

PROSPECTS

The Magnetic Media Division has made significant progress in ramping up production of its new generation of data storage products, namely the Super Digital Linear Tape Data Control Module and another type of Magneto-Resistive ("MR") Tape Head product. The sales of all the new products are expected to exceed the sales of the Ferrite Tape Head products by the end of 2001. The Division will also continue to develop its leading MR Tape Head products and expand its market to the entry level tape drives in the mid-range tape storage market. However, increased competition will result in pricing pressure and increase in development costs.

For the Electronics Manufacturing Services Division, the worldwide slowdown in the consumer electronics industry will continue to affect demand. However, the global restructuring of the industry will also create opportunities for the Division as more and more customers are shifting their productions from high cost countries, including Japan, USA and Europe, to the People's Republic of China, a low cost country. The anticipated entry of the People's Republic of China into the World Trade Organisation will also encourage more branded products to be manufactured and sold domestically in China. The Division will continue with its efforts to relocate its production facilities to Zhongshan to achieve the maximum cost efficiency to meet the new challenges and opportunities.

Prospects are not optimistic in the computer monitor market. The Trinitron grade monitors that CITL produces for its major customer are facing very stiff competition from the Liquid Crystal Display ("LCD") monitors due to the continuous and rapid drop in prices of the LCD monitors. It is anticipated that orders for Trinitron monitors may be significantly reduced as its major customer is reviewing its worldwide inventory position and its strategy in marketing computer monitors. In order to mitigate the effects of reduced orders, CITL is presently focusing on the development of low cost, price competitive LCD multi-media displays which function both as television and computer monitor display in anticipation of stability in the pricing and supply of LCD panels in the very near future.

The Branded Distribution Division will continue to expand its distribution channels and its global marketing efforts. Management has been further strengthened so as to target areas of growth such as direct distribution in various regions including Europe and Greater China. Specific emphasis has been placed on Greater China with four exclusive Nakamichi showrooms opened in Hong Kong and three showrooms in three other cities in the People's Republic of China. Further showrooms will be established in Beijing and Shanghai before the end of the year.