Management Discussion and Analysis

FINANCIAL REVIEW

For the year under review, the Group registered a record consolidated turnover of HK$4.6 billion. In view of the sluggish global market environment, especially in the severely hit computer and IT industry, the Group is very gratified by this growth. All geographical regions, except North America, reported an increase in turnover, albeit to different extents.

Overall gross profit margin has been somewhat constrained, mainly due to the shortage of LCD panels, which drove up material costs for LCD monitors during the year under review. The sales of LCD monitors increased significantly to HK$1,708 million as compared to HK$230 million of last year.

Although we have successfully optimized our product design and streamlined our operations to achieve greater efficiencies as evidenced by a decrease in administrative expenses of 12.5% from HK$186,368,000 of last year to HK$163,141,000 of this year, the Group recorded a net loss of HK$77,504,000 (2001: net profit of HK$2,637,000). This was mainly due to an impairment in the Group's long term listed investment amounted to HK$65,099,000, and an exchange loss of HK$26,905,000 which is mainly incurred by our Brazilian subsidiary as a result of the devaluation of the Brazilian Real. Moreover, during the year, the management made conservative provisions on accounts receivable and inventories, amounting to HK$17,506,000 and HK$13,000,000, respectively.

For the current year, expenditure on research and development was HK$22,118,000. The Group holds the belief that its competitive strength can only be enhanced through R&D and innovation. As such, R&D activities have not been affected by the depressed global economy. The Group has introduced several stylish new monitor models with added features to the market, amongst which are a range of LCD monitors that are the thinnest in the market.

LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2002, cash and bank balances were approximately HK$273,718,000 (2001: HK$323,905,000) with total Group shareholders' equity standing at HK$581,146,000 (2001: HK$646,251,000). Inventories and accounts receivable were HK$946,913,000 (2001: HK$600,428,000) and HK$626,181,000 (2001: HK$442,067,000) respectively, both significant increases on those of last year.

The significant increase in inventories was mainly attributable to the tremendous growth in turnover in June 2002 and subsequent months. Turnover for June 2002 increased over 50% year-over-year, and that for July to September 2002 grew by over 60% as compared with that of the same period last year. Approximately 22% of the inventories were goods in transit. As such, the increase in inventory was mainly due to stocking against market needs in subsequent months. Moreover, since material prices for LCD monitor were much more expensive than materials for CRT monitors, the shift in product mix from CRT monitors to LCD monitors also increased the value of inventory held.

As regards accounts receivable, the increase was mainly due to the significant growth in sales in June 2002 and a change in financing methods. Sales for the month of June 2002 were HK$411 million compared with HK$198 million in June 2001. Also, the Group increasingly took advantage of

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export credit insurance arrangements, as opposed to outright factoring of its accounts receivable. Consequently, the amounts of both accounts receivable and bank and other borrowings have increased significantly. The amounts of accounts receivable under such export credit insurance arrangements were HK$52 million (2001: HK$13 million).

The Group is aware of the effect of such increases and will continue to carefully manage its accounts receivable and inventories levels.

We have included a "Fundamental Accounting Concept" paragraph as note 1 to the financial statements. We have explained to our bankers and major suppliers that the net loss for the year was a result of (i) a one-off impairment loss in the Group's long-term investment; (ii) exchange loss due mainly to the devaluation of the Brazilian Real; and (iii) conservative provisions in both accounts receivable and inventories. All our major bankers and suppliers are very supportive and have confidence in our future. There is no indication that any one of them will tighten their credits extended to us. To the contrary, certain major suppliers (who are also our strategic business partners) have recently granted more favourable credit terms to our Group in order to utilise our very strong distribution network to a fuller extent. This is evidenced by the fact that sales for the three-month period ended 30 September 2002 increased by over 60% as compared to the same period last year. With the increase in sales, the management is confident that the results for the coming year will be promising.

FINAL DIVIDEND

The directors have decided not to recommend a final dividend for the year ended 30 June 2002.

CAPITAL COMMITMENT AND CAPITAL STRUCTURE

The Group has decided to increase its stake in a joint-venture company in Wuhan to 62%, in which it previously held 51%. The additional capital contribution is estimated to be about HK$10 million. The Group also intends to expand its deflection yoke production capacity and to invest in assembly infrastructure for backlight and LCM modules. The total investment over the next year is estimated to be about HK$27 million. These investments are expected to be funded by internal resources.

The Group's total borrowings from banks and financial institutions amounted to HK$492 million as compared with HK$449 million in 2001. Most of the borrowings were in US dollars while some were denominated in Hong Kong dollars and Renminbi. The majority of the bank borrowings were trade related and are repayable within one year. Interest was based on LIBOR, SIBOR, and Hong Kong dollar prime rate, with competitive spread, as well as rates announced by the PRC Monetary Authority from time to time. Due to the fact that interest rates were repeatedly trimmed during the year under review, the Group's interest expenses decreased by about 30% as compared with the previous year.

The financial gearing of the Group, based on total borrowings from banks and financial institutions plus convertible bonds net of pledged bank deposits and cash and cash equivalents, divided by total shareholders' funds, was 63.29% compared with 44.38% of 30 June 2001.

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The Group believes that funds generated by operations, facilities provided by financial institutions, and strong support from its strategic partners will enable the Group to fully meet future cash flow requirements.

FOREIGN CURRENCY EXPOSURE

The majority of the Group's sales and purchases are denominated in US dollars and Hong Kong dollars, while some are denominated in sterling, Renminbi, New Taiwan dollars and the Brazilian currency. The Group does not foresee any substantial exposure to US dollars as long as the Hong Kong dollar remains pegged to the US dollar. In relation to other currencies, the Group will closely monitor their trends vis-a-vis the US dollar and will take forward exchange cover whenever necessary. During the year under review, the Group incurred a HK$26,905,000 exchange loss, mainly attributable to the Group's Brazil subsidiary, which suffered from the continuous depreciation of the Brazilian Real against the US dollar. The Group is exploring alternatives to minimize its foreign exchange exposure in this subsidiary.

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$522,643,000 (2001: HK$517,092,000).

The Group had no significant contingent liabilities as at the balance sheet date (2001: Nil).

CHARGES ON GROUP ASSETS

As of 30 June 2002, the Group's banking facilities and other loans were supported by the following:

(i) a pledge of certain machinery with a net book value of approximately HK$15,158,000 (2001: HK$17,123,000) of the Group;

(ii) pledges of bank deposits aggregating HK$70,740,000 (2001: HK$22,214,000);

(iii) a pledge of accounts receivable of NT$42,611,000 (equivalent to approximately HK$10,163,000) (2001: Nil);

(iv) first legal charges over certain land and buildings of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As of 30 June 2002, the Group employed approximately 5,000 full-time employees. The Group remunerates its employees according to prevailing industry practices in the respective countries in which it operates, as well as to the performance of the individual employee. The Group also has implemented a Share Option Scheme for its directors and senior-grade staff.