

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

For the year ended 31 December 2001 the Group recorded a turnover of approximately HK\$562 million which represents an increase of 31% as compared to the corresponding figure for the year ended 31 December 2000. The gross profit for the year under review was approximately HK\$72 million as compared to approximately HK\$16 million for the previous period. The main drivers of our growth during 2001 were the significant increase in sales of our core business and the gain that arose as a consequence of our partner in our manufacturing facility, Sichuan Top Software Co., Ltd., acquiring a 24% interest in the joint venture which is now known as Shenzhen TOP Guo Wei Electronics Co., Ltd.

SEGMENTAL INFORMATION

All of the Group's turnover and contribution to results were derived from the design, manufacture and sale of telephones and related equipment. Our existing product range includes corded telephones, cordless telephones, DECT and other telecom products. DECT products accounted for approximately 15% of our turnover for the year under review, up from 3% in the previous period. DECT will continue to be an important driver of our growth, as the European market not only sees natural growth in demand for telephone products but also looks to replace existing cordless models with the DECT models. During 2001 sales of cordless telephones amounted to 70% of the Group's turnover, sales of corded telephones amounted to 7%, sales of other telephone products amounted to 8%.

Our customer base continues to comprise prime telecom operating companies and telecom product distributors in Europe and Asia Pacific. Customers in European countries accounted for approximately HK\$483 million and Asia Pacific region accounted for approximately HK\$79 million of the Group's turnover.

LIQUIDITY AND FINANCIAL RESOURCES

Pursuant to the restructuring of the Group effected on 10 September 1999, secured convertible notes with an aggregate principal value of approximately HK\$39.6 million (the "Convertible Notes") were 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 31 December 2001, principal of approximately HK\$9.9 million had been repaid or had been converted into shares of the Company and the Company had outstanding Convertible Notes with an aggregate face value of approximately HK\$29.7 million.

We have agreed in principle with the Group Bank Agent which is acting on behalf of the holders of the Convertible Notes to adjust the terms of repayment and to extend a portion of the outstanding Convertible Notes for further period from September 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31 December 2001, the Group had net current liabilities of approximately HK\$12 million, total assets of approximately HK\$131 million and deficiency of shareholders' funds of approximately HK\$17 million. This has been caused primarily by the accumulated operating losses incurred as we sought to rebuild the business after the re-organisation in late 1999.

The cash balance of the Group as at 31 December 2001 stood at approximately HK\$48 million included approximately HK\$36 million being pledged as security for purchases on behalf of customers.

PLEDGES OF ASSETS

As at 31 December 2001, the Group has pledged a bank deposit of approximately HK\$36 million 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.

CONTINGENCIES LIABILITIES

The Company has outstanding guarantees of approximately HK\$76 million to secure general banking facilities granted to a jointly controlled entity.

CAPITAL STRUCTURE

Pursuant to a special resolution passed in a special general meeting held on 4 June 2001, every 10 issued and unissued shares of HK\$0.01 each in the capital of the Company was consolidated into one new share of HK\$0.1 (the "Consolidated Share").

During the year, the Company issued by way of open offer and placing to shareholders and independent investors a total sum of 107,157,543 new Consolidated Shares at a price of HK\$0.35 per Consolidated Share which successfully raised approximately HK\$37.5 million as general working capital of the Group. Immediately after the completion of open offer and placing in June 2001, 9,894,659 new Consolidated Shares were issued at an exercise price of HK\$0.428 per Consolidated Shares upon the exercise of share options by Suncorp Partners Limited.

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INVESTMENTS

Shenzhen TOP Guo Wei Electronics Co., Ltd

At an special general meeting held on 4 September 2001, the shareholders of the Company approved the conditional agreement with the PRC partners and Sichuan Top Software Co., Ltd. ("Sichuan Top") to increase the registered capital of our former subsidiary, which is now known as Shenzhen TOP Guo Wei Electronics Co., Ltd. ("TOP Guo Wei") from RMB50 million to RMB64 million to allow Sichuan Top to join as a new PRC shareholder in TOP Guo Wei. Following the completion of the transaction, the Group's interests in TOP Guo Wei has been diluted from 60% to 46% of the enlarged registered capital of TOP Guo Wei.

Coolspeak

In mid 2001 we announced that an investor had agreed to inject substantial new capital into our software development division – Coolspeak. This transaction, which would have resulted in a gain for the Company, was later approved by shareholders in a special general meeting. Unfortunately the investor failed to complete the transaction, which caused consequential problems in product implementation and development of the division. The board has thus decided that it would be unwise to continue to further invest in the division. Therefore as a result we have taken the prudent course of providing fully for this investment.

Apart from capital expenditure on machinery and fixtures in the named course of business, the Group does not currently have any plans for any material investment.

EMPLOYEES

The group's emolument policies are formulated on the performance of employees with reference to the market condition. 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 year under review, the Group had granted a total of 1,500,000 share options to the employees in accordance with the share option scheme adopted on 7 December 1999. Adoption of a new option scheme to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of securities on The Stock Exchange of Hong Kong Limited effected on 1 September 2001 will be proposed at the forthcoming annual general meeting of the Company to be held on 23 May 2002.