

Management Discussion and Analysis

FINANCIAL REVIEW

Overall Financial Results

For the year ended 31 December 2006 (the "Year"), the Group achieved HK\$1,174 million in turnover, representing an increase of 10% over that of HK\$1,066 million in the previous year. The profit for the Year attributable to equity holders of the parent was HK\$8.6 million, representing a decrease of 43.2% over that of HK\$15.2 million of last year. The gross profit reached to HK\$97.8 million, representing an increase of 2.3% over that of HK\$95.6 million of last year. Basic earnings per share attributable to ordinary equity holders of the parent decreased by 43.2% to HK2.16 cents from HK3.80 cents in the corresponding period of last year.

Turnover

Approximately 10% growth was recorded during the Year. Among the turnover of HK\$1,174 million, approximately HK\$110 million was incurred from the LCD products in forms of CKD, SKD or CBU, which represent 2.7 times increase comparing with 2005. During the year, the turnover incurred from the sales of LCD products represents approximately 9.4% of the total turnover of the Group.



Gross Profit Margin

The gross profit margin decreased to 8.3% in 2006 from 9.0% in 2005. Owing to the drop of the market selling prices, constantly high direct costs, increase of logistics and transportation costs as well as rising costs of exported RoHS environmental components, the overall gross profit margin of CTVs decreased. Nevertheless, the Group succeeded to nullify most of the above effects by bargaining for better purchasing costs and support from global suppliers. Accordingly, the overall gross profit margin declined by only 0.7%.

Expenses

The Group's selling and distribution costs increased from HK\$12.9 million in 2005 to 17.8 million of the Year. The increase is mainly due to the Group uses more flight delivery, especially for the LCD chassis, in order to provide better delivery timing to our customer to match with rapid changing the LCD TV market environment. The administrative expenses increased mainly because of the increase in the depreciation expenses of the new LCD assembly machineries acquired during the year and increase in salaries of the Group.

During 2006, the other operating expenses increased from HK\$8.8 million to HK\$9.0 million in 2006. It is mainly because of the HK\$1.9 million provision made against the slow-moving inventories.

The Group continuously strengthens the cost control in the foreseeable future to improve the profitability. As most of the expenses are fixed in nature, the cost efficiency is going to be improved with the growth in sales volume of the Group.

The finance costs increased generally in line with the increase of the bank borrowings in 2006.

Financial Condition and Liquidity

As at 31 December 2006, the shareholders' equity were HK\$211.1 million (2005: HK\$201.3 million). The current assets of the Group amounted to HK\$738 million (2005: HK\$760.7 million), among which HK\$81 million (2005: HK\$136.3 million) were cash and cash equivalents. The current ratio was 1.04 (2005: 1.04).

As at 31 December 2006, the Group's bank and other borrowings amounted to HK\$143.8 million (2005: HK\$116.9 million), and the gearing ratio increased to 15.2% from 12.5% in 2005.

Trade receivables decreased from HK\$412.8 million as at 31 December 2005 to HK\$386.5 million as at 31 December 2006. Provision of HK\$574,000 has been made against those bad debts during the Year.

Capital Expenditure

The Group's total capital expenditures on property, plant and equipment and investment properties during the Year amounted to HK\$52.6 million approximately (2005: 52.2 million). In addition, the Group has paid approximately HK\$15 million as the remaining balance for the acquisition of the interests of an associated company located in Mainland China.

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Foreign Exchange Risk

The core business of the Group is transacted in RMB and US dollars, which are also the currencies in which it holds most of its cash and bank balances. As at 31 December 2006, the Group did not use any derivative instruments to hedge against any foreign exchange risk, which the Group did not consider to be material.

Commitments

During the Year, the capital commitments of the Group amounted to approximately HK\$3.2 million (2005: HK\$20.4 million).

BUSINESS REVIEW

According to the statistics of the Ministry of Information Industry, in 2006, the annual production volume of domestic markets reached 86.13 million sets while the sales volume reached 35.82 million sets, an increase of 3.2% over that of 2005. The sales amounted to RMB98 billion.

Since the price of LCD CTVs, as a high-end product as well as a trend, has reached the maximum acceptable price to consumers, it has gradually gone down, and thus become the first choice for CTV replacements. According to the statistics of the Ministry of Information Industry, in 2006, the domestic production volume of LCD CTVs reached 20.37 million sets, representing an increase of 102% over that of 2005. The sales volume of flat CTVs reached 4.7 million sets, representing an increase of 3.2% over the corresponding period of the previous year, among which 3.8 million sets were attributable to LCD CTVs, which represents an increase of 200% over the corresponding period of last year.

However, with the rapid growth of LCD CTV exports, some countries and areas placed trading barriers for protection of their own relevant industries and fair competition. The anti-dumping strategies regarding CRT CTV exports adopted by European countries and the U.S. in the past may be applied to flat CTV exports. Besides, Europe, the U.S. and Japan have generally set national standards involving key national intellectual property. They may charge all kinds of patent technical fees for imported CTVs according to these standards, which may affect related components and thus outweigh the pricing advantage of the PRC products. Furthermore, foreign countries have already set environmentally technical barriers, such as directives of RoHS, WEEE and EUP.

During 2006, the Group has produced a total of 7.1 million sets of CRT CTVs and LCD CTVs in the form of CKD, SKD and CBU.

In terms of research and development, the development of CRT CTV technologies has come to maturity. The Group mainly produces tailor-made chassis for customers. The design of the appearance of LCD CTVs as a trendy product is important. There are a wide range of chassis and the development is rapid. Its research and development is focused on speed, reliability and costs, aimed at following the latest semi-conductor solutions. The Group also cooperated with European design companies in order to produce cabinet which design can attract consumers of developed countries. In addition, due to the high proportion of costs of LCD panels attributable to LCD CTVs, and the rapid replacement and price reduction, the Group also places emphasis on long-term and good business relationships with panel suppliers so that it can provide chassis matched with the latest panel models or even go beyond the development of panels.

In response to the directive of RoHS of the European Union, the Group has already established the environmental component team to strictly select over 170 domestic suppliers and over 20 overseas suppliers as qualified environmental suppliers, who have signed RoHS commitment letters with the Group. Besides control over raw materials provided by suppliers, the Group also exercises stringent monitoring on the packaging materials of its own warehouses and production materials of its factories. In addition, the Group purchased essential checking equipments and sent its staff to Toshiba's Singapore office for training. The Group accepted orders of environmental CRT products since 1 March 2006 and orders of environmental LCD products since 1 April 2006. It is committed to provide products according to the directive of RoHS and offer related testing reports.

The system and functions of the Group's CRT products meet the requirements of all countries and regions over the world. The CRT products are mainly sold to India, Russia, Indonesia as well as other Middle East, Asian and South American emerging markets.

For LCD products, the Group mainly provides CBU and SKD (including all CTV components except LCD panels) products. Customers are largely overseas brand-named product distributors and retailer chains who focus on the European and U.S. markets.

During the period, the Group established two more subsidiaries in Shenzhen, the PRC and Japan primarily for sales operation in South China and Japan. This expanded the sales channels of the Group and also raised its awareness in the world.

OUTLOOK

Given the further expansion of the domestic production capacity, perfection of technologies and improvement of craftsmanship, it is anticipated that exports of LCD CTVs will maintain substantial growth in 2007 and large panels will become the trend regarding product specifications. Undeveloped areas where exports of CRT CTVs are relatively mature will become the regions with the highest potentials in growth of LCD CTV exports in future. Besides, due to factors such as continuous uprising of the global panel supplying capacity, the price of LCD CTVs will tend to go down but to a slight extent.

Management Discussion and Analysis

In response to the market development trend, the Group will aggressively develop the LCD product business on the basis of expanding sales of CRT CTVs and maintaining profit margins of CRT product sales. The requirements for LCD CTVs in terms of sales, products and selling time are higher than those of CRT CTVs. Accordingly, the Group must adjust its original concept, operation mode and management requirements; follow the market trend; pay close attention to the costs of products and operation efficiency; and emphasize development of new technologies, in order to adapt to the mode of LCD CTV sales.

The operating strategies of the Group for 2007 are to reduce costs, enhance efficiency and expand LCD sales. The Group will further integrate resources, improve the internal management organization and enhance staff training, so as to provide better-quality products at a higher speed of delivery and provide excellent after-sale services.

DIVIDENDS

No dividend has been declared or proposed by the directors of the Company (the "Directors") in respect of the year ended 31 December 2006 (2005: HK1.125 cent).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions contained in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following deviations:

1. The Board formally appointed Mr. Zhang Shuyang as Chief Executive Officer of the Group on 25 April 2007. Thus, the roles of Chairman and Chief Executive Officer of the Group are performed by the same individual, namely Mr. Zhang Shuyang. The Board considers that the Group significantly benefits from Mr. Zhang Shuyang also being ultimately responsible for the day-to-day operation of the Group as this facilitates both the Board and management benefiting from his leadership support and experience, and from the consistent, efficient and effective planning and implementation of the Group's long-term strategies and policies.
2. The Board formally adopted written procedures on 25 April 2007 to govern the delegation of daily management responsibilities to the senior management of the Group and the reservation to the Board of specifically identified matters. This supplemented and enhanced the prior practice of the Board of delegating signing authority on a case-by-case basis for each significant agreement entered into by the Group.
3. The Board formally adopted written terms of reference on 25 April 2007 to govern the authority and duties of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. This supplemented and enhanced the prior practice of these Committees of acting in accordance with the corresponding duties set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "Corporate Governance Code").
4. The Board has adopted a practice of acting in accordance with the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Board has not formally adopted a code of conduct in this regard, but will consider the formal adoption of such a code of conduct at its next scheduled Board meeting.

AUDIT COMMITTEE

The Company has an audit committee, which was established on 22 June 2004 in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control system and providing advice and comments to the Board. The audit committee comprises three independent non-executive Directors of the Company.

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2006.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

Publication of financial information required to be disclosed under the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at www.hkex.com.hk in due course.

BOARD OF DIRECTOR

As at the date of this report, the executive Directors are Mr. Zhang Shuyang, Mr. Tung Chi Wai, Terrence and Mr. Kazunori Watanabe and the independent non-executive Directors are Mr. Ede Hao Xi, Ronald, Mr. Ts'o Shun, Roy and Mr. Li Yueh Chen.