

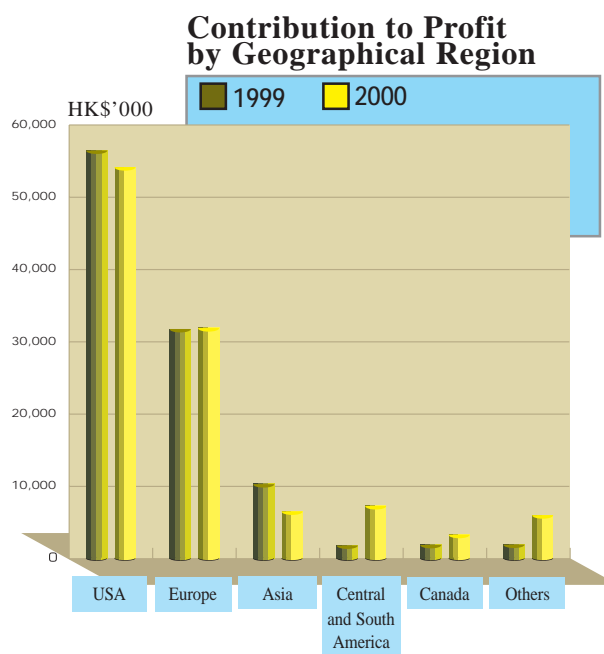
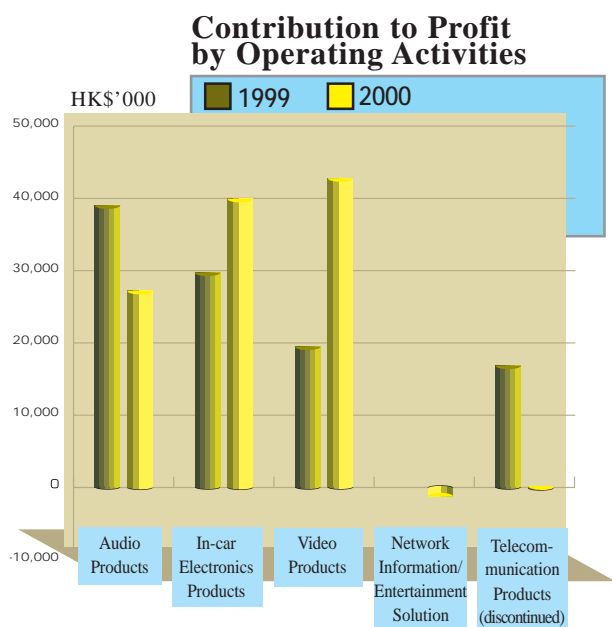
# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS SUMMARY

During last year, the home entertainment division, which comprises the audio and video units and the new AV unit, expanded its business, taking advantage of its success in the digital home entertainment devices. In addition, it received further support in the ODM business by some world-renowned brands, showing recognition of the engineering capability and quality of manufacturing of the Group. The only important negative point for this division last year was the reduction of margin of the audio unit as a result of the severe shortage of electronics components and fierce competition.

The in-car electronics division achieved significant growth in turnover and commensurate profit last year in spite of the shortage in electronics components. Distribution of products of this division was successful on a global basis.

The network information/entertainment solution division, while only in operation for a few months, had successfully obtained contracts from Tsinghua University, the National Accounting Institute, the Nanjing City Cable TV Network and a few others.



## COMPONENTS SHORTAGE

The Group in general faced a worldwide shortage of electronics components over last year. As a result of the shortage, average material cost rose by as much as 2.4%, directly resulting in a decline of gross margin from 11.4% to 9.3%. The shortage has since subsided due to the softer economic growth in major markets toward the end of the year 2000.

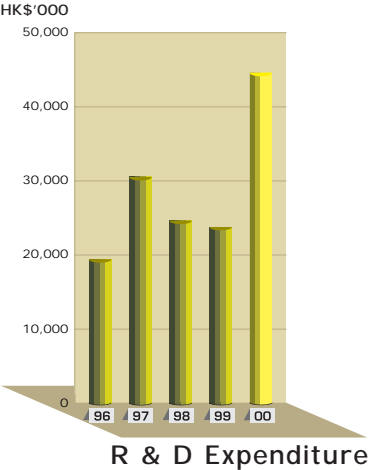
## INVESTMENTS

The Management continues to diversify the Group's business by investing in new operations with new business models. On 27 September, 2000, together with 3 listed manufacturers, the Group formed E-Global Electronics Trading Platform Limited, and became one of the founding members with 25% interest of this business-to-business portal e-Globalex. Earlier in the year, the Group, together with its technology partners, formed a new company Orient Power-Sunniwell IT Limited. Now the Group is able to offer network solutions to Cable TV service providers and other institutional customers.

Early in the year, the Group disposed of its telecommunication division to concentrate its resources in expanding the business of digital products.

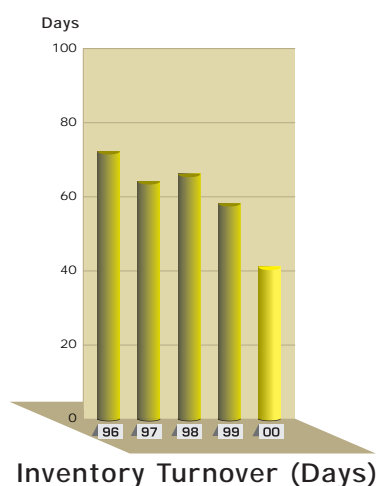
## RESEARCH AND DEVELOPMENT

For a number of years, the Group has believed that special features and new products in the consumer electronics industry, delivered by new technology, would be the dominant force for growth and higher profit margin. This basic belief motivated the Group to invest relatively aggressive amounts every year to build our core competence in technology knowhow for development of such features and products. To name a few examples of our core competence would be digital compression hardware and software (applicable in DVD players, MP3 feature, satellite receivers), satellite communications, navigation and other spread spectrum technologies (for satellite receivers, navigation products, security products), core computer technology (set top box, smart DVD, internet appliance) and cable communication (set-top-box, infra-structure solutions).



In addition, the Group believes that investment in technology is very important to support our customers in the OEM/ODM business. Over the last year, the Group invested a record amount of \$44 million in such research and development work.

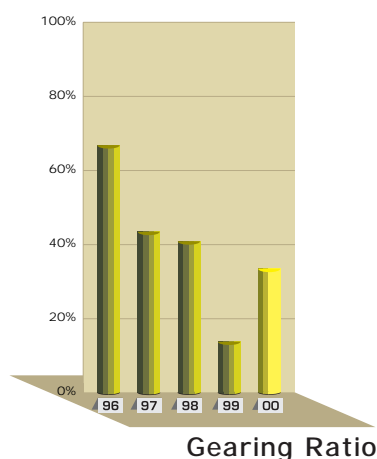
## INVENTORY MANAGEMENT



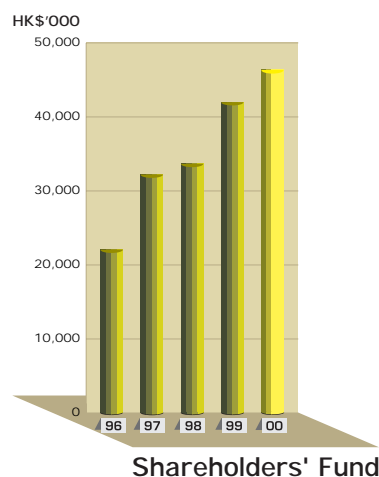
Inventory turnover continued to shorten as the Management tightened its materials planning and control. To further improve efficiency and to be just-in-time on logistics matters, the Group has started the process of implementing an ERP system from Oracle towards the end of last year.

## FINANCING AND CAPITAL STRUCTURE

Interest expense rose as a result of expanding business activities as well as a higher interest rate during the year as compared with 1999. Gearing ratio, as calculated by total borrowings from banks and financial institutions net of cash divided by total shareholders' funds, is maintained at a satisfactory level.



The Group entered into an agreement for a syndicated bank loan, in three-year term, for HK\$115 million. The loan benefited the Group in terms of improvement in liquidity and a competitive cost of fund.



The management considers its financial resource adequate to support further growth in the Group's business in the coming year.

## EXCHANGE EXPOSURE

Most of the Group's sales and purchases are denominated in US Dollar. The Group considers its exchange exposure adequately managed.