

## REVIEW AND OUTLOOK

Triggered by the adverse impact of the 911 events, the US economy is further deteriorated and the buyers' sentiment is badly affected. The Group continued to experience a difficult operating environment in the first half of 2002 as there was severe competition from other manufacturers. During the period, the Group encountered intensive pressure from customers to lower order prices. On the other hand, inventories piled up in the fourth quarter of 2001 forced retailers and wholesalers to defer order placements in 2002 and demanded for shorter fulfillment cycle time. As a result, the Group's performance in the first half year was noticeably affected.

The reduced turnover in the first half of 2002 was mainly due to the significant shift in the customers' ordering pattern from the first half to the second half of the year. Resources are well planned to accommodate this change and we expect the decline in turnover will be substantially picked up during the second half of the year.

Well aware of the tough market condition, the Group becomes more proactive in developing new business strategies. During the period, the Group engaged an external consultant to launch the Key Account Management strategic selling initiative so as to rejuvenate the Group to become a more customer driven organization. Through developing an even better understanding of the customers' needs and requirements as well as a tighter sales management discipline, customers' demand for additional orders will be generated.

To further enhance factory productivity, the Group has undergone a series of innovative projects to strengthen manufacturing process. Improvements are expected to be achieved as a result of better cell production unit management, shorter cycle time, improved first pass yield and increased manpower utilization.

The Group has also deployed additional effort under the supply chain management to further strengthen the relationship with top vendors and drive down the materials purchase prices through vendor consolidation and greater purchasing power. In addition, the Group is developing a process to manage logistics cost and arrangement in a more cost effective manner.

Business conditions will remain difficult for the rest of this year. Customers are cautious in placing orders and aggressive in their price negotiations. The Group will concentrate its effort to push forward the business improvement initiatives to strive for improvement on top-line revenue growth, factory productivity and cost control. We are confident that the Group will be better positioned and be able to meet the challenges ahead.