The Group is moving rapidly to higher-value-added electronic products such as car audio systems for higher priced vehicles and, commercial and professional audio products.
CHAIRMAN’S STATEMENT

FINANCIAL PERFORMANCE

During the year under review, the Group faced the worst economic downturn in Asia. Our performance was affected by a depressed Asian market and cut-throat price competition, particularly for car audio products and high-end branded loudspeakers. Nevertheless, the Group's specialty electronics business, cable and harness business and the OEM loudspeaker joint ventures in Asia achieved satisfactory growth in earnings.

The Group's turnover decreased by 12.9 per cent to S$257.1 million (US$148.7 million), while profit attributable to shareholders dropped by 6.4 per cent to S$14.8 million (US$8.6 million) which included a net extraordinary gain of S$4.8 million (US$2.8 million). Earnings per share were 4.17 Singapore cents (2.41 US cents), compared with 6.59 Singapore cents (4.10 US cents) of last year.
BUSINESS HIGHLIGHTS

To be a "total solution" supplier to the auto industry remains our vision. We have been supplying a wide range of high quality automotive electronic products to major automakers in China and Japan, and have established a strong market position in China. During the year, the sales of both car audio systems and car harness in the mainland were satisfactory. Export of harness products to Japan was steady. We will build on our strong position in China to further increase our market share and enhance our profitability by moving more rapidly to high-value-added products.

To further expand our automotive wire harness operations in China, the Group secured a 20% interest in a new joint venture in Tianjin in July 1999. The remaining 80% interest of the joint venture is equally owned by Tianjin Hebei Automobile Fittings Factory and a company in Taiwan. Currently, the Group has a total of five car harness joint ventures in China.

Unlike the domestic market, export of car audio products declined substantially because of severe price competition in the U.S. and Europe. We will further diversify into new markets to maintain our level of earnings. It is our plan to put more resources into developing professional and commercial audio products, leveraging our combined electronic and acoustic capability. In the past year, the Group achieved healthy growth for its specialty electronic products.

Disposal of the Group's 49% interest in Car Audio Electronics (Hong Kong) Limited ("CAE") to Mannesmann VDO AG ("VDO") of Germany became effective on 1 January 1999. CAE is an investment holding company which owns a manufacturing plant in China making car audio products. The Group co-founded CAE in 1986 as a joint venture with Philips Group of the Netherlands and Philips sold control of its car system business to VDO at the end of 1997. Despite the disposal, the Group remains very committed as a key supplier of high quality automotive electronic products to the auto industry. It will continue to further develop its various joint ventures located in strategic locations in China.
The Group acquired from its parent company, Gold Peak, the parts and components business in 1999. In addition to the contribution to earnings, the Group expects the acquisition to enhance its manufacturing capabilities and vertical integration for providing more value-added services to its existing and potential customers. This strategic move will also strengthen the Group's position as a "total solution" supplier as it is now able to supply more related components. In addition, the Group will also develop strategic alliances with major automakers and international technology leaders to further expand this business in China.

The Cable and Harness Group was the least affected by the Asian crisis and it continued to significantly contribute to the Group's earnings. Profit of this group rose very strongly during the year, largely resulting from the increased contribution from the cable business. LTK Industries Limited ("LTK"), the 49% owned manufacturer of cable products is now moving rapidly to more sophisticated cable products such as Category 6 LAN cables, capitalizing on the fast growing information technology industry.

The U.K. branded loudspeaker business was heavily hit by a very weak Asian market and a relatively strong Pound Sterling. Sales of high-end KEF and Celestion loudspeakers further dropped in several major markets. However, the performance of the Group's loudspeaker joint ventures in China, Taiwan and the Philippines was satisfactory. The Group will further improve the cost competitiveness of the U.K. operation.

**PROSPECTS**

During the current fiscal year, the various businesses of the Group are expected to face mixed market conditions.

Export of after-market car audio products in the first half remains weak. However, the China market for the car audio products is expected to continue to grow steadily. The performance of the Electronics Group is expected to improve in the second half with the development of new specialty electronic products. The newly acquired parts and components business will start contributing to the Group in the current year.
The Group’s strong position as a major auto harness manufacturer in China was further strengthened through its investment in a new joint venture in Tianjin.

To capitalize on the fast growing IT Industry, LTK is moving to more sophisticated cable products such as Category 6 LAN cables.
The Cable and Harness Group is expected to continue with its steady growth. The outlook for sales of harness products to Japan and China remains optimistic. LTK is expected to perform satisfactorily.

In the Acoustics Group, our U.K. loudspeaker company will further reduce cost and may benefit from a moderate recovery in some Asian markets as their economies start to stabilize. The Asian speaker joint ventures are expected to achieve satisfactory results.

The Group will enhance its growth potentials and profitability by further diversifying into new markets, broadening customer base and developing high-value-added products. Cost competitiveness remains an area of critical importance. The Group will further streamline its operations in order to improve its cost structure. It will also look for suitable new investment around Asia. As the Asian economy starts to stabilize, the Group expects to see improved market conditions during the second half of the current year.

**VOTE OF THANKS**

In the past year, our shareholders, business partners and employees supported the Group very strongly. On behalf of the Board, I would like to thank them most sincerely and look forward to their continued support.

![Signature]

**Victor C.W. Lo**

Chairman

12 August 1999