

Management Discussion and Analysis



RESULTS

For the year ended 31 March 2003, the Group's sales turnover rose 42.8% to HK\$8.0 billion (HK\$5.6 billion last year). Profits for the year were HK\$ 214 million, against HK\$62 million for the financial year 2002. Earnings per share amounted to HK 10.17 cents.

interim period, the directors recommend an additional dividend payment of HK 4.5 cents. The total dividend for the year is HK 5 cents.

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GENERAL FINANCIAL ANALYSIS

A strong rebound happened in the financial year ended 2003. Three years after going public, the Company has met some of the big ups and downs in the global economy and the economic development in the PRC. The financial year 2003 was a year full of memorable events. The world soccer game was first time held in Asia; Beijing was selected to host the 2008 Olympic game and Shanghai to host the 2010 World Exposition. All these meant to be opportunities for the Company. The Company started with strong turnover in the first half of the year and finished with even stronger sales by the end of the year.

Our turnover enjoyed over 42% growth and gross profit increased by 56.8% to HK\$ 1,226 million. The Company generated a net margin of 2.7%. The major financial indicators including earnings per share and return on equity were at 10.17 (2002:3.03) cents and 9.2% (2002:2.97%) respectively.

The gross margin improved from 14.0% to 15.3%. While the selling expenses increased inslightly less than sales in terms of percentage, the dollar amount increased from HK\$549 million in last year to HK\$ 775 million. General and administration expenses were HK\$ 197 million as compared to HK\$ 184 million last year, representing 6.8% increase. Profit increased over 2 times to HK\$ 214 million (HK\$62 million in last year).

The PRC market

TV

The sales of TVs in 2002/03 in the PRC broke all the prior years records. Total sales were HK\$ 6.1 billion (HK\$4.3 billion in 2002), up 41.9% over last year. The range of products included Cathode Ray Tube from 14" to 38". We have also introduced 15" Liquid Crystal Display ("LCD") and also 40" Plasma ("PDP") models. By the latter part of the year we added the 20" LCD and 42" PDP. High-definition Models, which enable digitized broadcasting are becoming a trend in the market. With the pace of digitized broadcasting accelerating, the coastal part of the PRC and municipal cities will be abandoning the analog the broadcasting by 2005.

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Projection TV

The Group has successfully recruited veteran professionals from Japan to start up the launching of the Projection TV ("PTV") into the market by late December. The market Reception has been favorable as we see increasing re-orders. At present the Group offers 51" PTV, potential in the domestic market is huge.

Rear projection (the "RP")

The Group is so far the first company to manufacture RP based on DLP, Liquid Crystal on Silicon ("LCOS") and LCD technologies. Digital Light Processing (the "DLP") is made possible through a strategic partnership with Texas Instruments of the USA which provides the Digital Micro-mirror Device (the "DMD") technological know-how.

LCOS model is a result of cooperation with Taiwan manufacturer. Through constant refinement, the up-to-date models are brighter, sharper in images. Total sales last year were HK\$25 million,

AV

AV sales were HK\$189 million and over 460,000 sets were sold. The amount and volume represented a growth rate of 19% and 28% respectively.

DVB and ADSL

Digital and video broadcasting (the "DVB") set-top boxes and the asymmetric digital subscriber line ("ADSL") products are promising. We sold about 50,000 sets in 2002. According to the latest Five Year Plan of the PRC, the demand for DVB will be about 1 million sets for 2003 and over 30 million sets by 2005. The big leap in demand is in accordance to the national plan to convert the existing analog broadcasting to digital broadcasting by 2010, and abolish of the analog broadcasting by 2015. At present, the primary target market are the television stations in the big cities of the provinces such as Yunnan, Sichuan, Hunan and Guangdong and overseas markets in Southeast Asia and the Middle East. We Target to have at least 10 percent of the domestic market by 2003/04.

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Overseas market

TV

Total sales of TV for the year reached HK\$1.15 billion (HK\$693 million last year), which was 66% above last year. The year was full of competition and some of our major PRC competitors have moved overseas. This was the first time the Group fell from the Number One export position, though 1.85 million sets were exported (79% over last year).

The PRC came to an agreement with the European Union on the total annual exports of TV sets. On the other side of the Atlantic Ocean, a case alleging illegal dumping of TVs against the PRC and Malaysia is pending with the International Trade Commission. While the Group is unlikely to be charged for unfair practices, it foresees tough waters ahead.

AV

We also recorded double-digit growth in export AV products at HK\$499 million (HK\$314 million last year), 59% above last year. DVD became popular in December and we expect similar demand this year.

The European and Middle East market showed more significant growth. American market also is offering incredible potential and with steady demand.

An analysis of overseas market coverage is as follows:

Countries	2002/03 HK\$'M		2001/02 HK\$'M		2000/01 HK\$'M	
Europe	583	[35]	175	[17]	49	[7]
Asia	487	[29]	589	[57]	416	[64]
Middle East	202	[12]	79	[8]	88	[13]
Central America	191	[12]	81	[8]	28	[4]
South/North America	83	[5]	62	[6]	38	[6]
Australia	70	[4]	35	[3]	23	[4]
Africa	52	[3]	8	[1]	12	[2]
	1668	[100]	1029	[100]	654	[100]

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PRODUCTION CAPACITY

Our production capacities by the end of the year were 8.4 million units, including 1.5 million AV products, annually, representing a 56% increase over last year.

	2002/03	2001/02	2000/1
TV (sets)	6,900,000	4,500,000	3,400,000
AV(sets)	1,500,000	900,000	600,000
Total(sets)	8,400,000	5,400,000	4,000,000

CAPITAL EXPENDITURES

In May 2003, the Group moved into the newly constructed Skyworth Building, which houses the Group's research and development team. The total cost of the building subject to final certification, is about HK\$150 million.

Other major capital expenditures include the initial survey and infrastructure works for the proposed new production facilities at Shiyan just outside the second line in Shenzhen. Total cost incurred so far was HK\$ 177 million.

FINANCIAL POSITION

For the year ended 31 March 2003, the Group's bank balances and cash decreased by HK\$ 458 million to HK\$ 714 million compared to last year (as against HK\$1,172 million as at 31 March 2002). The Group maintained a healthy cash position .

Total bank borrowing amounted to HK\$ 7 million as at 31 March 2003, down 47.3% over the total bank borrowing of HK\$ 13 million as at 31 March 2002. The Group's management tries to maintain the debt level as low a level as possible in order to save on interest expenses.

The Group had a net current asset balance of HK\$ 1,765 million as at 31 March 2003 (as against HK\$ 1,711 million as at 31 March 2002). Current ratio was 1.7 as at 31 March 2003 (as against 1.9 as at 31 March 2002).

The Group' shareholders' fund stood at HK\$ 2,311 million as at 31 March 2003 (as against HK\$ 2,152 million as at 31 March 2002) and the gearing ratio was 0.3% (as against 3.4% as at 31 March 2002) .





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Future Prospects

The relocation of the office to the Skyworth Building in the Shenzhen High-Tech Industrial Park in early May this year marks the beginning of a new era for the Group which has operated in the PRC for over 15 years .

The Skyworth Building provides a state-of-the-art for our various specialized research and development teams.. In December last year, the PTV production was the first one to move into the Building. The Digital Information and Video Broadcasting (the "DIVB") research center was also set up there in May. Subsequently, more divisions will move in. Researches in the field of optical display and related devices are what the Group will focus on in the coming years and the management sees significant synergies in terms of deployment of resources and cross-company interactions after moving into the new Building.

In 2002/03, the Group enjoyed tremendous growth in terms of sales and returns. At the same time we realized that the current production capacity is insufficient to meet the demand of the market. The management expects the production of televisions and peripheral products will be concentrated in the hands of less than ten major companies in the PRC, with the Group being one of the key players. To ensure that our production can meet the traditional growth and new market development towards high end products and better reception devices such as the DIVB, the Group's focus in the next two years will be new production site at Shiyan. The site is over 420,000 square meters, three times the present site at Gongming. In the longer term after the completion of the new production base at Shiyan, the total design capacity will be over 15 million sets per annum by the tenth year.

2003/04 will also be hallmark year in which the operational efficiency will be our primary objective. Production is re-engineered to incorporate the Total Productive Maintenance concept. The management expects an increase in the utilization and less failures in the production cycle. This will help raise the production capacity to over 500,000 per month using the existing facility. Cost management is easier after the production department upgrades its manufacturing resources planning system to the SAP system. Data will then be more timely and accurate.

Overseas market attention is on the North American market despite the recent anti-dumping charge whereby the Group is named as one of the litigants. The management is confident that the charge is without merit and will not affect the Group's business in the North America, since the Group has never been charged with unfair trade practices in the region before.

The Group is a well-established veteran of TV exports with over ten year of experience and is known as one of the most reputable OEM providers. In unison with our pristine reputation, our export team will proceed cautiously as we further explore new opportunities in America and the Middle East.

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