



Management Discussion and Analysis



High definition TV – V12 product series put the HDTV into next home entertainment era, the genuine high resolution, 4:3 or 16:9 HDTV with affordable price will attract market attention



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Fiscal 2004 is a challenge year for all electronic companies. Changes in technology, consumer consumption patterns, and living standard, more products available in the market all make the electronic companies have a difficult year but with more opportunities.

OPERATING RESULTS

Fiscal 2004 was a record year of the Group. Total turnover of the Group reached a historical high of HK\$9,211 million. For fiscal 2004, the Group's turnover increased by 15.1% as compared with that of 2003, and net profit increased by a record high of 60.1% to HK\$342 million, against HK\$214 million in 2003. Earnings per share increased by 55.4% to HK15.8 cents. Revenue growth was coupled with improvement in the gross margin from 15.3% to 16.3% as a result of improvement of average selling price and the contribution from the production team to improve their efficiency by lowering the cost of sales.

Selling and distribution expenses was HK\$903 million for the fiscal year 2004, amounting to 9.8% of the Group's turnover. It mainly comprised staff costs of sales team and advertising expenses, which have increased by 21.7% and 29.2%, respectively as compared with last year.

General and administrative expenses was slightly improved from 2.5% of turnover in 2003 to 2.4% of turnover in 2004. With the mission to control the expenses, the Group has continued to pursue cost-containment efforts.

Management Discussion and Analysis

CHINA OPERATIONS

The sale of the Group's China operations amounted to HK\$7,704 million (2003: HK\$6,334 million), representing a 21.6% (2003: 38.5%) increase from last year and accounted for 83.6% (2003: 79.2%) of the Group's total turnover.

The economic climate in China has never been better. With a more sophisticated macro-economic policy, the national government is confident to have a "soft landing" this year. The Group witnessed the continuous growth in consumer spending and the accelerating demand for high-end products. The conversion to digital broadcasting system will be the focal point in the next five to ten years. Analog models will be phased out and replaced by newer digital models. According to statistics related to China's TV market released by mass media, market potential will be in the region of HK\$65 billion annually for the next ten years.

TV sales accounted for 92.8% (2003: 89.6%) of overall turnover. This was followed by audio and visual ("AV") products of 7.2% (2003: 10.4%).

TV Products

The success of the TV operations in the China market is attributable a stable management team despite of the fierce competition. New models were introduced to the market frequently, such as Projection TVs, large screen LCD TVs, etc. A total of 50 models were introduced during fiscal year. This year we realigned our market strategy by phasing out progressive scanning models to high definition models. This was a breakthrough and subsequently followed by our competitors.

Pricing policy is to maintain a steady increase in the average selling price as the Group has launched new and high-end products; and at the same time, the market was highly competitive in terms of the quality and appearance of the products, and the post sales services. Pricing was more critical with the lower end of the product line.

According to the statistics provided by China's Ministry of Information Industry, the Group maintained as the forth largest manufacturer of TV sets this year.

The Group increased its turnover and sales volume of TV sets in China by 24.5% and 24.0% to HK\$7,600 million (2003: HK\$6,100 million) and 6,200,000 sets (2003: 5,000,000 sets), respectively. Sales of TV sets in China accounted for 82.8% (2003: 79.4%) of the Group's total sales.

Management Discussion and Analysis

AV Products

The Group has combined the China AV and TV sales team in late fiscal 2004 to reduce cost. The management believed this move would better serve the China market and synchronize the corporate brand.

Digital Set-Top Box and ADSL Product

In line with the national policy of digitalized broadcasting, the cable network operators are leading the industry in digitalized broadcasting. We saw a significant growth in the number of such operators and also the demand of cable set-top boxes. The growth percentage was about ten folds; our market now covered over 16 provincial TV stations, including Taiwan. The Group also supplied asymmetric digital subscriber line ("ADSL") to the telecommunication operators.

Monitors

Commencing this financial year, a separate business unit was formed to concentrate in the monitors market. The Group witnessed the launching of the "Shen Zhou # 5" by supplying 21" monitors to the space centre at Nanzhou, China. The market is characterized as a corporate market that has strict specifications to meet.

OVERSEA OPERATIONS

Sales of the Group's overseas operation contributed 16% (2003: 20.9%) of the Group's total turnover, with TV sales accounted to 80% (2003: 69.6%) of overseas turnover, followed by AV products 20% (2003: 30.4%).

TV Products

The overseas market was hit by the Severe Acute Respiratory Syndrome ("SARS") early part of fiscal 2004. Expected sales were not materialized and the Group only maintained the volume sold with decline in the average selling price.

The US International Trade Commission and the Commerce Department made decision on an anti-dumping charge filed by US local manufacturers against the China manufacturers collectively regardless of the volume of sales of individual exporters. The Group is penalized with additional import tariff of 22.9%. The volume of low-end exporting to the US was minimal and the Group did not consider this would have material impact on the financial results in the future.

Management Discussion and Analysis

Turnover and sales volume increased by 2.7% (2003: 116.6%) and 3.3% (2003: 140.6%) to HK\$1,181 million (2003: HK\$1,150 million) and 1,916,000 sets (2003: 1,855,000 sets), respectively.

An analysis of our overseas market coverage is as follows:

Geographical markets	Year ended 31 March 2004	Year ended 31 March 2003
	%	%
Asia (including Japan and Korea)	60	29
Middle East/Europe	24	47
Central/South America	13	17
Australia	2	4
Africa	1	3
	100	100

For the year under review, overseas TV sales accounted for 13.8% (2003: 20.6%) of the Group's total TV sales.

AV Products

Turnover of AV products fell by 43% (2003: increased by 153.4%) while sales volume dropped by 20.7% (2003: increased by 243.3%).

Digital Set-Top Box

The Group offers digital set-top box-satellite ("DVB-S") to the overseas markets, including the Middle East, Indonesia, Vietnam, Singapore and some other European countries. Over 140,000 sets were sold overseas indirectly during the fiscal year 2004.