



PROSPECTS

Integration and diversification

To consolidate its position in an extremely competitive business environment, the Group has continued its vertical integration of in-house production of CRT monitor deflection yokes and LCD monitor panel assemblies. Over the next few months, the Group will double its monthly production capacity of deflection yokes from 0.5 million units to 1 million units. Meanwhile, the Group has also acquired the manufacturing technology for small to medium-size LCD panels, which can be used in consumer electronics products, for example, in portable DVD players. In-house assembly of these critical components will greatly enhance our cost advantage and enable us to stay ahead in this competitive environment.

Having established a strong foothold in the display industry, the Group is now extending its manufacturing capability into the production of consumer electronics products. Here, the most important strategic move is the formation of a strategic alliance with Motorola.

Strategic alliance with Motorola

In September 2003, the Group formed a strategic alliance with Motorola, in which Motorola licences its brand to the Group for the development, marketing and distribution of Motorola™ – brand consumer electronics, namely, flat-panel displays and IT, wireless and other next-generation products. Capitalizing on the prestigious Motorola brand name, and leveraging Proview's manufacturing strength coupled with its global marketing and sales capabilities, this alliance will deliver products with superior technology and features in all key areas related to performance, resolution, compatibility and ease of use. Management is confident of the success of this alliance as it delivers long-term returns to shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31st December 2003, the Group had cash and bank balances of approximately HK\$928 million (USD119.5 million) (30th June 2003: HK\$525 million (USD67.6 million)) and total shareholders' equity being HK\$798 million (USD102.7 million) (30th June 2003: HK\$691 million (USD89 million)). Inventories and trade and bills receivables were HK\$1.39 billion (USD179.6 million) (30th June 2003: HK\$1.24 billion (USD160 million)) and HK\$1.26 billion (USD163 million) (30th June 2003: HK\$1.2 billion (USD155 million)) respectively. Inventory turnover days slightly improved to 60 days (30th June 2003: 63 days), while trade and bills receivables turnover days were 51 days (30th June 2003: 48 days). The Group generated strong cash flow from operations during this period. Nevertheless, management will continue to apply strict controls to the level of inventory and trade and bills receivables to ensure that they do not deviate from the Group's planned business growth.

CAPITAL STRUCTURE

The Group will invest about USD3 million in expanding the deflection yoke production capacity. It will also invest USD1 million for the additional panel assembly equipment.



The Group's total borrowings from banks and financial institutions was HK\$1,849 million (30th June 2003: HK\$1,401 million). Most of these borrowings were in USD while others were denominated in RMB, HKD and New Taiwan Dollars ("NTD"). The majority of borrowings were trade-finance related and short term in nature. Interest was mainly based on LIBOR, RMB dollar prime or HK dollar prime with a competitive margin.

The Group's financial gearing, representing the ratio of total borrowings from banks and financial institutions to total assets, was 42.1% (30th June 2003: 37.9%).

The Group believes that its future cash-flow requirements can be satisfied by funds generated from operations and 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, with some transactions in RMB, pound sterling, Brazilian Real, HKD, Euro and NTD. Since the RMB and HKD remain pegged to the US dollar, this provides a natural hedge for the Group's foreign exchange exposure to these currencies.

In relation to the pound sterling and Euro, the Group will use short-term foreign exchange contracts to hedge any exposure arising from major contracts denominated in these currencies. As regards the Brazilian Real, which fluctuated wildly to around USD1: Real 2.9 after the political tension was relieved, the Group has learned from past experience and implemented new measures to limit its exposure in this currency by setting ceilings and changing trading terms.

For the period under review, the Group recorded an exchange gain of HK\$35 million arising from the appreciation of the Brazilian Real, pound sterling and Euro against the US dollar.

CHARGES ON GROUP ASSETS

As of 31st December 2003, the Group's banking facilities and other loans were supported by the following:

- 1.) Pledges of bank deposits with an aggregate amount of approximately HK\$2.8 million (30th June 2003: HK\$41.97 million);
- 2.) Certain plant and machinery of the Group with a net book value of approximately HK\$17.3 million (30th June 2003: HK\$13.2 million)
- 3.) First legal charges over certain land and buildings owned by the Group.

EMPLOYEES AND REMUNERATION POLICIES

As of 31st December 2003, the Group employed approximately 7,500 full-time employees. The Group's remuneration policies, including the discretionary bonus programme and share-option scheme for employees, are largely based on the prevailing industry practice in the respective countries where it operates, and on the performance of the Group as well as on individual merit.