FINANCIAL AND OPERATIONS REVIEW

Voltage Converter and Rechargeable Battery Business Segment

- The decline in financial performance was due to:

  (a) the worldwide economic recession;

  (b) the drastic drop in sales orders from our biggest customers of our traditional linear adaptors; and

  (c) changing trends in the global electronics/telecommunications industry.

- The worldwide economic recession had seen some of our largest telecommunications customers sell their manufacturing operations to cut costs. This has resulted in a drastic drop in our profit margins as customers increasingly began to transfer overheads to suppliers like ourselves.

- Our biggest customers in the mobile hand-set industry had drastically reduced orders for our traditional products like linear adaptors. Compared to a monthly average of about 61 million units ordered for the same period last year, the monthly average for the period under review this year is only about 26 million units ordered or about a 57% drop in orders.

- In the global electronics and telecommunications industry, there has been a changing trend in product demand. For the period under review, customers have changed from linear adaptors to switch-mode adaptors. We are progressively increasing our manufacturing capacity of switch-mode adaptors but require a period of time before we can effectively compete with the main suppliers of switch-mode adaptors.

- Despite the relatively gloomy business climate, your management has been able to keep the Group profitable due to on-going cost-cutting and financial control measures, e.g. (i) we have consolidated the manufacturing operations of our main product lines in Songgang and scaled down our Fuyong plant; and (ii) we have scaled down our involvement in the Guangzhou joint-venture plant.

- For our rechargeable battery business, we have consolidated all manufacturing, R&D and PRC sales operations in Shanghai and closed our Fuyong division, saving us about 40% in monthly overheads.

- Expansion of our manufacturing scope to OEM manufacturing of electronic home and personal appliances for customers in Japan and the U.S. is also progressing positively with pilot production now currently under way. We estimate that we will be able to book the profits of these long-term projects, which we expect to be modest for the short term, only after the next half year period, at the earliest.

Investment in Climax International Company Limited ("Climax")

- Regarding our remaining 1.89% equity interest in Climax which we had written off completely in 1998, there was no impact on the Group from Climax's results from the accounting point of view, and your management will continue to monitor disposal opportunities as and when they arise.

THE YEAR FORWARD

- We will continue to focus on cost-cutting and financial control measures to ride out the effects of the global recession.

- We will also continue to expand our manufacturing scope and invest prudently on R&D technology to remain competitive in the long term.

- We do not foresee a rapid or substantial increase in profitability in the next financial year but your management will tirelessly try to minimize the impact of the global recession on the Group and our shareholders.

- We are confident that the Group will remain viable despite the dismal economic climate worldwide and we expect to enter a new era of growth when the recovery of the world economy resumes.

By Order of the Board
Ho Che Kong
Chairman & Group Managing Director

Hong Kong 20 December 2001