

Management Discussion and Analysis

1. Industry Analysis

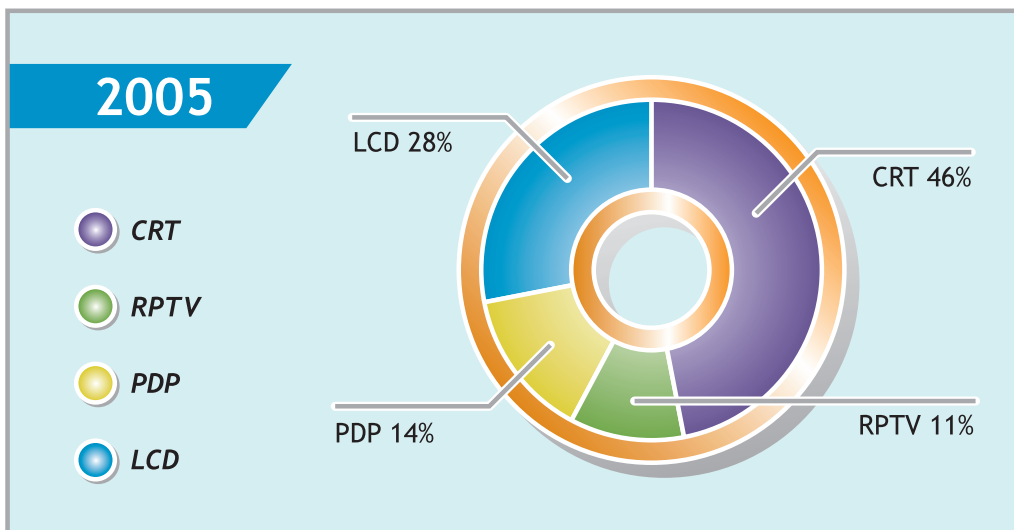
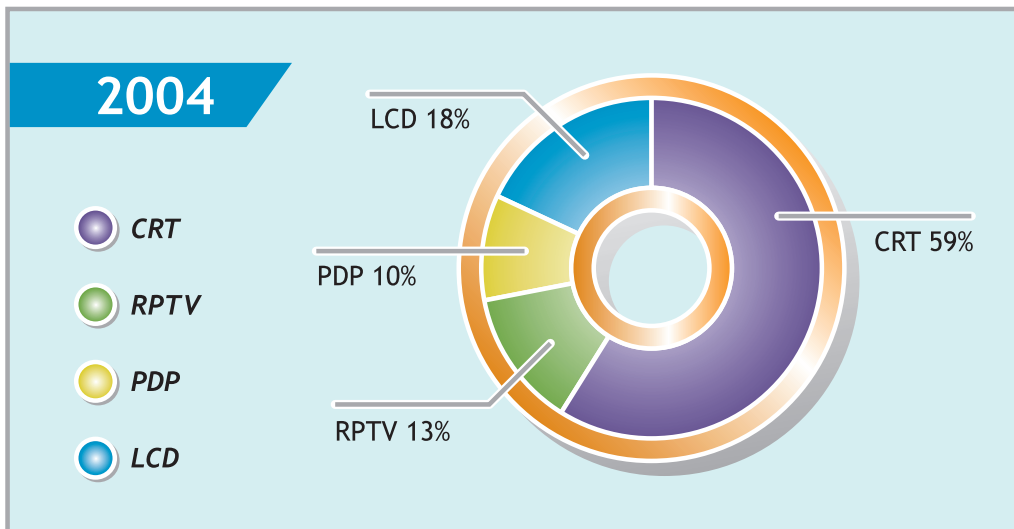
In 2005, affected by the fast growth of FPD television sets, the CPT industry witnessed significant industry decline beyond the expectation of the Company's management, as seen in the stagnant CPTs market, the increase in inventories, the decline in prices of CPT products and the price increase in certain raw materials, leading to a general decline in profitability in the CPT industry.

After moving into 2005, the global CRT television sets market did not maintain the growth in the fourth quarter of 2004. On the other hand, globally, the TFT-LCD manufacturers' investments read in 2005 a year-on-year growth of 100% and hit a record of US\$12.7 billion. The huge production capacity created following such investments imposed tremendous pressure on the traditional CRT television sets market. Such pressure was exaggerated and aggravated by exhibitors and participants in international exhibitions such as America Las Vegas CES exhibition in January 2005 and Germany Hannover CeBIT exhibition in March 2005. As such, domestic and overseas major television sets manufacturers universally shifted the operation focus to FPD television sets and made corresponding adjustments to the policies regarding internal inventories of CPTs and colour television sets. This directly led to the continual decline of the global sales volume of CPTs starting from 2005. According to the "Television Systems Market Tracker (1st Quarter of 2006)" recently released by America's Stanford Resources Co., the actual global sales volume of CRT television sets in the first quarter of 2005 decreased by 19% as compared with the fourth quarter of 2004, being the biggest single-quarter reduction in 20 consecutive quarters. Such reduction was not only beyond the expectation of the Company's management, but was also beyond the original forecast by consultancy institutions like Stanford.

According to the above report from Stanford, the sales volume of global CRT television sets amounted to only 146,000,000 units in 2005, the lowest sales volume from 2001. In particular, the high value added digital television sets using super large screen CRT suffered a greater impact from FPD television sets. Stanford statistics reveals that the actual global sales volume of 30"-34" 16:9 full-flat CRT television sets in 2005 only accounted for approximately 80% of the forecast made in the fourth quarter of 2004. Along with the decrease in sales volume, the prices of CRT television sets declined noticeably as a result of the inadequate demand. The statistics shows that globally the average prices of CRT television sets in 2005 represented a decrease of 7.6%, with even higher reductions in some mainstream products such as a reduction of 12.8% in the 27"-29" flat CRT television sets and a reduction of 15% in 30"-34" 16:9 flat CRT television sets in the year. Owing to the dual impact of decreasing sales volume and declining prices, the sales revenue of the CRT television sets in the global market in 2005 only accounted for 46% of total sales revenue of all television sets, which proportion was for first time lower than 50%.

1. Industry Analysis *(continued)*

The composition of global sales volume of television sets market in 2004-2005 and changes in the composition (US Dollar)

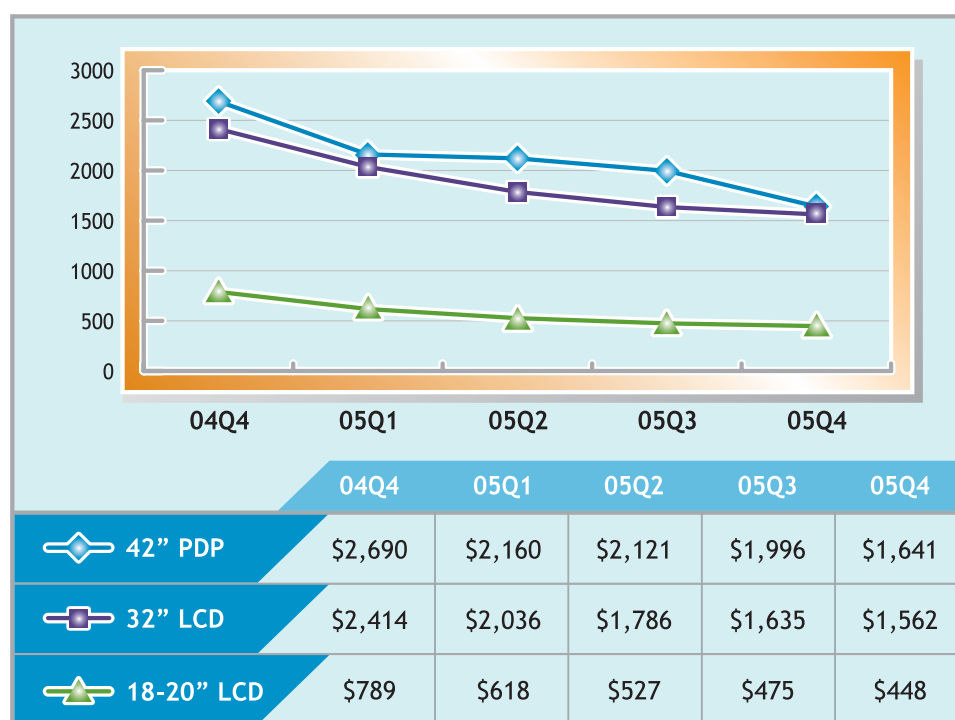


Sources: "Television Systems Market Tracker - (06Q1)", Stanford Co.

1. Industry Analysis *(continued)*

China is the largest colour television sets manufacturer and consumer in the world. In China, traditional CRT television sets likewise experience strong challenges from FPD television sets. In 2005, the prices of domestic FPD television sets continued to drop because of promotion by manufacturers and merchants, and the prices of two mainstream flat products including 32" LCD-TV and 42" PDP-TV fell below the significant psychological price level of RMB15,000, boosting the actual sales volume of domestic PDP and LCD television sets in 2005 to 1,920,000 units, up 463% over 2004. The replacement impact on CRT television sets has become obvious.

The trend of change in prices of the mainstream FPD television sets in China's television sets market in 2005 (US\$)

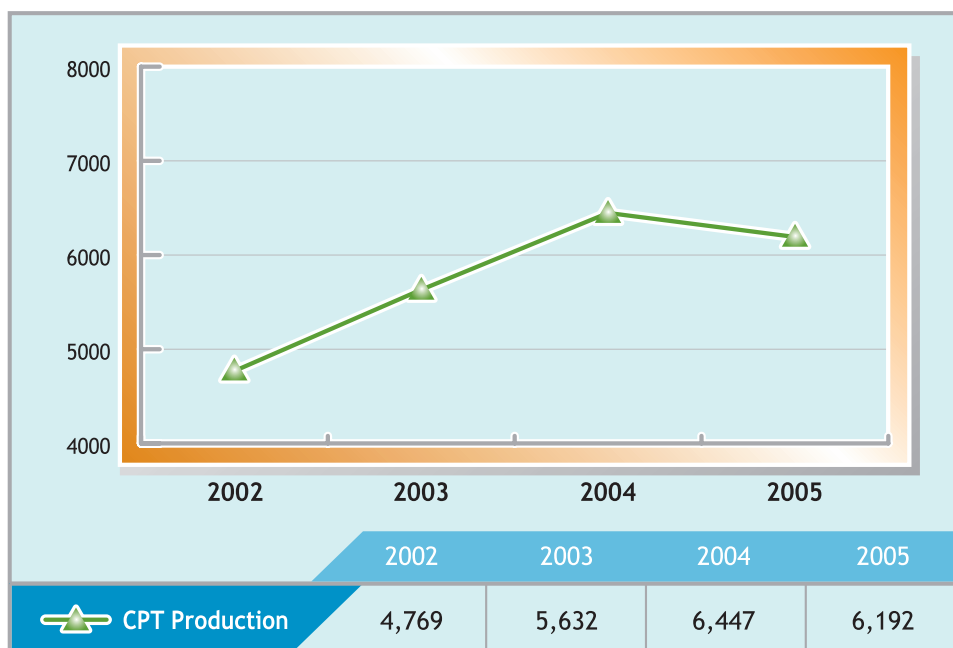


Sources: "Television Systems Market Tracker - (06Q1)", Stanford Co.

1. Industry Analysis (continued)

As affected by the fast development of FPD television sets in China, together with other factors including the adjustment of operating strategies and inventories policies by television sets manufacturers, the decrease in the number of marriages last year because of traditional custom and the rise in the prices of certain raw materials, the domestic CPT industry recorded the first decline following the fast growth in recent years and production volume dropped by 4% in 2005. Sales volume also experienced certain declines. Despite an increase in export in 2005, the rate of increase dropped by 6 percentage points over the previous year, representing the lowest growth in the recent 5 years.

The production in the CPT industry in China in recent years (unit: 0'000 sets)



Source: China ccm.com

1. Industry Analysis *(continued)*

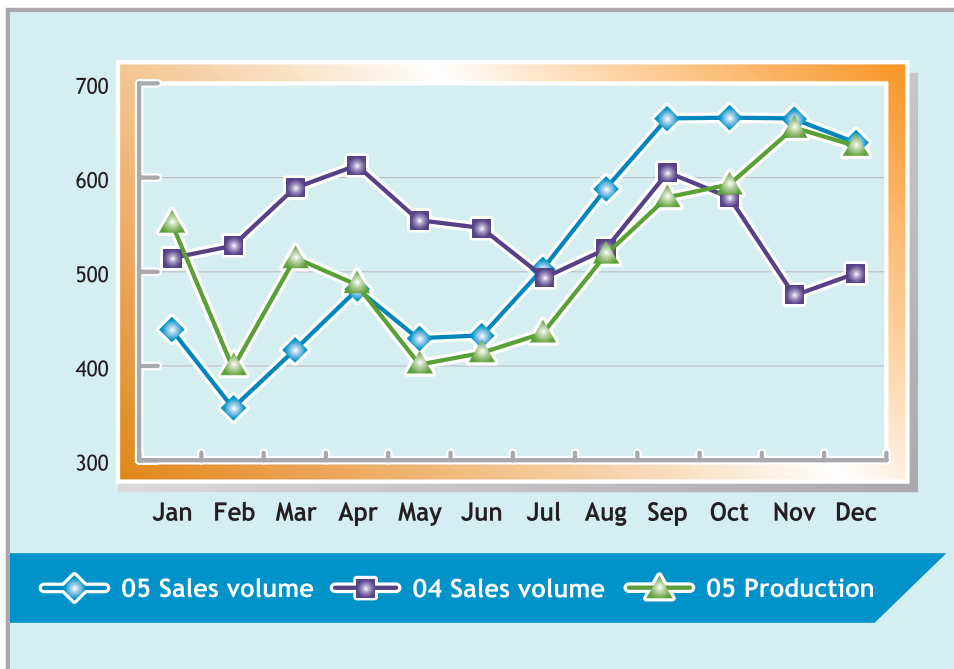
Notwithstanding the decline in the overall CPT market in 2005, CPT still showed a moderate increase in certain segment markets such as flat tubes and super slim tubes. In the domestic market, the production volume of flat tubes in 2005 amounted to 27,865,300 units, up 27.5% over 2004.

As for the television sets market in the future, in the opinion of the Company, the CPT industry will continue to face the persisting and material impact brought by FPD television sets and it has started to move globally into a declining phase. However, CRTs will still have a considerable market share in the next few years. According to the latest report from Stanford, the global sales volume of CRT television sets in 2009 is expected to amount to 91,840,000 units. As regards the PRC market, the permeation rate and popularization rate of FPD television sets are lower than the average level in the world. According to the forecast by America's Displaysearch, the CRT television sets market in China will still maintain the scale of 27,050,000 units in 2009, accounting for over two-thirds of the total sales volume of television sets for that year. To reduce industry risks, CRT manufacturers in China and overseas will on the one hand enter the FPD sector through investment in plasma display panels ("PDP") production lines and high generation Thin Film Transistor Liquid Crystal Display ("TFT-LCD") production lines, and on the other hand improve the competitive advantages in its exist business through integration and reorganization within the industry and restructuring product mix of CRT products. For instance, manufacturers will close down the production lines in high-cost regions like Europe and USA and upgrade product mix of CRT products in the direction of flat, super slim, digital and low-cost products.

As regards outlook on 2006, although pressure from FPD television sets will increase, there will emerge certain factors favourable to the CRT industry, such as the Germany world cup event, and the gradual closing down of CRT production lines in the European and USA regions. In the PRC, year 2006 is expected to see a significant year-on-year increase in the married population, and policy inclination will continue to drive improvement in individuals' income in the rural sector. On the basis of the above factors, the Company is of the view that although the global sales volume of CPTs in 2006 will continue to decline, the degree of decline in the PRC will be smaller compared to the world, and the overall degree of decline in 2006 will be smaller than in 2005.

1. Industry Analysis (continued)

The monthly production and sales revenue in the CPT industry in China in 2005 (unit: 0'000 units)



Source: China ccm.com

2. Business Review

(1) Operation Highlights

As a result of unprecedented difficulties in the operating environment of the CPT industry, the Group's operating results for 2005 decreased considerably. The Group's turnover in 2005 amounted to RMB3,927,500,000, representing a decrease of 20.7% as compared with the 2004 corresponding period, and the Group's loss for 2005 attributable to equity holders of the Company amounted to RMB754,547,000, representing a decrease of 295.8%, as compared with the 2004 corresponding period.

(2) CPTs Business

During 2005, the Group sold 14,352,000 units of CPTs in total, representing an increase of approximately 678,000 units, or approximately 5%, as compared with the 2004 corresponding period. Sales revenue of CPTs for 2005 was RMB3,441,096,000, representing a decrease of RMB1,025,671,000, or approximately 23%, as compared with the 2004 corresponding period.

The Group recorded a year-on-year decrease of 19% and 32% in sales volume of CPTs and the total sales revenue respectively for the first half of 2005. In the second half year, the sales volume of CPTs noticeably rose again, with the production and sales levels reaching an equilibrium and the inventory level of CPTs basically returning to its normal level. In addition, a year-on-year increase of 2% was observed in the sales volume of CPTs, and the Group's share of the total sales volume of domestic CPTs manufacturers increased by 2%. In 2005, the average prices of the Group's CPTs declined by approximately 27% over last year, and the prices of the mainstream products such as 21" CPTs even decreased by over 30%. As a result of such continuous price decrease, the Group recorded a noticeable decrease in turnover in 2005 and for the first time experienced a loss.

Faced with the huge difficulties in 2005, the Group optimized product mix to expedite new product development for marketing-based growth, and cost-efficient initiatives were also carried out under the cost-leading strategy to sharpen the Group's competitive edge in the market.

In 2005, the Group developed 15" AK material and 21" AK material CPTs. 21" AK material CPTs realised its scale production. 21" slim CPTs, 25" AK material CPTs and 28" 16:9 CPTs were also being developed.

The Group further perfected the market expectation mechanism and adopted the marketing model of coping rolling estimation and planning with production according to orders. Meanwhile, we put efforts in integration of resources and communication with customers, etc. Through its efforts, the Group achieved a resilient growth in the sales volume of CPTs in the second half year, realizing an increase of 678,000 units in sales volume of CPTs in 2005 over 2004.

2. Business Review *(continued)*

(2) CPTs Business *(continued)*

The Group undertook various in-depth cost-efficient measures including management and technological innovation for cost reduction and potential tapping, reduction of procurement cost, marketing the product to increase its popularity, reduce the cost and increase the quality, aiming at reducing the production cost to release to a certain extent the pressure of continuous price reduction of products.

(3) CPT Components Business

By timely adjustments to business strategies in 2005, the CPT components business of the Company ensured the internal supplying capability, as well as actively explored the market of external sale to increase the revenue. In 2005, the Group strived to accomplish sales revenue of RMB486,404,000 in CPT components, a year-on-year increase of 0.7%.

(4) Research and Development

In 2005, the Group mainly focused on new tubes, new materials, and new processes, such as research and development of 15" AK CPTs, 21" and 25" AK CPTs, 21" slim CPTs, 28" 16:9 CPTs and products of relevant components, and 21" AK flat CPTs realized scale production. In the FPD sector, the Company developed 50" XGA PDP panels and modules and 60" XGA PDP panels and modules in 2005 and successfully developed sample CPTs. We are also actively tracking and studying such new FPD technologies like OLED and PLED.

3. Future prospects

As materially impacted by FPD television sets, the global CPT industry has started to decline, but will still own a considerable market share for a certain period of time. As the largest CPTs manufacturer in the PRC and one of the main CPTs manufacturers in the world, the Group will continue to secure its existing CPT business and to sharpen its competitive edge. Furthermore, the Company will explore new business, expedite development of PDP devices to actively speed up the industrialisation of new display devices, track and develop other flat screen CPTs and specialty glass and specialty phosphor, and seek new profit growth.

As to the CPTs business, the Group will continue to advance the operating strategies of total cost at the top and establish the cost back push mechanism and cost accountability mechanism, increase the proportion of online material procurement, introduce production models without any inventories to reduce financial costs, make adjustments to organizational structure and optimize resources, as well as push forward technological innovation, especially technological renovations.

With efforts in new technologies support and its own innovative capabilities, the Group will further optimize the product mix. The Company will expedite development and scale production of 21" super slim, 25" AK flat, 28" 16:9 flat, 29" AK material, and 29" super slim new products. The Group will keep a close eye on the market and timely adjust the research and development direction of products and product mix based on the market demand.

The Group will strengthen marketing-based strategy, further perfect the market expectation mechanism, realize the marketing model of coping rolling estimation with production according to orders, and strengthen communication with customers, so as to actively explore the market.

The Group will further explore the market of external sales in its components business with competitive advantages and actively capitalize on its own advantages to develop new products and penetrate into other relevant industries for diversified development.

The Group will also beef up the strategic cooperation with strategic partners, and will consider opportunities and ways of entering into new business based on the market situation and its own resources.

4. Financial review

(1) Results performance

Profit and loss data for 2001 - 2005 (RMB'000)

<i>(RMB'000)</i>	2001	2002	2003	2004	2005
Turnover	3,293,021	3,999,378	4,269,781	4,949,683	3,927,500
Sales of CPTs	3,152,040	3,723,889	3,888,156	4,466,767	3,441,096
Sales of CPT components	140,981	275,489	381,625	482,916	486,404
Cost of sales	(2,697,243)	(3,079,581)	(3,256,959)	(3,896,956)	(4,357,371)
Gross profit / (loss)	595,778	919,797	1,012,822	1,052,727	(429,871)
Operating expenses					
Administrative expenses	(190,480)	(219,788)	(227,275)	(219,008)	(278,875)
a) General administrative expenses	(149,990)	(165,942)	(195,665)	(172,028)	(241,935)
b) Research and development expenses	(40,490)	(53,846)	(31,610)	(46,980)	(36,940)
Marketing cost	(85,030)	(102,130)	(103,405)	(113,323)	(152,565)
Other operating expenses	(123,431)	(69,524)	(73,604)	(79,275)	(36,968)
Operating profit / (loss)	258,247	591,787	679,766	713,020	(839,381)
Finance costs	(103,737)	(78,853)	(56,588)	(62,966)	(70,096)
Profit / (loss) attributable to the equity holders of the Company	74,311	277,103	315,825	385,327	(754,547)

4. Financial review *(continued)*

(1) Results performance *(continued)*

TURNOVER AND GROSS PROFIT MARGIN

Turnover by product *(RMB'000)*

Name	2004	2005	Increase/ (decrease)	Percentage of change
CPTs	4,466,767	3,441,096	(1,025,671)	-23.0%
Including: Small-sized CPTs	782,795	852,268	69,473	8.9%
Medium-sized CPTs	3,614,760	2,570,102	(1,044,658)	-28.9%
Large-sized CPTs	69,212	18,726	(50,486)	-72.9%
CPT components	482,916	486,404	3,488	0.7%
Total	4,949,683	3,927,500	(1,022,183)	-20.7%

Sales volume by product *(Units)*

Name	2004	2005	Increase/ (decrease)	Percentage of change
Including: Small-sized CPTs	4,555,099	5,342,504	787,405	17.3%
Medium-sized CPTs	9,043,451	8,980,939	(62,512)	-0.7%
Large-sized CPTs	75,484	28,102	(47,382)	-62.8%
Total	13,674,034	14,351,545	677,511	5%

4. Financial review (continued)

(1) Results performance (continued)

AVERAGE SELLING PRICE BY PRODUCT

Average selling price by product (RMB / Unit)

Name	2004	2005	Decrease	Percentage of change
Including: Small-sized CPTs	172	160	(12)	-7.0%
Medium-sized CPTs	400	286	(114)	-28.5%
Large-sized CPTs	917	666	(251)	-27.4%

(2) Change over last year and reasons

- Turnover and gross profit margin

In 2005, the Group recorded a turnover of RMB3,927,500,000, representing a decrease of RMB1,022,183,000, or 20.7% from last year. Turnover of the CPT business amounted to RMB3,441,096,000, representing a year-on-year decrease of RMB1,025,671,000, or 23% from last year. Turnover of the component business increased by RMB3,488,000, or 0.7% to RMB486,404,000. The overall gross profit rate of the Group decreased from 21% of 2004 to -11% of 2005. This was mainly due to: 1) provision for diminution in value of certain productive assets amounting to approximately RMB567,659,000; 2) considerable decrease in the average selling prices of CPTs in the whole year of 2005 as compared with the corresponding period of 2004 resulting from fierce competition in the CPT market in the PRC; and 3) increase in prices of certain raw materials.

- Administrative expenses

The Group's administrative expenses in 2005 increased by RMB59,867,000, or 27.3%, to RMB278,875,000 from RMB219,008,000 in 2004. The increase in administrative expenses was mainly due to: 1) the increase in social welfare fund; 2) provision for compensation paid to staff as a result of the Company's human resource reform in 2005.

4. Financial review *(continued)*

(2) Change over last year and reasons *(continued)*

- Finance costs

The Group's finance costs for 2005 recorded RMB70,096,000, representing an increase of RMB7,130,000, or 11.3%, from RMB62,966,000 in 2004, which was mainly attributable to the increase in outstanding bank loan and increase in average interest rate.

(3) Net current assets and financial resources

As at 31 December 2005, the Group's cash and bank balances aggregated to RMB587,838,000, representing a decrease of 46.39% from RMB1,096,516,000 as at 31 December 2004. The Group paid RMB448,734,000 for capital expenditure during the year ended 31 December 2005. Net cash flow from operating activities, net cash flow from financing activities and net cash flow from investing activities was RMB204,150,000, RMB-292,126,000 and RMB-420,702,000 respectively. As at 31 December 2005, the Group's borrowings totalled RMB1,260,177,000 as compared with RMB1,420,000,000 as at 31 December 2004. The borrowings were all due within one year. As at 31 December 2005, the Group's short-term bank loans amounting to approximately RMB280,000,000 (31 December 2004: RMB300,000,000) were pledged by its certain properties, plants and equipment with a net book value of RMB284,673,000 (31 December 2004: RMB 321,973,000). Meanwhile, the short-term bank loans included trade bills payable of RMB203,335,000 (31 December 2004: RMB nil) given as discounted bank bills. As at 31 December 2005, the short-term bank loans guaranteed by the ultimate controlling company amounted to RMB440,000,000 (31 December 2004: nil). For the year ended 31 December 2005, turnover period for accounts receivable of the Group was 135 days, representing a increase of 42 days from 93 days for the year ended 31 December 2004, which was mainly attributable to the intensified competition in the CPT market and changes in payment terms and goods flow. For the year ended 31 December 2005, inventory turnover period for the Group was 64 days, representing a decrease of 22 days from 86 days for the year ended 31 December 2004, which was mainly attributable to the improved management on inventories .

4. Financial review *(continued)*

(4) Capital structure

As at 31 December 2005, the Group's borrowings were mainly denominated in Renminbi and US dollars, while its cash and bank balances 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 2005, its liabilities including bank loans aggregated to RMB2,734,800,000 with cash and bank balances totalling RMB587,838,000 and a gearing ratio (defined as: total liabilities / total assets) of 47%.

(5) Dividend

The Company's original dividend policy will remain unchanged in 2005. In light of the operating loss in 2005, the Board resolved not to distribute any final dividend.

(6) Foreign exchange risk

The Group's income and most of its expenses are denominated in Renminbi and US dollars. For the 12 months ended 31 December 2005, there was no material impact on the Group's operation or working capital resulting from exchange rate fluctuations.

(7) Commitments

As at 31 December 2005, capital commitments of the Group amounted to RMB234,810,000 (31 December 2004: RMB679,916,000), which were mainly financed by the Group's working capital.

(8) Contingent liability

As at 31 December 2005, the Group had no material contingent liability.

(9) Pledged assets

As at 31 December 2005, the Group had bank loans of RMB280,000,000, secured by its certain properties, plants and equipment with a net book value of approximately RMB284,673,000.