Management Discussion and Analysis

FINANCIAL REVIEW

Despite the sluggish worldwide economy, the Group delivered a record-breaking consolidated turnover of HK$6.9 billion for the year under review, representing 50% increase on that of last year, with net profit reaching HK$110 million. Benefiting from a prudent marketing strategy, the Group's turnover was generated with quite a balanced distribution between the Asian, European and North American markets, being 23.57%, 29.6% and 41.31% of Group turnover respectively. Benefiting from this healthy geographical spread, the Group is more able to diversify any risks that may arise from a particular country.

Though the worldwide market demand for CRT monitors has continually contracted, thanks to market consolidation, Group sales of CRT monitors increased from HK$2,384 million last year to HK$3,393 million for the year under review. Sales of LCD monitors also experienced dramatic growth to HK$3,386 million, compared with HK$1,708 million last year. In anticipation of the new 5G fabs coming on stream, the shortages of LCD panels will ease and panel prices are forecast to decline steadily. As the price gap between LCD and CRT monitors continues to narrow, growth in LCD monitor sales will continue and the Group has already increased its annual production capacity of LCD monitors to 4 million units to cater for future demand. Management forecasts that sales of both CRT and LCD monitors will enjoy double-digit growth over the next several years.

In the meantime, overall gross margin has increased from 7.63% last year to 9.25% for the year under review. The strategic alliances with our major vendors and the implementation of extensive vertical integration were the major factors contributing this increase. Despite a highly competitive business environment, with the completion of the third stage of the LCD panel vertical integration program, the Group is confident it can maintain or even surpass the current level of its gross profit margin.

Net profit from ordinary activities attributable to shareholders achieved HK$110 million, representing a net profit margin of 1.58%, as compared with last year's -1.67%. Selling and distribution expenses increased from HK$91 million last year to HK$231 million for the year under review. This considerable increase was mainly attributable to an increase in marketing and development expenses of HK$69 million required to promote our branded business, as well as an increase in import/export expenses of HK$108 million incurred due to the significant increase in sales.

For the current year, expenditure on research and development activities was HK$59 million, almost 170% increase on last year's expenditure. The Group has also strengthened its research team in ongoing preparation for the new digital era and has widened its product range from its current line of CRT and LCD monitors to include LCD-TVs, plasma TVs and other consumer electronics products. In short, the Group will continue to invest in R&D activities to stay in the vanguard of product innovation and development.

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LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group had cash and bank balances of approximately HK$525 million (2002: HK$274 million) with total shareholder equity standing at HK$691 million (2002: HK$581 million). Inventories and accounts receivable were HK$1,243 million (2002: HK$947 million) and HK$1,199 million (2002: HK$626 million) respectively; both significant increases on those of last year.

The significant increases in inventory and accounts receivable were mainly attributable to the significant spurt in turnover in June 2003 and subsequent months. Though dollar amounts increased considerably, inventory turnover days remained stable at 63 days (2002: 65 days), with accounts-receivable turnover days at 48 days (2002: 42 days). These turnover days indicate that the level of inventory and accounts receivable remained in line with the Group business plan. Management will continue to monitor and exercise stringent control over the levels of inventory and accounts receivable.

DIVIDENDS

The directors recommend the payment of a final dividend for the year ended 30 June 2003 of HK2.0 cents per share (2002: nil) which, together with the interim dividend of HK1.7 cents per share (2002: nil) paid in April 2003, makes a total dividend for the year of HK3.7 cents per share.

Subject to shareholder approval at the 2003 Annual General Meeting, the final dividend will be payable on 18 December 2003 to those shareholders whose names appear on the register of members of the Company at 28 November 2003.

CAPITAL COMMITMENT AND CAPITAL STRUCTURE

The Group will continue to integrate its manufacturing processes and has made the decision to invest about US$5 million in setting up the manufacturing infrastructure for backlight and LCM modules. These investments are expected to be funded both by internal resources and facilities from financial institutions.

During the year under review, the Group's total borrowings from banks and financial institutions amounted to HK$1,401 million, compared with HK$642 million in 2002. Most of the borrowings were in US dollars while others were denominated in Hong Kong dollars, New Taiwan Dollars ("NTD") and RMB. The majority of these borrowings were trade-finance related and short term in nature. Interest was mainly based on LIBOR, RMB dollar prime or Hong Kong dollar prime, all with competitive margins.

These strong financial results, coupled with the current low interest environment, allowed interest cover to improve from 2.16 times last year to 4.34 times for the current year.

During the year under review, the Group fully redeemed its US$20 million convertible bonds.

The Group's financial gearing, representing the ratio of total borrowings from banks, financial institutions and convertible bonds to total assets, was 37.94% (2002: 26.69%).

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The Group believes that its future cash-flow requirements can be satisfied by the funds generated from operations, facilities provided by banks and financial institutions, and by the strong support of its strategic partners.

FOREIGN CURRENCY EXPOSURE

The Group's sales and purchases are mainly denominated in US dollars, while some are denominated in Renminbi, the pound Sterling, the Brazilian Real, Hong Kong dollars, the Euro and in New Taiwan dollars. Since the RMB and Hong Kong dollar remain pegged to the US dollar, the Group does not foresee a substantial exposure in this regard.

The Group will conduct a periodic review of its foreign currency exposure to the Real, pound Sterling and Euro, and will hedge any exposure arising from major contracts entered into by the Group, through the use of short-term foreign exchange contracts.

For the period under review, the Group recorded an exchange gain of HK$14 million arising from the appreciation of the Brazilian Real, pound Sterling and Euro against the US dollars.

CONTINGENT LIABILITIES

The Company has given limited guarantees for banking facilities and other loan facilities to certain subsidiaries. Total facilities utilized as of the balance sheet date were HK$1,954,464,000 (2002: HK$522,643,000).

The Group had no significant contingent liabilities as of the balance sheet date.

CHARGES ON GROUP ASSETS

As of 30 June 2003, the Group's banking facilities and other loans were supported by the following:

(i) Certain plant and machinery of the Group with a net book value of approximately HK$13,193,000 (2002: HK$15,158,000);

(ii) Pledge of bank deposits with an aggregate amount of approximately HK$41,970,000 (2002: HK$70,740,000);

(iii) Pledge of trade receivables of NT$43,115,000 (equivalent to approximately HK$10,003,000) (2002: NT$42,611,000 (equivalent to approximately HK$10,163,000));

(iv) First legal charges over certain land and buildings of the Group of approximately HK$152,600,000 (2002: HK$153,200,000).

EMPLOYEES AND REMUNERATION POLICIES

As of 30 June 2003, the Group employed approximately 7,200 full-time employees. The Group remunerates its employees largely based on the prevailing industry practices of the countries in which it operates, as well as based on individual merit. The Group has also established a new Share Option Scheme, under which the Board may at its discretion grant share options to eligible employees of the Group.