



SKYWORTH DIGITAL HOLDINGS LIMITED

Incorporated in Bermuda with limited liability

Interim Report 2002



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 2002. The interim report for the six months ended 30 September 2002 has been reviewed by the Company’s audit committee and the auditors.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

		Six months ended 30 September	
	Notes	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover	4	2,951,057	1,760,592
Cost of sales		<u>(2,536,002)</u>	<u>(1,548,563)</u>
Gross profit		415,055	212,029
Other operating income		17,107	27,998
Selling and distribution expenses		(310,314)	(215,360)
General and administrative expenses		(87,279)	(84,754)
Impairment loss recognised in respect of technical know-how		–	(4,340)
Profit (loss) from operations	5	34,569	(64,427)
Finance costs		(7,440)	(2,450)
Gain on disposal of interest in a subsidiary		367	–
Release of negative goodwill		4,044	–
Share of results of a jointly controlled entity		(594)	–
Share of results of an associate		(151)	–
Profit (loss) before taxation		30,795	(66,877)
Taxation	6	(8,476)	(2,349)
Profit (loss) after taxation		22,319	(69,226)
Minority interests		9	3,470
Net profit (loss) for the period		<u>22,328</u>	<u>(65,756)</u>
Dividends	7	<u>73,333</u>	<u>103,812</u>
Earnings (loss) per share	8		
– Basic (HK cents)		<u>1.07</u>	<u>(3.21)</u>
– Diluted (HK cents)		<u>0.80</u>	<u>(3.35)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2002

		At 30 September 2002 HK\$'000 (Unaudited)	At 31 March 2002 HK\$'000 (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	426,214	397,700
Interests in associates		10,096	9,914
Interest in a jointly controlled entity		40,073	40,667
Investments in securities	10	18,772	9,670
		<u>495,155</u>	<u>457,951</u>
Current assets			
Inventories	11	1,757,338	850,638
Bills receivable	12	834,462	1,061,751
Trade and other receivables	13	775,091	448,868
Investments in securities	10	114,490	171,499
Pledged deposits		19,229	33,247
Bank balances and cash		491,704	1,138,319
		<u>3,992,314</u>	<u>3,704,322</u>
Current liabilities			
Trade and other payables	14	2,079,261	1,676,586
Bills payable	15	22,627	59,793
Amount due to an associate		12,020	12,020
Taxation		245,151	239,120
Secured bank borrowings		1,229	6,197
		<u>2,360,288</u>	<u>1,993,716</u>
Net current assets		<u>1,632,026</u>	<u>1,710,606</u>
Total assets less current liabilities		<u>2,127,181</u>	<u>2,168,557</u>
Non-current liability			
Secured bank borrowings		6,354	7,031
Deferred taxation		5,200	5,200
Minority interests		–	4,273
Net assets		<u>2,115,627</u>	<u>2,152,053</u>

		At 30 September 2002 HK\$'000 (Unaudited)	At 31 March 2002 HK\$'000 (Audited)
Capital and reserves			
Share capital	16	208,956	207,760
Share premium		1,047,033	1,044,231
Surplus account		102,008	102,008
Capital reserve		30,657	30,657
Exchange reserve		3,799	3,864
Accumulated profits		723,174	763,533
		<hr/> 2,115,627	<hr/> 2,152,053

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

	Share capital HK\$'000	Share premium HK\$'000	Surplus account HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP							
Balance at 1 April 2001	205,000	1,037,718	102,008	29,274	4,314	806,490	2,184,804
Exchange differences on translation of financial statements of overseas operations not recognised in income statement	-	-	-	-	(369)	-	(369)
Loss for the period	-	-	-	-	-	(65,756)	(65,756)
Balance at 30 September 2001	<u>205,000</u>	<u>1,037,718</u>	<u>102,008</u>	<u>29,274</u>	<u>3,945</u>	<u>740,734</u>	<u>2,118,679</u>
Balance at 1 April 2002	207,760	1,044,231	102,008	30,657	3,864	763,533	2,152,053
Exchange differences on translation of financial statements of overseas operations not recognised in income statement	-	-	-	-	(65)	-	(65)
Profit for the period	-	-	-	-	-	22,328	22,328
Dividend	-	-	-	-	-	(62,687)	(62,687)
Issue of shares	1,196	2,802	-	-	-	-	3,998
Balance at 30 September 2002	<u>208,956</u>	<u>1,047,033</u>	<u>102,008</u>	<u>30,657</u>	<u>3,799</u>	<u>723,174</u>	<u>2,115,627</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

	Six months ended 30 September	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited) (Restated)
Net cash used in operating activities	(585,784)	(370,661)
Net cash from (used in) investing activities	6,013	(71,408)
Net cash used in financing activities	(66,844)	(7,442)
Net decrease in cash and cash equivalents	(646,615)	(449,511)
Effect of foreign exchange rate changes	–	(435)
Cash and cash equivalents at beginning of the period	1,138,319	1,479,827
Cash and cash equivalents at end of the period	491,704	1,029,881
Analysis of the balances of cash and cash equivalents:		
Cash and cash equivalents as previously reported	–	1,025,353
Effect of reclassification of bank import loans	–	4,528
Cash and cash equivalents as restated	–	1,029,881
Being:		
Bank balances and cash	491,704	1,029,881

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability and its shares are 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 unaudited 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. PRINCIPAL ACCOUNTING POLICIES

The unaudited 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 preparation of the annual financial statements for the year ended 31 March 2002 except for the below.

In the current period, the Group had adopted, for the first time, a number of new and revised SSAPs, which has resulted in the following changes in the Group's accounting policies and the presentation of the financial statements.

Statement of changes in equity

The revisions to SSAP 1 "Presentation of Financial Statements" have introduced a choice for the format of presentation of the statement of changes in equity. In prior periods, the Group presented a statement of recognised gains and losses, with the details of capital transactions with owners and distributions to owners separately disclosed in the notes to the financial statements. Pursuant to the adoption of SSAP 1 (Revised), the Group has chosen to present a comprehensive statement of changes in equity. Accordingly, the presentation in the prior period's condensed financial statements has been restated in order to achieve a consistent presentation.

Foreign currencies

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas operations at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group’s translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of. This change in accounting policy does not have any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating cash flows for interest and dividend received and as financing cash flows for interest and dividend paid. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude trust receipt loans that are financing in nature. Cash flows of overseas operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The presentation in the prior period’s condensed cash flow statement has been restated in order to achieve a consistent presentation.

Employee benefits

SSAP 34 (“Employee Benefits”) introduced a formal framework for the recognition of liabilities and expenses in respect of employee benefits. The adoption of this new accounting standard has not resulted in any material effects on the financial statements of the prior period and accordingly, no prior period adjustment has been recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, is calculated using the weighted average method. In prior periods, the cost was calculated using the first-in, first-out method. This change in costing method has resulted in an increase of net profit for the period ended 30 September 2002 by HK\$8,603,000. The directors consider that it is impracticable to quantify the effect of such change in prior period.

4. TURNOVER AND SEGMENT INFORMATION

Business segments

The Group is principally engaged in the design, manufacture and sales of colour televisions and audio visual products. No business segment analysis is presented as management considers this as one single business segment.

Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China ("PRC"). These geographical locations are the basis on which the Group reports its primary segment information.

Segment information of the Group by geographical location of customers is presented as below:

Six months ended 30 September 2002

Income statement

	PRC HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
Revenue			
External sales	<u>2,161,869</u>	<u>789,188</u>	<u>2,951,057</u>
Result			
Segment result	<u>27,392</u>	<u>19,937</u>	47,329
Unallocated corporate expenses			<u>(24,890)</u>
Profit from operations			22,439
Interest income			12,130
Finance costs			(7,440)
Gain on disposal of interest in a subsidiary			367
Release of negative goodwill			4,044
Share of results of a jointly controlled entity			(594)
Share of results of an associate			<u>(151)</u>
Profit before taxation			30,795
Taxation			<u>(8,476)</u>
Profit after taxation			<u>22,319</u>

Six months ended 30 September 2001

Income statement

	PRC HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
Revenue			
External sales	<u>1,382,368</u>	<u>378,224</u>	<u>1,760,592</u>
Result			
Segment result	<u>(75,361)</u>	<u>15,604</u>	(59,757)
Unallocated corporate expenses			(21,208)
Impairment of loss recognised in respect of technical know-how			<u>(4,340)</u>
Loss from operations			(85,305)
Interest income			20,878
Finance costs			<u>(2,450)</u>
Loss before taxation			(66,877)
Taxation			<u>(2,349)</u>
Loss after taxation			<u>(69,226)</u>

5. PROFIT (LOSS) FROM OPERATIONS

	Six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Amortisation of technical know-how included in general and administrative expenses	–	1,563
Depreciation and amortisation of property, plant and equipment	37,782	30,563
Interest on bank borrowings		
– wholly repayable within five years	2,250	–
– not wholly repayable within five years	260	341
Loss on disposal of property, plant and equipment	1,201	198
Allowance for doubtful debts	1,844	4,043
Allowance for slow-moving inventories	2,954	37,329
Allowance for warranties	–	4,178
Unrealised losses on investments in securities	–	826
and after crediting:		
Interest income	12,130	20,878

6. TAXATION

	Six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
The charge comprises:		
Hong Kong Profits Tax	3,739	2,302
PRC income tax	4,737	47
	8,476	2,349

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.

7. DIVIDENDS

During the six months ended 30 September 2002, HK\$0.03 (2001: HK\$Nil) per share was paid to shareholders as the final dividend for the year ended 31 March 2002.

The directors have determined that an interim dividend of HK\$0.005 (2001: HK\$0.05) per share should be paid to the shareholders of the Company whose names appears in the Register of Members on 21 January 2003.

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	Six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Net profit (loss) for the purposes of basic earnings (loss) per share:		
Net profit (loss) for the period	22,328	(65,756)
Effect of dilutive potential ordinary shares:		
Adjustment to the earnings of subsidiaries in respect of the effect of its dilutive potential ordinary shares	(5,048)	(2,985)
Net profit (loss) for the purposes of diluted earnings per share	<u>17,280</u>	<u>(68,741)</u>
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	2,084,029,202	2,050,000,000
Effect of dilutive potential ordinary shares		
Share options	<u>83,477,519</u>	—
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<u>2,167,506,721</u>	<u>2,050,000,000</u>

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.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$36,572,000 on construction of factory buildings and office premises situated in the PRC. The Group also acquired additional property, plant and equipment of approximately HK\$31,310,000 for business operation and expansion.

10. INVESTMENTS IN SECURITIES

	Trading securities		Other investments		Total	
	At 30 September 2002 (Unaudited) HK\$'000	At 31 March 2002 HK\$'000	At 30 September 2002 (Unaudited) HK\$'000	At 31 March 2002 HK\$'000	At 30 September 2002 (Unaudited) HK\$'000	At 31 March 2002 HK\$'000
THE GROUP						
Equity-linked notes	13,689	–	–	–	13,689	–
Debt securities						
– listed	23,320	65,186	–	–	23,320	65,186
– unlisted	35,047	27,300	–	–	35,047	27,300
Listed equity securities						
in Hong Kong	10,304	–	–	–	10,304	–
Unlisted equity securities in the PRC	–	–	18,772	9,670	18,772	9,670
Unlisted equity securities in overseas	32,130	79,013	–	–	32,130	79,013
	<u>114,490</u>	<u>171,499</u>	<u>18,772</u>	<u>9,670</u>	<u>133,262</u>	<u>181,169</u>
Carrying amount analysed for reporting purposes						
Non-current	–	–	18,772	9,670	18,772	9,670
Current	<u>114,490</u>	<u>171,499</u>	<u>–</u>	<u>–</u>	<u>114,490</u>	<u>171,499</u>
	<u>114,490</u>	<u>171,499</u>	<u>18,772</u>	<u>9,670</u>	<u>133,262</u>	<u>181,169</u>

11. INVENTORIES

	At 30 September 2002 (Unaudited) HK\$'000	At 31 March 2002 HK\$'000
Raw materials	530,554	230,573
Work in progress	126,853	73,310
Finished goods	1,099,931	546,755
	<hr/> 1,757,338	<hr/> 850,638

Included above are raw materials of HK\$58,267,000 (31 March 2002: HK\$43,966,000) and finished goods of HK\$487,030,000 (31 March 2002: HK\$201,179,000) which are carried at net realisable value.

12. BILLS RECEIVABLE

The following is an aged analysis of bills receivable at the balance sheet date:

	At 30 September 2002 (Unaudited) HK\$'000	At 31 March 2002 HK\$'000
Within 30 days	383,273	320,321
31 to 60 days	22,233	230,006
61 to 90 days	15,592	132,851
91 days or over	33,147	99,594
Bills endorsed to suppliers	380,217	278,979
	<hr/> 834,462	<hr/> 1,061,751

13. TRADE AND OTHER RECEIVABLES

Sales to wholesalers and retailers other than department stores in the PRC are generally made on payment on delivery or against bills issued by banks with maturity dates from 30 to 180 days. 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 of up to a limited amount which is determined on the basis of the sales volume of the relevant 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 aged analysis of trade receivables at the balance sheet date:

	At 30 September 2002 (Unaudited) HK\$'000	At 31 March 2002 HK\$'000
Within 30 days	162,995	108,956
31 to 60 days	12,179	9,423
61 to 90 days	10,512	1,371
91 days or over	10,059	137
	<hr/>	<hr/>
Trade receivables	195,745	119,887
Tax reserve certificates	63,310	63,310
Deposits, prepayment and other receivables	516,036	265,671
	<hr/>	<hr/>
	775,091	448,868

14. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	At 30 September 2002 (Unaudited) HK\$'000	At 31 March 2002 HK\$'000
Within 30 days	368,725	421,989
31 to 60 days	255,517	141,217
61 to 90 days	148,840	125,730
91 days or over	176,623	99,687
Trade payable under endorsed bills	380,217	278,979
	<hr/>	<hr/>
Trade payables	1,329,922	1,067,602
Deposits in advance, accruals and other payables	749,339	608,984
	<hr/>	<hr/>
	2,079,261	1,676,586

15. BILLS PAYABLE

The following is an aged analysis of bills payable at the balance sheet date:

	At 30 September 2002 (Unaudited) HK\$'000	At 31 March 2002 HK\$'000
Within 30 days	11,607	13,819
30 to 60 days	3,361	1,267
91 days or over	7,659	44,707
	<hr/>	<hr/>
	22,627	59,793

16. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.1 each		
<i>Authorised</i>		
At 1 April 2002 and 30 September 2002	10,000,000,000	1,000,000
<i>Issued and fully paid</i>		
At 1 April 2002	2,077,598,000	207,760
Exercise of share options	11,966,000	1,196
At 30 September 2002	2,089,564,000	208,956

17. PLEDGE OF ASSETS

At 30 September 2002, the Group's land and buildings with an aggregate net book value of approximately HK\$18,700,000 (31 March 2002: HK\$18,900,000) and bank deposits of HK\$19,229,000 (31 March 2002: HK\$33,247,000) were pledged to banks to secure the bank facilities granted to the Group.

18. CAPITAL COMMITMENTS

At 30 September 2002, the Group had following capital commitments:

	At 30 September 2002 (Unaudited) HK\$'000	At 31 March 2002 HK\$'000
Commitments contracted for but not provided, in respect of:		
Factory buildings under construction	35,443	55,706
Purchase of other property, plant and equipment	55,367	20,409
Investment in unlisted equity securities in the PRC	7,800	7,800
	98,610	83,915

In addition to the above, the Group's share of the capital commitments of its jointly controlled entity in respect of the purchase of property, plant and equipment contracted but not provided for in its financial statements as at 30 September 2002 amounting to HK\$8,819,000 (31 March 2002: HK\$13,526,000).

19. CONTINGENT LIABILITIES

At 30 September 2002, the Group and the Company had the following contingencies:

- (a) At 30 September 2002, the Group had the following contingency:

As a result of its ongoing field audit of Skyworth TV Holdings Limited (formerly Skyworth (Group) Company Limited) ("Skyworth TV"), the Hong Kong Inland Revenue Department ("HKIRD") has raised assessments and additional assessments ("Assessments") on Skyworth TV in the aggregate sum of approximately HK\$183,091,000 in respect of technical and other service related fees received by Skyworth TV from its 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 TV was sourced in Hong Kong.

The directors consider that the income was sourced in the PRC and have made full provision for the relevant PRC taxes in the financial statements. Skyworth TV is in the process of finalising a basis of assessment with the PRC tax authority on various PRC taxes on the technical and other service related fees received for the years 1995 to 1999. During the year ended 31 March 2002, Skyworth TV 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, and 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.

As a result, the directors consider that the technical and other service related fees received by Skyworth TV were 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 TV 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, Skyworth TV purchased Tax Reserve Certificates in the aggregate amount of HK\$63,310,000. The remaining balance of HK\$823,000 was paid on 18 April 2001.

In any event, at the time of listing of the shares of the Company on the Stock Exchange, 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 TV, approximately HK\$164,264,000 would in any case be recoverable under the indemnity arrangements.

On 17 July 2001 and 12 January 2002, the Group has given notices to the Indemnifiers 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 HK\$106,408,000 respectively, together with all costs related.

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 approximately HK\$52,000,000. Accordingly, the total effect for the period from 1 November 1999 to 31 March 2001 would amount to approximately HK\$72,000,000.

No technical and other service related fees have been received by Skyworth TV since 1 January 2001.

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. Accordingly, no provision for Hong Kong Profits Tax on technical and other service related fees received by Skyworth TV either in respect of the Assessments or in respect of the two years ended 31 March 2002 has been made in the financial statements.

- (b) At 30 September 2002, the Company had executed certain corporate guarantees to banks in respect of credit facilities granted to a subsidiary to the extent of HK\$145,000,000 (31 March 2002: HK\$115,000,000).

BUSINESS REVIEW

Operating results

For the six months ended 30 September 2002, the Group reported a 67.6% increase in turnover to HK\$2,951,057,000 as compared with that of the same period of the previous financial year, and a net profit of HK\$22,328,000, against a net loss of HK\$65,756,000 of the same period last year. The Group's gross profit margin for the six-month period also rose by two percentage points to 14.1%. The growth was driven by increased sales in higher end televisions ("TVs") in both the China and overseas markets and lower cost due to the enhancement in production by the Group's R&D force.

The inventory at book-close day was up by 106.6% to HK\$1,757,338,000 compared to that of 31 March 2002. During the period, the Group's cost of sales rose by 63.8% compared to turnover increase of 67.6%. Selling and distribution expenses increased by HK\$94,954,000 or 44.1% on the same period last year. General and administrative expenses increased by HK\$2,525,000 or 3.0% on the same period last year. The more significant decreases or increases in selling and distribution expenses:

- Advertising and promotion – increased by 41.6% compared to that of the same period last year.
- Salaries and entertainment were increased by 44.2% and 55.7% respectively with the control over headcount put in place.

China operations

The sales of the Group's China operations amounted to HK\$2,161,869,000, representing a 56.4% increase from that of the same period last year and accounting for 73.3% of the Group's total turnover. TV sets remained the main income contributor to the Group's China operations, accounting for 89.6% of overall turnover. This was followed by audio and visual ("AV") products (10.4%).

TV

With successful combined sales & marketing and R&D efforts, the Group became the third largest TV set manufacturer in China. Leveraging these strengths the Group further captured a significant market share of 14% when compared with the aggregate 74% taken up by China's top five TV set manufacturers, as reported by China's Ministry of Information Industry in August. Taking the advantage of the quadrennial World Cup and rising consumption power in China, which enjoyed a GDP growth rate of 8.1% in the third quarter of 2002, the Group increased its turnover and sales volume of TV sets in China by 59% and 66% to HK\$2,095,647,000 and 1,774,000 sets respectively as compared with those of the same period last year. Sales of TV sets in China accounted for 79.4% of the Group's total TV sales.

Following the consolidation of the domestic TV market, competition began to shift to the high-end TV sector. Riding on the new market trend, the Group successfully established a strong presence in the high-end TV market through the launching of a wide selection of well-received Progressive Scan TVs and big-screen TVs. During the six months ended 30 September 2002, the Group's sales volume of 25-inch or above TVs in China increased by 3% over that of the same period last year.

In addition, the continued rising popularity of the Skyworth brand helped retain and attract quality and efficient distributors, who have actively increased their stocks of Skyworth products. The enlarged network of distributors together with the Group's strong sales team successfully capitalised on festive seasons such as Labour Day in May and China's National Day in October to further promote the Skyworth brand name and sales. Apart from the major cities, the sales team also concentrated its marketing activities in the second and third-tier cities and intensified the Group's rural market penetration in China.

AV products

During the period, sales of AV products in China continued to be affected by severe price competition. Turnover and volume of AV products sold in China were HK\$66,222,000 and 150,000 units, representing decreases of 6% and 7.4% from those of the same period of the previous year. During the period, China sales accounted for 21% of the total AV sales of the Group. Despite the adverse market conditions, the Group envisaged growth potential in the China market and continued to roll out new products. During the period under review, the Group launched a Progressive Scan DVD.

Digital set-top box and ADSL product

September 2002 marked a big leap forward in the Group's digital STB business. The Group entered into agreements with four cable network operators in three cities of Hubei, Liaoning and Jiangsu of China to provide them with digital STB software, technology and hardware and digital video broadcasting cable ("DVB-C") STB. The significance of these agreements lies in the huge market potential of these provinces, each of which offers 300,000 prospective subscribers. In the same month, the Group also signed up as the supplier of asymmetric digital subscriber line ("ADSL") for five China Telecom's telecommunications operators in Haikou, Yangzhou, Fuzhou, Nanjing and Nanchang. These new contracts further endorsed the Group's leading market position and advanced digital STB technology, which is expected to further enhance via the synergetic effect from the integration of the Group's broadband business and TV operations.

Overseas operations

Sales of the Group's overseas operations contributed to 26.7% of the Group's total turnover, with TV sales accounting for 69.6% of overseas turnover, followed by AV products (30.4%).

TV

The Group has been the largest TV exporter in China for eight consecutive years. Turnover and sales volume rose by 116.6% and 140.6% to HK\$538 million and 870,000 units respectively as compared with those of the corresponding period of last year.

Based on its solid foundation and advanced technology, the Group acquired substantial market share in Russia, Mexico, Israel, Malaysia and Australia during the first half of 2002. In June 2002, the Group strengthened its market presence in Japan and Korea by forging original equipment manufacturer ("OEM") partnerships with industry giants in Japan and Korea.

An analysis of our overseas market coverage is as follows:

Geographical markets	Six months ended 30 September 2002 Percentage (%)
Asia (including Japan and Korea)	21
Europe	34
Middle East	15
Central/South America	20
Australia	6
Africa	4
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	100 <hr style="width: 100%; border: 1.5px solid black;"/>

Like in the domestic market, the ability to capture the higher-end and big-screen TV segment in overseas markets became the norm for success. Capitalising on its niche in this sector, the Group increased its overseas sales of 25 inch and above TVs by 6% in volume.

For the period under review, overseas TV sales accounted for 20.6% of the Group's total TV sales. The Group expects to meet its overseas TV sales target of two million units by the end of the financial year.

AV products

Turnover and sales volume of AV products achieved significant upsurges of 153.4% and 243.3% to HK\$240 million and 512,000 units respectively during the period as compared to those of the same period last year. DVD products by Skyworth were well-received in Western Europe, such as Germany, England, and reported remarkable performance in Scandinavia and France, where the Group had market shares of 15% and 7% respectively during the first half of 2002.

Digital set-top box

Given its advanced technology, the Group's digital set-top box has strong competitive edge in overseas markets, including Indonesia, Vietnam, India and Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2002, the Group's bank balances and cash decreased by HK\$646,615,000 to HK\$491,704,000 as compared to 31 March 2002. This was due to the rise in stocks of components for making CRT TV, which is necessary to meet anticipated increase in demand during the coming festive seasons.

Total bank borrowing amounted to HK\$7,583,000 as at 30 September 2002, representing a decrease of 42.7% from that of 31 March 2002. Gearing ratio of the Group stood at 0.4% as at 30 September 2002, against 0.6% as at 31 March 2002.

The Group's net current assets totalled HK\$3,992,314,000 as at 30 September 2002, against HK\$3,704,322,000 as at 31 March 2002. Its current ratio stood at 1.69 as at 30 September 2002, when compared with 1.86 on 31 March 2002.

During the period under review, the Group's accounts receivables turnover has changed from 66 days to 67 days, while inventory turnover has shortened from 118 days to 81 days as compared with those of the same period last year.

The Group's shareholders' fund stood at HK \$2,115,627,000 as at 30 September 2002, against HK\$2,152,053,000 as at 31 March 2002.

FUTURE PROSPECTS

The Group's new R&D centre in Shenzhen High-Tech Industrial Park opened in October will serve as the Group's new Shenzhen headquarters, as well as home to the different specialised R&D teams of the Group. Moreover, the Group plans to establish three new production lines for PDP TV, Projector TV and TFT TV at the new centre.

The new production plant in Shi Yan of Shenzhen will commence construction in the fourth quarter of the current financial year. Covering an area of 350,000 square metres, the Shi Yan plant will be three times bigger than the Group's existing production facilities in Gongming of Shenzhen. Estimated capital expenditure for the Shi Yan plant is HK\$300 million, which will be financed by internal resources of the Group. At Shi Yan, the Group intends to construct 10 additional production lines for CRT TV and 10 lines for PDP TV, TFT TV, Projector TV and Digital TV. The new plant is scheduled to complete construction within the next three to four years. Upon completion of the Shi Yan plant, the total production capacity of the Group will increase to over 15 million TV units, which will be sufficient for the Group's development over the next 10 years. By year 2005, the new plant in Shi Yan will then service the Group's China operations, while the existing manufacturing facilities in Gongming will support the overseas business.

The Group's enterprise resources planning ("ERP") system is now undergoing trial runs. The system is expected to help improve the Group's overall operational efficiency upon its commencement of operation at the end of the current financial year.

TV

For the second half of the current financial year, the Group is well prepared to capitalise on the better market sentiment during festive seasons of the New Year and Chinese New Year. In the next few months, the Group will launch new models of High Definition TV ready ("HDTV" ready), TFT (thin film transistor) TV, Progressive Scan TV, LCOS TV (liquid crystal on silicone TV), and different sizes of PDP TV (Plasma) such as 42-inch and 50-inch. In view of the well reception of its Progressive Scan TV, the Group will roll out new models such as Progressive Scan 3DTV, with SRS WOW and TruBass sound systems, in the coming 12 months to increase its exposure to the high-end TV market in cities of China, while intensifying its rural market penetration with Pure Flat TV.

With regard to overseas markets, the Group will continue to increase its coverage of the European and North American markets. Particularly in Western Europe, the Group will first concentrate on the higher end TV market to establish a strong foothold. As for the US market, the Group will cautiously proceed with its market development plan as the transition period of US analogue broadcast to digital will end in 2006.

AV products

The Group plans to roll out DVD Home Theatre and DVD Hard Disc Recording in the third quarter of the financial year. With these new DVD products, the Group hopes to increase sales at home and abroad, especially in the established markets of Western Europe, Australia and Asia.

Digital set-top box

Although the digital STB business in China is in its development stage and its current contribution to the Group's revenue is insignificant, the Group envisages significant growth potential in the China market as the country is working round to the conversion of its analogue network to a fully digitalised network. Anticipating this trend, the Group will continue to actively expand its customer base of cable TV operators and TV stations in China.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

(a) *Shares*

At 30 September 2002, 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 the 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
	Personal	12,500,000
Kuo Teng Yeuk	Personal	70,517,000
Ng Kam Fai	Personal	60,443,000
Wong Pui Sing	Personal	24,935,000
Ding Kai	Personal	14,935,000

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 Mr. 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 2002, 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.

(b) Share Options

As at 30 September 2002, certain directors of the Company had personal interests in share options granted under the Company's share option scheme as follows:

Name of director	Consideration paid for the option granted HK\$	Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1 Apr 2002	Number of share options	
						Exercised during the period	Outstanding at 30 Sept 2002
Director							
Wong Wang Sang, Stephen	1.00	25.11.2000	0.336	25.11.2002 to 27.3.2010	12,500,000	–	12,500,000
			0.336	25.11.2003 to 27.3.2010	12,500,000	–	12,500,000
			0.336	25.11.2004 to 27.3.2010	12,500,000	–	12,500,000
Kuo Teng Yeuk	1.00	25.11.2000	0.336	25.11.2002 to 27.3.2010	3,500,000	–	3,500,000
			0.336	25.11.2003 to 27.3.2010	3,500,000	–	3,500,000
			0.336	25.11.2004 to 27.3.2010	3,500,000	–	3,500,000
Ng Kam Fai	1.00	25.11.2000	0.336	25.11.2001 to 27.3.2010	3,000,000	(3,000,000)	–
			0.336	25.11.2002 to 27.3.2010	3,000,000	–	3,000,000
			0.336	25.11.2003 to 27.3.2010	3,000,000	–	3,000,000
			0.336	25.11.2004 to 27.3.2010	3,000,000	–	3,000,000
Ding Kai	1.00	25.11.2000	0.336	25.11.2002 to 27.3.2010	1,000,000	–	1,000,000
			0.336	25.11.2003 to 27.3.2010	1,000,000	–	1,000,000
			0.336	25.11.2004 to 27.3.2010	1,000,000	–	1,000,000
Wong Pui Sing	1.00	25.11.2000	0.336	25.11.2002 to 27.3.2010	1,000,000	–	1,000,000
			0.336	25.11.2003 to 27.3.2010	1,000,000	–	1,000,000
			0.336	25.11.2004 to 27.3.2010	1,000,000	–	1,000,000

No share option was granted to the directors 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.

SHARE OPTIONS

At 30 September 2002, options granted to certain directors of the Company and employees of the Group, pursuant to the share option scheme, to subscribe for 151,363,000 ordinary shares of the Company within the following exercisable periods were set out below:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2002	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30 September 2002
25 November 2000	25 November 2001 to 27 March 2010	0.336	19,530,000	-	(11,466,000)	-	8,064,000
25 November 2000	25 November 2002 to 27 March 2010	0.336	47,642,000	-	-	-	47,642,000
25 November 2000	25 November 2003 to 27 March 2010	0.336	39,168,000	-	-	-	39,168,000
25 November 2000	25 November 2004 to 27 March 2010	0.336	34,189,000	-	-	-	34,189,000
2 April 2001	2 April 2002 to 27 March 2010	0.292	500,000	-	(500,000)	-	-
2 April 2001	2 April 2003 to 27 March 2010	0.292	500,000	-	-	-	500,000
2 April 2001	2 April 2004 to 27 March 2010	0.292	500,000	-	-	-	500,000

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2002	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30 September 2002
2 April 2001	2 April 2005 to 27 March 2010	0.292	500,000	-	-	-	500,000
23 January 2002	23 January 2003 to 27 March 2010	0.420	3,750,000	-	-	-	3,750,000
23 January 2002	23 January 2004 to 27 March 2010	0.420	3,750,000	-	-	-	3,750,000
23 January 2002	23 January 2005 to 27 March 2010	0.420	3,750,000	-	-	-	3,750,000
23 January 2002	23 January 2006 to 27 March 2010	0.420	3,750,000	-	-	-	3,750,000
25 March 2002	25 March 2003 to 27 March 2010	0.520	966,000	-	-	-	966,000
25 March 2002	25 March 2004 to 27 March 2010	0.520	966,000	-	-	-	966,000
25 March 2002	25 March 2005 to 27 March 2010	0.520	868,000	-	-	-	868,000
5 June 2002	5 June 2003 to 27 March 2010	0.840	-	250,000	-	-	250,000
5 June 2002	5 June 2004 to 27 March 2010	0.840	-	250,000	-	-	250,000
5 June 2002	5 June 2005 to 27 March 2010	0.840	-	250,000	-	-	250,000
5 June 2002	5 June 2006 to 27 March 2010	0.840	-	250,000	-	-	250,000
8 August 2002	8 August 2003 to 27 March 2010	0.750	-	500,000	-	-	500,000

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2002	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30 September 2002
8 August 2002	8 August 2004 to 27 March 2010	0.750	-	500,000	-	-	500,000
8 August 2002	8 August 2005 to 27 March 2010	0.750	-	500,000	-	-	500,000
8 August 2002	8 August 2006 to 27 March 2010	0.750	-	500,000	-	-	500,000
			<u>160,329,000</u>	<u>3,000,000</u>	<u>(11,966,000)</u>	<u>-</u>	<u>151,363,000</u>

The directors do not consider it appropriate to disclose a theoretical value of the share options of the Company during the period because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful, and would be misleading.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, 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>)	39.09%
HSBC International Trustee Limited	816,768,000 (<i>note</i>)	39.09%

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 2002.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2002 the Group employed a total of about 6,487 employees, of which about 6,390 were employed in Mainland China.

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 Renminbi, HK dollars or US dollars, the directors believe that the operations of the Group are not subject to significant exchange risk.

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

During the six months ended 30 September 2002, 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 2002 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 2002 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, 21 January 2003 to Friday, 24 January 2003, both dates inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend payable on 31 January 2003, 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 Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's East Road, Hong Kong not later than 4:00 p.m. on Monday, 20 January 2003.

On behalf of the Board
Wong Wang Sang, Stephen
Chairman

Hong Kong, 17 December 2002