Management Discussion and Analysis

RESULTS

The consolidated turnover of the Group for the year ended 30 June 2002 increased by approximately 5% to HK$402.1 million (2001: HK$382.8 million). The net loss for the year was HK$106.1 million (2001: loss of HK$32.7 million).

OPERATIONS REVIEW AND PROSPECTS

Multimedia Electronic Products Division

The turnover of the Group's multimedia electronic products for the financial year under review increased by about 34% to HK$264.3 million compared to that of last year. 66% (2001: 51%) of total turnover comes from this product division. The increase comes from Digital Camera and Karaoke Systems sales.

Digital Camera recorded total turnover of HK$185.5 million (2001: HK$122.5 million) representing 70% (2001: 62.3%) of the division's turnover. More than 83% (2001: 67%) of sales comes from US market. The Group introduces up to 2.0 Mega Pixels CCD Digital Camera with functions like video out on TV screen, TFT color display, Flash Stobe with anti-red eye selection and AVI movie. Despite the negative effects on the global economy after the 911 attack, the Group still maintained a strong turnover.

Karaoke systems contributed 25% (2001: 23%) of the division's sales. Our R&D developed a new product with programmable CD/CD + Graphics player. When playing CD + G discs, TV can be connected to see the song lyrics change color in time with the music. Particularly, the US market takes up the product shortly and is increasing their orders throughout the year up to 2002 Christmas sales.

As we are introducing new products to markets, the division was experiencing a loss of HK$8.4 million (2001: loss of HK$10 million). Development expenditure is the major cost to the Group. Our new policy in the capitalization of development costs incurred on clearly-defined project is to amortize the expenditure over their future useful life.

Toys and Games Products Division

Toys and Games represent 18% (2001: 22.7%) of total turnover, a decrease of HK$12.6 million. It is due to the slump market in games. Our group turns more resources to the development of Digital Camera and Karaoke Systems. Still maintaining large customers, the Group is introducing newly designed LCD handheld games and color video games to maintain the market.

A provision of HK$13 million was made this year on the slow moving inventory of games materials.

Management Discussion and Analysis (Continued)

OPERATIONS REVIEW AND PROSPECTS (Continued)

Trading in telecommunication products

Due to the downturn of global telecommunication markets, together with the disposal of a subsidiary whose major turnover comes from sale of corded phones, the division's sales decreased significantly to HK$52 million (2001: HK$89.2 million). Thereafter, the Group ceased to engage in the trading of telecommunication products.

GEOGRAPHICAL REVIEW

In the year 2002, the consumption climate remained sluggish in the United States market. The Group's sales to North America during the financial year, which accounted for 71% of the Group's total turnover, significantly increased by 45% to HK$284.2 million compared to the last financial year. However, sales to Japan sharply decreased by 82% to HK$10.2 million compared to that recorded last year and accounted for 2.5% of the Group's turnover. The Directors are working hard to increase the Group's global market share but particularly in the United States and Europe.

FINANCIAL REVIEW AND LIQUIDITY

In order to expand the Group's WCDMA and OFDM business, the Company placed 1,307,000,000 warrants on 17 April 2002 and raised funds of approximately HK$25.3 million. On 30 May 2002, the Company issued unlisted HK$15,601,700 4% unlisted convertible bonds due 2003.

During the year under review, the Company's wholly owned subsidiary, Quicky Technologies Limited ("Quicky"), acquired 23.7% of the issued share capital of Gen-Wan Technology Corp ("Gen Wan"), a company incorporated in Taiwan with limited liability, at a consideration of HK$60 million. HK$16 million was paid by cash while the remaining consideration of HK$44 million were satisfied by five promissory notes with an aggregate sum of HK$44 million. Having considered the business nature of Gen Wan, the secured sales contracts of Gen Wan and the qualifications and background of the management of Gen Wan in relation to the telecommunication business, the Board is optimistic about the future outlook of Gen Wan and its potential with respect to the development of WCDMA and OFDM technology and acquired the equity interest in Gen Wan. An impairment loss of approximately HK$48 million was recognised in the current financial year.

In the current financial year, the Company acquired 1,421,875 common stock and 1,500,000 preferred stock of Widax Corporation ("Widax"), a company incorporated in the USA and is engaged in the development of high speed Internet access products in USA, at a consideration of approximately HK$9.5 million and approximately HK$11.7 million respectively. However, due to delay in development of the WIDAX System, which resulted in failing to meet sales projection, the Group recognised an impairment loss of approximately HK$13.8 million in the current financial year.

Interest expense of approximately HK$1.2 million was paid for the promissory notes issued for the acquisition of Gen-Wan in the current financial year.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW AND LIQUIDITY (Continued)

As this was the first complete financial year since the acquisition of the mortgage loan for the purchase of the property held for resale and three finance leases for plant and machinery in last financial year amounting to HK$26.6 million, finance costs increased dramatically by 55% to HK$5.8 million when compared with last financial year. Three finance leases were acquired during the current financial year for plant and machinery amounting to HK$1.9 million.

As a result, the Group's gearing ratio increased from 20.6% to 151% as at 30 June 2002, based on the non-current secured term loans and other loans of approximately HK$62.7 million (30 June 2001: HK$24.5 million) and net worth of HK$41.5 million (30 June 2001: HK$119 million).

As at 30 June 2002, the Group had net assets of HK$41.5 million with total assets of approximately HK$270.4 million and total liabilities of HK$228.9 million. The current ratio, which equals current assets divided by current liabilities, was 0.97 as at 30 June 2002, compared to 1.76 as at 30 June 2001. The Group's bank balances and short-term deposits as at 30 June 2002 amounted to HK$4.5 million. The Group also spent approximately HK$13.4 million (2001: HK$13 million) on machinery and moulds to upgrade its manufacturing capabilities during the financial year.

The Group has total banking facilities of HK$54.9 million to finance the operations of the Group. Total bank borrowings, including secured term loans, finance leases, import loans and overdrafts, amounted to HK$52 million as at 30 June 2002 (2001: HK$58.2 million).

The Group's leasehold properties and investment property with carrying value of HK$23.2 million (2001: HK$25.9 million) and HK$34.5 million (2001: HK$36.6 million – classified as property held for sale) were pledged to banks, together with bank deposits of HK$8.6 million (2001: Nil), to secure credit facilities granted to the Group.

As at 30 June 2002, the Group had contingent liabilities of HK$31.7 million (2001: HK$6.9 million) in respect of bills discounted with recourse.

EXCHANGE RATE EXPOSURE

While the sales of the Group are mainly denominated in US dollars, the purchase of raw materials are mainly in US dollars, Hong Kong dollars and Renminbi. Bank borrowings are also denominated in Hong Kong dollars and US dollars with interest being charged on a fixed rate basis. As the exchange rates of US dollars against Hong Kong dollars and Renminbi were relatively stable during the year, the Group's exposure to fluctuations in exchange rates was minimal.

EMPLOYEE SCHEMES

As at 30 June 2002, the Group had about 2,480 employees of whom 80 are based in Hong Kong and 2,400 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 the pension funds and in-house training programmes, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

Management Discussion and Analysis (Continued)

OTHER MATTER

In the current financial year, the Company disposed 49% of Welback International Investments Limited ("Welback International") which was previously 100% owned by the Company at an adjusted consideration of HK$40.6 million. The Company had issued guarantee and certain 51% owned subsidiaries have pledged their properties together with bank deposits of HK$8.6 million (2001: Nil) to banks for obtaining credit facilities to the extent of HK$31.7 million which can be utilized by those 51% owned subsidiaries. As at 30 June 2002, the outstanding amount of facilities utilised by those 51% owned subsidiaries amounting to HK$21.5 million (2001: Nil).

On 29 May 2002, the Company announced that Digital Infinity Limited ("Digital"), its wholly owned subsidiary, had entered into a Sale and Purchase Agreement with Shenzhen Chung Pao Wei Yee Investments Limited to acquire 49% equity interest in Beijing Airway Communication Co., Ltd. ("Beijing Company") which was incorporated in PRC, at a consideration of approximately HK$16 million. The consideration shall be paid by HK$6 million in cash and HK$10 million by way of issuing 61,349,693 new shares of the Company. However, after lengthy negotiations, certain terms and conditions could not be mutually agreed by both parties. As such, Digital and the Beijing Company entered into a Cancellation Agreement on 8 October 2002, whereby the Sale and Purchase Agreement was cancelled and the cash deposits of HK$6 million paid to the Beijing Company became an interest-bearing loan to be receivable within one year.

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 Group 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. At this time, it is not possible to predict the outcome with reasonable certainty.

AUDIT COMMITTEE

The Audit Committee, which comprises two independent non-executive directors of the Company, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and review the financial position to consider the Group's significant accounting policies and financial reporting matters during this financial year. The Audit Committee has met with the external auditors to discuss the Group's internal control system.

On behalf of the Board
Koh Tat Lee, Michael
Executive Director

Hong Kong, 25 October 2002