

Chairman's Statement

主席報告

02

ANNUAL
REPORT
2006
年報

Dr. Lam Man Chan
林文燦博士



On behalf of the Board of Directors (the "Board"), I am pleased to present the annual results for the year ended 31 March 2006 to our shareholders.

RESULTS AND DIVIDENDS

For the year ended 31 March 2006, the Group's turnover totalled HK\$2,836 million and net profit for the year was HK\$13 million.

An interim dividend of HK\$11,895,000, representing a payout ratio of about 90% of the current year profit, has been paid. Having considered the future cash flow requirements for the business development, the Board adopts a prudent approach and does not recommend the payment of a final dividend for the year ended 31 March 2006 (2005: HK1.0 cent per share).

BUSINESS REVIEW

2005 was a challenging year for all manufacturers. Conventional audio manufacturers, in particular, faced a difficult operating environment. On the cost side, the increasing price of oil and plastic materials and labor shortage in Southern China further raised the overall production costs. On the demand side, the conventional audio market encountered fierce competition with decline in global demand for these products.

本人謹代表董事會（「董事會」）欣然向股東提呈截至二零零六年三月三十一日止年度之業績。

業績及股息

截至二零零六年三月三十一日止年度，本集團營業額合計2,836,000,000港元，年度純利則為13,000,000港元。

中期股息11,895,000港元（派息比率相等於本年度溢利約90%）已支付。經考慮業務發展之未來現金流量需要，董事會採取審慎態度及不建議派發截至二零零六年三月三十一日止年度之末期股息（二零零五年：每股1.0港仙）。

業務回顧

二零零五年對所有生產商而言均是充滿挑戰之一年。傳統音響生產商尤其面對嚴峻之經營環境。在成本方面，油價及塑膠原材料價格上漲及華南地區勞工短缺，進一步增加整體生產成本。在需求方面，隨著該等產品之全球需求下降，傳統音響市場面對激烈競爭。

In view of the challenges, the Group had decided to adopt the following measures to overcome the unfavorable operating environment:

1. Change in product mix. To shift from producing conventional audio products to digital products with much higher value;
2. Strategic reduction in low margin products and exit from loss-making electronics and electrical products; and
3. Consolidation of Dongguan operations to Qingyuan Industrial Estate.

For the financial year ("FY") ended 31 March 2006, the Group's turnover was HK\$2,836 million, decreased by 17.0% as compared to last year. Net profit amounted to HK\$13 million, representing a decrease of 78.2% from HK\$60 million last year.

The road of product mix transition was beset with thorns and brambles to the Group.

The sales of home audio products dropped by 24.2%, but still accounted for 82.1% of total sales. The sales of digital products increased by 49.4%, accounted for about 13.5% of total sales. The sales of digital products were particularly impressive in the second half of FY2006, during which the sales amount increased to HK\$210 million, representing 16.5% of total sales in the second half of FY2006.

During the year under review, America remained as the Group's major market, followed by Europe. HK\$2,012 million and HK\$530 million of the Group's products were sold to America and Europe, accounting for 70.9% and 18.7% of the Group's total turnover respectively. In prior year, approximately HK\$2,361 million and HK\$621 million of the Group's products were sold to America and Europe respectively.

The Group's gross margin had been adversely affected by the general increase in raw material prices since the financial year ended 31 March 2005.

面對上述各項挑戰，本集團已決定採納下列措施，以克服艱辛之經營環境：

1. 改變產品組合。從生產傳統音響產品轉移生產價值更高之數碼產品；
2. 策略性地減少生產低盈利產品，退出持續虧損之電子及電器產品業務；及
3. 將東莞業務整合至清遠工業村。

截至二零零六年三月三十一日止財政年度（「財政年度」），本集團之營業額為2,836,000,000港元，較去年減少17.0%。純利為13,000,000港元，較去年之60,000,000港元減少78.2%。

本集團在產品組合過渡之路途上面對荊棘滿途。

家庭音響產品之銷售額下跌24.2%，但仍佔總銷售額之82.1%。數碼產品之銷售額上升49.4%，佔總銷售額約13.5%。數碼產品之銷售額於二零零六年財政年度下半年之表現尤其優異，期內銷售額上升至210,000,000港元，佔二零零六年財政年度下半年之總銷售額16.5%。

回顧本年度，美洲仍為本集團之主要市場，歐洲則緊隨其後。本集團價值2,012,000,000港元及530,000,000港元之產品已分別出售予美洲及歐洲，分別佔本集團總營業額之70.9%及18.7%。於前一年度，本集團售予美洲及歐洲之產品分別約為2,361,000,000港元及621,000,000港元。

自截至二零零五年三月三十一日止財政年度開始，本集團之毛利已受到原材料價格整體上升之不利影響。

Vertical integration operations (in particular the plastic injection operations) no longer provided decent profit contribution to the Group under the range of conventional audio products with high plastic contents. Coupled with the operations of production facilities in Dongguan and Qingyuan, the decline in sales resulting from the transition in the change of product mix, further aggravated the situation. The increase in overheads further reduced the gross margin from 6.3% in prior year to 5.3%. Gross profit was HK\$149 million, decreased by HK\$66 million, as compared to the previous financial year. The low margin electronics and electrical business incurred a loss of about HK\$29 million for the year, including the impairment loss of HK\$7,359,000 recognised in respect of development expenditure.

In line with the strategy of consolidating and integrating Dongguan operations to Qingyuan Industrial Estate, more factory buildings located in Dongguan have been left vacant and subsequently rented out. As such, the fixed costs in Dongguan can be reduced, together with a provision of steady increase in rental income to the Group. The factory buildings have been reclassified from property, plant and equipment to investment properties accordingly. The net-of-tax increase in fair value of investment properties of HK\$22,229,000 was credited to current year's income statement. Excluding the above increase in fair value of investment properties and the loss mainly arising from the electrical business, the net profit for the year of the EMS business was about HK\$19.9 million.

As at 31 March 2006, there were 38 production lines in Dongguan and 24 production lines in Qingyuan. As mentioned in the FY2005 annual report, the Group has implemented stringent control over its capital expenditure on property, plant and equipment, which decreased from HK\$328 million to HK\$125 million this year. The Group has also upgraded certain factory dormitories in Dongguan so as to provide a better environment to its workers.

在塑膠成份較高之傳統音響產品系列方面，垂直整合業務(尤其注塑業務)不再為本集團提供可觀之盈利貢獻。由於同時營運東莞及清遠之生產設施，加上銷售額因產品組合變動過渡而下跌，令情況進一步惡化。生產成本上升進一步令毛利率由前一年之6.3%減少至5.3%。毛利為149,000,000港元，較前一財政年度減少66,000,000港元。盈利較低之電子及電器業務錄得年度虧損約29,000,000港元，包括就發展開支確認之減值虧損7,359,000港元。

為配合將東莞業務整合及綜合至清遠工業村之策略，更多位於東莞之廠房樓宇已空置及隨即租出。此策略可減少東莞之固定成本，更可為本集團帶來穩定增加之租金收入。因此，該等廠房樓宇已由物業、廠房及設備重新分類為投資物業。投資物業公平值之除稅後增加22,229,000港元已撥入本年度之收益表。撇除投資物業之上述公平值增加及主要自電器業務產生之虧損，EMS業務之本年度溢利淨額約19,900,000港元。

於二零零六年三月三十一日，東莞共有38條生產線，而清遠則有24條生產線。如二零零五年財政年度之年報所述，本集團已對其物業、廠房及設備之資本開支實行嚴格控制，而有關開支於本年度已由328,000,000港元減少至125,000,000港元。本集團亦已改善於東莞若干廠房宿舍，為其員工提供更優質之環境。

PROSPECTS

Undaunted by the setbacks of the Group, Ngai Lik's management continues to work together, move ahead and strive for changes. We will take necessary steps to recover the growth momentum for sales performance and overall profitability. Of foremost importance, we will adjust the product mix in a proactive manner. The sales of conventional CD audio products will continue to decline by double-digit percentage whereas the sales of digital products will post a substantial increase in FY2007. The sales turnover of digital products is expected to contribute to approximately 20% to 30% of the Group's total sales in FY2007.

The Group will continue to review its products mix on an on-going basis. The Group has actively promoted its digital products with higher value to its customers. These include flash based MP3 and WMA players with different display formats, such as 7 segments, semi dot matrix, dot matrix and dual colours OLED. To cater for customer demand, various optional features are offered, including card slot, radio reception and voice recording. At present, 19 models are available and 4 new models are in the pipeline. Furthermore, the Group continues to expand its product range in portable DVD players in 6.2", 7", 8.5", 9", 10" and 11" TFT display screen sizes. Additional features including DIVX, television signal reception and USB interface are also provided. Notebook and slot-in types are currently available and 10 new models are in the pipeline. Moreover, new models of digital products will be launched, including DVD boomboxes with 6.2" and 7" TFT LCD display, and 15" and 19" TFT LCD televisions with DVD players and PC inputs.

We will further strengthen the Group's product development capability by deploying additional resources and establishing a new product development team in Shenzhen. It is expected that the development cost will be increased in the coming financial year but will benefit the Group in the long term. Secondly, operations of Dongguan plants will be further consolidated to Qingyuan Industrial Estate in order to reduce overheads.

前景

無懼營運困難的挑戰，毅力的管理層將繼續攜手邁步向前並力求轉變。本集團將會採取必要的措施，務求恢復銷售表現及整體盈利能力之增長動力。最重要的是，本集團將積極調整產品組合。傳統CD音響產品之銷售額將會繼續以雙位數字百分比下跌，但同時數碼產品之銷售額將會於二零零七年財政年度錄得顯著增長。數碼產品之銷售營業額預期將於二零零七年財政年度為本集團提供總銷售額約20%至30%的增長貢獻。

本集團將持續檢討其產品組合。本集團大力向客戶推廣較高價值之數碼產品，其中包括以快取為基礎、顯示格式不同(例如：7 segment、半點陣顯示、點陣顯示及雙色有機發光二極管(OLED)等之MP3機及WMA機)。為迎合客戶需求，產品亦配備多種可選功能，包括插卡槽、收音及錄音等。現時已推出19個款式，另有4個新款式亦已準備就緒。此外，本集團將繼續擴大其便攜式DVD機之產品系列至6.2"、7"、8.5"、9"、10"及11" TFT液晶顯示螢幕，並提供DIVX、接收電視訊號及USB介面等附加功能。現時已推出筆記簿型電腦及滑入式款式，另有10個新款式即將出台。此外，即將推出之新款數碼產品包括配備6.2"及7" TFT液晶顯示螢幕之DVD微型音響及個人電腦輸入之15"及19" TFT液晶顯示電視。

本集團將會透過調配額外資源及於深圳成立新產品開發隊伍，進一步加強本集團之產品開發能力。預期開發成本將於下一個財政年度上升，但長遠而言能令本集團得益。第二，東莞廠房業務將進一步整合至清遠工業村，藉此減少營運成本。

Thirdly, the Group will set up new business units, mainly for the diversification of OEM business and product expansion for mobile electronics products. The OEM and mobile electronics products businesses are expected to provide stable income contribution to the Group. In addition, the Group will also focus on further diversifying the existing product range and enhancing the utilization rate of production capacity during slow season.

Last but not least, the Group will manage the balance sheet in a prudent yet proactive manner. The Group has obtained additional short term trade facilities of about HK\$250 million, from The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited, for the purpose of financing the event sales orders for high value digital products in the coming Christmas season.

Presently, the net gearing ratio is about 50%. With the development of new business and new products, we plan to dispose of certain non-operating assets to strengthen the free cash flow of the Group. Moreover, the Group will closely review the overall financing arrangement and to make necessary re-financing arrangement of the existing syndicated loan, with the view of maximizing the benefits to the Group.

It is anticipated that the market condition will remain difficult for the coming financial year and therefore, the Group will continue to implement stringent cost control measures, consolidate its operations and reduce the capital expenditure to enhance the liquidity of cash flow.

The Group will also continue to explore business opportunities with new clients through the diversification of new product range and strive for achieving a prudent but proactive product transition for the Group.

By leveraging on the solid foundation, the well-established leading position in the industry and the long-term relationship with its customers, the Group is confident of overcoming the challenges ahead.

第三，本集團將成立新的業務單位，主要作為多元化發展OEM業務及汽車電子產品之產品擴展。OEM及汽車電子產品業務預期將為本集團提供穩定之收入貢獻。此外，本集團亦將專注於進一步多元化發展現有產品系列及提升於業務量較低季節之生產力使用率。

最後，本集團將以審慎但進取之方式管理資產及負債組合。本集團已取得來自香港上海滙豐銀行有限公司及恒生銀行有限公司額外之短期貿易融資約250,000,000港元，用作於聖誕節假期對價值較高數碼產品之節日銷售訂單之資金需求。

目前，淨資產負債比率約50%。隨著發展新業務及新產品，本集團計劃出售若干非經營資產，以加強本集團之自由現金流量。此外，本集團將嚴格檢討整體融資安排，並就現有銀團貸款作出必須之再融資安排，務求令本集團得到最大利益。

預計未來一個財政年度之市況將仍然困難，因此，本集團將繼續實行嚴格的成本控制措施、整合其業務及減少資本開支，以增強現金流量之流動性。

本集團亦將透過新產品系列多元化之策略，繼續物色新客戶及商機，令本集團在產品轉變的過渡期中取得審慎而積極之進步。

憑藉穩固根基、業內成就，以及與客戶間之長久關係，本集團充滿信心跨越當前挑戰。

EMPLOYEE INFORMATION AND EMOLUMENT POLICY

As at 31 March 2006, the Group had approximately 32,000 employees (2005: approximately 38,000). The remuneration packages are generally structured with reference to market conditions and the qualifications of the employees. The salaries and wages of the Group's employees are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to the management, based on individual merits as well as the results from the respective companies with which the staff works for. Benefit plans for its Hong Kong staff include a provident fund scheme and medical and life insurance. The Company also maintains a Share Option Scheme, under which options may be granted to employees to subscribe for shares in the Company. This Share Option Scheme is designed to give employees an incentive to perform.

ACKNOWLEDGEMENT

On behalf of the Board, I wish to take this opportunity to express my sincere gratitude to our management team and staff for their hard work and dedication in the past year. I also wish to thank our shareholders, customers, suppliers, bankers and business partners for their continued trust and support.

By order of the Board

Lam Man Chan

Chairman

Hong Kong, 17 July 2006

僱員資料及酬金政策

於二零零六年三月三十一日，本集團約有32,000名僱員（二零零五年：約38,000名）。酬金一般參考市場情況及個別員工資歷而釐定。本集團僱員之薪金及工資一般於每年根據表現評估及其他相關因素作出檢討。本集團亦按管理層人員各自之良好表現及各公司之業績發放花紅。香港員工之福利計劃包括一項公積金計劃及醫療及人壽保險。本公司亦設有一項購股權計劃，據此可向僱員授出認購本公司股份之購股權。購股權計劃旨在給予僱員盡展所長之機會。

致謝

本人謹代表董事會，對管理層及員工們於過去一年之努力及作出之貢獻致以衷心謝意。本人亦謹此感謝股東、客戶、供應商、往來銀行及業務夥伴之不斷信賴及支持。

承董事會命

林文燦

主席

香港，二零零六年七月十七日