The financial year 2011-2012 was a year of volatility and challenges for our businesses. The fluctuations in commodity prices, especially the dramatic price increases of rare earth magnetic materials, seriously affected some of our core businesses. The rapid component price surge also occurred against a backdrop of a global economic slowdown and continual wage and operating cost increases in China. The combined effect of these challenges led to a difficult operating environment for the manufacturing sector.
Despite the challenging market environment, the Group managed to make significant progress in implementing its business strategies. To strive for business growth amid the global economic slowdown, we continued to invest into strengthening our brands, our distribution network and product innovation. We also increased our investment in developing our business in faster growing markets such as China, Taiwan and other countries in Asia and Latin America. To improve our cost efficiency, we continued to streamline and automate our business and manufacturing processes.

Though we will continue to face challenges arising from the turbulent global economic environment, we expect our strategies will help mitigate the adverse impact on our operating performance.
Excellent acoustics, exquisite design

Electronics and acoustics

The electronics and acoustics business reported a sales revenue of S$223 million for the financial year, which was 8% lower than that of last year. In US dollars, which is the primary trading currency for these two businesses, revenue from the electronics business decreased by 3% and sales from the acoustics business remained flat. This was resilient performance when key export markets were very weak. Independent market surveys indicated significant sales reduction in key global markets. Our mild reduction in sales was the result of market share gains in both businesses.

Profit reported from this business dropped by 49% from the level of last year, primarily caused by the dramatic price surge in components including rare earth magnets and increases in manufacturing costs in China.
During the financial year, the Group’s premium consumer speaker brand KEF introduced an iconic product named “Blade” which won a number of awards in the UK, Germany, Japan and China. In addition, celebrating its 50th anniversary in 2012, KEF introduced its commemorative product, the LS50 which was very well received by KEF supporters in many markets.

**Automotive wire harness**

The automotive wire harness business reported a sales revenue of S$86 million for the financial year, which was 8% lower than that of last year. In Renminbi, which is the primary trading currency for this business, revenue decreased by 6%. The revenue drop was mainly due to softening sales in the Chinese automotive market. Profit contribution from this business was also 6% lower than that of last year.

During the financial year, our joint venture Shanghai Jinting Automobile Harness Limited received “Supplier Award for Supreme Quality” from Cummins Inc. of the US for its outstanding product quality and service.
Building reliable connectivity into automobiles

Other investments

Linkz Industries Limited reported a lower profit and Meiloon Industrial Co., Ltd. reported a loss for the year. At the end of the financial year, the Group made impairment provisions and negative fair value adjustments for the Group’s investments and non-trade receivables totalling S$17.1 million. Offset by a S$1.6 million write-back of overprovision for a claim settled in the financial year, this business segment reported a loss of S$15.3 million for the financial year.

GP Batteries

GP Batteries International Limited reported a sales revenue of S$775 million, a decrease of 7% compared to that of last year. In US dollar terms, the decline was insignificant. Profit after tax attributable to equity holders of GP Batteries dropped from S$19.2 million last year to S$6.5 million. Gross profit margin decreased to 20.5% compared to 21.2% last year primarily due to the soaring price of rare earth materials.

Sales of primary batteries remained flat. In anticipation of strong demand for 9-volt alkaline batteries from other battery manufacturers in the coming year, GP Batteries planned to expand production capacity of this type of batteries. During the year, a full range of zero mercury silver-zinc and manganese-zinc button cell batteries was launched.
Sales of rechargeable batteries decreased by 20%. During the year, GP Batteries continued to invest in automation for higher production efficiency in order to counter the increasing labour cost in China.

Demand for electric vehicle ("EV") batteries slowed down during the year. Efforts were focused on developing new chemical platforms for higher energy density and better power performance for both EVs and industrial markets. Vectrix’s flagship product VX-1 was again named “European e-Scooter of the year” for the second year.

**Outlook**

The uncertainties which arise from a prolonged European sovereign debt crisis and the elusive US economic recovery might continue to affect market demand for the Group’s products. Demand in China is likely to remain stable.

We will continue to invest in our brands, distribution network and product innovation to strive for growth. We will also further automate our business and manufacturing processes to improve efficiency and counter cost increases. We believe our two-pronged business strategy will enable us to stay competitive in the face of challenges and achieve better return for our shareholders.

Brian Li Yiu Cheung
Managing Director
21 June 2012