

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

Pursuant to the terms of a composite guarantee and debenture dated 21 July 2000 granted by the Company to its secured creditors, receivers were appointed to the Company with effect from 12 March 2001. Since then, the production of the Group has been suspended pending an implementation of a restructuring of the Company.

Turnover for the financial year was approximately HK\$84 million (fifteen months ended 30 September 2000: HK\$540 million). The Group's net loss for the financial year was approximately HK\$45 million (fifteen months ended 30 September 2000: HK\$206 million). Information in respect of the reasons for the fluctuation of the Group's turnover and net loss for the financial year as compared with last financial period is not available.

Segment Information

Analysis by Business Segments

The Group is mainly engaged in the manufacturing and sale of telecommunications products. During the year, turnover and operating loss derived from the manufacture and sale of telecommunications products was amounted to approximately HK\$84 million and HK\$19 million respectively. Information in respect of the reasons attributable to the change in turnover and operating loss by business segments as compared with last period is not available.

Analysis by Geographical Segments

No analysis of the Group's revenue and results for the year by geographical segments has been presented as the information is not available.

Liquidity and Financial Resources

The total indebtedness of the Group was approximately HK\$160 million as at 30 September 2001. Since there was a negative equity as at 30 September 2001, the calculation of a gearing ratio is not applicable.

In respect of the total indebtedness of approximately HK\$160 million as mentioned above, almost all of the amounts were released and discharged under the Restructuring Agreements and the Company's Scheme upon completion of the Group Restructuring on 17 May 2002. Further, the Group's cash position was increased from approximately HK\$7.3 million as at 30 September 2001 to approximately HK\$56 million after completion of the Restructuring Agreements as well as the subsequent placing of shares and convertible notes in June and July 2002 respectively. The Group's liquidity has returned to a healthy position.

Information in respect of the capital commitment of the Group as at 30 September 2001 is not available. After the Group Restructuring, funding for the Group's existing operation and future expansion will primarily be sourced internally within the Group and from the placing of shares and convertible notes in June and July 2002.

Treasury Management

Information in respect of the followings is not available:

- Denomination of the Group's cash and borrowings as at 30 September 2001;
- Extent of exposure of the Group to any significant foreign currency as at 30 September 2001;
- Extent of exposure of the Group to any interest rate risk as at 30 September 2001; and
- Whether there were any financial instruments used for hedging purposes as at 30 September 2001.

With a new management team, the Group now maintains a conservative approach to cash management and risk controls and all treasury activities are centralised.

Significant Investments

During the year, the Group did not have any significant investments held.

Acquisition and Disposal of Subsidiaries and Associated Companies

Information in respect of material acquisition and disposal of subsidiaries and associated companies by the Group for the year is not available.

Employees and Remuneration Policies

Information in respect of the number of employees in the Group as at 30 September 2001 is not available. However, subsequent to the appointment of the Receivers, most of the employment contracts with the Group's employees have been terminated.

Following the completion of the Group Restructuring and the injection of Electronic Sales Limited, the number of employees of the Group has increased to over 1,000. Remuneration packages are normally reviewed annually.

Pledge of Assets

Certain of the Group's assets with an aggregate amount of approximately HK\$14.7 million (as at 30 September 2000: approximately HK\$60.7 million) were pledged to secure the general credit facilities granted to the Group.

Contingent Liabilities

Information in respect of the Group's contingent liabilities as at 30 September 2001 is not available.

Additional Information

Subsequent to the approval of the 2001 Financial Statements by the former board of directors on 25 February 2002, several significant changes to the Group have occurred and are summarised as follows:

- (a) At a hearing held on 25 March 2002, The High Court of Hong Kong granted a sanction to the Company's Scheme.
- (b) Transfer of subsidiaries and associates

On 17 May 2002, the following principal subsidiaries and associates of the Company as mentioned in notes 17 and 18 to the 2001 Financial Statements were transferred to a company beneficially owned by the Receivers, which was held by it on behalf of the Noteholders (as defined in the Composite Document), pursuant to the Restructuring Agreements:

Subsidiaries

- Dongguan S.Megga Telecommunications Limited
- Fairway Enterprises Limited
- Lucky Cheer Limited
- Maxway Properties Limited
- S.Megga Estate Management Limited (in Receivership)
- S.Megga Telecommunications Limited (in Receivership)

Associates

- Charmgold Development Limited (in Receivership)
- Cheertex Limited (in Receivership)
- Glory World Development Limited
- Take Queen Limited (in Receivership)

- (c) 3 Years Convertible Notes and 7 Years Convertible Notes

All of the 3 Years Convertible Notes and 7 Years Convertible Notes (which were mentioned in notes 17(a), 18 and 24 to the 2001 Financial Statements) were fully released and discharged under the Restructuring Agreements upon completion of the Group Restructuring on 17 May 2002.

- (d) Share capital

Upon completion of the Group Restructuring and with effect from 17 May 2002, the Company's share capital was restructured by way of the Capital Reduction, the Share Consolidation and the increase of the authorised share capital of the Company as follows:

(i) Capital Reduction

The par value of each of the then issued shares (the “Existing Shares”) was reduced by HK\$0.019 to HK\$0.001 and each of the unissued Existing Shares was sub-divided into 20 shares of HK\$0.001 each. The Company’s issued shares capital of HK\$127,680,712 comprising 6,384,035,621 Existing Shares of HK\$0.02 each was reduced by HK\$121,296,677 to HK\$6,384,035 comprising 6,384,035,621 reduced shares of HK\$0.001 each (the “Reduced Shares”).

(ii) Shares Consolidation

Immediately upon the Capital Reduction became effective, every 10 Reduced Shares were consolidated into 1 new share of HK\$0.01 each (the “New Share”). The issued share capital of the Company comprising 6,384,035,621 Reduced Shares was consolidated into 638,403,562 New Shares.

(iii) Increase of authorised share capital (the “Authorised Share Capital Increase”)

Immediately upon the Share Consolidation became effective, the Company’s then authorised share capital was increased from HK\$78,703,323 to HK\$150,000,000 divided into 15,000,000,000 New Shares. As a result, the new authorised share capital comprises 638,403,562 issued New Shares and 14,361,596,438 unissued New Shares immediately upon the Authorised Share Capital Increase became effective, but prior to the issue and allotment of any New Shares.

On 17 May 2002, the Company allotted and issued 4,500,000,000 New Shares, 2,000,000,000 New Shares, 1,820,000,000 New Shares and 100,000,000 New Shares to CCT (including the subsidiaries of CCT), Defa, the 3 & 7 Years Noteholders and S.Megga Telecom, respectively under the terms of the Restructuring Agreements.

On 17 June 2002, the Company allotted and issued 1,780,000,000 New Shares to Jade Assets Company Limited, a subsidiary of CCT, under a subscription agreement dated 5 June 2002 for a net proceed of approximately HK\$17.3 million.

By an ordinary resolution passed by the shareholders of the Company on 9 July 2002, the authorised share capital of the Company was further increased from HK\$150,000,000 to HK\$300,000,000 by the creation of an additional 15,000,000,000 New Shares.

(e) Reserves

Upon completion of the Group Restructuring on 17 May 2002, the entire credit balance arising from the Capital Reduction of HK\$121,296,677 (as mentioned in point (d)(i) above) was applied to write off part of the deficit of the Company.