Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 30 June 2001, the Group recorded a consolidated turnover and a net profit from ordinary activities attributable to shareholders of HK$3.7 billion and HK$2.6 million respectively. Due to the sluggish market environment in the North American and European markets, both the turnover and profit contribution from these two regions have dropped, with the exception of the Asian market which recorded a 14% increase in turnover as compared to that of last year.

During the period under review, the sales of CRT monitor has shrunk in response to the worldwide depressing market conditions. However, benefiting from the reduced cost of LCD panel, the sales of LCD monitor has increased significantly and the sales volume is 2.46 times that of last year. The Group continues to hold an optimistic view on the sales of LCD monitor in the coming year.

With the entrance of the PRC into the World Trade Organization (WTO) and the continuous substantial growth of its economy, it is envisaged that computerization of the Mainland corporations will speed up and the purchasing power of general consumers will become higher. The Group believes that the PRC market will continue to prosper, and we have already undertaken concrete plans to strengthen our presence in this region.

Despite of the deteriorating global economic conditions, our Group has strived to maintain our gross profit margin of 10.80% this year as compared to 10.55% last year. This result was mainly attributed to the improved monitor product lines and the successful vertical integration of our business. It is also the fruitful outcome of the strategic alliances the Group has succeeded to form with our suppliers.

Net profit, however, plummeted to HK$2.6 million as a result of a lower turnover and the increases in certain expenditures as compared to last year, including research and development costs, depreciation and finance costs. Net profit was further reduced by exchange loss (please see latter section) of about HK$21 million and, provision for diminution in value of unlisted investment and provision for doubtful debts amounting to HK$17 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2001, the Group had cash and bank balances of approximately HK$324 million (2000: HK$301 million) and the total shareholders' equity of the Group was HK$646 million (2000: HK$652 million). The Group exercises prudent financial management at all time and in view of the volatile environment, the Directors have decided not to recommend a final dividend for the year ended 30 June 2001.

CAPITAL COMMITMENTS AND CAPITAL STRUCTURE

The Group has formed a joint venture company in Wuhan, of which it holds a 51% interest with a capital contribution estimated to be HK$47 million. The Group has also undertaken to acquire the entire interest of the joint venture company, which is now producing deflection yoke, after the balance sheet date. The consideration of the completed acquisition amounts to HK$2.2 million. These investments are expected to be funded by internal resources.

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The Group's total borrowing from banks and financial institutions was HK$449 million as compared to HK$437 million of 2000. Most of the borrowings were denominated in US dollar while some were denominated in HK dollar, NT dollar and RMB. Interest was mainly based on LIBOR, SIBOR or HK dollar prime with a competitive margin. With the downward trend of the interest rate, the Group believes that it is in an advantageous position to save interest cost in the coming year.

The financial gearing of the Group, based on the total borrowings from banks and financial institutions net of cash divided by total shareholders' funds, was 19.39% compared to 20.88% of 30 June 2000.

The Group believes that its future cash flow can be met by the funds generated from its operation and facilities provided by banks and financial institutions.

FOREIGN CURRENCY EXPOSURE

The majority of the Group's sales and purchases are denominated in US dollar and HK dollar, with some in sterling, Renminbi, New Taiwan dollar and Brazilian Real. During the year under review, the Group has incurred a loss of HK$21 million mainly attributable to our Brazil subsidiary. The Brazil subsidiary initially purchased materials that were denominated in US dollar and due to the continuous depreciation of Brazilian Real against US dollar, these transactions have rendered an exchange loss to the Brazil subsidiary. In view of this, the Brazil subsidiary now conducts its sale and purchase transactions mainly in its local currency. The Directors believe that such policy endeavours to minimize the exchange exposure in Brazilian Real.

During the year under review, the Group did not use any financial instruments for hedging purposes.

CONTINGENT LIABILITIES

The Company has provided guarantees for banking facilities and other loan facilities to certain subsidiaries. The total facilities utilized at the balance sheet date were HK$517,092,000 (2000: HK$501,770,000).

The Group had no significant contingent liabilities as at the balance sheet date (2000: Nil).

CHARGES ON GROUP ASSETS

The land and buildings situated in Hong Kong, the PRC and Taiwan were pledged as first legal charges for banking facilities granted to the Group.

Certain machinery with a net book value of approximately HK$17,123,000 (2000: HK$4,872,000) and bank deposits aggregating NT$99,172,000 (equivalent to HK$22,214,000) (2000: NT$22,130,000 (equivalent to HK$5,602,000)) were pledged to banks and financial institutions for facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2001, the Group employed approximately 3,500 full time employees. The Group remunerates its employees largely based on prevailing industry practice of the respective countries where it operates, as well as based on individual merits. The Group has also established a Share Option Scheme for its directors and senior grade staff.