



# Management Discussion and Analysis

*We will pursue for new development in our ongoing businesses. We will establish unique modes of operation and expand into new scope of businesses.*

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## FINANCIAL REVIEW

For the year ended 31 December 2004 (the "Year"), the Group recorded a turnover of HK\$618.4 million, which represented a decrease of 0.9% compared to HK\$624.1 million of the previous year. The Group achieved a net profit of HK\$10.0 million, which represented a decrease of 84.5% compared to HK\$64.7 million of the previous year. The gross profit dropped from HK\$101.1 million in 2003 to HK\$61.9 million, and the gross profit margin decrease to 10.0%, comparing to 16.2% in 2003. Earnings per share decreased to HK2.89 cents against HK21.6 cents achieved in 2003.

The turnover for the Year was comparable with that for 2003, which was mainly due to the decrease in the average selling price in the general electronics industry in 2004, in particular, the television industry. In addition, the total sales of the Group in 2004 were limited by the capacity of the old warehouse in Shanghai of the Group. Despite more than 15% increased sales quantity was sold in 2004 as compared to 2003, the price-cut pressure in selling price in the television market cancelled out the increase in sales volume.

The decrease in gross profit was mainly caused by the rise of raw material costs like copper and plastic in Mainland China during 2004, which drove up the purchase costs of certain major components of the TV chassis. Under such circumstances, the Group will continue to improve the gross profit through research and development efforts, launching of new products which have higher value-added functions and higher gross profit margins, reducing the number of components while maintaining product quality by new designs of TV chassis. Upon completion of the new warehouse in Shanghai at the beginning of 2005, the total kit handling capacity of the Group will improve significantly from 3 million kits per year to approximately 9 million kits per year. The Group will have greater bargaining power over its suppliers and better purchase prices are expected.



The increase in the Group's selling and distribution costs from HK\$5.2 million in 2003 to HK\$7.8 million in 2004 was mainly due to the increase in freight charges and transportation costs to deliver components from Hong Kong to Mainland China. The administrative costs increased from HK\$22.6 million in 2003 to HK\$30.8 million in 2004 was mainly due to the increase in the staff costs. During the Year, more professional and experienced executives and staff were employed after the listing of the Company's shares on the Stock Exchange on 15 July 2004 in order to improve the Group's internal control systems and facilitate the Group's business development. The management of the Group believes that investment in human resources will bring benefit to the Group in long term. At the same time, the Group is trying to strengthen the cost control through more efficient resources allocation and regular cost reviews among various departments of the Group.

During the Year, the Group's other operating expenses increased to HK\$12.8 million from HK\$2.5 million in 2003. The increase was mainly due to the legal fees incurred in connection with the legal proceedings brought against the Company in Hong Kong for alleged passing off. The Company is vigorously contesting such proceedings. In particular, an interim injunction made against the Company on 23 July 2004 was successfully discharged on 5 November 2004.

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Finance costs increased from HK\$3.6 million in 2003 to HK\$4.5 million in 2004 which was consistent with the increase in the Group's bank borrowings.

### FINANCIAL CONDITION AND LIQUIDITY

As at 31 December 2004, the shareholders' interests were HK\$183.6 million, the Group's current assets were approximately HK\$463.2 million, of which the Group's cash and cash equivalents was approximately HK\$53.3 million.

As at 31 December 2004, the Group's bank borrowings increased from approximately HK\$49.7 million in 2003 to approximately HK\$65.0 million, and the gearing ratio rose from 10.3% to 11.3% comparing with 2003.

Accounts receivable increased from HK\$163.2 million as at 31 December 2003 to approximately HK\$214.8 million as at 31 December 2004. Provision of approximately HK\$4.0 million has also been made for doubtful debts that arose during the Year.

The core business of the Group is transacted in RMB and US dollars, which are also the currencies in which it holds most of its cash and bank balances. As at 31 December 2004, the Group did not use any derivative instruments to hedge against any foreign exchange risk, which the Group did not consider to be material.

### CAPITAL EXPENDITURE

The capital expenditure of the Group for the Year was approximately HK\$40.6 million (2003: HK\$14.9 million).

### BUSINESS REVIEW

For the year ended 31 December 2004, the Group's business in Mainland China developed steadily, with sales reaching a record of HK\$381.0 million, representing approximately 61.6% (2003: 49.2%) of the overall sales of the Group. It has a growth of 24.1%, comparing with the sales of HK\$307.1 million in 2003.

With respect to the overseas markets, the total sales of the Group for the year ended 31 December 2004 amounted to HK\$237.4 million, representing a 25.1% decrease from HK\$317.0 million in 2003. The revenue from overseas sales accounted for 38.4% of the total revenue of the Group in 2004 (2003: 50.8%).

### ANALOG TELEVISION PRODUCTS

#### (1) DOMESTIC MARKET IN CHINA

The development of the analog television market slacked in 2004. Domestic manufacturers in Mainland China switched to the development of high-end and high value-added products, and outsourced the production of traditional CTV products. The Group therefore could maintain a steady growth for the sales of traditional CTV products during the Year. At the same time, the Group continued to develop certain plans for products of lower, medium and higher tiers to meet the demands of different customers in different areas.

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Last year, the Group maintained a good co-operation relationship with its existing key customers by expanding its co-operation with the large domestic CTV corporations in China. During the Year, the Group co-operated with Xiamen Overseas Chinese Electronic Co., Ltd. and achieved good progress in analog television, and technological and business co-operation was also established with Qingdao Hisense Electrical Co. Ltd. and Xiamen Overseas Chinese Electronic Co., Ltd. To expand the market in Southern China, it is the Group's strategy to work with the retailers in the area by holding touring exhibition to display the whole range of the Group's products. The Group has established a liaison office in Shenzhen to provide services and technical support to its customers in Southern China, which will further enlarge the Group's market share.

### (2) OVERSEAS MARKET

In respect of the domestic market for analog televisions, the overall production and sales almost experience saturation. The Group not only seeks for breakthroughs in domestic sales but also pays greater attention to actively expand the business overseas. In 2004, much effort had been put into developing the potential of some new markets, and the Group successfully established co-operation with a number of well-known brand names. The Group secured a sales contract with STANDARD & WESTERN (S) PTE. LTD., Russia's largest television manufacturer, for the supply of CTV components. The total contract sum amounts to US\$40 million, making it the largest supply contract obtained by the Group in 2004. The Group also executed a tri-party memorandum of understanding with Grupo De La Electronica of the Republic of Cuba, a company under the Ministry of Information of Cuba, and Qingdao-based Haier Group, under which the parties jointly undertook the supply of a second batch of 1 million CTV sets to the Cuban government, which is a project sponsored by the Chinese government. The Directors expect that through the high quality of its products and services, the Group in the international market and to establish a good reputation for the electronic products manufactured and supplied by China is able to make its contribution to the foreign affairs of the country.

## PANEL TELEVISION AND OTHER PRODUCTS

### (1) CHINA DOMESTIC MARKET

In 2004, the Group successfully developed the chassis for the U7T4F series, which is a new generation of high-definition CTV. Much effort has also been put in developing LCD products for both new and old customers so as to secure our share of the LCD market. During the Year, the Group created a new business department, organised a dedicated sales team, enhanced its research and development capabilities for the development of LCD television products and developed moulds for the cases of a range of television products, all with the aim to meet the demands of the ever-changing market.

### (2) OVERSEAS MARKET

Through its subsidiary in Germany, the Group is able to obtain the latest information on the high-end market in Europe which helps the Group's aggressive development over there. The Group also sends its staff to take part in overseas exhibitions such as International CES in Las Vegas, the IFA Electronics Fair and the Hong Kong Electronics Fair, where they may gain better understanding of the trends in the global market for the exploration of any business opportunities. Currently, the Group mainly supplies LCD products to its clients in Japan and Europe.

Moreover, for the purpose of broadening our range of products, the Group also supplies audio-visual combo setups, such as TV-DVD, to certain chain stores in the United States.



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## OUTLOOK

With the domestic economy showing great health, and the trend of outsourcing becoming more apparent in the international auto electronic industry, the Group engaged some experienced auto electronics engineers from Japan in October 2004 to establish a task force for diversifying its business into auto electronics. The Group entered into discussions with famous domestic manufacturers of auto air-conditioners for the establishment of a supply chain that supplies electronic products used in auto air-conditioners. This opens up a new vista in the Group's business and raises the overall operation of the Group to a new level.

The CTV market is currently going through a restructuring process. The digital television market is booming and panel television is showing great growth potential. The high-end products will become the driving force of the Group's rapid growth, and in general provide the opportunity for an adjustment of the product structure of China's manufacturers of CTV. Although the Group is facing fierce competition both in domestic and overseas markets in respect of traditional CTV, the Directors believe that because of the technology for analog televisions is relatively matured, using of large scale integrated circuit ("LSIC") will not only drive down their production costs but improve their performance significantly. The Group will therefore strategically switch its focus on supplying chassis with LSIC to its customers so that the Group can operate in closer alignment with the characteristics of various regions and meet the ever-changing demands of its customers.

In the coming year, while the traditional CTV will maintain at a steady growth, the Group will seek to have breakthroughs in the development of digital CTV. High-definition televisions, LCD-TFT televisions and set-top boxes for digital televisions will be the primary focus for the Group. Given the years of experience the Group has developed set-top boxes for digital televisions, the Directors believe that 2005 will be a critical year if the Group intends to lead the set-top box market in the coming years. We shall use our best endeavour to ensure that the set-top boxes will be successfully developed and launched in the market in 2005.

To this end, the Group is upgrading its research and development capabilities. Greater diversification will be introduced in its products, with special focus on high-end products and other products like LCD televisions, PDP televisions, auto electronics, DVD and other electronic products, all of which have higher gross profit potential. It is hoped that a greater share of the market can be cornered for the Group's other electronic products. In respect of new products, the Group will launch the core units for PHILIPS UOC3 and Mitsubishi's new range that carry the latest in IC technology. The Directors are confident that the revenue from domestic sales will grow steadily in 2005.

On the other hand, the Group will exercise more stringent cost control and improve its supply chain management service with the aim to provide better quality at lower cost to our clients. A number of development teams will be created for developing LCD-TV core units and our own cases so that we can maintain our leading position in the CTV industry in terms of speed of product development and product quality and range. In the coming year, the Group will concentrate on these products with higher profit margin so that greater value can be created for the Company and its shareholders. The Directors have great confidence in the outlook of our development and that our profitability will grow gradually.