Management Discussion and Analysis

FINANCIAL REVIEW

For the year under review, the Group maintained persistent growth to post a record-breaking consolidated turnover of approximately HK$8.7 billion, representing a 25% increase compared with last year, with net profit reaching approximately HK$148 million. This growth momentum was derived mainly from an increased market share, with both CRT monitors and LCD monitors enjoying similar growth.

During the year under review, the Group shipped some 6 million units of CRT monitors and 2 million units of LCD monitors respectively. Sales of LCD monitors contributed about 50.43% or HK$4.4 billion to the consolidated turnover, while sales of CRT monitors contributed about 45.86% or HK$4.0 billion. Sales to North America, Western Europe and Asia accounted for about 30.58%, 31.93% and 33.14% (sales in the China region reached 20.62% of consolidated turnover) of the Group's net turnover respectively.

Because of the shortage of TFT-LCD panels during the year, prices for this component increased steadily throughout almost the entire financial year of the Group. Since TFT-LCD panel makers gave priority to a few OEM brand customers, it was a major challenge for LCD monitor manufacturers focusing on channel sales and regional ODM brand customers to obtain adequate supplies of these components. As a result, Group sales of LCD monitors experienced some constraint during the year under review. On the CRT front, the demand was stronger than expectation. Rising LCD monitor prices slowed the rate at which CRT monitors were replaced by LCD monitors. Thanks to market consolidation, Group sales of CRT monitors this year recorded outstanding growth compared with last year.

Gross profit margin attributable to Group CRT monitor operations eased to 8.61%, mainly due to the acquisition of new ODM customers. The Group also offered more strategically competitive prices so as to increase its market share in this market. Despite surging TFT-LCD panel prices, the gross profit margin for LCD monitor sales decreased slightly to 8.06%, mainly benefiting from enhanced industrial design and in-house assembly of LCD panels.

The Group has set up a wholly owned subsidiary, Moxell Group Limited ("Moxell"), for the development, marketing and distribution of Motorola-branded consumer electronics products. During the year under review, Moxell did not engage in any trading activities, and hence made no contribution to Group turnover. Moxell has positioned itself as a marketing and distribution company and did not conduct any manufacturing or research-and-development activities. During the year under review, Moxell disbursed approximately HK$45 million on account of sales, marketing and administrative activities in relation to the Motorola-branded business, and this figure has been recorded as expenses in the Group's consolidated results.

Research-and-development costs for the year amounted to HK$47 million, of which HK$11 million was used for the development of display solutions, while HK$35 million was attributable to the development of digital technologies for products such as LCD and Plasma TVs. The digital technology developed will not only be used by Moxell for Motorola-branded consumer electronics products, but will also be applied to the Group's own-brand products and other ODM brand products. However, as the digital TV market has not yet matured, shipments of such digital products (own brands as well as ODM brands) were limited and made no significant contribution to Group turnover and net profit for the year.

Other operating income increased significantly compared with last year. A major portion of this income was the net exchange gain of HK$22.86 million. The Group used short-term foreign exchange contracts to hedge any foreign exchange exposure arising from major sales and purchase activities in European, Brazil and China markets. A net exchange gain was recorded under these hedging activities and the trading transactions.

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LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group held cash and bank balances together with post dated bank drafts of approximately HK$1,015 million (2003: HK$593 million) with total shareholders' equity standing at HK$818 million (2003: HK$686 million). Inventories and trade and bills receivables increased to HK$2,605 million (2003: HK$1,243 million) and HK$1,318 million (2003: HK$1,132 million) respectively.

The significant increase in inventories was mainly attributable to the significant spurt in turnover in the months following the year-end. The Group restocked in view of growing LCD monitor sales. Inventory turnover days were 89 days compared with 63 days last year. Though the inventories increased substantially, the Group does not consider this a significant problem since most of the inventories held as of 30 June was sold out as of the reporting date. As regards trade and bills receivables turnover days, these stood at 51 days (2003: 46 days), a slight increase which remains in line with the Group business plan.

DIVIDENDS

The directors recommended the payment of a final dividend for the year ended 30 June 2004 of HK1.2 cents per share (2003: HK2.0 cents) which, together with the interim dividend of HK2.8 cents per share (2003: HK1.7 cents) paid in April 2004, makes a total dividend for the year of HK4.0 cents per share.

Subject to shareholders' approval at the 2004 annual general meeting, the final dividend will be payable on 20 December 2004 to those shareholders whose names appear on the register of members of the Company at 26 November 2004.

CAPITAL COMMITMENT AND CAPITAL STRUCTURE

The Group has invested about US$3.5 million in expanding deflection yoke production capacity and panel-assembly lines for the year under review. The Group envisages using about US$5 million in improving and upgrading the existing machinery and equipment for the coming year.

As at 30 June 2004, the Group's total borrowings from banks and financial institutions were HK$2,632 million (2003: HK$1,401 million). 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 was trade-finance related and short term in nature (within one year). Interest was mainly based on LIBOR, RMB dollar prime or Hong Kong 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 44.58% (2003: 37.94%).

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.

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FOREIGN EXCHANGE EXPOSURE

The Group's sales and purchases are mainly denominated in US dollars, with some transactions made in RMB, pound sterling, Brazilian Real, Hong Kong dollars, Euro and NTD. The Hong Kong dollar's peg to the US dollar provides a natural hedge for the Group's foreign-exchange exposure to these currencies.

During the year under review, the Group used short-term foreign-exchange contracts to hedge any exposure arising from major sales and purchase activities in European, Brazilian and China markets. Net exchange gain of HK$4.07 million was recorded under these hedging activities.

As of 30 June 2004, the Group held outstanding commitments to sell RMB for US dollars under foreign-exchange forward contracts of US$40 million. These foreign-exchange contracts were mainly used to alleviate foreign-exchange exposure as a result of the Group's selling activities in the China market.

CONTINGENT LIABILITIES

The Company has given limited guarantees for banking facilities and other loan facilities to certain subsidiaries. Total facilities granted as of the date of the balance sheet were HK$3,531,036,000 (2003: HK$1,954,464,000).

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

CHARGES ON GROUP ASSETS

As of 30 June 2004, 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$42,829,000 (2003: HK$13,193,000);

ii) Pledge of bank deposits with an aggregate amount of approximately HK$62,946,000 (2003: HK$41,970,000);

iii) First legal charges over certain land and buildings of the Group of approximately HK$139,300,000 (2003: HK$152,600,000).

EMPLOYEES AND REMUNERATION POLICIES

As of 30 June 2004, the Group employed some 9,500 full-time employees. Remuneration of Group employees is based largely on the prevailing industry practices of the countries in which it operates, as well as on individual merit. The Group also offers share options to employees according to their performance.