

# Chief Executive Officer's Statement



16:9 TV

Your unique living style





## Chief Executive Officer's Statement



Mr. Zhang Xuebin

### FORMULATION AND EXECUTION OF GROUP STRATEGY

My role as the Group's Chief Executive Officer is to deliver satisfactory results from the business at present while building up an efficient and effective business platform for the future to sustain our business performance. I am pleased to report a strong set of results and good progress in accelerating our Group's development towards our mission to become an international electronics manufacturer, and also in building up "Skyworth" brand both locally and internationally.

The return on shareholders' fund for the year was 7%. During the year, both the PRC TV and mobile phone business performed well, with gross profit ratio of 19.6% and 16.3% respectively. Although the overseas multimedia division recorded a loss for the financial year, the divisional reorganisation and the newly secured orders should improve its performance in the foreseeable future.

### COMPANY'S STRATEGY

We will continuously maintain our specialisation in serving our customers, provide excellent logistic services, including production and procurement, and broaden our core value to associated electronics chains with a view to expanding our business scale by relying on "Skyworth" brand.

The Group recognised that enhancing our specialisation in the aforementioned areas will build up brand loyalty and customer satisfaction; providing excellent logistic services will reduce the overall production expenses and stabilise material supply by establishing long term partnership with suppliers, especially in LCD.

In reliance on the expansion of our core business platform, the Group has incubated and extended its businesses within the related electronics chain, particularly relating to digital broadcasting solutions in respect of image and signal processing, including DVB set-top boxes, TV entertainment through mobile phones and automobile electronics.



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Witnessed the growth of DVB set-top box business resulting from the worldwide digital broadcasting evolution, the Group had the foresight to start its investment in setting up the business a few years ago. In the current financial year, the DVB set-top box business has showed a considerable growth and started to contribute to the Group's performance. As 2008 Beijing Olympic approaches and the acceleration of digital broadcasting both in the mainland China and overseas, the management expects the significant growth in this business segment will continue globally.

Our mobile phone unit has launched Skyworth brand business in the current financial year in the mainland China. The management has taken into account of its past industrial experience and the dynamic market situation when formulating the business model of the unit. The business has received favorable market responses for being able to deliver innovative and fashionable products. We will, however, continuously review the business model of this unit and closely monitor the market performance in order to exercise a stringent control in inventory level and marketing efforts of the unit.

With the ongoing improvement in the standard of living and 3G convergence in the pipeline, the mobile phone market would be enormous in the mainland China. The management expects that the market growth will also bring in remarkable business opportunity for our mobile phone business unit in the foreseeable future.

As mentioned earlier, the Group has invested and will invest in related electronic businesses in order to better utilise the Group platform and "Skyworth" brand. Recognised the important value of our brand, the management has invested more resources in brand promotion and accordingly leading to an increase in selling and distribution expenses. In return, we have the following achievements:

- once being ranked number one sales status in 2005 over 100 major cities in the mainland China according to the research report from GFK Asia Pte. Ltd.;
- a professional research report stating that Skyworth brand has become a favorable brand in the PRC TV industry which also extended favorable impacts to other product lines of the Group;
- a report prepared by the China Electronic Chamber of Commerce stating that the value of the Skyworth brand has reached an equivalent of HK\$7,400 million.





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The completion of the new factories at Shenzhen and Huhhot in 2006 will bring in more production capability and give us flexibility in inventory control, distribution centers set up, and overall saving in our material storage time in raw materials and finished goods.

In conclusion, the Group's strategy is to move forward to complete our specialisation programs of customer services and logistics, and continuing to build up our brand in a prudent way by emphasising on the efficacy of our selling and distribution expenditure.

### COMPETITIVE STRATEGY

#### Mainland China TV market

To cope with the competition within TV market in the mainland China, the Group has been relying on the strategy to differentiate itself from its competitors in technology, marketing programs and distribution channels.



In 2005/06, the Group encountered a fierce competition in the PRC TV industry as many major industrial players, including domestic or international, all boosted their effort in promoting LCD TVs in the mainland China. The management has constantly evaluated and revised, if necessary, the Group's product and sales strategies with a view to enhancing the sales volume while maintaining the profitability.

Our marketing team has always been innovative. They have managed to adapt themselves to cope with the rapid expansion of the electronic chain stores, and also created different networks in selling Skyworth products. These networks include, supermarkets, corporations, individuals, credit card providers, etc. Different networks require different marketing strategies. The team has devised a series of different creative programs for promoting the products to suit different network requirements.



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### Overseas TV business and others

For overseas TV business and other business segments, the management positions the Group to adopt high growth strategy in order to maximise the benefit from the economies of scale.

Overseas OEM market margins are still thin and therefore our overseas TV business needs high volume sales. To serve multinational corporations is our target as it will give the potential to the Group to become one of the global major players. Our dedicated and strengthened professional teams are trained to serve multinational corporations and will seek for co-operation opportunities with giant electronic players.

We are leader in the mainland China TV market and are committed to create excellent products to our customers for enriching their entertainment experiences. However, we are considered as a newcomer in other electronic markets. Our strategy is to make a cognitive progress; learn the market, accumulate our technical know-how and explore the market.

### Target sales volume for TVs

For the year ending 31 March 2007, our target sales volume for TVs in the mainland China and overseas markets are 6.5 million units and 2.5 million units, respectively. This represents only a modest increase from the sales volume for TVs in the mainland China and overseas markets for the year ended 31 March 2006. Nevertheless, we are expecting an improvement in sales amount for TVs resulting from shifting of our TV product mix from conventional to high-end TVs which commands a higher average selling price.

Our strategic opportunities are clear and changes are under way to accelerate the delivery of our results. At the same time, our teams are maintaining their focus on continuing to deliver high quality products and high volume market opportunities. Despite the imminent challenges in the TV markets, I intend to report further good progress towards our performance and strategic goals in the year ahead.

**Zhang Xuebin**

*Chief Executive Officer*

24 July 2006