

RESULTS

For the year ended 30 June 2004, the turnover of the Group reduced to HK\$49.6 million, representing a decrease of 82% over that of last year. Despite the significant reduction in turnover, the gross profit for the year increased by 31% to HK\$6.8 million compared with HK\$5.1 million in last year. The encouraging result was mainly due to more stringent control exercised in cost and operation efficiency and an aggressive pricing strategy. During the year, several subsidiaries had been disposed of, resulting in a profit on disposal of HK\$80 million. The recovery in Hong Kong property market during the year also provided a good opportunity for the Group to realize the capital gain over the investment property owned by the Group. The disposal of investment property had contributed HK\$6.5 million to the Group's net profit. Net profit for the year under review was HK\$49.3 million as compared with the net loss of HK\$104.6 million for last year. Basic earning per share for year ended 30 June 2004 was HK\$0.47 cents as compared with loss per share of HK\$1.23 cents for last year.

OPERATIONS REVIEW

In the previous years, the loss-making Welback International Investment Limited and its subsidiaries ("WILL group") and Ruian Weiye Technology Company Limited ("RWTL") had been a great burden to the Group. During the year, the Group had decided to dispose of these loss-making business arms of the Group in order to prevent it from deteriorating the overall performance of the Group.

Turnover for year dropped significantly compared with last year mainly due to the gradual wound down of WILL Group and the effect of the disposal RWTL. During the year, the Group's had spent significant time and resources in resolving the matter arising from the WILL group and much effort was put on achieving a higher efficiency from the remaining operations of the Group.

Multimedia Electronic Products Division

Multimedia Electronic Products Division continues to be the major business arm of the Group in which digital cameras and karaoke systems are the main products of this division. The turnover for the year amounted to HK\$22.1 million, representing 45% of the turnover of the Group for the year. Compared with last year, the division's turnover dropped by 89%, mainly as a result of the gradual wound down and disposal of WILL group in the year. The gross profit of this division amounted to HK\$3.7 million for the year under review.

Toys and Games Products Division

Toys and games reported with an amount of HK\$4.6 million represented about 9% of the Group's turnover. Compared with last year, the turnover decreased by 92% partially due to the effect of disposal of WILL group mentioned above. An adverse market with fierce competition was also the cause of the result. Despite the significant reduction in turnover, the result for the year improved from the loss of HK\$20.0 million in last year to HK\$0.4 million in the current year.

OPERATIONS REVIEW (Continued)

Telecommunication Components Trading Division

As an exercise to diversify the business operation of the Group, a new telecommunication components trading business was started in the year. The performance of the division was encouraging. The division had recorded a turnover of about HK\$21.6 million, representing about 44% of the turnover for the Group in the year. The gross profit of this division amounted to HK\$2.3 million for the year under review.

GEOGRAPHICAL REVIEW

During the year, the Group's sales to most regions had been reduced significantly, mainly as a result of the disposal of WIIL Group mentioned above. However, the Group managed to obtain sales of HK\$14.6 million in Hong Kong, representing a growth of 33% over last year. PRC is a new target market for our Group. Sales of HK\$24.5 million from PRC had been achieved for the year under review. The sales in Hong Kong and PRC accounted for 79% of the sales for the period under review.

FUTURE BUSINESS PROSPECTS AND PLANS

For the purpose of diversification, the Group had acquired 55% interest in 深圳銀河通信息技術有限公司 (Shenzhen Yinhetong Information Technology Company Limited) in September 2003 and the transaction was completed in July 2004. The acquisition will diversify the business operation of the Group into system integration and development in PRC. The directors are of the view that this newly acquired investment can generate new incomes and earnings to the Group as well as increasing the shareholders' return.

After the disposal of loss-making WIIL Group and RWTL, the Group is currently exercising stringent control over the cost and operation efficiencies, such as by outsourcing the manufacturing process to RWTL and other third party manufacturers. The Directors are optimistic that the Group's financial performance and strength would be enhanced. In addition, the Group will continue to explore new investment opportunities and meanwhile closely monitor its existing investment portfolio to ensure that shareholders' funding will be placed in areas where there are high growth and earning potential.

Leveraging on the core competencies on the product development, the Group is now developing high technology digital cameras, karaoke combo systems with TV and DVD players and high definitions DVD players. While the responses from these new products have been encouraging, the Group will continue to development other new products to suit the demand of the customers.

In the last few months, the global economy has been gradually recovered from the economic downturn. Steady economic growth has been observed in PRC market. The Group will make use of its core competencies to capture a larger market share in PRC through its production connections in PRC and the know-how technology in multimedia electronic products. As the same time, by extensive participation in world trade exhibitions and aggressive pricing strategies, the market share in North America and Europe will be enhanced. Although there are uncertainty factors such as macroeconomic control by PRC Government, increase in global oil price and interest rates, the directors are optimistic about the performance and strength of the Group in future.

FINANCIAL REVIEW AND LIQUIDITY

As at 30 June 2004, the Group had net liabilities of HK\$6.5 million with total assets of HK\$25.2 million and total liabilities of HK\$31.6 million. The current ratio, representing by current assets divided by current liabilities, was 0.76, which improved from the last year's figure of 0.39. At balance sheet date, the Group has time deposits, bank balance and cash with total amount of HK\$1.9 million.

During the year, obligation under finance lease of HK\$ 0.7 million, which were chargeable with interest at flat rate of 2.95%, was obtained.

As balance sheet date, the Company obtained two loans of approximately HK\$8.5 million from an independent third party. The loans were initially granted by a former shareholder of the Company and were subsequently assigned to an independent third party on 31st May, 2004. These loans are unsecured, chargeable with interest rate at 10% per annum and repayable on 1st October, 2004 and 16th January, 2005 respectively.

As at 30 June 2004, the Company had outstanding convertible bonds in the principal amount of HK\$16 million (2003: HK\$16 million). It has coupon rate of 8% convertible at the initial conversion price of HK\$0.018 per share which is exercisable at any time from and including the first date of the issue of the convertible bonds until the maturity date ending on 22nd December, 2004.

The gearing ratio, as a ratio of the total borrowings over total assets, at 30 June 2004, was 1.06 (2003: 0.55).

On balance sheet date, The Group had contingent liabilities of HK\$24 million (2003: HK\$5.3 million) mainly as a result of a corporate guarantee provided by the Company to a financial institution in respect of banking facilities granted to WIIL group. HK\$5.5 million of the banking facilities were utilized by members of the WIIL Group and such amount was subjected to a claim by the financial institution.

In order to improve the Group's working capital, the directors will, at appropriate time, consider raising funds by suitable means such as extending the terms of the existing loans and/or by obtaining new banking facilities. Currently, the Company is in negotiation with independent third parties to extend the repayment of the convertible bonds and short-term loans due to them.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

During the year, the sales of the Group were mainly denominated in US dollars and the purchases of raw materials were mainly denominated in US dollars, Hong Kong dollars and Renminbi. Borrowings in terms of loans and convertible bonds were also denominated in Hong Kong dollars with interest being charged on a fixed rate basis. As the exchange rates of Hong Kong dollars against US dollars and Renminbi were relatively stable during the year, the Group's exposure to fluctuations in exchange rates was minimal.

As at 30 June 2004, the Group did not have any foreign currency investments, which had been hedged by currency borrowings and other hedging instruments.

EMPLOYEE SCHEMES

As at 30 June 2004, there were 14 employees within the Group. 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, medical insurance scheme, discretionary bonuses and share options may also be awarded to employees according to the assessment of individual performance.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

The Company and its former subsidiary, P.N. Electronics Ltd ("PNE"), are in an arbitration with North American Foreign Trading Corporation ("NAFT") in respect of a gross receivable of HK\$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings was initiated by NAFT against the Company and PNE claiming for alleged damages in New York, USA. The alleged claims had been contested and a counterclaim for the sum of HK\$18 million as well as other damages was made in the proceedings. At the balance sheet date, no further action has been taken by either party and thus it is not possible to predict the outcome with reasonable certainty.

On 13 October 2003, a writ of summons and statement of claim was made by BII Finance Company ("BII Finance") against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain alleged liabilities of the Company's ex-subsiary, Welback Enterprise Limited. The claim is for a sum of approximately HK\$3,583,000 and US\$248,000 (approximately HK\$1,934,000) together with interest and costs. The claim is being disputed by the Company. The Company has joined its former directors, Mr. Lee Chun Kwok and Mr. Fong Wing Seng, as third parties to the action. The Company's defence was filed on 1 December 2003. BII Finance has now taken out summary judgement proceedings against the Company. The parties attended a hearing of BII Finance's summary judgment application on 16 July 2004, but the hearing was adjourned to 2 November 2004 due to typhoon.

The Company is considering the merits of these claims and regards some of these claims as groundless. Nonetheless, the Company is currently seeking financial and legal advice on the effect on the Company of these matters and on what further actions are appropriate.

AUDIT COMMITTEE

The Audit Committee currently comprises of three independent non-executive directors of the Company, namely Mr. Li Fui Lung, Danny, Mr. Ng Hoi Yue, Herman and Mr. John Paul McLellan. The Audit Committee has reviewed with the management and the Group's external auditor 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.