fixed flat rate of 5% per annum.

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 balances and borrowings are also denominated in Hong Kong dollars, US dollars and Renminbi. As the exchange rates of US dollars against Hong Kong dollars and Renminbi were relatively stable during the period, the Group's exposure to fluctuations in exchange rates is considered minimal.

Employees

As at 31 December 2001, the Group had about 1,161 employees of whom 88 are based in Hong Kong and 1,073 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.

Major Litigation and Arbitration Proceedings

The Group is continuing to pursue legal action in respect of a gross receivable of HK\$18 million and related damages from various parties for goods shipped to North American Foreign Trading Corporation ("NAFT") in 1996. The arbitration proceedings initiated by NAFT against the Company claiming for alleged damages in New York, U.S.A. is still at an interlocutory stage. The Company has, upon legal advice, vigorously contested the alleged claims and has counterclaimed for the said sum of HK\$18 million as well as other damages in the said proceedings. Although, at this time, it is not possible to predict the outcome with reasonable certainty.

Other Matters

The Company has issued a sole guarantee and a wholly-owned subsidiary had pledged its properties to a bank for obtaining credit facilities to the extent of HK\$24 million which can be utilized by a wholly-owned subsidiary and a 71.6% owned subsidiary of the Company. As at 31 December 2001, there was no outstanding amount of facilities utilized by the 71.6% owned subsidiary (at 30 June 2001: Nil).

As at 31 December 2001, bills discounted to banks with recourse amounted to approximately HK\$19.7 million (at 30 June 2001: HK\$6.9 million).