

# Management Discussion and Analysis

## Financial Highlight

During the year 2001, the world economy was depressed and there were effects from the 11 September terrorist attack in the United States of America which resulted in decrease in turnover in the year to HK\$192,154,000 (2001: HK\$331,844,000), representing a decrease of 42% in comparison with last year. The decrease was mainly due to deteriorating business environment, sales order rescheduling from major customers and keen competition in the industry. The Group's profit margin was slipped due to price reduction from customers. With prudent investment policy, the loss from operating activities was reduced by 55% over last year to HK\$36,435,000 (2001: HK\$80,621,000). Basic loss per share was HK 1.45 cents (2001: HK 3.26 cents).

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\$16,900,000. The placement had enhanced the capital base of the Company, thereby giving it greater flexibility in the funding of its existing and future projects.



## Business Review

The Group continues its product strategy in product diversification. The efforts made in expanding the electrical appliances products and the professional audio and musical instrument products have achieved significant improvements and obtained a fruitful outcome. In terms of segment revenue, electrical products became the major revenue generator of the Group, it constituted 47% of the Group's total revenue, amounted to HK\$89,587,000. The participation and contribution of all staff has made the Group evolved from an adaptor and transformer manufacturer to an electrical product producer as well. The Group has also successfully expanded the professional musical instrument product range from audio mixer to power

amplifier and guitar amplifier production. The Group will continue to focus on the research and development of new products in the future.

The turnover from adaptors and toroidal/EI transformers recorded HK\$86,854,000, and was the second largest revenue generator of the Group. The sales of adaptors and transformers were affected by the slow down of the world economy. The adverse result of telecommunications industry was one of the reasons for the decrease in orders.



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The advantages of high efficiency, compact in size together with lowered prices of switching power supplies have increasingly made them the preferential choices of power supplies to the traditional linear power adaptors. The Group has increased resources in the research and development of switching power supplies to make it lighter, more compact and competitive. The switching power supplies had received satisfactory responses from customers of electrical appliances, especially telecommunication, audio and IT products. Nevertheless, in the medium term, less expensive linear power adaptors will still enjoy strong sales among cost-conscious applications.

The others segment consisted of manufacture and sale of plastics, moulding, and energy-saving lamps and other products. The research and development expenditures incurred in the production of energy-saving lamps in the past will contribute to the variety of models as well as lower of production cost. The result of such benefit has yet to be realised.

In view of the economic downturn of the world markets, the Group had imposed various stringent cost control measures to sustain profitability. Our request for supplier price reduction scheme was launched and global sourcing was intensified to seek for lower cost material sources. In addition, adoption of advanced logistics management also resulted in reduction in material costs. The Group also implemented cost control program to cut overhead expenses by the restructure of various departments and by reengineer the production processes. Energy savings plan was imposed to reduce fuel and electricity expenses. Savings from the cost control program will be realised in the coming year.

During the year, the Group acquired an associate, Excellent Max Limited, which engaged in the production, distribution and trading of film rights. The Group is considering the provision of multi-media facilities and management service in the PRC market. Strategic partners are also being considered for the establishment of joint ventures in the PRC to prepare for the market boom in the near future. The Board will continue to be prudent in investment decisions. Investments that are justified by reasonable yields will be considered.

### Major Markets Review

Japan, Europe, North America and the PRC become the four major markets of the Group in terms of geographical segment. The turnover from Japan market has 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.

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The devaluation of Japanese Yen in the beginning of 2002 had nevertheless affected the sales of Japan market and resulted in price reduction request from the Japanese customers. With the bounce of Japanese Yen as a result of weakening of United States dollars in mid 2002, such pressure is eased gradually.



The Group's endeavour to produce products that satisfy the customers' needs were recognized and highly appraised by our customers for superior quality and competitive pricing. This is evidenced by a solemn joint celebration held between Matsushita and the Group on the achievement for "Over One Million Units of the Production of National's Vacuum Cleaners" held in October 2001. Moreover, the Group's major subsidiary, Mei Ah Electrical and Industry (HK) Limited ("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. Both Matsushita and the Group are committed to work more closely to produce a better future.

Revenue from Europe markets was decreased significantly from customers of telecommunications industry. Our major customers in the telecommunications industry have undertaken various merger, acquisition and re-structuring exercise to improve their businesses. During the re-structuring exercise, it had nevertheless affected orders to the Group. The Group is closely monitoring the situation to ensure proper measures can be made to meet their needs. Despite downfall of telecommunications market, it is glad that the revenue from the professional musical instruments customers and a leading Europe-based global supplier of electro-mechanical accessories for automobile lines had recorded satisfactory growth in the year.

The entry of China into World Trade Organisation in November 2001 opened its market to the world. The Group is expanding the PRC domestic sales through Bai Mei Qin Electrical (Shenzhen) Limited, its wholly foreign-owned enterprise in the PRC. The energy-saving lamp will be a major revenue generator in the PRC. The Group expected that the PRC market will enjoy rapid growth in the years ahead.

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## Liquidity and Financial Resources

The Group financed its operation with internally generated cash flow and banking facilities. As at 30 April 2002, it has bank borrowing of HK\$11,614,000 (2001: HK\$5,276,000). The Group's gearing ratio (total interest-bearing borrowings over shareholders' funds) was 13% (2001: 10%) and the current ratio (current assets over current liabilities) improved to 230% (2001: 225%).

Investment properties situated in Hong Kong with an aggregate carrying value of HK\$1,800,000 and fixed deposit of HK\$10,531,000 were pledged to secure borrowing facilities granted to the Group.

The Group's transactions are mainly denominated in Hong Kong dollars and United States dollars. As Hong Kong dollars is pegged to United States dollars, the Group's exposure to exchange rate fluctuations is minimal.

## Prices and Materials

The prices for plastics, copper wires and steels, being the essential materials for the Group's products were relatively low in 2001 when compare with previous year. However, the prices for the essential materials had been increased in the beginning of 2002 and are expected to increase for the rest of the year. The Group will continue its purchasing policy by making bulk purchases orders with reliable suppliers and to secure a low cost and stable supply of materials.

## Employees and remuneration policies

As at 30 April 2002, the Group employed a total of approximately 2,250 employees. They were remunerated according to the nature of job and market condition. Other employee benefits available for eligible employees included year-end payment, staff canteen, mandatory provident fund, share option and medical insurance scheme.

## Quality assurance

The Company is committed to meeting the highest international standards in both manufacturing and environmental matters. The Company won ISO 14001 certification in March 2000 in recognition of its environmental achievement. We have directed research efforts to designing and manufacturing energy efficient devices and energy-saving lamps that are environmental friendly. The Group has introduced the use of lead-free soldering bar and adopted the re-cycling system for packaging materials. The Company has successfully obtained the ISO 9001:2000 certification in August 2002, further to ISO 9002 obtained in 1997.

