BUSINESS REVIEW

For the year under review, the Group sustained persistent growth to a record-breaking consolidated turnover of approximately HK$16.2 billion, representing about 34% increase as compared with last year, with profit attributable to equity holders rising about 592% to HK$180 million. Turnover and profitability were mainly driven by robust growth in the sales of LCD monitors.

During the year under review, the Group sold around 4.8 million units of CRT monitors and 7.5 million units of LCD monitors respectively. Sales of LCD monitors contributed about 67% or HK$10.9 billion to consolidated turnover, while sales of CRT monitors contributed about 22% or HK$3.6 billion. It is expected that demand for CRT monitors will continue to decline as LCD monitors become more popular. The Group will continue to adjust its product mix and deploy resources efficiently to cater for the changing demands of different markets.

LCD TV sales picked up momentum with the significant fall in panel prices. The Group's sales of flat digital TVs posted about 476% growth to around 363,000 units as compared with 63,000 units last year. The Group anticipates more exceptional growth in sales of flat TVs in the years to come because of robust demand from the more affluent developed countries.

Sales to North America, Western Europe and Asia accounted for about 36%, 26% and 30% (while sales in the China region reached 25% of consolidated turnover) of Group net turnover respectively. In this regard, the Group will continue to broaden and diversify its customer base across different regions.

The decline in demand for CRT monitors, together with the increase in material costs of the CRT tubes (copper being the major raw material in the production of the deflection yoke, a critical component in CRT tubes), lowered gross profit margin on our CRT monitor sales to about 6.2% (2005: 7.3%) for the reporting year. Despite fluctuations in LCD panel prices, the Group was able to maintain the gross profit margin for LCD monitor sales at around 7.3% (2005: 7.3%), thanks to greater vertical integration for the LCD module undertaken by the Group in-house. The overall gross profit margin eased slightly to around 7.2% (2005: 7.6%).

Despite the slight decline in overall gross profit margin, the net profit margin improved to 1.1% (2005:0.2%), mainly attributable to the benefits derived from increased scales of ODM production and effective operation cost-control measures implemented during the year.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2006, the Group held cash and bank balances (including pledged bank deposits) of approximately HK$1.9 billion (2005: HK$1.7 billion), with total equity attributable to equity holders of the Company standing at approximately HK$1,047 million (2005: HK$850 million (restated)).

Inventories decreased to approximately HK$1.9 billion (2005: HK$2.4 billion), with inventory turnover days reduced to 47 days (2005: 79 days). The turnover days are consistent with the Group's effort to lower the inventory risk. The Group will continue to explore measures to optimize its inventory levels by collaborating with vendors on just-in-time production arrangements.

Trade and bills receivables decreased to approximately HK$1.9 billion (2005: HK$2.0 billion). The trade and bills receivables turnover days improved to 42 days (2005: 60 days), which was a testament to the success of the Group's business plan to continue to improve its overall accounts receivables level.

Our relationships with suppliers are long-standing and mutually beneficial and, during the year under review, our suppliers continued to manifest strong support for the Group. Credits granted increased in line with turnover growth. Trade and bills payables increased to approximately HK$3.8 billion (2005: HK$3.0 billion). The Group maintained a stable payback period as in the previous years. Trade and bills payables turnover days stood at 91 days (2005: 98 days).

Capital Commitment and Capital Structure

In the year under review, the Group invested approximately HK$106 million in the maintenance and upgrading of production facilities, and in the development of new product moulds.

For the year ended 30 June 2006, the Group's total borrowings from banks and financial institutions were approximately HK$1.7 billion (2005: HK$3.1 billion). Most of the borrowings were in US dollars, while the others were denominated in Hong Kong dollars, New Taiwanese dollars ("NTD") and Renminbi ("RMB"). Most of the borrowings were related to trading purposes and used as working capital. Interest was mainly based on LIBOR, RMB prime or Hong Kong dollars prime with a competitive margin.

The Group's financial gearing, representing the ratio of total borrowings from banks and financial institutions to equity attributable to the equity holders of the Company was significantly reduced to around 1.7 (2005: 3.6).

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

Contingent Liabilities

During the year, the Group has been involved in two patent litigations. One of the claim of the patent litigations was released and no compensation was required to be paid by the Group under the settlement agreement entered into between the plaintiff and the Group. Concurrently, the Group entered into a patent license agreement in which the Group could use the licensed patents of the plaintiff in the Group's display products. For the other patent litigation, the concerned plaintiffs have not yet identified the amount of damages sought. The Group is vigorously defending itself against these complaints and the proceedings are still sub judice. The outcome of this litigation cannot be estimated with certainty at this stage, and the Court has not yet set the schedule for the case.

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. Inasmuch as the Hong Kong dollar is pegged to the US dollar, and that there has been minimal fluctuation in the exchange rate between the Hong Kong dollar and RMB, the Group's exposure to US dollar and RMB exchange risk was minimal.

The Group does not currently have a foreign currency hedging policy. However, we will continue to monitor these foreign exchange exposures and will consider hedging significant foreign currency exposure should the need arise.

Charges on Group Assets

As of 30 June 2006, the Group's banking facilities were mainly collateralized by certain plant and machinery of the Group with a carrying amount of approximately HK$21 million (2005: HK$25 million), and first legal charges over certain land and buildings of the Group of approximately HK$140 million (2005: HK$128 million).

Employees and Remuneration Policies

As of 30 June 2006, the Group employed approximately 10,600 full-time employees. Remuneration of the Group's employees is based largely on the prevailing industry practices in the countries in which it operates, as well as on individual merit. The Group also offers share options to employees to reward outstanding performance.