

PERFORMANCE

For the year ended 30 June 2003, the Group's turnover decreased to HK\$279,839,000 representing a decrease of 30.41% over that of last year's HK\$402,124,000. Net loss for the year under review was HK\$104,571,000 as compared to the net loss of HK\$106,133,000 for the last corresponding year. Loss per share for the year ended 30 June 2003 was HK1.23 cents as compared to HK1.62 cents for last year.

OPERATIONS REVIEW

The decrease in turnover and an operating loss recorded for the year were mainly attributable to the global economic downturn, the continued deflation and the outbreak of Severe Acute Respiratory Syndrome ("SARS") and substantial provisions made in the Group's assets and investments due to such unfavourable externalities. As well, conflicts in the top management of WIII Group have been damaging to the operations of WIII Group, thus deteriorating the sales, marketing and profit of the Group.

Multimedia Electronic Products Division

The turnover of the Group's multimedia electronic products for the financial year under review decreased by about 25% to HK\$198 million compared to that of last year. 71% (2002: 66%) of total turnover comes from this products division. The decrease comes from Digital Camera sales.

Digital Camera recorded total turnover of HK\$118.5 million (2002: HK\$185.8 million) representing 60% (2002: 70%) of the division's turnover. 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. Despite the negative effects on the global economy after the conflicts in the Middle East and the unfortunate occurrence of Severe Acute Respiratory Syndrome, the Group still maintained a strong turnover.

Karaoke Systems contributed 36% (2002: 25%) of the division's turnover. The decrease was mainly due to a reduction in sales of CDG Karaoke Players.

During the year, the Company through its wholly owned subsidiary, Indofast Technology Limited, entered into a corporate agreement with an independent third party for the acquisition of operating rights in manufacturing of silicon rubber products by a factory located in the PRC 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 represent 21% (2002: 18%) of total turnover, a decrease of HK\$15.8 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 developing new products on handheld games, like Spiderman and various sports games on soccer, pinball and car racing.

A provision of HK\$24 million (2002: HK\$13 million) was made this year on the slow moving inventory of games materials.

OPERATIONS REVIEW (Continued)

Future Business Prospects and Plans

In view of the significant business impact of the SARS saga, the directors of the Group decided that the Group must expand its business scope and geographical coverage to better equip itself for future events. Meanwhile, the Group will also review its existing investment portfolio and consider any appropriate action needed to be taken to enhance shareholders' wealth.

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 the 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 the 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.

In July 2003, Ruian Technology Company Limited, a wholly owned subsidiary of the Company, completed its acquisition of the entire paid-up registered share capital of Ruian Weiye Technology (Shenzhen) Limited ("Ruian Weiye") from Welback Enterprises Limited ("WEL"), an indirect 51% owned subsidiary of the Company. The principal activities of Ruian Weiye are the manufacturing and sales of digital camera, multimedia electronic products, toys and games products. The directors believe that the acquisition will enable the Group to have full ownership of Ruian Weiye (a profit making operation as compared to Welback International Investments Limited which is loss making) and therefore allow the Group more flexibility in consolidating and managing the operation of Ruian Weiye. The directors do not expect any change in the operation and business of Ruian Weiye by virtue only of acquisition.

In September 2003, the Company through a wholly owned subsidiary, Transfer Networks Limited, entered into a conditional investment agreement with the shareholders of 深圳市銀河通信技術有限公司 ("銀河通信") and 銀河通信, inter alia, to invest RMB17,000,000 in registered share capital of 銀河通信. 銀河通信 is a system integration and development company engaged in the computer and telecommunication system integration and trading, software and hardware development services. The directors believe that the investment is consistent with the Group's plan to diversify its business operations into system integration and development in the PRC.

The directors are of the view that these newly acquired investment can generate new incomes and earnings to the Group and as well increasing the shareholders' return. Furthermore, the directors believe that it is in the interests of the Group and the shareholders that funding should be placed in areas where there are high growth and earnings potential. As such, in the opinion of the directors, the Group will not provide any further financial supporting to WIL Group due to its sustaining operating loss in the previous years.

GEOGRAPHICAL REVIEW

In the year of 2003, the consumption climate remained sluggish in the United States market. The Group's sales to North America during the financial year, which accounted for 70% (2002: 71%) of the Group's total turnover, significantly decreased by 31% to HK\$196 million compared to the last financial year. However, sales to Japan remained steady and slightly increased by 7% to HK\$10.9 million compared to that recorded last year and accounted for 4% of the Group's turnover.

FINANCIAL REVIEW AND LIQUIDITY

As at 30 June 2003, the Group had net liabilities of HK\$59,683,000 with total assets of HK\$139,889,000 and total liabilities of HK\$199,572,000. The current ratio, which equals current assets divided by current liabilities, was 0.40 as at 30 June 2003, compared to 0.97 as 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\$3.4 million as at 30 June 2003. The Group also spent HK\$4 million (2002: 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 (2002: 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\$61 million as at 30 June 2003 (2002: HK\$52 million).

As at 30 June 2003, outstanding 4% convertible bonds due on 29 May 2003 amounted to approximately HK\$16 million (2002: HK\$15 million).

The gearing ratio, as a ratio of total interest-bearing borrowings to total assets as at 30 June 2003, was 0.45 (2002: 0.28).

The Group's leasehold properties and investment property with carrying value of HK\$10.1 million (2002: HK\$23.2 million) and HK\$28 million (2002: HK\$34.5 million) respectively were pledged to banks, together with bank deposits of HK\$9.9 million (2002: HK\$8.6 million), to secure credit facilities granted to the Group.

As at 30 June 2003, the Group had contingent liabilities of HK\$5.3 million (2002: HK\$31.7 million) in respect of bills discounted with recourse.

During the year ended 30 June 2003 and subsequently, the WIII group has been involved in various legal proceedings, claims and writs, with aggregate estimated potential liabilities amounting to approximately HK\$48.9 million, taken out by its creditors, employees and workers. In the opinion of the directors, these claims were made without valid ground and the WIII group would vigorously contest against these claims. Accordingly, these potential liabilities have not been accrued in the Group's financial statements as at 30 June 2003.

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.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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 year, the Group's exposure to fluctuations in exchange rates was minimal.

As at 30 June 2003, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

EMPLOYEE SCHEMES

As at 30 June 2003, the Group had about 147 employees of whom 76 are based in Hong Kong and 71 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 in 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.

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. No further development has occurred on this matter.

Reference is made to the announcements of the Company dated 22nd July, 2003 and 21st August, 2003. The Company's sole bondholder issued a statutory demand dated 21st July, 2003 against the Company in respect of the amount owing under convertible bonds held by the bondholder, which includes approximately HK\$15,601,700 in principal and HK\$254,756 in interest and default interest to be assessed. On 19th August, 2003, the Company entered into a subscription agreement with a subscriber whereby the Company has agreed to issue and the subscriber has agreed to subscribe for convertible bonds with an aggregate principal of HK\$16,000,000. It is intended that the most of the net proceeds of HK\$15,840,000 from the issue of these bonds will be used to repay the convertible bonds held by the sole bondholder as described above. The Company has informed the sole bondholder of this arrangement, and the bondholder has not raised any objections.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS (Continued)

Welback International Investments Limited ("WIIIL"), a 51% owned subsidiary of the Company, and Welback Enterprises Limited ("WEL"), Hitchman Limited ("Hitchman"), Quidde Limited ("Quidde"), all of which are 51% indirect owned subsidiaries of the Company, have been the subject of writs and demands for payment mainly from creditors in relation to goods and services rendered to the subsidiaries in the ordinary course of their businesses between 2002 and 2003. The total amounts claimed (before legal costs and interest) in respect of various legal proceedings, claims and writs are approximately HK\$48.9 million. The staffs of WEL have been laid off. The Company has no guarantee or other indirect liability in respect of any of the above claims except the Company has guaranteed certain obligations of WEL and Hitchman in respect of trade facilities provided by a bank. There is doubt over the recoverability of the Company's loan to a loss-making subsidiary, WEL.

In addition, writs in relation to goods and services have been issued against Ruian Weiye Technology (Shenzhen) Limited ("Ruian Weiye"). Legal advisers have been appointed to contest these writs. As far as the directors of the Company are aware of, total claims in respect of these writs and demands are approximately RMB14 million. Ruian Weiye has also received a demand for early repayment of a loan amounting to RMB10 million (approximately HK\$9.4 million) which should be due in August 2003.

On 13 October 2003, a writ of summons and statement of claim was made by BII Finance Company Limited ("BII Finance") against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain liabilities of the Company's indirect non-wholly owned subsidiary, WEL. The claim is for a sum of approximately HK\$3,583,000 and US\$248,000 (approximately HK\$1,936,000) together with interest. The directors are seeking legal advice in this matter and are of the preliminary review that the claim is meritless.

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
Zhang Yiwei
Executive Director