MANAGEMENT DISCUSSION AND ANALYSIS

The world economy continues to slow down in the beginning of the year 2001 and further worsen by the 11 September 2001 terrorist attack in the United States of America. The period under review was a difficult period for the Group, in that the turnover was about HK$125,379,000 (2000: HK$185,396,000), representing a decrease of 32% in comparison with the corresponding period of last year. The decrease in turnover was mainly due to deteriorating business environment, declining consumer consumption in the macro-economy and keen competition in the industry. In terms of source of income, some of the Original Equipment Manufacture orders were made under subcontracting basis in order to reduce the business risks and at the same time utilise the production capacity. The results were adversely affected by sales orders reduction and rescheduling. The Group's profit margin was further squeezed due to severe price cutting pressure from customers and competition in the industry. With prudent investment policy, the loss from operating activities was HK$6,535,000 (2000: HK$23,705,000) which showed an improvement of 72% over the corresponding period. Basic loss per share was HK0.29 cent (2000: HK1.03 cents).

For the product strategy, the Group's philosophy in product diversification and efforts in expanding the electrical products, especially the electrical appliances and professional musical instrument products, had achieved significant improvements and obtained a fruitful outcome. In terms of turnover by principal activity, electrical products became the major revenue generator of the Group, it constituted 50% of the Group's total turnover, amounted to approximately HK$62,543,000, representing four times increase of the previous results. Thanks for the hard work of all staff, the Group had evolved from a transformer and adapter manufacturer to an electrical product producer. The Group has also successfully expanded the professional musical instrument product range from audio mixer to amplifier production and will continue to focus on the research and development of new products in the future.

The turnover from EI transformers and adapters recorded about HK$40,029,000, and become the second largest revenue generator of the Group. Toroidal transformers were able to contribute to a stable income to the Group. The sales of transformers and adapters were affected by the decrease in orders from the Group's customers especially from the telecommunications industry and keen competition in the transformer industry in the region.

Europe, the PRC and Japan formed a tripod of the Group in terms of geographical market. The turnover from Japan markets had been greatly increased. This was mainly due to the increase in sales of vacuum cleaners and bathroom cleaning devices to Matsushita, a leading Japanese producer of electronic and electric products marketed under Panasonic and National brand names.

The Group's endeavour to produce products that satisfy the customers' needs were recognized and highly appraised by its customers for its superior quality and competitive pricing. A solemn joint celebration between Matsushita and the Group on the achievement for "Over One Million Units of the Production of National's Vacuum Cleaners" was held in October 2001 support the above statement. Moreover, the Group's major subsidiary, Mei Ah Electrical and Industry (HK) Ltd. ("Mei Ah") received "The Best Supplier" award from Matsushita in the year 2001, Mei Ah is the first overseas supplier that obtained such an honourable award from Matsushita. The Group and Matsushita had committed to a long-term relationship to achieve better accomplishment in the future.

With prudent investment policy, the loss from operating activities was narrowed to HK$6,535,000 which showed an improvement of 72% over the last corresponding period. During the period, the prices for plastics, copper wires and steels, being the essential materials for the Group's products were relatively low in comparison with the last corresponding period. The price trend is expected to be steady in the short term. In view of the economic downturn of the world markets, the Group had imposed various stringent cost control measures to sustain profitability. Supplier price reduction scheme was launched and global sourcing was intensified to seek for cheaper material sources, and adoption of advanced logistics management resulted in lowering of material costs. The Group also implemented cost control program to cut overhead expenses by restructuring various departments and reengineering production processes. Energy saving plan was imposed to reduce fuel and electricity expenses. Saving from the cost control program is to be realised in the second half of the financial year.

On 29 June 2001, the Company entered into a placing agreement for the placing of 260,000,000 new shares of the Company to an independent investor for a consideration of about HK$17 million. The placing had enhanced the capital base of the Company, thereby giving it greater flexibility in the funding of its existing and future projects.