

WING LEE HOLDINGS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows. For the year ended 30 September 2000, the Group generated net cash inflow from operating activities of approximately HK\$19 million. As at 30 September 2000, the Group had cash and bank balances approximately HK\$42 million and short-term bank loans approximately HK\$5 million and had aggregate banking facilities of approximately HK\$14 million which were secured by the Group's time deposits.

As the bulk of the Group's monetary assets are denominated in Hong Kong dollar and US dollar, and Hong Kong dollar is pegged to US dollar, the exchange rate risks of the Group is considered to be minimal.

Capital Structure

During the year ended 30 September 2000, there was no change in the Company's share capital. As at 30 September 2000, the Group had no material borrowings and its operations were financed entirely by shareholders' equity.

Application of Proceeds of New Issue

The Group raised approximately HK\$59.8 million, net of related expenses, from the issue of 70 million new shares at HK\$1.00 per share in March 1997 in its initial public offering exercise. As stated in the last annual report, HK\$54.8 million out of HK\$59.8 million had been applied up to 30 September 1999 towards the use as stated in the Company's prospectus. For the year ended 30 September 2000, the balance of HK\$5 million out of the net proceeds had been applied as follows:

- approximately HK\$3 million for the acquisition of machinery and equipment for the production of AC switches; and
- approximately HK\$2 million for the additional production facilities in the Sijia Administrative Area, Dongguan, the People's Republic of China ("PRC").

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Review of Operations

Principal Activity

During the year ended 30 September 2000, the Group's turnover increased significantly. The turnover of DC switches, jacks, AC sockets and speaker terminals increased by 17%, 57%, 89% and 36%, respectively. A new product line, AC switches, was launched during the year under review.

In the past year, the Group put lots of resources to improve the Group's competitive advantages by re-engineering the production flows, increasing the production efficiency and enhancing the product quality in order to fit the demand of various international well-known electronic appliances brandnames owners. The Group emphasized on promotion in the overseas market and started good business relationship with these well-known brandnames owners and, increased the market share. As a result of product development, the Group launched a new product line of AC switches. The new product line will increase the sources of the Group's net profit. During the year, the Group developed over 100 moulds for our new products.

At present, the Group's facilities in Dongguan, the PRC are in full capacity. The Group is subcontracting part of its production to various Hong Kong based manufacturers with production facilities in the PRC. The Group is going to change the floor plans of its facilities to meet different customers' requirements. The Group's facilities can then conform to customers' standards and can be used effectively and efficiently.

Treasury Investment Activities

The Group is actively seeking investment opportunities which will strengthen its core business. In 2000, the Group entered into a joint venture with certain Korean, Singaporean and Malaysian partners to manufacture flexible flat cables in Dongguan, the PRC. The total investment cost of this joint venture is estimated to be approximately US\$6 million and the paid up capital of this joint venture is US\$1 million. The Group has 15% interest in the share capital of the joint venture. The joint venture started production at the end of 2000.

During the year, the Group invested part of its funds available in bonds issued by the US Federal Government. The bonds are AAA rating and listed on the New York Stock Exchange Inc.. The return on these bonds is higher than the return on time deposits and the liquidity of these bonds is also high. The Group will use its funds available in appropriate investment activities to increase the return on investment of shareholders.

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Outlook

The operating costs in Hong Kong are increasing and the Hong Kong electronic industry is uncertain given the downward trend of the US economy in the coming year. At the end of 2000, the Group is reorganizing the product development department, the moulds manufacturing department and the metallic stamping department from Hong Kong to Dongguan, the PRC. The centralization of the production facilities should reduce the Group's operating cost and, most importantly, can increase the production efficiency by centralized management.

Due to the increase in the oil price, the cost of self-generating electricity increased significantly. The Group plans to invest not more than HK\$10 million in improving the facilities of power generators to reduce the power costs by approximately 25%.

To establish business relationship with famous international electronic appliance brandnames owners in the Group's strategy in the coming year. To select good quality customers can stabilize the sources of revenue and improve the quality of the accounts receivable. During the past years, the Group has successfully established business relationships with several famous Japanese electronic appliances brandnames owners. In 2001, the Group is going to set up a representative office in Japan to specializing in product design and development for these target customers.

The Group has set up a marketing representative office in Singapore at the end of 2000 as a window towards the European market and targeted to establish relationships with various famous European electronic appliance brandnames owners by the second half of 2001. To cope with the anticipated orders from European customers, the Group will invest not more than HK\$10 million to renovate the Group's production facilities.

Employees

As at 30 September 2000, the Group had employed approximately 1,960 full time employees, of which approximately 1,900 were based in the PRC and approximately 60 were based in Hong Kong.