

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the six-month period ended 31 December 2006, the Group demonstrated strong ability in innovation to sustain growth amidst prevailing challenges brought by the global diminution in demand for CRT monitors and the rapid drop in TFT-LCD panel prices. During the period under review, the Group registered a record revenue of HK\$8.5 billion, an increase of 1.2% year on year.

The Group's revenue growth was underpinned by the continuous global economic growth, digitalization of TV specifications, as well as the rapid drop in prices of large-size TFT-LCD panels. These environmental parameters have contributed to significant surge in consumer demand for TFT-LCD TVs.

Regarding monitor business, the Group shipped approximately 4.25 million units of TFT-LCD monitors during the period under review, representing a growth of 12.7% from 3.77 million units in the corresponding period of last year. The average selling price (the "ASP") of TFT-LCD monitors decreased in line with the drop in TFT-LCD panel prices. Therefore, the Group's monitor sales during the period under review experienced a drop of 3.5% from HK\$5.7 billion of the corresponding period last year to HK\$5.5 billion. The mainstream size of TFT-LCD monitors shipped during the period moved up from last year's 17" to 19", reflecting consumers' shift in demand for larger screen sizes as TFT-LCD monitor prices decrease.

The rapid slide in TFT-LCD panel prices has closed the gap between CRT and TFT-LCD monitor unit prices, resulting in further diminution in global demand for CRT monitors. However, many of the Group's customers in emerging markets still have high demands for CRT monitor. To sustain revenue growth, the Group is committed to further strengthening customer franchise which will allow the Group to quickly move into the still nascent TFT-LCD monitor segments of these emerging markets as such opportunity arises. During the review period, the Group shipped 1.28 million units of CRT monitors, representing a reduction of 59.2% from 3.14 million units of the corresponding period last year. Turnover for the review period fell 44.4% to HK\$1 billion from HK\$1.8 billion of same period last year. To capitalise on the full potential of business opportunities brought by the rise in demand for TFT-LCD monitors and TVs, and to proactively prepare itself for the new market landscape, the Group has strategically altered CRT monitor production lines into TFT-LCD monitor and TV production in line with customer-specific shipment needs.

Due to the drop in panel prices, the demand for TFT-LCD monitors has increased significantly. The Group sold around 434,000 units of full-set and semi-knocked down ("SKD") TFT-LCD TVs during the current review period. Comparing with 118,000 units sold in the same period the previous year, the Group recorded a 267.8% increase year on year. In line with volume growth, revenues from TFT-LCD TVs sales also increased to HK\$1.8 billion, representing a 200% increase from HK\$0.6 billion of the same period last year.

For the six month ended December 2006, the Group recorded a net profit of HK\$103 million, representing a 3.7% decrease from HK\$107 million of the same period last year. Gross profit margin dropped from last corresponding period's 7.55% to 7.35%, with the net profit margin standing at 1.21%, down from 1.28% of the previous period.

Breaking down by product, the gross profit margin on TFT-LCD monitor sales slightly increased to 7.36%, from 7.26% of the previous year, as a result of greater vertical integration for LCD modules undertaken by the Group in-house, as well as stronger economies of scale in production. The decline in demand for CRT monitors, coupled with the increase in the costs of CRT tubes, resulted in a reduced gross profit margin on our CRT monitor sales to about 6.13% from 7.11% last year. The gross profit margin for TFT-LCD TVs decreased from 11.5% last year to 8.1% due to fierce price competition among manufacturers.

Sales to North America, Western Europe and Asia made respective contributions of 28%, 18% and 45% of the Group's consolidated turnover. Sales from Asia recorded a higher contribution to total turnover on the back of strong economic growth in China, as well as the shift of procurement modes of European customers from direct purchase from their Europe headquarters to through procurement centers in Asia. The Group's businesses in other regions continued to grow steadily. The Group will continue to broaden and diversify its customer base across various regions.

INDUSTRY AND MARKET OVERVIEW

According to DisplaySearch, the 2007 market scales of TFT-LCD monitors and TFT-LCD TVs will amount to 150 million units and 73 million units respectively, representing growth of 15.4% and 87.2% from 130 million units and 39 million units, respectively in 2006. Industry researchers expect TFT-LCD TVs to become the display industry's next major growth driver in the coming year after LCD monitors.

PROSPECTS

The Group is well-positioned to take advantage of the continuous trend to outsource the design, manufacture and servicing of display products. We intend to build further on our significant display product production and development expertise, strengths in product design, engineering and systems integration, efficient production and logistics, and high-quality customer service to expand market share across core product lines. Key elements of our strategy are as follows:

Increase market share in TFT-LCD TV

The Group expects TFT-LCD TV products to be a key revenue growth driver in the future. Our goal is to become one of the world's leading TFT-LCD TV manufacturers, taking advantage of the strong market dynamics as customers migrate from CRT TVs to TFT-LCD TVs and the increasing trend of manufacturing outsourcing. From the initial rollout in 2004, we have aggressively expanded our production, design and cost-effective innovation capabilities to capture the strong potential of TFT-LCD TVs.

Utilize comprehensive product range to grow business in emerging markets

The Group aims to further diversify its geographic coverage and increase sales to emerging markets. Riding on our strong global distribution, manufacturing and logistics capabilities, we offer the full range of display products in these emerging markets. While the demand for CRT monitors is declining in developed markets, this product segment continues to have significant momentum for cost-conscious consumers in such emerging markets as Africa, India, Eastern Europe and Latin America. Our strategy is to use our customer and channel strengths that we are building up in the emerging markets

through the CRT product line in preparation for the expected future migration of these markets to TFT-LCD monitors and TFT-LCD TVs. Furthermore, as many of our competitors have ceased the production of CRT monitors, we are able to redeploy previous capital investments and minimal research and development input to capture the competitors' share of CRT monitor market.

Expand production capacity

As part of our strategy to expand production capacity to achieve greater economies of scales and cost savings through bulk purchases of raw materials and components, we are expanding our Ningbo manufacturing facility to 8 million units of TFT-LCD monitors and 2 million units of TFT-LCD TVs annually by the end of 2007.

Broaden strategic alliances with panel manufacturers

The Group currently works with multiple panel manufacturers to ensure efficient access to TFT-LCD panels to fulfill requirements of TFT-LCD product manufacturing. Further to this goal, we intend to work even more closely with our world-leading TFT-LCD panel manufacturing partners including CMO, AUO, Samsung and SVA. In 2006, we established manufacturing facilities in Ningbo in order to expand economies of scale. Such facilities are expected to fulfill requirements of CMO, and also enable the Group to participate in collaborative research and development efforts, to achieve cost savings in production, and to secure new orders through vertical integration and strategic alliance with CMO.

Continue to manage our working capital efficiently

Through strong relationships with suppliers, the Group gained access to increased credit lines and extended payment terms. At the same time, we minimized our inventory levels through intensified just-in-time purchasing, strengthened management of accounts receivable and minimized exposure to customer credit risks. We will also strive to maintain minimum inventory levels, control costs and finance loadings through close communication with suppliers and customers and by analyzing their historical patterns and future project plans.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group's cash and bank balances (including pledged bank deposits) stood at approximately HK\$1,514 million (30 June 2006: HK\$1,883 million) with equity attributable to equity holders of the Company at approximately HK\$1,139 million (30 June 2006: HK\$1,047 million). Inventories increased to around HK\$1,963 million (30 June 2006: HK\$1,928 million), with inventory turnover days reducing to 45 days (30 June 2006: 47 days). The inventories were slightly higher than the previous period because of the higher material costs of TFT-LCD TVs as compared to monitors. The Group will continue to seek ways to optimize its inventory level by setting up manufacturing facilities close to the markets and discussing with panel makers to strengthen overseas supply chains.

Trade and bills receivables aligned with turnover growth and increased to HK\$2,080 million (30 June 2006: HK\$1,882 million). The trade and bills receivables turnover days increased to 45 days (30 June 2006: 42 days). The turnover days were slightly higher because the sales of TFT-LCD TVs were concentrated in the forth quarter and shipments of SKD products to Europe.

For the reporting period, our vendors showed very strong support to the Group. Trade and bills payables decreased substantially to HK\$3,654 million (30 June 2006: HK\$3,758 million), while trade and bills payables turnover days decreased to 85 days (30 June 2006: 91 days). The turnover days were slightly reduced because the shipments of CRT monitors, the components for which command better payment terms than TFT-LCD products, have decreased rapidly. We still keep excellent long-standing relationships with our suppliers to pursue a mutually beneficial, optimal business model.

CAPITAL COMMITMENT AND CAPITAL STRUCTURE

For the reporting period, the Group invested HK\$139 million in the procurement, maintenance, improvement of production facilities, development of new product moulds, and new factory construction in Ningbo. The Group's total borrowings from banks and financial institutions as at 31 December 2006 were HK\$1,628 million (30 June 2006: HK\$1,749 million). 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 LIBOR, RMB prime or Hong Kong dollars prime with competitive margins. The Group's financial gearing, representing the ratio of total borrowings from banks and financial institutions divided by equity attributable to the Company's shareholders, was 1.4 (30 June 2006: 1.7).

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, as well as the strong support from its vendors.

CHARGES ON GROUP ASSETS

As of 31 December 2006, 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\$20 million (30 June 2006: HK\$21 million), and first legal charges over certain land and buildings of the Group of approximately HK\$138 million (30 June 2006: HK\$140 million).

CONTINGENT LIABILITIES

During the review period, the Group has involved in a patent litigation, of which the concerned plaintiffs have not yet identified the amount of damages sought. The Group is vigorously defending itself against the complaints and the proceedings are still sub judice. The outcome of the 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 the assets and liabilities of US dollars are similar and the Hong Kong dollar is pegged to the US dollar, the Group's exposure to US dollar exchange risk did not have any adverse effect on the finance position of the Group.

For the reviewed period, the Group does not currently use any financial instruments or derivatives for hedging purpose. The management monitors the foreign exchange exposures and will consider hedging significant foreign currency exposure should the need arises.

EMPLOYEES AND REMUNERATION POLICIES

As of 31 December 2006, the Group employed approximately 11,200 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.

INTERIM DIVIDEND

The board of directors of the Company has resolved to pay an interim dividend of HK2.5 cents per share for the six months ended 31 December 2006 (2005: HK2.5 cents) to shareholders whose names appear on the Company's register of members as at the close of business on Thursday, 26 April 2007. The interim dividend is expected to be paid to shareholders by post on or around 25 May 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 25 April 2007 to Thursday, 26 April 2007, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 24 April 2007.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the review period.