

Management Discussion and Analysis

1. Industry review

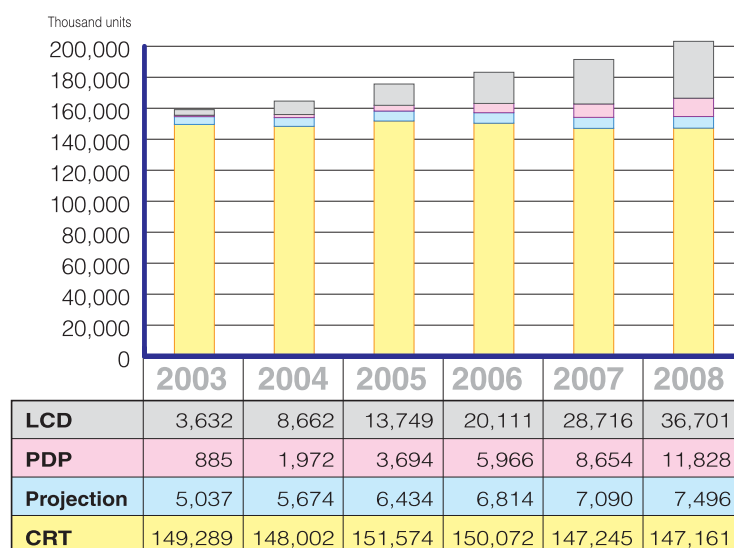
With the recovery in global economy and the increasing consumption as well as the successful holding of Greece Athens Olympics, the global colour television set market maintained a steady growth in 2004. According to the "Television Systems Market Tracker — Q4 2004" published by Stanford Resources in December 2004, global market sales of colour television sets in 2004 increased by 3.4% to 164 million units as compared with 2003. In 2008, the sales volume of global colour television sets is expected to amount to approximately 203 million units with a compound annual average growth rate of 5.3%.

Despite the noticeable decline in prices of FPD television set and its performance improved during last year, prices of FPD television set are still substantially higher than those of CRT television set of the same size. Most of consumers prefer to choose CRT television set, as there is apparent gradient consumption of colour television set and in terms of overall performance, FPD television set has no noticeable advantages as compared with CRT television set which owns cost performance advantages, although weakened. According to Stanford Resources, CRT television set continued its dominance in the global colour television market in 2004 with sales volume of approximately 148 million units, representing approximately 90% of the total global sales volume for 2004. In 2008, sales volume of CRT television sets is expected to amount to approximately 147 million units, representing 72.4% of the total global sales volume for that year.



1. Industry review (*continued*)

Worldwide Sale Forecast for TV Sets Using Different Technologies



Resource: Stanford Resources, December 2004

With its fast-growing economy, the PRC's GDP for 2004 amounted to RMB13,651.5 billion, representing an increase of 9.5% over last year based on comparable prices. In addition, residential income maintained a steady growth. Following the implementation of series of policies to improve farmers' income and alleviate their burden, farmers' income increased considerably. According to the Chinese National Bureau of Statistics, farmers' income for 2004 amounted to RMB2,936 per capita, up 12% over last year and hitting a historical high since 1997.

The sound macroeconomic background stimulated the rapid growth in demand for colour television sets and CPTs. According to the Chinese National Bureau of Statistics, the PRC output of colour television sets for 2004 increased by 12.4% over 2003 to 73.29 million units, accounting for approximately 45% of the total global output of colour television sets, which demonstrated the position of China as an obvious global centre for manufacturing of colour television sets. According to CCID, the PRC's output of CPTs in 2004 increased by 13% to approximately 64.91 million units as compared with 2003.

The rebounding global economy and international trade has provided a favourable external environment for the PRC export market. With the closure of some foreign production lines of CRT television sets and CPTs or shifting of such production lines to the PRC, the PRC continued to maintain a fast growth in export of CRT television sets and CPTs.

1. Industry review (continued)

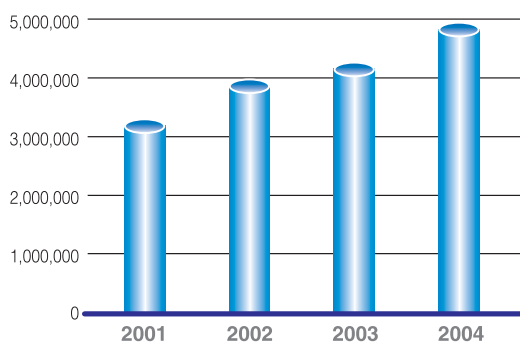
Export of the PRC colour television sets and CPTs

	2001	2002	2003	2004
Colour television sets (million units)	11.63	18.82	22.77	27.72
Growth rate	—	61.82%	20.99%	21.74%
CPTs (million units)	9.36	13.47	15.95	18.13
Growth rate	—	43.91%	18.41%	13.67%

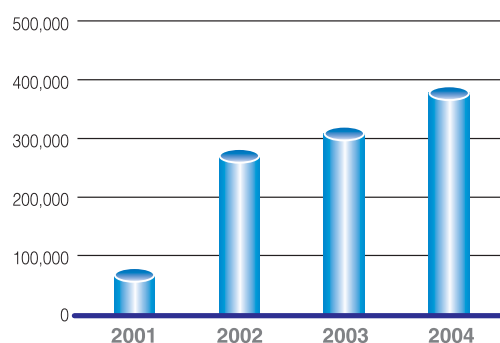
Source: CCID, February 2005

2. Business review

Through substantial efforts in 2004, the Group maintained its leading position in the CPT industry in the PRC with satisfactory business results. The Group has strengthened its global market share, and maintained a continuous and steady growth in its operating revenue and profit.



■ Sales revenue (RMB'000)



■ Net profit (RMB'000)

CPTs business

The Group currently produces CPTs with various sizes ranging from 14" to 29". As at 31 December 2004, the Group owned 8 production lines of CPTs.

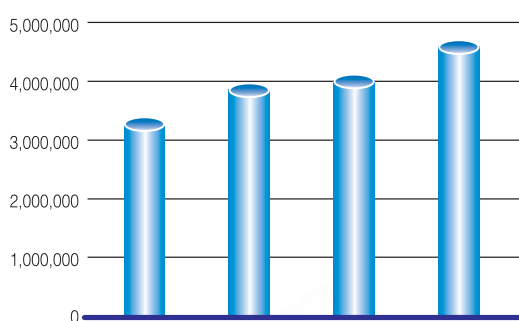
By virtue of technology renovation, the Group improved its production capacity of CPTs production lines and further promoted flexible production capabilities, so as to address the diversifying market needs. A new CPT production line with annual production capacity of 2 million units of 21" CPTs was completed and put into operation, which enhanced large scale production capability of the Group. Meanwhile, faced with the immense commercial opportunities brought by digital television, the Group is constructing a super large-sized (32" - 36" PF 16:9) high definition CPT production line ("K Line") with designed annual production capacity of 1 million units. K Line is expected to commence trial operation in the second half of 2005 and to commence its full scale production in 2006. By then, the Group expects to further optimise the product mix of CPTs.

2. Business review (continued)

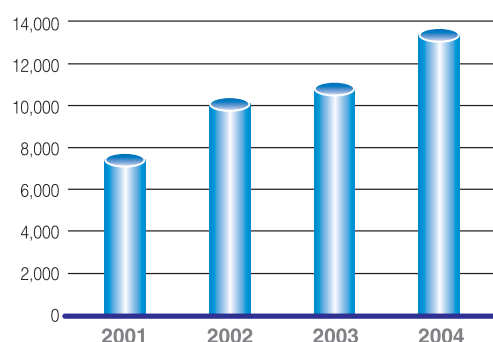
CPTs business (continued)

During 2004, with its ongoing implementation of the cost-control strategy, the Group capitalised on the advantages of its scale and internal supply of CPT components to reduce production cost, resulting in a year-on-year increase of over 2 million units in production volume. In addition, the Group fully utilised the potential in management, leading to a considerable decline in production cost as compared with 2003. The Group adopted different measures including bidding invitation and purchase estimation to control purchasing prices of materials, thus effectively controlling purchasing costs. Furthermore, we proactively forged strategic alliances with suppliers of energy and raw materials to minimise the impact from cyclical shortages of energy and raw materials. In addition, the production capability for internal supply of CPT components was further enhanced. This has expanded the Group's profit sources by increasing external sales, and also enhanced the cost advantages of overall integration by cutting down internal procurement costs.

The Group placed much efforts in CPTs business and optimisation of product mix, thus accomplishing stable growth in CPTs sales volume and sales revenue. The Group's total CPTs sales volume in 2004 amounted to 13.674 million units, representing an increase of 23.1% over last year, while the CPTs sales revenue aggregated to RMB4,466,767,000, representing an increase of 14.9% over last year.



■ Sales of CPT (RMB'000)



■ Sales volume of CPT ('000 units)

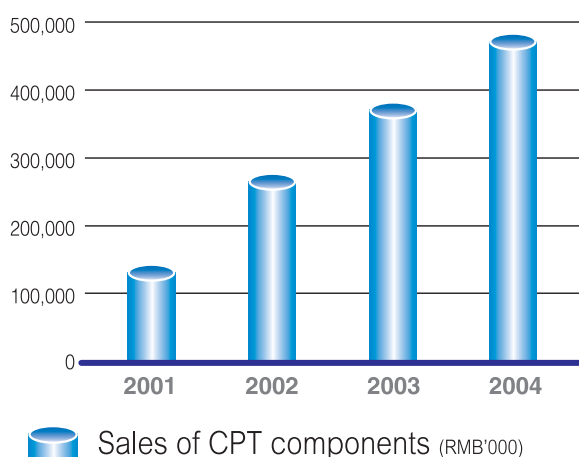
CPT components business

During 2004, the Group continued to enhance its internal supply capability of CPT components. The Group constructed two new glass bulb production lines with annual production capacity of 4 million units and shadow mask production line with annual production capacity of 4 million units, and the construction of production line of components for the K line, which include electron guns, large-sized metal components, deflection yokes, and frame, was also in good and steady progress. In addition, the Group has completed the expansion and reconstruction of the existing production lines and the renovation of panel furnace and funnel furnace as scheduled. Due to the implementation of these projects, the Group has achieved the best historical level in its internal supply capability of CPT components such as panels, funnels and shadow masks, thus further strengthening the cost advantage of the Group.

2. Business review (continued)

CPT components business (continued)

Based on the satisfaction of internal supply, the Group actively explored the external sale market of CPT components for a better and larger market share, resulting in a desirable achievement of external sale of CPT components. In 2004, the sales revenue of CPT components of the Group amounted to RMB482,916,000, representing an increase of 26.5% as compared with 2003.



Research and development

In 2004, research and development of the Group has been making smooth progress. In respect of PDPs, the Company had designed and constructed the trial line for PDP display screens which have passed the testing and approval requirements of the PRC Ministry of Information and Industry. The Company has designed and constructed the trial line for 42" PDP display screens, the production of which has been successful. In addition, the circuitry design for PDP televisions have been researched and developed successfully. The Company has the intellectual property rights to its 42" PDP television sets which possess excellent picture quality, thus reaching international standard for similar kind of products and occupying a dominant domestic position. In addition, the development project of phosphors for PDPs had reached the phasic target. In connection with CPTs and components, the projects including the smooth completion in development project of scale production technologies for 29" high definition CPTs, preliminary research of super slim light and high definition CPTs, preliminary research of 28" 16:9 full-flat and high definition CPTs were proceeded under schedule. In addition, the projects regarding the application research of super lage-sized screens with high definition CPTs and CPTs for digital television reached a milestone.

Employees and training

Facing the keen competition in operation environment, the Group is committed to establishing a team with highly efficient and advanced technology, thus maintaining and improving our leading position in domestic CPT industry. As at 31 December 2004, the Group had 20,844 employees. As compared with the data disclosed in the Company's prospectus dated 8 December 2004, the Group had additional 1,700 employees, which is mainly attributable to establishment and expansion of CPTs and CPT component production lines on-stream. Therefore, additional employees were recruited correspondingly.

2. Business review (*continued*)

Employees and training (*continued*)

	Number of employees	Percentage in total number of employees (%)
Management and administrative employees	577	2.8%
Financing and audit employees	108	0.5%
Sales and business management employees	115	0.6%
Other professional and technical employees	1,025	4.9%
(Including: research and development employees)	184	0.9%
Others	19,019	91.2%
(Including: technical workers	8,716	41.8%
Operators	9,811	47.1%
Service and supporting personnel	417	2.0%
Others)	75	0.3%
Total	20,844	100%

The employees are entitled to the remuneration comparable with local industry in the business operation region.

The Group attaches great importance to employee training and is devoted to establishing an organisation with learning culture so as to improve production efficiency and work satisfaction of the employees. Each year the Group formulates detailed training scheme implemented by the human resources department, which covers technical training, advanced study, management education, technology safety and environment education, corporate culture education and quality management education.

Major customers

The Group's products are mainly sold to the domestic market, as well as overseas market including Turkey, Indonesia, Hong Kong and Russia. The Group's major customers are the leading CRT television set manufactures such as TCL, Konka, Skyworth, Changhong and Hisense. The Group has established long term and stable relationship with our major customers, including some relationship with Chinese customers extending over ten years long.

Sales percentage of major customers

	2001	2002	2003	2004
Percentage of the largest customer				
in total sales (%)	17.06%	15.29%	15.05%	18.38%
Percentage of the top five customers				
in total sales (%)	61.98%	64.61%	69.62%	62.16%

2. Business review (*continued*)

Intellectual property

On 22 October 2004, the Company entered into an agreement on the transfer of patents and patent application rights with IRICO Group Corporation and IRICO Color Picture Tube Plant, pursuant to which all patents and patent applications rights required for the Company's production and business operation shall be transferred to the Company.

In addition to the acquisition of the above patents, the Company's 41 applications for patents were in process with the State Intellectual Property Office of the PRC in 2004.

Pursuant to the trademark licensing agreement entered into between the Group and IRICO Group Corporation, the Group is authorised to use 24 registered trademarks owned by IRICO Group Corporation.

Business development plan

The market demand for global CPT televisions sets is still enormous in the foreseeable future. The PRC has gradually become the global television manufacturing centre, particularly for CPTs. The Board expects that the PRC will be able to maintain a fast growth in the export of colour television sets and CPTs.

The Company is faced with numerous difficulties, including the fast development of FPD devices with increasing market share and the fierce competition within the CPT industry, which will place a burden on the sales and selling prices of the Group's production of CPTs. Meanwhile, the Group suffers pressure from increasing prices of certain raw materials and energy required for its production in 2005, which will have an adverse impact on the CPT production of the Group.

Faced with such opportunities and challenges in market environment, the Group's principal business plan for 2005 is as follows:

1. Facing the pressure from lowering price and declining demand, the Company will further develop all-round activities of management renovation and technological innovation; minimise its costs while utilise potential and participate in the global competition with high cost-performance products to secure the Group's leading position in CPT industry, in the PRC and raise its global market share.
2. The Group will place more efforts in marketing. In addition to expanding market share in the domestic market, the Group will actively explore the overseas market, aiming to increase the overseas sales of CPTs to over 30% of the Group's total sales volume.
3. Through construction of super large-sized high definition CPT production lines, and technology renovation for the existing CPT production lines, the Company expects to further strengthen CPT business and large scale advantage in order to optimise product mix.

2. Business review *(continued)*

Business development plan *(continued)*

4. The Group will further enhance its internal supply capability of CPT components. The Group expects to complete the production lines of glass bulbs and shadow masks, as well as the construction of other production lines for CPT components, further enhancing the cost advantage through vertical integration. In addition, the Group expects to increase its domestic and overseas market shares of CPT components for further income.
5. The Company will proactively research and develop new products. As to the PDPs, the Company will capitalise on the success of its 50" PDP screens, speed up the research on PDP-related circuitry and proactively research on the feasibility of large quantity production. As to CPTs and CPT components, the Company will focus on research and development of super large-sized tint series of CPTs, super slim CPTs and related components and materials.

3. Financial review

Overall performance

In 2004, the Group recorded a sustainable and strong growth in operating results as compared with 2003. Turnover for the year ended 31 December 2004 amounted to RMB4,949,683,000, representing an increase of 15.9% over last year. Net profit reached RMB385,327,000, representing an increase of 22% over last year.

Profit and loss data for 2001-2004

<i>(RMB'000)</i>	2001	2002	2003	2004
Turnover	3,293,021	3,999,378	4,269,781	4,949,683
Sales of CPTs	3,152,040	3,723,889	3,888,156	4,466,767
Sales of CPT components	140,981	275,489	381,625	482,916
Cost of sales	(2,697,243)	(3,079,581)	(3,256,959)	(3,896,956)
Gross profit	595,778	919,797	1,012,822	1,052,727
Other revenues	58,539	59,998	61,258	56,486
Operating expenses				
Administrative expenses	(190,480)	(219,788)	(227,275)	(219,008)
a) General administrative expenses	(149,990)	(165,942)	(195,665)	(172,028)
b) Research and development expenses	(40,490)	(53,846)	(31,610)	(46,980)
Distribution expenses	(85,030)	(102,130)	(103,405)	(113,323)
Other operating expenses	(123,431)	(69,524)	(73,604)	(79,275)
Operating profit	258,247	591,787	679,766	713,020
Finance costs	(103,737)	(78,853)	(56,588)	(62,966)
Profit for the year	74,311	277,103	315,825	385,327

3. Financial review (continued)

Turnover and gross profit margin

Turnover by product (RMB'000)

Name	2003	2004	Increase/ (decrease)	Percentage of change
CPTs	3,888,156	4,466,767	578,611	14.9%
Including: Small-sized CPTs	700,177	782,795	82,618	11.8%
Medium-sized CPTs	2,881,360	3,614,760	733,400	25.5%
Large-sized CPTs	306,619	69,212	(237,407)	-77.4%
CPT components	381,625	482,916	101,291	26.5%
Total	4,269,781	4,949,683	679,902	15.9%

Sales volume by product (Units)

Name	2003	2004	Increase/ (decrease)	Percentage of change
Small-sized CPTs	3,917,886	4,555,099	637,213	16.3%
Medium-sized CPTs	6,887,396	9,043,451	2,156,055	31.3%
Large-sized CPTs	304,338	75,484	(228,854)	-75.2%
Total	11,109,620	13,674,034	2,564,414	23.1%

Average selling price by product (RMB / Unit)

Name	2003	2004	Increase/ (decrease)	Percentage of change
Small-sized CPTs	179	172	(7)	-3.9%
Medium-sized CPTs	418	400	(18)	-4.3%
Large-sized CPTs	1,007	917	(90)	-8.9%

With strengthened marketing efforts in 2004, the Group recorded satisfactory turnover for its operations as planned. The Group sold approximately 13,674,000 units of CPTs, representing an increase of 23.1% as compared with previous year, and its revenue reached RMB4,466,767,000, representing an increase of 14.9% as compared with last year. Sales revenue of spare parts amounted to RMB482,916,000, representing an increase of 26.5% over last year.

3. Financial review (*continued*)

Turnover and gross profit margin (*continued*)

The overall gross profit rate of the Group decreased from 23.7% of 2003 to 21.3% of 2004. This was mainly due to: 1) a further decrease in the average selling prices of CPTs in 2004 as compared with 2003 resulting from fierce competition in the PRC market of colour television sets; 2) the surge in prices of certain raw materials; and 3) the production line with annual production capacity of 2 million sets of 21" CPTs was completed ahead of schedule, as compared with the production line of CPT components, resulting in an increase in the external purchase of CPT components and thus, a reduction in the gross profit rate.

Administrative expenses

The Group's administrative expenses in 2004 decrease by RMB8,267,000, or 3.64%, to RMB219,008,000 from RMB227,275,000 in 2003, mainly as a result of the allocation of some of the administration to the production as the adjustment of organisation structure and the disposal of property and land led to the decrease in property tax and land tax.

Finance costs

The Group's finance costs for 2004 recorded RMB62,966,000, representing an increase of RMB6,378,000, or 11.27%, from RMB56,588,000 in 2003, which is mainly attributable to the increase in bank loan interests accrued on the increased bank loans.

Net current assets and financial resources

As at 31 December 2004, the Group's cash and cash equivalents aggregated to RMB1,096,516,000, representing an increase of 46.8% from RMB747,186,000 as at 31 December 2003. The Group paid a total of RMB1,313,432,000 in capital expenditure during the year ended 31 December 2004. Net cash flow generated from operating activities and financing activities was RMB623,370,000 and RMB1,014,038,000 respectively, and net cash flow used in investing activities amounted to RMB1,288,078,000.

As at 31 December 2004, the Group's borrowings totalled RMB1,420,000,000 as compared with RMB1,060,000,000 as at 31 December 2003. The borrowings were all due within one year. Bank loans of approximately RMB300,000,000 (2003: RMB260,000,000) are secured by certain buildings and machinery of the Group amounting to RMB321,973,000 (2003: RMB359,273,000) as at 31 December 2004. Bank loans of approximately RMB200,000,000 were secured by bank deposits of RMB21,000,000 and trade bills receivable of RMB41,319,000 of the Group as at 31 December 2004.

3. Financial review (*continued*)

Net current assets and financial resources (*continued*)

For the year ended 31 December 2004, turnover period for accounts receivable of the Group was 93 days, representing a decrease of 15 days from 108 days for the year ended 31 December 2003, which was mainly attributable to its strengthened collection of the accounts receivable.

For the year ended 31 December 2004, inventory turnover period for the Group was 86 days, representing an increase of 8 days from 78 days for the year ended 31 December 2003, which was mainly attributable to the increased inventories of finished products caused by the release in market demand at the end of 2004.

Taxation

The Group's taxation for 2004 was RMB134,468,000, representing a decrease of 22.7% from RMB173,936,000 in 2003, which was mainly attributable to a deduction of income tax rate from 33% to 15% after the Company's incorporation on 10 September 2004.

Profit attributable to shareholders and earnings per share

In 2004, the Group's profit attributable to shareholders amounted to RMB385,327,000, representing an increase of 22% from RMB315,825,000 in 2003.

For the year ended 31 December 2004, the Company's weighted average earnings per share was RMB0.25.

Capital structure

As at 31 December 2004, the Group's borrowings were mainly denominated in Renminbi and US dollars, while its cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars and US dollars.

The Group intends to maintain a suitable ratio of share capital to liabilities, so as to ensure an effective capital structure from time to time. As at 31 December 2004, its liabilities including bank loans aggregated to RMB2,931,868,000 with cash and cash equivalents totalling RMB1,096,516,000 and a gearing ratio (defined as: total liabilities / total assets) of 41%.

Foreign exchange risk

The Group's income and most of its expenses are denominated in Renminbi and US dollars. For the year ended 31 December 2004, there was no material impact on the Group's operation or working capital resulting from exchange rate fluctuations.