**The reporting year witnessed notable corporate advancement for the Group. In addition to dedicated efforts to streamline the core manufacturing business, and as part of our long-term corporate development initiative to broaden business horizons, the Group increased participation in the entertainment sector in Macau through further subscription to the shares in Greek Mythology (Macau) Entertainment Group Corporation Limited ("Greek Mythology").**

# Management Discussion and Analysis

The Directors are pleased to report the annual results of the Group for the year ended 31 March 2006.

## FINANCIAL REVIEW

During the year under review, the Group posted total manufacturing turnover of approximately HK$81.0 million (2005: HK$101.1 million), a decrease of 19.9% over the previous year. A net profit of approximately HK$112.9 million (2005 (restated): net loss of HK$46.1 million) was recorded for the reporting year as a result of three days' contribution from Greek Mythology following the completion of the acquisition on 28 March 2006, and an excess of fair value of net assets acquired over the cost of acquisition of 49.9% Greek Mythology of HK$178.8 million. After the completion of acquisition, Greek Mythology has become an associated company of the Group. During the three days' period from 29 March 2006 to 31 March 2006, Greek Mythology recorded EBITDA and net profit of HK$7.2 million and HK$6.5 million respectively.

## DIVIDEND

The Directors do not recommend payment of a dividend for the year ended 31 March 2006 (2005: Nil).

## BUSINESS REVIEW AND PROSPECTS

### Manufacturing Business

The LCD and electronic consumer products businesses reported a 19.9% year-on-year decrease in turnover to approximately HK$81.0 million (2005: HK$101.1 million) due to keen market competition. Rocketing oil prices had pushed the cost of major raw materials to new heights, coupled with shortages and unstable supply of labour and electricity in the People's Republic of China (the "PRC"), continued to put pressure on the segments' performance. As keen market competition has rendered price increases quite infeasible, the Group, along with most other manufacturers, has had to absorb the cost increases, which in turn has severely eroded business margins. Net attributable loss from manufacturing therefore widened.

The Group intends to focus its manufacturing operation on the higher-end higher-margin LCD products and streamline its electronic consumer products business. The Group will continue to outsource the production of the lower-end lower-margin products to subcontractors in the PRC. In order to further develop the LCD manufacturing business of the Group, the Group established representative offices in Japan, Korea and the USA in 2005. These representative offices enable the Group to provide better services to the Group's major overseas customers and allow the Group to better monitor market developments and changes in technological requirements. In November 2005, the Group also added a sales and marketing team in the Hong Kong headquarters to cope with the development program of the Group. The Directors consider that the provision of better customer services and the expansion of the Group's sales and marketing team the keys to the further development of the Group's LCD operation. In addition, the Group has since December 2005 begun study on the development of more profitable colour LCD modules and it is expected that the decision on upgrading the existing production facilities of the Group for colour LCD modules production could be finalised in the near future.

# Management Discussion and Analysis

As part of the effort to streamline the manufacturing operations, the Group had decided to restructure its electronic consumer products sector in order to improve the overall profit margin of the Group. The Group had scaled down the electronic consumer products sector by phases and temporarily suspended the sector's manufacturing operation, so that the manufacturing resources can be more effectively utilized for the production of higher-end higher-margin LCD products. The sector will rely mostly on out-sourcing. The Group will review the decision from time to time, and will not rule out the possibility of permanent termination of electronic consumer products sector eventually. Although the overall turnover from manufacturing may decrease as a result, the Group will be in a better position to narrow the losses in future and become profitable eventually.

Although the losses from the Group's manufacturing operation has widened, the Directors are of the view that the performance of the Group's manufacturing operation will improve. The Company has since November 2005 introduced cost saving measures by merging certain administrative functions of its manufacturing operations. With the prices for raw materials and oil beginning to stabilise, the market development efforts of the Company beginning to take shape and the effort to streamline the electronic consumer products business, the Directors expect that the performance of the Group's manufacturing operation will improve.

## Gaming and Entertainment Business

The Group participates in the gaming and entertainment business in Macau through its investment in Greek Mythology, which saw the opening of the Greek Mythology Casino in Taipa, Macau, in December 2004. The integrated casino and entertainment project is being developed in phases. The casino, has a total gross floor area of about 160,000 square feet and called for an investment of around MOP600 million, was completed in December 2004. Greek Mythology Casino is one of the largest casinos in Macau with a range of ancillary entertainment and childcare facilities. It also saw significant increase in traffic to over 30,000 customers daily by the end of the second quarter of 2005. The construction of the new hotel wing has commenced in December 2005. Although the concrete timetable is still under revision, Greek Mythology intends to complete its development by 2007.

Upon the completion of further acquisition of Greek Mythology on 28 March 2006, the Company's interest in Greek Mythology increased to approximately 49.9% from 19.9%. As such, Greek Mythology will be accounted for as an associated company of the Group, and the Company is able to share its profits for the first time. It is expected that the contributions from Greek Mythology will be fully reflected in the next financial year. For the period ended 31 March 2006, Greek Mythology recorded EBITDA and net profit of HK$522.7 million and HK$424.0 million respectively. During the period from 29 March 2006 to 31 March 2006, Greek Mythology recorded EBITDA and net profit of HK$7.2 million and HK$6.5 million respectively. The Directors also expect the return from this investment to continue to increase significantly once operational plans for the casino are fully implemented. The continuing growth trend in the performance of Greek Mythology validates the Directors' confidence in this investment.

Subsequent to the year-end, the Group had reached collaboration agreements with various parties in relation to the provision of gaming and electronic technical services for servicing and operation of certain electronic gaming systems located in Greek Mythology Casino in June 2006. In return, the Group is entitled to share a fixed rate on net gaming wins from the systems.

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

In the reporting year, the Group continued to maintain a stable financial position. The Group had total assets and net assets of approximately HK$2,595.7 million (2005 (restated): HK$1,414.2 million) and HK$1,778.0 million (2005 (restated): HK$1,352.2 million) respectively as at 31 March 2006. Consolidated shareholders' equity as at the year end was approximately HK$1,778.0 million (2005 (restated): HK$1,352.2 million).

The gearing ratio as at 31 March 2006, calculated as a ratio of borrowings to shareholders' funds, was 3% (2005 (restated): 2%). If the balances of convertible notes and promissory note are included in the calculations, the gearing ratio would be 45% (2005 (restated): 2%).

The Group has sufficient financial resources to cover its operations. As at 31 March 2006, the Group had facilities up to HK$26 million.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2006, the Group employed a total of approximately 650 employees in the PRC and Hong Kong. They were remunerated according to the nature of job and market condition. Other employee benefits available for eligible employees included period-end payment, staff canteen, retirement schemes, share option and medical insurance scheme.

## FOREIGN EXCHANGE AND CURRENCY RISKS

Since most of the revenue generated from the sale of products and the payment for purchases of materials, components, equipment and salaries are either made in Hong Kong dollars, Renminbi, or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purposes is considered necessary and the exposure to exchange rate fluctuations is minimal.

## CONTINGENT LIABILITIES

As at 31 March 2006, the Group had no significant contingent liabilities.