

MANAGEMENT Discussion and Analysis

This statement provides further information in addition to that provided in the Chairman's Statement.

Review of results

The Group recorded a consolidated turnover of HK\$1,254 million, representing an increase of 48% over the previous year. Over 90% of the Group's turnover in 2000 were liquid crystal displays (LCDs) and related products. The European and US markets contributed about 53% and 27% respectively of the Group's total turnover, playing a consistent and dominant role in the Group's overall sales performance.

The demand for LCD was extremely strong particularly from the telecommunication sector. The Group's Nanling plant was completed within a few months to cope with the orders. Hence the Group was able to record a significant growth in turnover.

As discussed in the Chairman's Statement, the Group experienced difficulties in making on-time deliveries due to the acute shortages in various critical components such as polarizers and ICs. The shortages also resulted in substantial increases in component prices and affected the Group's profit significantly. In addition, the Group also had to deal with a drop in production yield during the learning period of the newly recruited staff.

Net profit was down by 22% compared to 1999. The operating margin fell by 18.2% to 17.2%. The drop in profit margin was explained by the higher materials content with MNC orders and the factors mentioned above. The investment income was also less than last year's as a result of the downward market trend of interest rates. Net profit was further lowered by provisions against inventory and returns amounting to HK\$32.5 million.

Material Expansion Plan

During the year, the Group acquired through internal funding a piece of land of around 70,000 square meters in Heyuan. It is planned to build facilities there to consolidate the Group's operations and improve logistics. The first phase will cost about HK\$40,000,000 and is expected to be funded by internal resources.

Liquidity and Financial Resources

The Group maintains a strong financial position. As at 31 December 2000, the total shareholders' equity of the Group was approximately HK\$1.2 billion, an increase of 7% over last year. At the year end, the Group held a liquid portfolio of HK\$509 million (1999: HK\$901 million) of which HK\$192 million (1999: HK\$544 million) was in cash and cash equivalents and HK\$317 million (1999: HK\$357 million) in securities. The unsecured interest-bearing bank loans and overdrafts and bills payable reduced to HK\$27.7 million (1999: HK\$50.2 million). The change was mainly a result of the higher working capital requirement induced by the higher business volume and the payment of a special dividend of HK\$159 million during 2000.

Capital Structure

During the year, 873,000 share options were granted to certain employees of the Group for subscription for ordinary shares of HK\$0.25 each in the capital of the Company at HK\$11.30 per share exercisable up to 31 May 2010. A total of 1,466,500 share options were exercised during the year and the Company had 3,992,250 outstanding share options at the balance sheet date.

Varitronix Limited, a wholly-owned subsidiary of the Company, had acquired the remaining minority interests in Varitronix (Canada) Limited, Varitronix (France) S.A.R.L. (now known as Varitronix France SAS), Varitronix (UK) Limited and VL Electronics, Inc. in consideration of which (i) the Company issued an aggregate of 1,896,680 shares and (ii) Varitronix Limited issued a Convertible Note to which conversion rights of 2,259,232 shares in the Company are attached. Accordingly, the gearing ratio, which was computed by dividing the aggregate of the current liabilities and long term debts by shareholders' equity, decreased from 46% to 30%.

Details of the Convertible Note are set out in note 20 to the financial statements.

Employees and Remuneration Policies

As at 31 December 2000, the Group employed approximately 5,100 persons around the world. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has a share option scheme and provides rent-free quarters to its employees in the PRC. For details of the Directors' emoluments, please refer to note 5 to the financial statements.

Contingent Liabilities

Details of contingent liabilities are set out in note 24 to the financial statements.

Foreign Currency Exposure

The Group continues to conduct most of its business in US\$ or HK\$. That, together with a policy of keeping the majority of our assets also in these currencies, ensures that our exposure to exchange rate fluctuations is minimal.