



BUSINESS REVIEW

The first half of the Group's financial year 2003/04 delivered very encouraging results as regards both turnover and net profit. Turnover and net profit for the period under review reached a record high of HK\$4.3 billion (USD557.4 million) and HK\$110 million (USD14.2 million), which translated into a 29% and 50% increase compared with the corresponding period last year, respectively. The Group's three core markets, Asia, Europe and America, all experienced a surge in demand, albeit to different degrees. The sales growth was mainly fueled by increased orders from ODM customers and growth in branded sales in China. Sales to America, Europe and Asia represented 32%, 35% and 31% of the Group's net turnover respectively.

Despite constraints in the supply of LCD panels, the Group managed to ship about 1 million LCD-monitor units during the period under review, as compared with 0.7 million units during the previous period. The bottleneck was mainly in the 15-inch and, to a lesser extent, 17-inch panel categories. Apart from this, we also witnessed a tendency among many customers to opt for 17-inch displays in place of 15-inch products. We expect the product shift to be more pronounced when the new 5G fabs are operating at full capacity in the second half of this year. Meanwhile, according to an MIC market report, CRT monitors will continue to be replaced by LCD monitors, and annual shipments of CRT monitor will shrink from around 70 million units in 2003 to around 44 million units in 2006. Against this background, the Group has increased its share of this market, shipping some 2.8 million CRT monitors, with a total value of HK\$1.9 billion (USD243.7 million), during this six-month period, compared with 2.2 million units valued at HK\$1.7 billion (USD217 million) during the corresponding period last year. This strong demand was generated both by existing customers and additional orders from new ODM customers. Management is confident that the Group can maintain this rate of growth in the foreseeable future.

Gross profit margin from our CRT monitor operations declined mildly from 11.6% of previous period to 9.44% for the period under review. The decline was mainly due to the Group's strategy to offer more competitive prices to customers in order to increase its market share in this market. In the LCD monitor segment, competition is very keen and gross profit margin is always under severe pressure, especially in view of current panel shortages. Nevertheless, with enhanced industrial design and in-house assembly of LCD panels, the gross profit margin from our LCD monitor operations increased considerably from 6.7% during the previous period to 8.41% for the period under review.

Net profit from ordinary activities attributable to shareholders was HK\$110 million (USD14.2 million), representing a net profit margin of 2.54%, compared with the previous period's 2.18%. This improvement was mainly attributable to higher economies of scale derived from strong sales and our continued cost-containment policies.

During the period under review, expenditure on research and development was boosted to HK\$37 million (USD4.8 million). The Group has strengthened its research team to meet the requirements of the new digital era and will launch a completely updated range of display products ranging from CRT and LCD monitors to innovative consumer electronics products such as LCD TVs, Plasma TVs, and portable DVD players.