

## Chairman's Statement



During the year under review, Skyworth had successfully restructured its business platform into six units with different market focus and as individual profit center served to enhance productivity and expand the Group's market reach. The Group's new operation platform has proved to be a viable and effective structure for extending its product range.

In responding to rapid changing market condition, the management had promptly decided to discontinue its personal computer operations, which had faced unregulated competition and fluctuation in component prices. The move allowed the Group to reallocate its resources to higher margin TV and AV products.

In light of volatile economic conditions and cut-throat competition in China's TV market,

the Group leveraged its expertise in proactive marketing and its strong vertically integrated operations to effectively enhance its overall cost-effectiveness. The Group's higher end TV and larger size TV are for urban cities and the trade and educational markets, whereas the lower end to mid range TV is for the rural cities. This strategy was set around the Skyworth's vision to be the No 1 in display technology.

As a result, the Group managed to not only achieve HK\$5.6 billion, representing a 26 per cent growth in turnover, but also reported a net profit of HK\$62 million, against a net loss in the previous year. This was only made possible by a committed work force and a visionary management.

Internally the Group continued its stringent cost control measures, and took decisive and aggressive steps to strengthen its balance sheet through significant provision for its inventory backlog. Despite

short term impact to the Group's performance, the measure is expected to further consolidate its financial position.

The management has set a clear objective of assuming the leading position in the household electronics appliance sector through the maintenance of supreme product and service quality and reliability. Over the years, the Group has already developed an extensive and efficient distribution and servicing network, which has become an invaluable foundation for its business diversification. Supported by a seasoned and highly adaptable research and development team, the Group has succeeded in diversifying into manufacture and sales of related appliances and software solutions, utilizing the Group's outstanding display and multimedia technology.

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Another milestone in the Group's development during the year was its broadening of China sales and overseas markets through development of a prestigious OEM clientele. The Group's newly expanded markets cover Eastern China (Shanghai, Zhejiang and Jiangsu), Japan, Korea and Western Europe.

The Group is dedicated to explore more business opportunities and cooperation with multi-national corporations in the near future. The latest addition to this is Mitsubishi Electronic HK Ltd ("Mitsubishi"), the industrial and giant from Japan. The Group entered into a cooperation agreement with Mitsubishi in early 2002. The collaboration with Mitsubishi in the production of a variety of TV and AV products on OEM basis, will not only help to enlarge the Group's product range, but also enable it to have access to latest electronics and manufacturing technology. The agreement with Mitsubishi is expected to generate an additional sales volume of one million units over the next two years.

### Outlook for the Year 2002/2003

As China becomes the manufacturing base of consumer electronic goods, in addition to the China's accession to the World Trade Organization, the Group is expected to benefit from the business opportunities and take the advantages of its cost effectiveness, high quality

products and efficient sales and distribution networks.

The Group intends to further capitalize on its foundation in OEM to strengthen its overseas sales. Domestically, the Group will take advantage of its massive manufacturing capacity and vertically integrated operations to enjoy economies of scale, as well as the synergetic effect generated from its diversified activities.

To sustain its growth momentum the Group's R&D team will continue to develop new products meeting changing market needs. Products under development include 50 TV products, 360 AV products and nine digital set-top boxes.

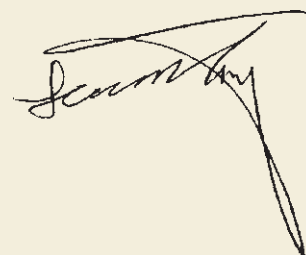
The new production plants in Gongming and Shiyan in Shenzhen will become operational in the coming financial year. The inauguration of these new facilities is expected to accommodate growth in demand from both the domestic and overseas markets.

The Group will continue to improve the efficiency of its consolidated retail and distribution network in China to support its further market penetration.

In production and operations management, the Group will further enforce the implementation of just-in-time logistic system and Enterprise Resources Planning to improve the turnover of its inventory, lower costs and enhance efficiency.

With the steady growth in China's GDP and consuming power, the directors anticipate that the demand for new models and advanced household electronic appliances in the country will continue to surge. The increasingly affluent population in major cities and wealthy counties are going to constitute an important driving force for China's enormous consumer market. The Group, as a leading supplier of TVs and other advanced display household electronic appliances is well poised to benefit from the healthy development of the Chinese economy.

I would also like to take this opportunity to express my appreciation to our shareholders, customers and business partners, and our staff, for their continued support.



**Wong Wang Sang, Stephen**  
Chairman  
Hong Kong, 23 July 2002