# Management Discussion and Analysis

## BUSINESS REVIEW

The Group sustained strong growth during the year under review and achieved another record consolidated sales turnover of approximately HK$12.14 billion, representing a growth of 40% compared to that of last year. Net profit was approximately HK$37.3 million. The strong growth in sales turnover was a result of the increase in sales in the LCD monitor segment. Within the year, sales quantity of LCD monitors increased by around 113%.

In the year under review, the sales quantities of CRT and LCD monitors were approximately 6.9 million and 4.25 million respectively. LCD monitor sales contributed about 59% to the Group's total consolidated turnover or HK$7.2 billion, in contrast to about 34% from CRT monitor sales of HK$4.1 billion. Sales in North America, Western Europe and Asia accounted for about 31%, 34%, and 29% of Group total turnover respectively (China accounted for about 21% of total turnover).

During the early part of the reporting period, prices of LCD panels decreased drastically, causing an overall price drop of LCD monitors in all categories. Attractive prices created stronger demand in the market, boosting sales of LCD monitors. Sales quantity of the Group's LCD monitor segment therefore increased by 113% year on year. On the other hand, market demand for CRT monitors decreased as the market was gradually taken up by LCD monitors. Nonetheless the Group still achieved a small growth in sales volume as compared to that of last year. As for the sales of flat digital televisions, despite the Group's termination of the licensing agreement with Motorola, we were able to leverage our technological edge, enhanced production capability and market readiness to build our initial footage in this sector. Sales of flat digital televisions were around seventy thousand units in the year under review on the back of increased market demand.

The decline in demand for CRT monitors, together with the Group's competitive pricing strategy applied to maintain the sales volume, had affected the gross profit margin of our CRT monitor sales in the reporting year. Segment gross profit margin was approximately 7.31% (2004: 8.72%). In the LCD monitors market, the drop in the prices of LCD panels had led to huge fluctuation in monitor selling price. The gross profit margin for our LCD monitors dropped to approximately 7.26% (2004: 8.39%). In the year under review, turnover of flat digital televisions was HK$360 million. Because of the limited sales, this new segment did not bring a significant boost to the overall gross profit margin in the year. However, the Group anticipates exceptional growth in sales of flat digital televisions in this forthcoming financial year due to strong growth in market demands in North America and Western Europe.

Moxell Group Limited and related subsidiaries were incorporated for the purpose of instant entry into the flat digital television market, which was originally planned to focus on the development, promotion and distribution of flat digital televisions under the Motorola brand name. Since the strategic alliance with Motorola did not create the expected results, the Group has terminated the licensing operations, and the total related expenses on sales promotion and administrative activities were

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around HK$43 million, which was accounted for as expenses in the year under review.

Research and development expenses during the year under review were around HK$48 million, of which HK$29 million was used for developing display solutions and HK$19 million for developing flat digital televisions. Technologies developed have been applied to the Group's own name-brand as well as ODM products. We believe this development will contribute significantly to the Group's profit margin in the future.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 30 June 2005, the Group held cash and bank balances, and forward exchange receivables from banks of approximately HK$1.86 billion (2004: HK$1.02 billion) with total shareholders' equity standing at approximately HK$860 million (2004: HK$820 million). Inventories and trade and bills receivables increased to around HK$2.4 billion (2004: HK$2.6 billion) and HK$2 billion (2004: HK$1.3 billion) respectively.

Inventories dropped slightly, but due to the strong increase in LCD monitor sales, we were obliged to build up a larger inventory in response to the market growth. Inventory turnover days were 81 days (2004: 89 days). We shall continue our efforts to keep the inventory at lower levels. Trade and bills receivable grew as the Group's overall turnover increased substantially. This was within the expectation of our overall business plan. Trade and bills receivables turnover days increased marginally to 52 days (2004: 51 days).

In the year under review, our suppliers continued to show strong support for the Group. Credits granted increased in line with turnover growth. Trade and bills payables increased to HK$3 billion (2004: HK$2.2 billion). Our relationships with suppliers are strong, long-standing and mutually beneficial. We maintained a stable payback period as in the previous years. Trade and bills payable turnover days were 85 days (2004: 84 days).

### Dividend

The Board did not recommend the payment of a final dividend. Total dividends paid (including the interim dividend of HK2.2 cents distributed in May 2005) for fiscal 2005 were HK2.2 cents (2004: HK4.0 cents)

### Capital Commitment and Capital Structure

In the year under review, the Group invested HK$93 million in the maintenance and improvement of production facilities, and in developing new moulds for our products.

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For the year ended 30 June 2005, the Group's total borrowings from banks and financial institutions were HK$3.1 billion (2004: HK$2.6 billion). Most of the borrowings were in US dollars, while the others were denominated in Hong Kong dollars, New Taiwan dollars ("NTD") and Renminbi ("RMB"). Most of the borrowings were related to trading purposes and used as working capital. Interest was mainly based on HIBOR, RMB prime or Hong Kong dollar prime with competitive margin.

The Group's financial gearing, representing the ratio of total borrowings from banks and financial institutions to total assets, was 43.14% (2004: 44.58%).

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 Exchange Exposure**

The Group's sales and purchases were mainly denominated in US dollars, with some transactions made in RMB, pound sterling, Brazilian real, Hong Kong dollars, Euro and NTD. Because most of the Group's purchases were denominated in US dollars, the appreciation of RMB did not have a significant effect on the Group's performance in the year.

**Contingent Liabilities**

The Group 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$2.3 billion (2004: HK$3.5 billion).

During the year, the Group has been involved in two patent litigations. The plaintiffs in both complaints have not yet identified the amount of damages sought. The Group is vigorously defending itself in the complaints and the proceedings are still ongoing. The outcome of the litigations cannot be estimated with certainty at this stage. The Court has not yet set schedule for the cases.

**Charges on Group Assets**

As of 30 June 2005, the Group's banking facilities and other loans were mainly supported by certain plant and machinery of the Group with a net book value of approximately HK$25 million (2004: HK$43 million), and, first legal charges over certain land and buildings of the Group of approximately HK$128 million (2004: HK$139 million).

**Employees and Remuneration Policies**

As of 30 June 2005, the Group employed approximately 9,800 full-time employees. Remuneration of Group employees is based largely on prevailing industry practices of the countries in which it operates, as well as on individual merits. The Group also offers share options to employees to reward outstanding performance.