Financial year 2008-2009 was an exceptionally challenging year. In the first half of the year, key consumer markets started to soften with the global economic downturn, and inflation and record high component prices depressed margins for manufacturers. The subsequent global financial turmoil immediately resulted in deteriorating consumer confidence. With consumer demand lowered, most businesses drastically adjusted their business forecasts downward and rapidly reduced their inventory levels which further depressed the demand for products.

Responding to signs of the downturn, the management took immediate steps to position the Group to face this difficult environment. We aggressively reduced our operating costs, streamlined our distribution and improved our marketing effectiveness. We also reduced our inventory, divested from non-core businesses and strengthened our working capital control to protect the Company's assets. However, the Group was inevitably affected by this global economic turmoil.

**ELECTRONICS DIVISION**

The operating profit before interest and taxation ("PBIT") excluding exceptional items from the electronics and components businesses decreased from S$17.4 million to S$4.5 million.

The sale of professional audio products was affected by the combined impact of the economic downturn and the inventory reduction efforts of our customers. Despite the introduction of new products which were well received by the market, sales of professional electronic products decreased by 28% when compared to the previous year.
The Group rationalised its subsidiaries in the components business and introduced new products such as switch mode power supplies, transformers and injection moulded clinical containers. Although from a relatively low base, sales from the components subsidiaries doubled during the year, and these subsidiaries are expected to continue their rapid growth and to begin contributing to the Group. The associated companies within the components business were affected by the global market downturn and reported lower contributions.

Towards the end of the previous financial year, the acoustic business instituted rigorous cost controls, further streamlined its distribution and increased its investments in developing markets in Asia in preparation for the weakened global market. Sales of KEF-branded products to the UK and the US softened as a result of the market downturn while sales to Asia, Germany, Canada and Latin America grew. Sales of Celestion-branded professional speaker drivers remained steady primarily from market share gains in key customer accounts. Total sales from the branded acoustics business decreased by 8% but profitability grew by more than 50%, primarily through improved distribution efficiency and rigorous cost-saving measures. The 20%-owned Meiloon Industrial Co., Ltd., reported a small loss. Operating profit before interest and taxation excluding exceptional items from the acoustics business decreased from S$6.3 million to S$4.1 million.

Sales of the 47%-owned cable associate Linkz Industries Limited (“Linkz”) decreased by 6% and its profit contribution before exceptional items decreased by 70% due mainly to higher material and...
manufacturing costs. Contributions from the wire harness associates serving the domestic automobile makers in China improved while contributions from export-oriented subsidiaries and associates decreased. As a result, overall PBIT excluding exceptional items from the cables and wire harness businesses decreased from S$9.4 million to S$3.7 million.

As announced on 25 May 2009, Linkz has entered into agreements with companies of the GP Industries Group and Gold Peak Group to acquire an aggregate of 49.1% interest in Lighthouse Technologies Limited. Upon completion of the proposed acquisitions which are subject to the approval of shareholders of the Company, Linkz will hold a significant stake in a leader of the global LED (Light Emitting Diodes) display screens market.

**GP BATTERIES**

Turnover decreased by 12% to S$864.1 million. Profit attributable to equity holders of GP Batteries improved from a loss of S$4.6 million to a profit of S$0.7 million.

The demand for most types of batteries and chargers has been affected by the market downturn. However, the GP brand continues to be a market leader in China and Hong Kong. In China, a survey conducted by the China Industrial Information Issuing Centre ranked the GP PowerBank charger No.1 in charger sales in 2008. In Hong Kong, Nielsen’s MarketTrack reported that GP rechargeable batteries and chargers ranked first in sales volume and value in their respective category for five consecutive years from 2004 to 2008, while the GP Ultra Alkaline batteries ranked No.1 in sales volume, also for five consecutive years from 2004 to 2008.
GP Batteries’ subsidiary in Taiwan has signed a five-year subcontracting agreement with Boston-Power Inc. of the US to produce Lithium-ion rechargeable batteries for laptop computer and electric vehicle (“EV”) applications.

For the electric transportation business, GP Batteries has entered into a new strategic partnership with Plug-In Conversions Corporation of the US to develop and market a kit to convert the Toyota Prius hybrid vehicles to operate as plug-in hybrids with improved performance, better fuel efficiency and lower emission. GP Batteries also began a project of hybridization of the diesel gantry cranes used in a container terminal which reduces fuel consumption by 50%.

GP Batteries is currently developing new battery chemistries for rechargeable batteries used in high-end electric bicycles. Preparation for the joint-venture factory with Hunan Corun New Energy Company Limited of China to produce Nickel Metal Hydride rechargeable batteries for hybrid EV application is continuing.

FINANCIAL MANAGEMENT

The liquidity crunch caused by the global financial turmoil put tremendous cash flow pressure on most businesses. During the financial year, the Group reduced its net bank borrowings from S$247.0 million to S$163.9 million. The Group’s conservative capital expenditure policy, stringent productivity improvement measures and significant reduction in inventory level contributed to this remarkable achievement.
OUTLOOK

The next twelve months will continue to be difficult. Our business development in Asia is likely to continue to outperform the Western markets. The impact of inventory reduction in the distribution pipelines is expected to ease and market demand will continue to fluctuate until the economy becomes more stable.

We will continue our rigorous cost control and capital management policies to ensure the Group remains in a strong financial position to endure the depressed global economy. With the Group’s strong brands and effective business strategies in place, we believe our competitiveness will continue to improve during this challenging period. This will enable the Group to benefit from opportunities that appear in the future and enhance our ability to deal with unforeseen economic or market turbulence ahead.

Brian Li Yiu Cheung
Managing Director
30 July 2009