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# Interim Report

## 2001

SKYWORTH DIGITAL HOLDINGS LIMITED SKYWORTH DIGITAL HOLDINGS LIMITED SKYWORTH DIGITAL



**SKYWORTH**

Skyworth Digital Holdings Limited  
(Incorporated in Bermuda with limited liability)

## RESULTS

The board of directors of Skyworth Digital Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2001. The interim report for the six months ended 30 September 2001 has been reviewed by the Company’s audit committee and the auditors.

### CONDENSED CONSOLIDATED INCOME STATEMENT

	NOTES	Six months ended 30 September	
		2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)
Turnover	4	<b>1,760,592</b>	1,537,392
Cost of sales		<b>(1,548,563)</b>	(1,357,306)
Gross profit		<b>212,029</b>	180,086
Other income		<b>27,998</b>	30,383
Selling and distribution expenses		<b>(215,360)</b>	(266,620)
General and administrative expenses		<b>(89,094)</b>	(77,414)
Loss from operations	5	<b>(64,427)</b>	(133,565)
Finance costs		<b>(2,450)</b>	(3,208)
Loss before taxation		<b>(66,877)</b>	(136,773)
Taxation	6	<b>(2,349)</b>	(25,400)
Loss after taxation		<b>(69,226)</b>	(162,173)
Minority interests		<b>3,470</b>	36,494
Net loss for the period		<b>(65,756)</b>	(125,679)
Dividend	7	<b>—</b>	—
Loss per share	8		
– Basic (HK cents)		<b>(3.21)</b>	(6.19)
– Diluted (HK cents)		<b>(3.35)</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>At 30 September 2001</b>	At 31 March 2001
	<i>NOTES</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	<i>HK\$'000</i> <b>(Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>347,300</b>	317,944
Interest in associate		<b>9,914</b>	9,914
Interest in a jointly controlled entity		<b>21,028</b>	–
Technical know-how		<b>5,555</b>	11,458
Investments in securities		<b>1,869</b>	1,122
		<b>385,666</b>	340,438
<b>Current assets</b>			
Inventories	10	<b>1,360,134</b>	922,519
Properties for sale		<b>976</b>	976
Bills receivable	11	<b>490,894</b>	632,970
Trade and other receivable	12	<b>414,294</b>	198,276
Investments in securities		<b>62,460</b>	61,232
Pledged deposits		<b>45,290</b>	36,300
Bank balances and cash		<b>1,029,881</b>	1,479,827
		<b>3,403,929</b>	3,332,100
<b>Current liabilities</b>			
Trade and other payable	13	<b>1,411,553</b>	1,212,053
Amount due to associate		<b>12,020</b>	12,020
Taxation		<b>223,357</b>	229,041
Secured bank borrowings – due within one year		<b>5,653</b>	12,186
		<b>1,652,583</b>	1,465,300
<b>Net current assets</b>		<b>1,751,346</b>	1,866,800
<b>Total assets less current liabilities</b>		<b>2,137,012</b>	2,207,238
<b>Non-current liabilities</b>			
Secured bank borrowings – due after one year		<b>7,676</b>	8,242
Deferred taxation		<b>3,900</b>	3,900
		<b>11,576</b>	12,142
<b>Minority interests</b>		<b>6,757</b>	10,292
<b>Net assets</b>		<b>2,118,679</b>	2,184,804

**CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)**

		<b>At 30 September</b>	At 31 March
		<b>2001</b>	2001
	<i>NOTES</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Capital and reserves</b>			
Share capital		<b>205,000</b>	205,000
Share premium	14	<b>1,037,718</b>	1,037,718
Surplus account	14	<b>102,008</b>	102,008
Capital reserve	14	<b>29,274</b>	29,274
Exchange reserve	14	<b>3,945</b>	4,314
Accumulated profits	14	<b>740,734</b>	806,490
		<hr/> <b>2,118,679</b> <hr/>	<hr/> 2,184,804 <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS  
AND LOSSES**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Net loss for the period	<b>(65,756)</b>	(125,679)
Exchange differences arising on translation of financial statements of overseas operations	<u><b>(369)</b></u>	<u>–</u>
	<u><b>(66,125)</b></u>	<u>(125,679)</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash outflow from operating activities	<b>(361,830)</b>	(206,112)
Net cash inflow from returns on investments and servicing of finance	<b>21,186</b>	26,623
Tax paid	<b>(8,831)</b>	(5,389)
Net cash outflow from investing activities	<b>(92,935)</b>	(167,074)
Net cash outflow before financing	<b>(442,410)</b>	(351,952)
Net cash (outflow) inflow from financing	<b>(466)</b>	1,092,282
(Decrease) increase in cash and cash equivalents	<b>(442,876)</b>	740,330
Effect of foreign exchange rate changes	<b>(435)</b>	–
Cash and cash equivalents at beginning of the period	<b>1,468,664</b>	429,125
Cash and cash equivalents at end of the period	<b>1,025,353</b>	1,169,455

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. Its subsidiaries are principally engaged in manufacture and sale of consumer electronic products.

### 2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

### 3. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in the audited financial statements for the year ended 31 March 2001.

In the current period, the Group had adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new/revised accounting policies.

#### **Segment reporting**

In the current period, the Group has identified the reportable segments and disclosed the information that required by SSAP 26 "Segment reporting" which is the same as presented for the six months ended 30 September 2000.

#### **Goodwill**

In the current period, the Group had adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly goodwill (negative goodwill) arising on acquisitions prior to 1 April 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 April 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

### 3. ACCOUNTING POLICIES (Cont'd)

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisition after 1 April 2001 is presented as a deduction from non-current assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

### 4. TURNOVER AND SEGMENT INFORMATION

Sales of colour televisions accounted for more than 90% of the Group's turnover for the six months ended 30 September 2001.

An analysis of the Group's turnover, profit and loss from operations by geographical markets for the six months ended 30 September 2001 is as follows:

	Turnover		(Loss) profit from operations	
	Six months ended 30 September		Six months ended 30 September	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China (the "PRC")	<b>1,382,368</b>	1,254,709	<b>(80,031)</b>	(126,541)
Overseas	<b>378,224</b>	282,683	<b>15,604</b>	(7,024)
	<b><u>1,760,592</u></b>	<b><u>1,537,392</u></b>	<b><u>(64,427)</u></b>	<b><u>(133,565)</u></b>
Finance costs			<b><u>(2,450)</u></b>	<b><u>(3,208)</u></b>
Loss before taxation			<b><u>(66,877)</u></b>	<b><u>(136,773)</u></b>



**5. LOSS FROM OPERATIONS**

	<b>Six months ended 30 September</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Loss from operations has been arrived at after charging:		
Amortisation of technical know-how	<b>1,563</b>	–
Depreciation and amortisation of property, plant and equipment	<b>30,563</b>	28,858
Interest on bank borrowings		
– wholly repayable within five years	–	721
– not wholly repayable within five years	<b>341</b>	507
Loss on disposal of property, plant and equipment	<b>198</b>	130
Provision for doubtful debts	<b>4,043</b>	369
Provision for impairment loss of technical know-how	<b>4,340</b>	–
Provision for slow-moving inventories	<b>37,329</b>	51,189
Provision for warranties	<b>4,178</b>	4,612
Unrealised losses on investments in securities	<b>826</b>	–
and after crediting:		
Interest income	<b><u>20,878</u></b>	<b><u>27,159</u></b>

**6. TAXATION**

	<b>Six months ended 30 September</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	<b>2,302</b>	175
PRC income tax	<b>47</b>	111
Other PRC taxes	–	25,114
	<b><u>2,349</u></b>	<b><u>25,400</u></b>

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profits for the period. PRC income tax is calculated at the rates prevailing in the PRC.

Other PRC taxes for the six months ended 30 September 2000 are calculated at a composite rate of 15% on the intra-group technical and other services related fees charged to a subsidiary of the Group registered in the PRC.

**6. TAXATION (Cont'd)**

The Group is in the process of finalising a basis of assessment with the PRC tax authority on various PRC taxes on the technical and service related fees (as described in note 16) for the years 1995 to 1999, and during the period, the Group has provisionally paid HK\$6,968,000 (equivalent to RMB7,455,000) related to the other PRC taxes for the year of 1995. At this stage, in the opinion of the directors, the current PRC tax provision is sufficient, in addition, one of the shareholders has, upon listing of the Company's shares on the Stock Exchange, given a tax indemnity in respect of any additional assessments for the PRC taxes for the period up to October 1999.

**7. DIVIDEND**

The directors have determined that an interim dividend of HK\$0.05 per share (2000: Nil) should be paid to the shareholders of the Company whose names appear in the Register of Members on 18 January 2002.

**8. LOSS PER SHARE**

The calculation of the basic and diluted loss per share for the six months ended 30 September 2001 is based on the following data:

	<b>Six months ended 30 September 2001 HK\$'000</b>
Loss for the purposes of basic loss per share:	
Net loss for the period	<b>(65,756)</b>
Effect of dilutive potential ordinary shares:	
Adjustment to the earnings of subsidiaries in respect of the effect of its dilutive potential ordinary shares	<b>(2,985)</b>
Loss for the purposes of diluted loss per share	<b><u>(68,741)</u></b>
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b><u>2,050,000,000</u></b>

The computation of diluted loss per share for the six months ended 30 September 2001 does not assume the conversion of the Company's outstanding share options since their exercise would result in a decrease in net loss per share.

The calculation of the basic loss per share for the six months ended 30 September 2000 is based on the net loss for the period of HK\$125,679,000 and on the weighted average number of 2,030,327,869 ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 September 2000 has not been presented as the Company did not have any potential dilutive derivatives during the period.

**9. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group incurred approximately HK\$28,987,000 on construction of factory buildings and staff quarters situated in the PRC. The Group also acquired additional property, plant and equipment of approximately HK\$31,129,000 for business operation and expansion.

**10. INVENTORIES**

	<b>At 30 September 2001 (Unaudited) HK\$'000</b>	At 31 March 2001 HK\$'000
Raw materials	<b>310,240</b>	244,196
Work in progress	<b>110,462</b>	62,993
Finished goods	<b>939,432</b>	615,330
	<b><u>1,360,134</u></b>	<b><u>922,519</u></b>

Included above are raw materials of HK\$210,155,000 (31 March 2001: HK\$65,304,000) and finished goods of HK\$739,377,000 (31 March 2001: HK\$479,705,000) which are carried at net realisable value.

**11. BILLS RECEIVABLE**

The following is an aging analysis of bills receivable at the reporting date:

	<b>At 30 September 2001 (Unaudited) HK\$'000</b>	At 31 March 2001 HK\$'000
Within 30 days	<b>225,177</b>	165,215
31 to 60 days	<b>52,276</b>	85,614
61 to 90 days	<b>29,846</b>	74,985
91 days or over	<b>17,011</b>	67,969
Bills endorsed to suppliers	<b>166,584</b>	239,187
	<b><u>490,894</u></b>	<b><u>632,970</u></b>

**12. TRADE AND OTHER RECEIVABLE**

Sales to wholesalers and retailers other than department stores in the PRC are generally made on a cash basis or against bills issued by banks with maturity dates from 30 to 180 days or cheques. Sales to department stores in the PRC are made on a consignment basis which is normally settled within one to two months after sales. Certain district sales managers in the PRC are authorised to make credit sales for payment at 30 to 60 days, up to a limited amount, which is determined on the basis of the sales volume of the relevant representative office.

Export sales of the Group are mainly settled by letters of credit with credit term ranging from 30 to 60 days.

The following is an aging analysis of trade receivable at the reporting date:

	<b>At 30 September 2001 (Unaudited) HK\$'000</b>	At 31 March 2001 HK\$'000
Within 30 days	77,675	51,288
31 to 60 days	7,183	5,264
61 to 90 days	2,842	58
91 days or over	4,311	1,427
Trade receivable	92,011	58,037
Tax Reserve Certificates	64,133	–
Deposits, prepayment and other receivable	258,150	140,239
	<b>414,294</b>	<b>198,276</b>

**13. TRADE AND OTHER PAYABLE**

The following is an aging analysis of trade payable at the reporting date:

	<b>At 30 September 2001 (Unaudited) HK\$'000</b>	At 31 March 2001 HK\$'000
Within 30 days	334,463	181,044
31 to 60 days	119,806	134,796
61 to 90 days	51,337	68,119
91 days or over	133,382	94,872
Trade payable under endorsed bills	166,584	239,187
Trade payable	805,572	718,018
Deposits in advance, accruals and other payable	605,981	494,035
	<b>1,411,553</b>	<b>1,212,053</b>

**14. SHARE PREMIUM AND RESERVES**

	Share premium <i>HK\$'000</i>	Surplus account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2000	-	102,008	27,952	4,515	869,201	1,003,676
Issue of shares	1,083,500	-	-	-	-	1,083,500
Expenses incurred in connection with issuing of shares	(45,782)	-	-	-	-	(45,782)
Exchange differences on translation of financial statements of overseas operations	-	-	-	(201)	-	(201)
Loss for the year	-	-	-	-	(61,389)	(61,389)
Transferred to capital reserve	-	-	1,322	-	(1,322)	-
	<u>1,037,718</u>	<u>102,008</u>	<u>29,274</u>	<u>4,314</u>	<u>806,490</u>	<u>1,979,804</u>
Balance at 31 March 2001	1,037,718	102,008	29,274	4,314	806,490	1,979,804
Exchange differences on translation of financial statements of overseas operations	-	-	-	(369)	-	(369)
Loss for the period	-	-	-	-	(65,756)	(65,756)
	<u>1,037,718</u>	<u>102,008</u>	<u>29,274</u>	<u>3,945</u>	<u>740,734</u>	<u>1,913,679</u>
Balance at 30 September 2001	<u>1,037,718</u>	<u>102,008</u>	<u>29,274</u>	<u>3,945</u>	<u>740,734</u>	<u>1,913,679</u>

Included in the capital reserve are PRC statutory reserves amounting to HK\$5,050,000 (31 March 2001: HK\$5,050,000) transferred from accumulated profits as required by the relevant PRC laws and regulations applicable to the Group's PRC subsidiaries. The remaining HK\$24,224,000 (31 March 2001: HK\$24,224,000) represents negative goodwill arising on acquisition of subsidiaries.

**15. CAPITAL COMMITMENTS**

At 30 September 2001, the Group had the following capital commitments:

	<b>At 30 September 2001 HK\$'000</b>	At 31 March 2001 HK\$'000
Commitments contracted for but not provided, in respect of:		
Factory buildings under construction	<b>93,502</b>	81,394
Purchase of other property, plant and equipment	<b>22,606</b>	19,113
	<b>116,108</b>	100,507
Commitments authorised but not contracted for:		
Investment in jointly controlled entity and other investments	–	21,776
	<b>116,108</b>	122,283

**16. CONTINGENT LIABILITIES**

At 30 September 2001, the Group had the following contingencies:

- (a) As a result of its ongoing field audit of Skyworth (Group) Company Limited (“Skyworth (Group)”), the Hong Kong Inland Revenue Department (“HKIRD”) has raised assessments and additional assessments (“Assessments”) on Skyworth (Group) in the aggregate sum of approximately HK\$183,091,000 in respect of technical and other service related fees received by Skyworth (Group) from its fellow subsidiary 深圳創維－RGB電子有限公司 Shenzhen Chuangwei – RGB Electronics Co., Ltd. during the period from 1 April 1994 to 31 March 2000; such Assessments being on the basis that such income of Skyworth (Group) was sourced in Hong Kong.

The directors consider that this income was sourced in the PRC and have made full provision for the relevant PRC taxes in the financial statements. Accordingly, the directors consider that the income was sourced outside Hong Kong and should not be chargeable to Hong Kong Profits Tax. On this basis, and having taken professional advice, on 3 July 2001, Skyworth (Group) lodged an objection to HKIRD in respect of the Assessments. Then on 16 July 2001 HKIRD issued notices holding over HK\$118,958,000 of the Assessments pending completion of the field audit. Accordingly, on 30 July 2001, the Group purchased the Tax Reserve Certificates in the aggregate amount of HK\$64,133,000.

## 16. CONTINGENT LIABILITIES (Cont'd)

In any event, at the time of listing of the shares of the Company on The Stock Exchange of Hong Kong Limited, the then executive directors and a then shareholder of the Company indemnified the Company and its subsidiaries (collectively referred to as the "Indemnifiers") for any subsequent assessments of taxation made by HKIRD in respect of any profits generated in any period prior to 31 October 1999. On this basis, the directors have estimated that in the event that the Assessments were enforced against Skyworth (Group) approximately HK\$164,264,000 would in any case be recoverable under the indemnity arrangements.

On 17 July 2001, the Group had given notices to the Indemnifiers for requesting payment for the Assessments raised by HKIRD in respect of any profits generated prior to 31 October 1999, amounting to HK\$57,856,000, and together with all costs related.

Notwithstanding the indemnity, however, it remains the intention of the directors to continue to contest vigorously the full amount of the Assessments and also any further assessments that may be raised by HKIRD in respect of such income for periods subsequent to 1 April 2000.

Based on the above Assessments, the calculated effect for the period covered from 1 November 1999 to 31 March 2000 amounted to approximately HK\$20,000,000. On the same basis, the calculated effect for the year ended 31 March 2001 would amount to HK\$52,000,000. Accordingly, the total effect for the period from 1 November 1999 to 31 March 2001 would amount to HK\$72,000,000.

During the six months ended 30 September 2001, no technical and other service related fees were received by Skyworth (Group).

Accordingly, although, as at the report date of these financial statements the directors cannot determine with certainty the outcome of this matter, no provision for Hong Kong Profits Tax on technical and other service related fees received by Skyworth (Group) either in respect of the Assessments or in respect of the year ended 31 March 2001 has been made in the financial statements.

- (b) At 30 September 2001, the Company had executed certain corporate guarantees to banks in respect of credit facilities granted to a subsidiary to the extent of HK\$136,000,000 (31 March 2001: HK\$237,100,000).

## 17. PLEDGE OF ASSETS

At 30 September 2001, the Group's land and buildings with an aggregate net book value of approximately HK\$19,133,000 (31 March 2001: HK\$19,400,000) and bank deposits of HK\$45,290,000 (31 March 2001: HK\$36,300,000) were pledged to banks to secure the bank facilities granted to the Group.

## **BUSINESS REVIEW**

### **RESULTS**

For the six months ended 30 September 2001, the Group's sales turnover rose 15% to HK\$1,760,592,000. Loss for the period was HK\$65,756,000, against a loss of HK\$125,679,000 for the same period in 2000. Loss per share was HK3.21 cents.

In the view that the Group has a large cash float, which is more than sufficient to meet future expansion requirement, the directors recommend the payment of an interim dividend of HK\$ 0.05 per share.

### **OPERATION REVIEW**

In spite of the continuing massive discounts offered by our competitors, we managed to increase our sales turnover by concentrating on the large screen TV segment of the market. Sales turnover improvement together with tighter control over costs helped to increase the profit margin by 0.3% to 12.0%.

The Group continued to stockpile selectively the key components of the production and the finished goods in expectation of strong year-end sales of television and audio-visual products, which we witnessed last year. The inventory was up by 47% compared to 31 March 2001. To comply with our consistent policy in stock provision, the Group had made a provision of HK\$37,329,000 in the profit and loss accounts for the period.

We had better control on costs during the period and this contributed to the smaller losses in the period. With our own moulding, foam and component parts production facilities now running smoothly over three years, we achieved lower cost per unit though we continue to subcontract a small portion of the production to outsiders depending on the demand during the period.



**BUSINESS REVIEW (Cont'd)****OPERATION REVIEW (Cont'd)**

Cost of sales rose by 14% compared to sales turnover increase of 15%. Selling and distribution expenses decreased by HK\$51,260,000, or 19%, over the same period of last year. General and administrative expenses increased by HK\$11,680,000 or 15%. The more significant decreases or increases in expenses included:

**(a) Selling and distribution expenses:**

- Advertising and promotion – decreased by 41% compared to the same period last year;
- Salaries and entertainment were down by 19% and 36% respectively with the control over headcount put in place.

**(b) General and administrative expenses:**

- Salaries expenses were up by 45% and partially offset by the waiver of executive emoluments by the Chairman. The substantial increase was due to the settlement of the departure of certain executive and employees of the Group during the period;
- Amortisation and impairment loss of technical know-how was increased by HK\$5,903,000. It was due to the acquisition of such know-how in November 2001 and there was no such amortisation in the same period of last year.

**SALE OPERATIONS**

	2001	2000
Domestic sales		
Six months ended		
30 September:		
Revenue	<b>HK\$1,382,368,000</b>	HK\$1,254,709,000
Number of units sold	<b>1,234,000 units</b>	1,094,000 units
Inventories turnover days	<b>128</b>	137
At 30 September:		
Number of distribution centers	<b>147</b>	154
Number of sales staff in distribution network	<b>1,223</b>	1,960

## BUSINESS REVIEW (Cont'd)

### SALES OPERATIONS (Cont'd)

China sales – Domestic sales in China dominated the Group's sales operations during the six months ended 30 September 2001 and accounted for 79% of our sales revenue. During the period, the Group consolidated the sales network based on the concept of "sales office self-sufficiency", that is, each center was evaluated by virtue of its own performance to justify its own existence. Selling costs were under control during the period.

Overseas sales – Sales to our overseas markets increased by 34% compared to the same period last year. We remained at the number one position in our TV exports from China in 2000. During the six months ended 30 September 2001, sales revenue from overseas markets accounted for 21% of the Group's total sales, against 18% for the same period of last year. We expect the export sales, both under our own brand name and OEM products, continue to occupy larger shares of the Group's total sales. Our export markets now span across 45 countries, with the largest concentration in Asia.

An analysis of our market coverage is as follows:

Geographical markets	Six months ended 30 September	
	2001 Percentage (%)	2000 Percentage (%)
Asia	41	61
Europe	17	7
Central America	17	3
Middle East	10	16
South/North America	9	9
Australia	5	2
Africa	1	2
	<u>100</u>	<u>100</u>

### MANUFACTURING

The Group's two manufacturing facilities are both located in Shenzhen, China. One is located at Gongming, Baoan District and the other is situated at Bagualing Industrial District, Shenzhen City. Both facilities are employing a total of 5,263 employees. Among them, 4,214 are workers and the other 1,049 are supporting staff, which include a research team of 482.

## BUSINESS REVIEW (Cont'd)

### MANUFACTURING (Cont'd)

A new building is added to the existing facilities at Gongming. We plan to enhance our production capacities by the end of the year and the total production will thus be enhanced to 6.3 million units, including 1.8 million AV products, annually.

During the six months period under review, the total production output of the Group amounted to 1,953,000 units. An analysis of the total output is as follows:

Locations	Six months ended 30 September	
	2001 Number of units	2000 Number of units
Gongming, Shenzhen	1,562,000	1,396,000
Bagualing, Shenzhen	210,000	168,000
Sub-contractors	181,000	103,000
Total	<u>1,953,000</u>	<u>1,667,000</u>

The stock level, though high when compared to the level as at 31 March 2001, decreased when compared to the level of the same period last year. The stockpiling of parts and components is due to certain limitation in the nature of the business we are in. Owing to the large geographical area that the Group maintained its own sales network, we have set up a number of distribution centers to carry the stock. The management is considering improvement in the logistics function of the Group in order to make quicker inventory turnover and achieve a lower stock level.

### PRODUCTS

Television – True flat televisions are the popular models in the market and a larger portion of the Group's revenue derived from such sales. There is also a trend towards larger television sets and second or third sets in each household. At the same time, the rural population of the inner China still prefer to the inexpensive traditional CRT sets of smaller screen.

We forecast that the sale for the true flat televisions will increase by another 5% in the second half of the year. This will improve the profitability situation of the Group as it help to raise the gross margin.

## BUSINESS REVIEW (Cont'd)

### PRODUCTS (Cont'd)

After five years of introduction, the 100HZ and HDTV Ready television are established in the upper end of the market. With the popularity of the Internet, 1250 lines progressive scan TV will occupy an ever-larger portion of the market. In 2000 the HDTV Ready was about 1% of the total market, the percentage will likely be 2% in 2001 and the Group's share will increase at the same time. The gross margin of HDTV Ready is about 30%.

Audio-visual (AV) products – After the AV products were included in the Multimedia division, the sales team was under restructuring. It is the intention of the Group to place a balanced approach in the marketing of such products through the appointment of sales agency and maintaining an appropriate level of our own sales team. The domestic sales performance was not exciting and decreased by 33% of the same period of last year.

Others sales – The test production of the PDP units finished this period:

	<b>2001</b>	2000
Retail price	<b>RMB50,000</b>	RMB80,000
Gross margin	<b>30%</b>	25%

PDP will become the popular products in the future display market. In the coming half year, the Group plans to carry out the second and third batches of test production, in order to pave the way for the increasing market demand.

The Group has invested in digital cable set-top box (“STB”) for more than one year and we secured the first sale contract. We shall follow the same success pattern and develop the national market. We estimate that there is immense demand in the China market with over 100 million cable TV subscribers. The Group will expect the sale of the STB to grow gradually.

The Group has developed the competitive ISDN (integrated services digital network) and ADSL (asymmetric digital subscriber line) products, which has been granted the subscription license by the PRC authority. The sales in the first half of the year was about 500 sets; and the sale are expected double for the rest of the year.

## **BUSINESS REVIEW (Cont'd)**

### **PRODUCTS (Cont'd)**

The Jiangsu industrial and commercial informative service system is being jointly developed by a Chinese partner and the Group and the test run has successfully carried out in four locations including Jiangsu Provincial office, Nanjing, Yangzhou and Changzhou. The system shall provide industrial and commercial information to the public for a subscription fee and the return will be obvious in the near future.

Others products being researched included the points of sale machines for financial transactions, tax receipts issuance and identity check purpose.

### **FUTURE PROSPECTS**

The internal restructuring mainly focusing on human resources and departmental resource sharing is a continuing process. The management is committed to effectively control operating cost and improve the gross profit margin. We also aim to improve the electronic design of most models, which will lead to the material costs reductions. In a nutshell, the situation of high material costs and decreasing selling price in the abnormal television market will diminish. The management envisions the closer relationship with suppliers in our supply chain and the introduction of new products into the market; the gross profit margin of the Group is expected to rise. We believe that to be the top in the digital display technology is a practical way to success for the Group.

Our ranking in the China market improved during the period. We are now ranked the third in terms of sales turnover. In order to improve the ranking, we are placing heavy emphasis on the television research and development work. Our research and development capabilities have proved to be our competitive edge in the industry.

After China enters into the WTO, there shall be a positive impact towards the export products of the Group. The turnover of export market for the year 2001/2002 is expected to increase by 30% against the year 2000/2001, and the growth rate in the year 2002/2003 is expected to be 30%. In term of quantities (including the disc players), the 2000/2001 export was about 0.8 million, and it is expected to increase to 1.3 million for the year 2001/2002. For the time being, the Group has concluded several collaboration projects with international enterprises. The Group is very optimistic about the future export market. In the coming year, the sale is expected to be over 2 million units including disc players.

## **FUTURE PROSPECTS (Cont'd)**

In 2000 we witnessed the trough of the television industry, 2001 has brought some delighting news and also presented the Group with new possibilities. CRT televisions are being replaced by the digital display technologies and the Group aims at becoming the top in the field. In fact, with the strong cash position and the strong technical capabilities in reserves, the management foresees that the Group can sail through the period of market uncertainty and to be the top in the display technology in China in the years ahead.

## **FINANCIAL POSITION**

At 30 September 2001, the Group's bank balances and cash decreased by HK\$440,956,000 to HK\$1,075,171,000 compared to balance at 31 March 2001. With the drop in interest rate during the period, part of the internal resources have been used to purchase fixed income securities as investment, which totalled HK\$62,460,000. The Group maintained a healthy cash position.

Total bank borrowing amounted to HK\$13,329,000 as at 30 September 2001, representing a decrease of 35% over the total bank borrowing of HK\$20,428,000 as at 31 March 2001. The decrease was due to the Group's healthy cash position. The Group's management tries to maintain the debt level as low as possible in order to save interest expenses, to finance the PRC payment of additional purchase of inventories during the period.

The Groups had a net current asset balance of HK\$1,751,346,000 as at 30 September 2001 (as against HK\$1,866,800,000 as at 31 March 2001). Current ratio was 2.06 as at 30 September 2001 (as against 2.27 as at 31 March 2001).

The Group's shareholders' fund stood at HK\$2,118,679,000 as at 30 September 2001 (as against HK\$2,184,804,000 as at 31 March 2001) and the gearing ratio was 0.6% (as against 0.9% as at 31 March 2001).

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 September 2001, the Group employed a total of about 6,560 employees, of which about 6,480 were employed in Mainland China.

## EMPLOYEES AND REMUNERATION POLICY (Cont'd)

The Group offers a competitive remuneration package to its employees, including insurance and medical benefits. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's performance and individual performance.

## EXCHANGE RISK

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Reminbi, HK dollars or US dollars, the directors believe that the operations of the Group are not subject to significant exchange risk.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

### (a) Shares

At 30 September 2001, the interests of the directors and their associates' interests in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Type of interest	Number of shares
Wong Wang Sang, Stephen	Family ( <i>note</i> )	819,719,000
Kuo Teng Yeuk	Personal	67,017,000
Ng Kam Fai	Personal	57,443,000
Wong Pui Sing	Personal	23,935,000
Ding Kai	Personal	13,935,000

*Note: These shares are held as to 816,768,000 shares by Target Success Group Limited in its capacity as trustee of the Skysource Unit Trust and as to 2,951,000 shares by the wife of Wong Wang Sang, Stephen ("Mr. Wong"). These shares are deemed Mr. Wong's interests under the SDI Ordinance.*

*Other than as disclosed above, as at 30 September 2001, none of the directors or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.*

**DIRECTORS' INTERESTS IN SHARES AND OPTIONS (Cont'd)****(b) Share options**

At 30 September 2001, certain directors and a former director held share options granted to them under the share option scheme, adopted on 27 March 2000, of the Company entitling them to subscribe for shares in the Company upon exercise of their subscription rights as follows:

Name of director	Consideration paid for the option granted HK\$	Date of grant	Exercise price HK\$	Exercisable period	Number of share options outstanding as at 30 September 2001
Wong Wang Sang, Stephen	1.00	25.11.2000	0.336	25.11.2001 – 27.3.2010	12,500,000
			0.336	25.11.2002 – 27.3.2010	12,500,000
			0.336	25.11.2003 – 27.3.2010	12,500,000
			0.336	25.11.2004 – 27.3.2010	12,500,000
Kuo Teng Yeuk	1.00	25.11.2000	0.336	25.11.2001 – 27.3.2010	3,500,000
			0.336	25.11.2002 – 27.3.2010	3,500,000
			0.336	25.11.2003 – 27.3.2010	3,500,000
			0.336	25.11.2004 – 27.3.2010	3,500,000
Ng Kam Fai	1.00	25.11.2000	0.336	25.11.2001 – 27.3.2010	3,000,000
			0.336	25.11.2002 – 27.3.2010	3,000,000
			0.336	25.11.2003 – 27.3.2010	3,000,000
			0.336	25.11.2004 – 27.3.2010	3,000,000



**DIRECTORS' INTERESTS IN SHARES AND OPTIONS (Cont'd)**

Name of director	Consideration paid for the option granted <i>HK\$</i>	Date of grant	Exercise price <i>HK\$</i>	Exercisable period	Number of share options outstanding as at 30 September 2001
Ding Kai	1.00	25.11.2000	0.336	25.11.2001 – 27.3.2010	1,000,000
			0.336	25.11.2002 – 27.3.2010	1,000,000
			0.336	25.11.2003 – 27.3.2010	1,000,000
			0.336	25.11.2004 – 27.3.2010	1,000,000
Wong Pui Sing	1.00	25.11.2000	0.336	25.11.2001 – 27.3.2010	1,000,000
			0.336	25.11.2002 – 27.3.2010	1,000,000
			0.336	25.11.2003 – 27.3.2010	1,000,000
			0.336	25.11.2004 – 27.3.2010	1,000,000
<b>Former director</b>					
Liu Hui Yang, Henrique	1.00	25.11.2000	0.336	25.11.2001 – 27.3.2010	5,000,000
			0.336	25.11.2002 – 27.3.2010	5,000,000
			0.336	25.11.2003 – 27.3.2010	5,000,000

No share option was exercised by the directors and the former director to subscribe for shares of the Company during the period.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debenture of the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholders as having an interest of 10% or more of the issued share capital of the Company:

Name	Number of shares	Approximate percentage of issued shares held
Target Success Group Limited	816,768,000 <i>(note)</i>	39.84%
HSBC International Trustee Limited	816,768,000 <i>(note)</i>	39.84%

*Note: They held the shares of the Company in the respective capacities as trustee (in the case of Target Success Group Limited) of the Skysource Unit Trust (all of the units in which are owned by Skysource Trust) and (in the case of HSBC International Trustee Limited) of the Skysource Trust.*

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30 September 2001.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

Save that the non-executive directors of the Company were not appointed for any specific terms but are subject to the provisions in the Bye-laws of the Company as to retirement by rotation which apply to all directors of the Company, the Company has complied throughout the six months ended 30 September 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## AUDIT COMMITTEE

The Group's interim report for the six months ended 30 September 2001 was reviewed by the Audit Committee ("Committee") and the auditors. Regular meetings have been held by the Committee since its establishment and it shall meet at least three times a year.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Tuesday, 15 January 2002 to Friday, 18 January 2002, both dates inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend payable on or about 4 February 2002, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Hong Kong Registrars Limited, at 2/F Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not later than 4:00 p.m. on Monday, 14 January 2002.

On behalf of the Board  
**Wong Wang Sang, Stephen**  
*Chairman*

Hong Kong, 21 December 2001