

Chairman's Letter

2005 Year at a Glance

- Profit after tax attributable to shareholders was HK\$403 million, an increase of 17.8%
- Proposed a final cash dividend of HK3.3 cents
- Cash-on-hand including pledged deposits, of HK\$1.9 billion.
- Inventory turnover ratio 62 days



Chairman's Letter

Dear Shareholders:

After my last report addressed to you all two months ago, I am very pleased to announce that Skyworth sets another new record in the 2004/05 full year result.

RESULTS

Revenue increased by 13.6% to HK\$10,466 million, from HK\$9,211 million in the last year. Excluding the export sales, there was an increase of about 15.7% to more than HK\$8,952 million.

The Group's net profit amounted to HK\$403 million, which was HK\$61 million more than last year, representing 17.8% increase.

I reckon that these was fast growth both in turnover and profitability considering that we have faced the following immense challenges:

Technology challenge: the need to incur a lot of research and development expenses to develop new technology and products;



Market challenge: the need to incur significant expenses for launching new HDTVs and panel TVs and in promoting brand awareness programs for the year; and

Structure challenge: the need for operational and structural alignment resulting from the incidents occurred on 30 November 2004 as referred to the note 43(a) to the financial statement.

With a pre-tax return on sales and investment of 2.6% and 9.3% respectively, our Company can report one of the highest rates in the industry in the financial year. Earnings per share rose 13.9% to HK17.99 cents. This year, the board proposes a final dividend of HK3.3 cents, giving a total dividend for the year of HK5.5 cents per ordinary share.



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OPERATIONS

MAJOR COMPONENT COST

Reduction in cost of flat panels drove the demand for high-end TVs in the first half fiscal 2005. The oversupply of the flat panels made the panel TVs more affordable and stimulated more sales. The market penetration of panel TVs also drove down the price of CRTs. However, recent months' supply figures indicate that panel and CRT prices are fluctuating. Therefore, your board is very conscious about the panel and CRT prices, and will tighten the inventory control.

LABOR COST

We have also experienced a minor increase in labor cost but not shortage of staff. This will definitely be one of your board's priorities to consider moving to a larger production base with lower average labor cost that would also improve the overall logistic cost once the Shiyang production base commences operation.



DEMAND

We also noted that the higher GDP in the coastal and northern China does attract more consumption in those areas. From the analysis, it is clear that the Group has adopted appropriate strategy to target on high-consumption areas for selling high-end TVs.

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NETWORK

Our training to the sales force and our forward-looking marketing strategy have contributed to the stable sales force. We are also exploring more distribution channels for delivering our products, especially direct selling through bulk sales to hotels, education institutes, etc.

CUSTOMERS

We do care about our customers and establish a national-wide hot line (86) 9510 5555 for them to inquire any technical and maintenance problems or other affairs relating to Skyworth products. In this interim period, we have also launched more programs to enhance the brand awareness and to speed up acceptance of the Group's brand. For detailed discussion of this matter, please refer to the section headed "Management's Discussion and Analysis".



We invest in our brand heavily during the period in order to build a high-end TV image in the market with the expectation that this investment will benefit other product lines, including mobile phone, small electric appliances and other digital AV products. We are confident that this investment will increase our future profitability in long run.

COMPETITORS

Domestic consumer electronic market competition remains intensive. Some national brands are changing their technological and sales strategies and/or even the executives in order to cope with the dynamic TV market. Your board has consistently implemented the new sales strategy to gain competitive advantages.

Sales to overseas are also facing keen competition. Our restructured sales effort would however assist in further developing overseas sales. We have started shipments of "Skyworth" brand TV to US market, the benefit would not be materialised in the coming fiscal year but will definitely enhance our brand value in long run.

HUMAN RESOURCES

In this year, the Group has spent more resources in training to enhance the quality of our staff. The Group also hire professional technical and managerial staff to cope with the management strategy development. The Group has set the "key performance indicators" for managerial staff in order to have a good system for monitoring and evaluation of staff performance. The Group acknowledges that future success of the Group is depending on the quality and loyalty of our staff which will enhance the stable growth of the Group. We are totally committed to further strengthen our human resources capital.

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CORPORATE GOVERNANCE

Immediately after the incident occurred on 30 November 2004, the Group took proactive measures to restructure the Group's management team in order to restore the Board's credibility and safeguard the interests of the shareholders. Details of the incident, the changes of the Board and other measures implemented by the Board are set out in note 43(a) to the financial statements.

The Board is pleased to state that the Group is able to maintain its normal daily operation and rapidly growth with the support from its investors, customers, distributors, suppliers, bankers and all the employees notwithstanding the incident occurred on 30 November 2004.

TAX INSPECTION

As announced by the Company, the Group was under a tax inspection by the PRC tax authorities commencing March 2005. The tax inspection has substantially been completed. Its details can be found in note 43(c) to the financial statements.

BUSINESS DEVELOPMENT

With the expansion of the other business units, including, the set top box, small electric appliance and mobile phone businesses, we are optimistic to the Group's performance in the coming years.



PROSPECTS

We understand that nowadays it is not easy to increase the selling prices of our products, to gain profitability, we need

- good economic environment;
- strong technology support for innovative products to enhance the value of our products;
- reinforce management;
- good cost controlling program to stabilise or reduce our production cost;
- good brand awareness program to enhance our product loyalty;
- wider product bases;
- strategic selling activities to reduce our inventory level and increase our sales value; and
- strong management team

to create future profitability.

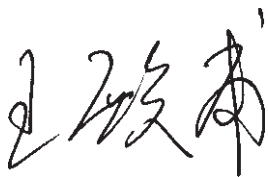
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Riding on the growing PRC economy and the worldwide digitalisation trend, Skyworth has been able to secure the above resources.

With a good result in fiscal year 2005, we will strive to make a good return to our shareholders in the years to come through technological advancement and creation of world brand "Skyworth". Your company, Skyworth, is well prepared to further advance in the coming years. May I extend our gratitude for your trust and understanding.

Finally, I would like to thank my fellow directors and senior management, as well as all Skyworth employees for their total commitment to ensuring continued improvement for the Group. My appreciation is also extended to our shareholders, bankers and business partners for their invaluable support in the past year and we look forward to working together to create a good future.

Yours sincerely,

A handwritten signature in black ink, appearing to be '王殿富' (Wang Dianfu), written in a cursive style.

Wang Dianfu

Executive Chairman

26 August 2005