

## Chairman's Statement



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Chairman

Hong Kong, 22 July 2003

# Chairman's Statement

Our development spotlight was on front-line products, which led us to move towards higher earnings. In face of fierce competition, the Group has diversified its product series and integrated our resources in a more optimal way. As a result, digital TV set-top box and high-density rare projection TV as well as many new products are on the track of earnings, contributing significantly to the Group's profit growth.

Looking ahead, 2003 and 2004 will be China's golden time for rapid economic growth. It is expected that, over 33 Chinese cities and 30 million users will enjoy digital TV broadcasting by 2005. In light of these opportunities, Skyworth has introduced eight series of high-end products, namely high-definition rare projection TV, high-definition healthy TV, plasma TV, LCD TV, DLP rare projection TV, progressive scan TV, digital TV Set-top box, DVD and recordable DVD. In the first quarter of the new financial year, the Group's sales in China has increased 30% compared to the same period of the previous year.

In regard to our management and operation in production, the Group will enhance our TPM to boost our production efficiency and reduce costs and expenditures at the greatest possible extent. Our sales headquarters will continue to reform our systems and all sales offices have to be accountable for their profitability which will considerably lower our sale expenses. We will also exert effort on brand building and promotion in order to let our new products be known more rapidly and therefore increase our market share and further expand our earnings base.

R&D plays an indispensable part in the success of the Group and Skyworth has always been dedicated to develop new and better products. With the grand opening of our Digital TV R&D Center in the year, we will continue to look for experts around the world to help maintain our number 1 position in display technology.

Apart from the existing markets, the Group will explore the U.S. and Western European markets. We will also start to export the Skyworth brand TV to East Asian countries, including Thailand and Indonesia, with an aim to further increase its overseas sale.

With the advancement in China's overall economic standard, the average living index of its people should rise rapidly. Demand in household's multi-media centers and wireless network has led to a relatively larger consumer market. Our major development project will focus on optical and digital TV next year. The PRC is offering a digital TV market, and a synergy among computer, handset and electronic appliance as well as one among the Internet, Telecommunications and TV broadcasting are what we foresee. It is our ultimate target to maximize the Group's market value and the benefits of our shareholders. With our continued effort and commitment, we are confident to bring promising Earnings to our shareholders in the years to come.

Last but not least, I would like to express my deepest gratitude to the Group's shareholders, customers, business partners and staff.

## SKYWORTH SCALES NEW HEIGHTS TO EMBRACE THE DIGITAL ERA

I am pleased to present the annual report of Skyworth Digital Holdings Limited for the year ended 31 March 2003 to our shareholders.

Skyworth had made a remarkable improvement over the past year. I would like to take this opportunity to thank all the staff for their continuing and dedicated effort in further improving our management system. Apart from substantial growth in our sales, we have attained our targeted market share in the TV market. The Group will also streamline the mechanical components in each of the cost categories, which will enhance our efficiency and performance. During the year, we made improvements in the following key areas:

- (i) Both product delivery and logistics costs in our direct sales improved with our gross margin rose from 13.95% to 15.32%, and
- (ii) Distribution costs, which used to be a fluctuating cost variable, have become more predictable and manageable.

These logistical expenditures were improved thanks to our implementation of the ERP and our Management Information system.

I would like to address certain key financial developments related to the Group's development prospect in view of the concerns you might have.

Our liquidity situation remains strong with net cash of HK\$714 million. While sales had risen rapidly, we did not increase our investment on fixed asset correspondingly. Although investment in production facilities is a norm for manufacturing entities, our firm belief is to keep our costs down by implementing the just-in-time delivery philosophy and by maximizing our production capacities, which should also increase our efficiency.

In the year, we have converted some of our cash into inventory. We monitor our inventory levels and accounts receivable vigilantly. Our bills receivables are bank-endorsed and entail little to no collection risk.

The Group is among the first to focus on high-end products. With the globalization of digital TV broadcasting impacting China, the sales of high-end TV products are on the rise. Skyworth has taken the chance to launch progressive scan digital TVs to match market demand due to the transition.

Skyworth's high-tech colored TV series, including progressive scan TV, high-definition TV, rear projection TV, LCD TV and plasma TV, are widely popular and recognized by consumers soon after their launch first to the market, therefore significantly raising our overall gross margin. Moreover, with the Group's consistent focus and commitment on R&D, our technological improvement has resulted in fewer production defects, hence sharply reducing production costs but raising overall effectiveness.

In addition, the Group has always emphasized on maximizing the use of our sales network to take advantage of the market trend. Compared to the previous financial year, sales amount rose over 42% and sales volume increased over 50%. According to a survey on 21 major cities conducted by GfK Marketing Services, the world's fifth biggest research company, in 2002, Skyworth's high-end products colored TVs of 34" or above topped all Mainland manufacturers in terms of sales amount, just behind Sony. With the continued commitment of our 162 sales offices and thousands of staff, we have explored an extensive and comprehensive sales network, built up a scientific profit-sharing mechanism between wholesalers or retailers and sales elites. At the same time, we took advantage of the differentiation of high-end products launching Skyworth's "No Flash Healthy TV" to get a higher market share with overwhelming success. At present, the Group secures the No.3 position in the PRC colored TV market with our growth on an upward trend.

The Management is keen to maintain effective cost control despite the harsh business environment. We have strengthened our cost control measures in the year, reducing our sales expenses and our production costs also fell substantially.