

The Board of Directors of Terabit Access Technology International Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 December 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated turnover for the six months ended 31 December 2002 decreased by 11% from HK\$236 million to HK\$209 million when compared to the corresponding period in last year. Net loss for the period under review was HK\$30.8 million as compared to the net loss of HK\$4.8 million for the last corresponding period. Loss per ordinary share for the six months ended 31 December 2002 was 0.41 HK cent as compared to 0.07 HK cent for the corresponding period last year.

Business Review

The decrease in turnover and an operating loss recorded for the period were mainly attributable to the global economic downturn and intense competition in the multimedia electronic market, which led to the drop of selling price of digital cameras and karaokes.

Multimedia Electronic Products Division

The Group's multimedia electronic products accounted for about 76% of the Group's turnover, representing an increase of 8% against the same period in last year. The increase was mainly attributable to increase in Digital Cameras and Karaoke Systems sales.

Turnover in digital cameras, representing 58% of the division's turnover, increased by 33% to HK\$91.4 million as compared to the corresponding period in last year. Around 74% of sales came from US market. The Group keeps on distributing 1.3 mega pixels plus color TFT display digital cameras while continues in promoting sales of 2.0 mega pixels CCD digital cameras.

Karaoke systems contributed 38% (2001: 48%) of the division's turnover. The decrease was mainly due to a reduction in sales of CDG Karaoke Players.

As we are introducing new products to the market, the division was experiencing a loss of HK\$15.3 million. The rise in material costs and great pressure on selling price are the major reasons for the loss in this division.

The Group is now developing the next generation of products with focuses on quality. Demand on low end products, e.g. CIF/VGA resolution digital cameras, is gradually diminishing while demand on high end products, e.g. high mega pixels cameras, is growing.

In late-October 2002, the Company through its wholly owned subsidiary, Indofast Technology Limited, entered into a cooperative agreement with an independent third party for the acquisition of operating rights in manufacturing of silicon rubber products by a factory located in the People's Republic of China for a period of 15 years. The silicon rubber products are used in numerous multimedia electronic products and toys and games products, including digital cameras, karaoke systems, electronic toys, etc. The directors consider that the diversification of product mix and vertical integration of business could strengthen the Group's competitive edge.

Toys and Games Products Division

Toys and games represented 19% of total turnover, an increase of HK\$4.9 million as compared to the corresponding period in last year. The Group is developing new products on handheld games, like Spiderman and various sports games on soccer, pinball and car racing.

Future Business Prospects and Plans

The directors consider its continuing strategy will be placed on digital cameras and karaoke products. The directors are focusing on expanding new customer base for better design and miniature products so as to retain competitiveness. The directors will also adopt more active advertising and promotion strategies to locate new customers, like boosting sales orders by appointing sales representatives and participating in exhibitions in various countries.

The target for sales and distribution of digital cameras will be primarily with major existing customers from the US and Europe. Based on the market potential analysis, the US, European and Japanese markets represent 94.2% of the global demand on digital cameras in 2002. The demand for medium quality range of digital cameras was the highest in the US and Europe while the Japanese market topped the demand for premium high end digital cameras for 2002. The same is expected for the forthcoming year.

The PRC is a growing market within the Asia Pacific Region for digital cameras. The directors are of the view that the Group could leverage on pre-existing digital camera productions and wholesaling track records to penetrate the PRC market. It is expected that the sales in PRC can have substantial growth and the Group is exploring more opportunities in this direction.

In mid-December 2002, the Company through its wholly owned subsidiary, Widax (China) Limited, entered into a share purchase agreement with an independent third party for the acquisition of a 50% equity interest in a company which engages in the provision of sewage water treatment in the area of Haian County of Jiangsu Province. As the public and companies in PRC are becoming increasingly aware of the significance of environmental protection, the directors believe that the investment could generate future returns and diversify the business risk of the Group.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2002, the Group had net assets of HK\$44 million with total assets of approximately HK\$251 million and total liabilities of approximately HK\$207 million. The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.05 as at 31 December 2002 as compared with 0.97 at 30 June 2002. The Group's bank balances and short-term deposits, which are mainly denominated in Hong Kong dollars and US dollars, amounted to HK\$12.2 million as at 31 December 2002.

The Group has total borrowing facilities of HK\$64.9 million to finance the operations of the Group. Total borrowings, including secured term loans, finance leases, import loans and overdrafts, amounted to approximately HK\$52 million as at 31 December 2002. The borrowing facilities are secured by the Group's leasehold properties and investment properties with carrying value of approximately HK\$57.2 million and by bank deposits of approximately HK\$11 million.

As at 31 December 2002, outstanding 4% convertible bonds due 29 May 2003 amounted to approximately HK\$15.3 million.

The Group's gearing ratio as at 31 December 2002 was 139%, which is calculated on the basis of the total of non-current secured term loans and other loans over total shareholders' funds.

To enhance the Group's working capital, the directors will, at appropriate time, consider raising funds by suitable means if it is considered to be in the best interests of the Group and its shareholders to do so.

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 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 period, the Group's exposure to fluctuations in exchange rates is considered minimal.

Employees Schemes

As at 31 December 2002, the Group had about 1,480 employees of whom 80 are based in Hong Kong and 1,400 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 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, USA 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 guarantee and certain 51% owned subsidiaries had pledged their leasehold properties together with bank deposits to banks for obtaining credit facilities to the extent of HK\$31.7 million which can be utilised by certain 51% owned subsidiaries. As at 31 December 2002, the outstanding amount of facilities utilised by those 51% owned subsidiaries amounted to approximately HK\$22 million.

As at 31 December 2002, the Group had contingent liabilities of approximately HK\$24.3 million (at 30 June 2002: HK\$31.7 million) in respect of bills discounted to banks with recourse.