

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow. For the year ended 30 September 2001, the Group generated net cash inflow from operating activities of approximately HK\$20 million. As at 30 September 2001, the Group had cash and cash equivalents of approximately HK\$88 million, short-term bank loans of approximately HK\$0.9 million and long-term bank loans of approximately HK\$8.6 million and had aggregate banking facilities of approximately HK\$15.9 million which were secured by the long term deposit for the acquisition of certain land and buildings, time deposits of the Group and a personal guarantee provided by a director of the Company.

The financial gearing ratio of the Group, based on the total borrowings to the shareholders' equity, has slightly increased from 3.2% last year to 6.5% as at 30 September 2001.

As most of the Group's monetary assets are denominated in Hong Kong dollars and US dollars with minimal balances in Singapore dollars 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 2001, there is no change in the Company's share capital. As at 30 September 2001, the Group's operations were financed mainly by shareholders' equity and minimal bank borrowings.

REVIEW OF OPERATIONS

Principal Activity

During the year ended 30 September 2001, the Group's turnover decreases by 14% over the corresponding period in 2000. The turnover of DC switches, AC switches, AC sockets and speaker terminals decreases by 38.6%, 39.7%, 31.4% and 17.2%, respectively, but the turnover in jacks increased by 27.9%. The recession in the global economy and keen competitions in the switches industry are adversely affecting the Group's turnover, especially in the product lines of switches and AC sockets. However, the product line of jacks is still developing and the turnover of jacks increased significantly during the year under review.

During the year under review, the major production operations of the Group in Hong Kong had been relocated to the Group's main production plant in Dongguan, the PRC. During this transitional period, certain production orders were delayed. In order to meet customers' orders, certain production processes have been assigned to independent subcontractors and such subcontracting charges have reduced the Group's gross profit margin for the year ended 30 September 2001.

Since the global market changes rapidly and products' life cycles are generally shortened, the estimated useful lives of production facilities are also shortened. The Group has decided to depreciate the fixed assets with shorter remaining estimated useful lives. Depreciation costs were increased accordingly and adversely affected the Group's operating results. Nevertheless, our Group's operations still show strong net cash inflow.

During the year, the Group has developed and maintained good business relationships with several famous Japanese consumer electronics brandname owners. Through the Group's marketing office in Singapore, the Group has also developed business relationship with several famous European consumer electronics brandname owners.

Treasury Investment Activities

The Group's investment in a joint venture of manufacturing of flexible flat cables in Dongguan, the PRC had no material contributions to the Group but the sales volume of the joint venture is increasing and the business shows positive prospects and development.

During the year, the Group invested in certain debt securities with favourable investment credit ratings to maximize the return on the Group's surplus funds. The Group will use its available funds in appropriate investment vehicles to increase the return on investment of shareholders.

STAFF

As at 30 September 2001, the Group employed approximately 1,750 staff at market remunerations with employees benefits such as insurance, mandatory provident fund scheme, discretionary bonus and share option scheme.

OUTLOOK

Since the recession of the US economy is likely to continue in the near future and the competition in the switches industry remains keen, the Board considers the future business environment will be full of challenges. However, the Board has confidence in facing such challenges and overcoming the difficulties ahead.

In the coming year, the Group will reorganize the product facilities in order to achieve optimal efficiency and to reduce operation costs and also emphasize on product development and improvement of product quality in order to better serve the international well-known electronic appliances brandnames owners.

The Group is going to put resources in promoting its products to European market. For example, the Group plans to participate in more overseas electronics trade fairs and exhibitions to promote and raise the market awareness of the Group's "MSC" brandname. The Directors are confident that the Group will broaden its customer base, promote its products globally and enjoy good returns in the future.