Financial Review

Group Results

The consolidated turnover for the year ended 31st March 2002 was US$959.8 million, which represented a drop of 28.1% from that of last year. The decrease was mainly attributable to the Group's strategy to focus on higher margin products in the telecommunication products business and strong competition in electronic learning products business.

The gross profit margin for the year improved from 24.1% to 30.1%. The operating result before restructuring and impairment charges for the year was a profit of US$37.0 million which compared to a loss of US$89.7million last year. This significant improvement was attributable to a substantial reduction in all categories of operating expenses due to cautious control. The Group's profit attributable to shareholders for the year was US$11.2 million as compared to a loss attributable to shareholders of US$215.0 million last year. This resulted from the focus on higher margin products, reduction in operating costs and a significant reduction in restructuring and impairment charges during this year.

Earnings per share for the year was US 5.0 cents as compared to a loss per share of US 96.7 cents for last year.

Liquidity and Financial Resources

The Group's financial position has continued to improve. Net cash inflow from operating activities during the year increased by US$186.1 million over last year's US$39.3 million net cash outflow. This was mainly due to the reduction in stocks, which fell from US$187.5 million at the end of the last year financial year to US$94.4 million at the end of this year, and reduction in debtors, which fell from US$195.3 million at the end of last year to US$128.9 million at the end of this year. This freeing of cash flow was attributable to the Group's determination to improve its supply chain management and business processes.

Total debts position improved by 61.6% from US$249.6 million at the end of last year to US$95.8 million at the end of this year. Long-term borrowings improved from US$136.9 million at the end of last year to US$65.2 million at the end of this year. As at 31st March 2002, the ratio of total debts to shareholders' funds improved from 312.0% to 107.2%. Including cash at banks and deposits, the net debt to shareholders' funds improved from 241.8% at the end of last year to 36.4% at the end of this year. A majority of the Group's borrowings are denominated in United States dollars and are on a floating rate basis.

The maturity profile of indebtedness is contained in the note 17 to the financial statements. A small portion of the borrowings is secured against land and buildings, which amounts to approximately US$2.3 million.

With cash on hand and available banking facilities at year ended 31st March 2002, the Group has adequate working capital to meet its future working capital requirements. Approximately 80% of cash and deposits are denominated in United States dollars and 15% are denominated in United Kingdom Sterling and Euro.

Capital Expenditure

During the year, the Group invested US$13.3 million in plant, machinery, equipment and other tangible assets. This was financed primarily from internal resources.

Treasury Policies

The objective of the Group's treasury policies is to manage its exposure to fluctuation in foreign currency exchange rates and interest rates on its interest bearing loans. It is our policy not to engage in speculative activities. Forward foreign exchange contracts and interest rate swaps were used to hedge certain exposures. The detailed information is contained in the note 22 to the financial statements.

Material Disposals

The sale of the Group's facility in Reynosa, Mexico was completed in August 2001, realizing US$7.9 million. Part of the building in Guadalajara, Mexico was sold at a net proceed of US$11.8 million with the last installment of US$3.1 million received in April 2002. The Group is actively looking for buyers for the remaining part of the building. In addition, the Group entered into agreements to sell two properties in Hong Kong at aggregate proceeds of US$4.7 million. The sales are targeted for completion by September 2002.

Material Legal Proceedings

On 7th June, 2002, the Group and Lucent Technologies Inc. ("Lucent') settled the lawsuit filed by the Group against Lucent in January 2001 in a mutually satisfactory manner. There was no admission of wrongdoing by either party. Under the terms of the settlement, Lucent has agreed to adjust the purchase price of the acquisition downward by US$50.0 million, such amount to be fully settled in cash on or before 3rd July 2002.

Employees

As of 31st March 2002, the Group had approximately 14,200 employees. The Company has established an incentive bonus scheme and a share option scheme for its employees, in which the benefits are determined based on the performance of the Group and individual employees.