



# Chairman's Letter

## 2004 Year at a Glance

- Profit from operations was HK\$411 million, an increase of 44.4%
- Profit after tax attributable to shareholders was HK\$342 million, an increase of 60.1%
- Sustained growth in turnover since listing, achieved a five year CAGR at 24%
- Sales of high-end TV was HK\$1.5 billion, achieved YoY growth over 20 times
- Annual dividend growth of 50.0%
- Cash-on-hand of HK\$445 million
- Inventory turnover ratio 60 days
- Debt to equity ratio of 0.3%
- Strong financial position, poised for future growth

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Dear Shareholders:

### **RESULTS AND FINANCIAL POSITION**

We are pleased to report that Skyworth Digital Holdings Limited (the "Company") and together with its subsidiaries (the "Group") have achieved a year of growth and record high results in terms of its growth in turnover and profitability in fiscal 2004.

Revenue in fiscal 2004 was HK\$9,211 million (2003: HK\$8,002 million), an increase of 15.1%. Profits after tax was HK\$342 million (2003: HK\$214 million), an increase of 60.1%. The earnings per share was HK 15.80 cents (2003: HK 10.17 cents), an increase of 55.4%.

The financial highlights set out on pages 2 to 4 and the details showed in the year at a glance supported that the Group has a very strong financial results and position in fiscal 2004. In fiscal 2005, the Group will build on such sound financial position to develop more business opportunities in the coming years.

### **DIVIDENDS**

To share the results with the Company's shareholders, your board is recommending a final dividend of HK5.5 cents per ordinary share. Such final dividend should be satisfied by way of scrip dividend by an allotment of new shares of the Company credited as fully paid and you may elect to receive cash wholly or partly in lieu of the scrip dividend. Together with the interim dividend of HK 2 cents per share, this will bring the total dividend for fiscal 2004 to HK 7.5 cents per share, representing an increase of 50.0% over fiscal 2003. The dividend payout ratio was maintained at 49% for both financial years.

The proposed dividend will be paid on 30 September 2004 following approval at the Annual General Meeting, to shareholders whose names appear on the Register of Members on 31 August 2004.

### **PAST YEAR**

Despite of the fierce competition in the electronics market in the past years, the Group could still achieve a compound annual growth rate in its turnover over 24% for the past five years.

The Group would attribute the success in fiscal 2004 to the following factors:

- A leader in the High Definition Television sets (HDTV) market;
- Production of more modern models to cope with dynamic life style;
- Well-trained sales force leading to better-quality promotion campaign;
- Launch of the projection TV, the sales was significantly increased compared to fiscal 2003;
- Entered into LCD TV market;

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- Production of high quality set-top box for digital broadcasting market; and
- A strong management team.



### PROMOTION OF PRODUCTS

The Group had launched a strategy in early fiscal 2004 to promote products in the rural areas including villages and towns. Though the effect of the Severe Acute Respiratory Syndrome ("SARS"), the Group could still develop the market and achieve good performance for the SARS period.

This was one of the many highlights that proved that the Group had followed efficient and appropriate strategies in the past year. UEFA (The Union des Associations Européennes de Football) Euro 2004 do continue to uphold the sales of high-end TV too in the large cities in China in the first quarter of fiscal 2005.

### VOTE OF THANKS

Without a strong, committed, innovative and competent management team, we would not be able to accomplish such achievement for the Group. On behalf of the board, I would like to express our sincere thanks to our management team and labor force for their contributions to the remarkable performance in fiscal 2004.

### ROADMAP

#### Challenges ahead

It is not easy for an enterprise learning how to pick the battles, and struggling for good results. Given China accession to the WTO and the fierce competition amongst the China electronic giants, your board realizes that the year to come is more difficult than ever in the electronic markets. We are sure that the road ahead is much more difficult to go through and needs a lot of preparation to face the challenges.

Strategic focuses for fiscal 2005 battle are as follows:

#### Products

In fiscal 2004, being a year of focus for research and new product development, the Group had invested its effort in the development of a series of new products which launched sales in December 2003.

In the first quarter of fiscal 2005, high-end TV revenue was increased to over 30% of the Group's China TV sales. In accordance with the GfK report, a renowned research house in the China TV market, Skyworth was ranked number one in terms of its total revenue using 65-city-statistics.



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In fiscal 2004, projection TV sale was increased from minor figure to over 40,000 unit sales. It signifies another milestone of the Group in penetrating into the high-end TV market. Further, set-top box sales was increased from 20,000 units in fiscal 2003 to over 200,000 units in fiscal 2004.

In fiscal 2005, we anticipate the V12 product series will build up a large echo and looking forward to have larger market share both in the domestic and the rural areas and cities.

### **Electronic AV and digital products**

The Group's vision is to focus on the development of TV market but also taking opportunities in electronic AV and digital products. The Group's set-top box sales represented 10 times growth compared to fiscal 2003. In fiscal 2005, the Group will spend more effort in marketing the set-top box to cope with the digitization of the TV broadcasting system. Of course, we would not miss the overseas market for the set-top box and expect a remarkable increase.

In the development of high-tech products, the Group had launched its HVD, portable media player and digital video recorder during the year. In the past years, the Group only focused in AV products, in fiscal 2005, the Group will try to develop more other consumer electronic products to satisfy different consumer's needs.

### **Marketing effort**

Our marketing and distribution network in the PRC is facing unprecedented challenge in the coming years. To cope with the strong production lines, the Group proudly presented that 12 Girls Band (女子十二樂坊) has joined the Group's promotion campaign on 11 July 2004. A series of promotional activities have been or will be organized to enhance the branding of the Group's new V12 product series. With 12 Girls Band's international image and influence, it will further enhance the Group's vision to advance Skyworth brand to an international brand.



Customer services are always the priority to Skyworth, accordingly, we are in the process to improve customer relationship management system with a view to enhancing our professional standard and image of Skyworth in the TV and electronic markets.

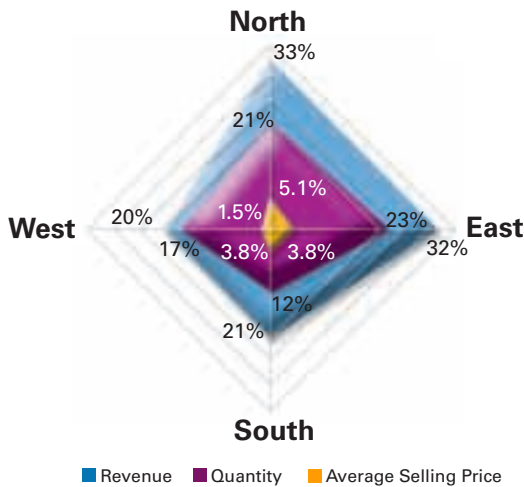
### **Demand**

In 2008, digital TV broadcasting systems will be adopted for major China cities. By the end of 2005, 33 major PRC cities will change the broadcasting system to digital standard. The 2004 Olympic Games and the October 2005 China National Games will definitely increase the demand in digital TV set and the set-top box.

Change in consumer consumption patterns in the rural areas due to the reduction in agricultural taxes and the urbanization of rural areas will definitely give more room for the development of the TV market.

Hence, we anticipate the replacement and/or the creation of new demands in TV sets will become more visible in fiscal 2005. Other consumer products, like set-top box and electronic AV players will be also attractive to those areas.

## Skyworth China TV Market Growth Rate



### China growth and living condition improvement

According to an Asian Development Bank's report issued in April 2004 (the "Report"), despite the Government's efforts to cool the economy, rapid economic growth will continue in the China in 2004 and 2005. After 9.1% growth in 2003, despite the outbreak of SARS, the economy is forecast to grow by about 8.3% in 2004 and 8.2% in 2005.

The Report further mentioned that consumption in China will grow at around 9% in 2004 and 2005 due to rapid urbanization and rising incomes.

The chart presented Skyworth's China TV growth rate in Southern, Eastern, Northern and Western regions in terms of its quantity, revenue and average selling price. Improvement in the consumption power and demand in the Eastern and

Northern China is notifiable, we are very pleased that we were able to penetrate into these market in fiscal 2004.

Witnessed the improvement of the living condition in large cities, such as Shenzhen, Shanghai, Beijing and Jilin, etc, and the escalating trend of high-end TV sales and supported by the positive 2004 and 2005 China outlook, your board is confident that the Group's strategy to build up a high-end TV market champion platform for Skyworth in China will contribute to the increase in the shareholders' value.

### Overseas market

The consensus of the world is that China is becoming the world's manufacturing base. A quick glimpse at the newspaper headlines, there were plenty of news about the cooperation between China and foreign companies in moving the foreign production base to China in the past few years. There should not be an exception to the TV market. We are also actively seeking for world-class partners to strength our export especially in the high-end TV production, including the LCD TV.



Other high-end AV products such as digital video recorder and portable media player are also our target for growth. To strength our overseas market management, we have built up a stronger team for facing the above challenges.

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### Production capacity

To enlarge the production capacity in order to cope with the tremendous demand in electronic products, the Group has commenced the construction of Shiyang site which will gradually increase the Group's production by about 10 million sets for production of high-end display and other electronic products. The site occupies a total area of 420,000 square meters; 2.6 times of the existing facilities at Gongming.



### Research team

The Group has built up a strong research and technical team to design new products serving the dynamic customer needs. Through the investment in the research of high-end technology, we have launched the V12 engine product series. The Group will continue to research in the acoustic, image processing engines and mechanical devices to satisfy customers' needs.

### Investment strategy

Against the challenges mentioned above, and with the high demand in electronic products, the Group will continue to seek for good investment opportunity in the electronic components for upstream integration in order to secure stable support and save production and research and development costs. However, the Group would also make other good investments for the shareholders when opportunities come.

## CORPORATE GOVERNANCE

We welcome comments from shareholders and would like to address their concerns as much as possible. We are in the process to enhance our corporate culture and instill corporate governance process into our organization. Today, your board has nominated to shareholders for appointment of Mr. Cheng Kin Chung and Mr. Xie Zhengcai as executive director and independent non-executive director, respectively in the forthcoming annual general meeting for election. The details of their experience and qualifications will be sent to the shareholders shortly for consideration.

I strongly recommend them to our shareholders that with over 17 years' experience in international professional services firms specializing in auditing listed companies and advising on merger and acquisition activities of listed companies in Hong Kong, Mr. Cheng who will be able to assist the board to formulate the overall financial strategy and improve of the corporate governance process. Since 1990s, Mr. Xie has been involving in the Flat Display technology research and development that will be able to assist us in giving more valuable comments on our investment strategy in our technologies and production facilities in the coming years.

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Mr. Xie, together with Mr. So Hon Cheung (a qualified accountant) and Mr. Li Weibin (a practicing lawyer), another two independent non-executive directors ("INEDs"), we will have three INEDs that will meet the new requirement under the Listing Rules issued by The Hong Kong Stock Exchange of Hong Kong Limited (the "HKEX").

The board has considered the changes in HKEX Listing Rules, draft code on corporate governance practice (the "Draft Code") and the draft corporate governance report introduced by the HKEX. Up to now, the board has adopted new Appendix 10 the HKEX Listing Rules as our Code for Securities Transactions by Directors, and proposed changes in the Company's Bye-laws to the shareholders which will be sent out shareholders shortly for consideration. The full implementation of the Draft Code is underway and will be carefully considered.

We understand that a good corporate governance process will definitely benefit us in long term. The board members together with the INEDs will try their best endeavors to instill good corporate governance culture within the Group.

### CONCLUSION

The Group's mission is to be number one in the display technology and enthusiastically provide excellent audio-visual products to satisfy the dynamic living style of our worldwide customers. Such mission drives our remarkable growth in the past 16 years despite the fierce competition and more legal and regulatory requirements to comply with.

Once again, we thank you the support from all our stakeholders and are sure that we will have another year of breakthrough.



**Wong Wang Sang, Stephen**

*Chairman*

Hong Kong, 27 July 2004