

# Magic Picture Digital Era Perfect Integration



Skyworth Digital Holdings Limited

創維數碼控股有限公司

Incorporated in Bermuda with limited liability  
於百慕達註冊成立之有限公司

Interim Report 2004 中期報告

**CONTENTS**

	<i>Pages</i>
Financial Highlights	2
Corporate Information	3
Chairman's Statement	4-7
Management's Discussion and Analysis of Financial Condition and Results of Operations	8-14
Condensed Consolidated Income Statement	15
Condensed Consolidated Balance Sheet	16
Condensed Consolidated Statement of Changes in Equity	17
Condensed Consolidated Cash Flow Statement	18
Notes to Condensed Consolidated Financial Statements	19-30
Auditors' Report	31-32
Other Information	33-42

**FINANCIAL HIGHLIGHTS**

Amounts expressed in HK\$ million (except per share data)

	<b>1.4.2004 to 30.9.2004 (audited)</b>	1.4.2003 to 30.9.2003 (unaudited)	Change
<b>OPERATING RESULTS</b>			
Turnover	<b>4,349</b>	3,644	+19.3%
Operating profit (EBIT)	<b>243</b>	95	+155.8%
Profit attributable to shareholders	<b>187</b>	81	+130.9%
<b>FINANCIAL POSITION</b>			
Net cash from (used in) operating activities	<b>362</b>	(3)	n/a
Cash position*	<b>1,742</b>	500	+248.4%
Bank loans	<b>1,021</b>	6	+16,916.7%
Bank loans excluding portion arising from discounted bills	<b>6</b>	6	0.0%
Shareholders' funds	<b>2,711</b>	2,298	+18.0%
Working capital	<b>1,998</b>	1,654	+20.8%
Bills receivable	<b>1,911</b>	1,470	+30.0%
Bills discounted with recourse	<b>1,015</b>	–	n/a
Trade receivables	<b>508</b>	265	+91.7%
Inventories	<b>1,979</b>	1,935	+2.3%
<b>KEY RATIOS</b>			
Gross profit margin (%)	<b>15.3%</b>	14.7%	+0.6 pp
Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin (%)	<b>6.7%</b>	3.6%	+3.1 pp
Net profits margin (%)	<b>4.3%</b>	2.2%	+2.1 pp
Return on shareholders' equity (ROE) (%)	<b>13.8%</b>	7.0%	+6.8 pp
Debt to equity (%)**	<b>37.7%</b>	0.3%	+37.4 pp
Debt to equity excluding portion of bank loans arising from discounted bills (%)**	<b>0.2%</b>	0.3%	-0.1 pp
Net debt to equity (%)	<b>Net Cash</b>	Net Cash	
Current ratio (times)	<b>1.4</b>	1.6	-12.5%
Trade receivable turnover period (days)***	<b>106</b>	88	+20.5%
Trade receivable turnover period excluding portion arising from discounted bills receivable (days)***	<b>84</b>	88	-4.5%
Inventories turnover period (days)***	<b>82</b>	92	-10.9%
<b>DATA PER SHARE (HK CENTS)</b>			
Earnings per share – Basic	<b>8.43</b>	3.78	+123.0%
Earnings per share – Fully diluted	<b>8.06</b>	3.67	+119.6%
Dividend per share	<b>2.2</b>	2.0	+10.0%
Book value per share	<b>120.4</b>	107.0	+12.5%
<b>SHARE INFORMATION#</b>			
Number of shares in issue (million)	<b>2,252</b>	2,147	+4.9%
Market capitalisation	<b>4,786</b>	3,285	+45.7%

\* Cash position refers to bank balances plus pledged bank deposits

\*\* Calculated as term loans over shareholders' equity at period end

\*\*\* Calculated based on average inventory/average sum of bills receivable and trade receivables

# As at financial period end

## CORPORATE INFORMATION

### Executive Directors

Mr. Wang Dianfu (*Executive Chairman*)  
Ms. Ding Kai  
Mr. Leung Chi Ching, Frederick  
Mr. Zhang Xuebin

### Non-executive Director

Mr. Wong Wang Sang, Stephen  
(*Non-Executive Chairman*)

### Independent Non-executive Directors and Members of Audit Committee

Mr. So Hon Cheung, Stephen  
Mr. Li Weibin  
Mr. Xie Zhengcai

### Company Secretary

Mr. Leung Chi Ching, Frederick

### Auditors

Deloitte Touche Tohmatsu

### Legal Advisors

Coudert Brothers  
Richards Butler

### Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited  
Bank of China (Hong Kong) Limited  
Industrial and Commercial Bank of China  
China Merchant Bank  
Guangdong Development Bank

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Principal Place of Business

Skyworth Digital Holdings Limited  
Rooms 1601-04 Westlands Centre  
20 Westlands Road  
Quarry Bay  
Hong Kong

### Branch Share Registrar and Transfer Office

Hong Kong Registrars Limited  
Rooms 1712-16 Hopewell Centre  
183 Queen's Road East  
Hong Kong

### Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited  
6 Front Street, Hamilton HM 11  
Bermuda

### Share Listing

The Company's shares are listed on The Stock Exchange of Hong Kong Limited  
Stock Code: 751

### Announcement Date

2004/2005 Interim - 29 June 2005

### Closing Period of the Register of Members

From 18 July 2005 to 22 July 2005, both dates inclusive

### Investor Relations

Mr. Leung Chi Ching, Frederick  
*Director of Finance and Executive Director*  
Ms. Maggie Mak  
*General Manager, Investor Relations*  
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## CHAIRMAN'S STATEMENT

Dear Shareholders:

I am very pleased to announce that Skyworth set new records in the 2004/05 interim period. Revenue increased by 19.3% to HK\$4,349 million, from HK\$3,644 million in the same period last year. Excluding the overseas sales, there was an increase of about 22.9% to more than HK\$3,600 million.

The Group's net profit amounted to HK\$187 million, which was HK\$106 million more than the same period last year, representing 130.9% increase. This rise is even more remarkable considering that we incurred huge expenses for the launch of new HDTVs and promotion of the brand awareness programs for the interim period.

With a pre-tax return on sales and investment of 5.0% and 15.4% respectively, our company can report one of the highest rates in the industry.

Your board of directors has declared HK2.2 cents interim dividend for the six month period ended 30 September 2004 compared with the same period last year of HK2.0 cents, representing an increase of 10.0%.

### **Dynamic Electronic Era**

#### ***Major component cost***

Reduction in cost of flat panels drove the demand for high-end TV in the first half fiscal 2005. The oversupply of the flat panels does make the panel TVs more affordable and stimulates more sales. However, your board is very conscious about the decrease in panel price and only stocks up a good number for production in order to minimise write-down of inventory value.

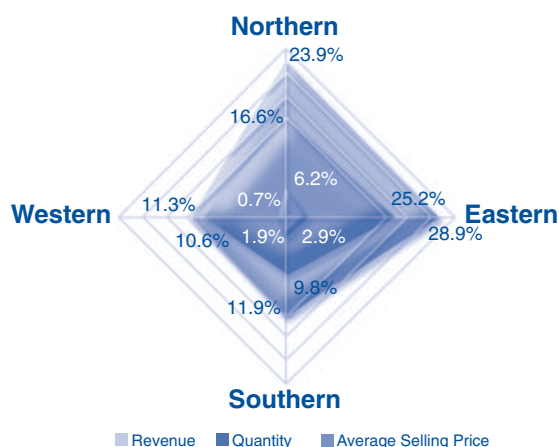
#### ***Labor cost***

We experienced an usual minor increase in labor cost but not shortage of staff. This will definitely be one of your board's priorities to consider moving to a production base with lower average labor cost that may also improve the overall logistic cost.

#### ***Demand***

We note that the higher GDP in the costal and northern China does attract more consumption in those areas. A diagram showing the analysis of average selling prices and sales quantity of the Group by regions is appended below. From the analysis, it is clear that the Group has adopted appropriate strategy to target on high-consumption areas for selling high-end TVs.

## Skyworth China TV Half Year Market Growth Rate



### **Network**

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

### **Customers**

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

We invest in our brand heavily during the period in order to build a high-end TV image in the market. We are confident that this investment will increase our future profitability.

### **Competitors**

Domestic market competition remains intensive. Some national brands are changing their technological and sales strategies and/or even the chief executive officers in order to cope with the dynamic TV market. Your board has consistently implemented the planned strategy and been competing wisely with our competitors. Sales to overseas are also facing keen competition. Our restructured sales effort would however assist in further developing overseas sales.



**Human resource**

In this period, the Group has spent more resources in training, retention and recruitment programs. The Group has commenced to set the “key performance indicators” for managerial staff in order to set up a good system for monitoring and evaluation of staff performance. The Group acknowledges that future success of the Group is depending on the quality and loyalty of our staff. We are committed to our human resources capital who will further enhance the growth of the Group.

**Corporate governance**

Immediately after the incident occurred on 30 November 2004, the Group took proactive measures to restructure the Group’s management in order to restore the Board’s credibility and safeguard the interests of the shareholders. Details of the incident, the changes of the Board and other measures implemented by the Board are set out in note 26(a) to the condensed consolidated financial statements.

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

**Prospects**

The TV demand in the Mainland market is due to (i) the early bird impact on the digitization of broadcasting signals which pushes the commencement of replacement cycle of TVs; (ii) the new demand created through improved standard of living; and (iii) the increase of the number of new marriage and the residential and office premises.



The restructuring of the overseas marketing strategy will give us more development potential in this and the next fiscal year and push “Skyworth” brand as an international brand in the foreseeable future.

We emphasize on technology and we are always looking for breakthroughs. During this period, we have launched a series of new products including “Magic Picture” TV which employs technology that create a processor that can handle six primary colors (red, yellow, green, indigo, blue and violet) instead of the traditional three primary colors (red, green and blue). The marvelous picture quality of Magic Picture TV has created another revolution for the TV market. We are expecting to produce more new products with good industrial designs in the coming year to lead the high-end TV market.

We are engaged in a right industry; at a right place – China (high demand in TV as explained above and all foreign electronic giants are looking for production partners at the same time); and at a right timing (digital era), we strongly believe that with our strong technical and management team, the imminent business opportunities will continue which improve our financial performance. Integration of technology into the digital era would definitely bring the enjoyment to global consumers.

With a good start in fiscal year 2005, we will certainly work better to make a good return to our shareholders in the years to come through technological advancement and creation of world brand “Skyworth”. Your company, Skyworth, is well prepared to develop positively also in the coming years. May I extend our gratitude for your trust and patient. I look forward to reporting our result for the full fiscal year 2005 to you soon.

Yours sincerely,

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

**Wang Dianfu**

*Executive Chairman*

29 June 2005



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Business Performance Review

#### *Improvement in turnover and gross margin*

Amid a competitive market, the Group set new records in the six months ended 30 September 2004.

Turnover of the Group reached HK\$4,349 million in the period, compared to HK\$3,644 million of the same period last year, representing an increase of 19.3%. Gross margin also improved from 14.7% in the same period last year to 15.3% in the current interim period. The improvements in turnover and gross margin were mainly attributable to:

- general economic improvement in the Mainland China – improvements in living standards, increased number of marriage and acceleration of completed residential buildings construction projects;
- popularity on digital broadcasting – positive influence on consumers' behaviour in purchase of television ("TV") products with digital technology;
- intensive marketing campaign – improved public awareness and recognition on Skyworth's brand and Skyworth's products;
- launching of high-end TV products – revenue mix on high-end TV products increased while improving overall gross margin; and
- better costs control and overall reduction in costs of raw materials enhanced steady improvement in gross margin of all products.

#### *Increase in selling and distribution expenses*

Compared to same period last year, the Group recorded an increase of HK\$91 million or 23.9% in selling and distribution expenses for the period. The ratios of selling and distribution expenses to turnover were 10.8% and 10.4% in the current interim period and the same period last year, respectively.

During the six months ended 30 September 2003, when there was Severe Acute Respiratory Syndrome ("SARS") outbreak, all major promotion programs of the Group were stopped. As the Group aims to promote "Skyworth" brand as a national brand in the high-end TV market, it has launched more promotional campaigns during some special events in 2004, including:

- UEFA (The Union des Associations Europeennes de Football) Euro 2004; and
- 2004 Olympic Games.

The Group also had the following promotional campaigns during the six months ended 30 September 2004:

- set up over 350 flagship counters in major cities in the Mainland China;
- contracted 12 Girls Band as the spokespersons of “Skyworth” brand;
- implemented extensive promotional programs for launching of the new “V12 Digital Engine” technology; and
- issued attractive promotional gifts to customers for stimulating the sales of high-end TV products.

During the current interim period, the number of contracted and temporary salesmen increased by 23.4% and 25.9%, respectively, in order to promote new products and increase the sales of the Group. Accordingly, there was a significant increase of HK\$52 million or 57.1% in compensations to salespersons as compared with the same period last year.

Another major factor causing the increase in selling and distribution expenses was (a) the increase in the number of large screen size TVs sold and (b) the continuous growth in sales volume of TVs in Eastern and Northern regions in Mainland China, during the current interim period.

#### **EBITDA**

EBITDA margin of the Group for the current interim period is 6.7%, representing a more than 3.1 percentage point increase as compared to 3.6% of that in the same period last year.

#### **Inventory control**

The net carrying value of the inventories of the Group was HK\$1,979 million as at 30 September 2004. There was a slight increase of HK\$44 million or 2.3% from the net carrying value of the inventories of the Group amounting to HK\$1,935 million as at 30 September 2003. This increase was mainly because the Group carried more high value items during the current interim period.

In the six months ended 30 September 2004, the turnover periods (based on average inventory balance net of provision) of raw materials and finished goods were 27 and 48 days, respectively.

Expecting further increase in future sales, the Group continues its tight controls on inventory and has been reinforcing the controls by improving the related operating procedures.

#### **Trade receivables; bills receivable; and pledged deposits**

As at 30 September 2004, trade receivables and bills receivable of the Group amounted to HK\$508 million and HK\$1,911 million, respectively, totalling HK\$2,419 million. As compared with 30 September 2003, the amount of trade receivables has increased by HK\$243 million or 91.7%, and the amount of bills receivable has increased by HK\$441 million or 30%. Also compared with 30 September 2003, the total amount of the trade receivables and bills receivable has increased by HK\$684 million or 39.4%.

The above significant increases can be explained by:

(i) *Increase in turnover during the current interim period*

As discussed above, the Group's turnover during the current interim period has increased by 19.3% compared with that of the same period last year. Due to the increase in demand to support the golden week of the National Day on 1 October 2004, sales during the month of September 2004 increased sharply which also explained the significant balance of trade receivables within the aged of 30 days as at 30 September 2004.

(ii) *Abolishment of consignment arrangement with department stores*

Until March 2004, the Group used to place consignment stocks in department stores, and recognise sales only when the products were sold to the ultimate customers. However, this consignment arrangement was abolished since March 2004 and all the products delivered to the department stores were recorded as sales.

Bills receivable of the Group as at 30 September 2004 increased by HK\$441 million or 30.0% as compared to HK\$1,470 million as at 30 September 2003. During the current interim period, the Group discounted its bills receivable to banks in order to obtain liquid cash, and at the same time the Group also issued bills to suppliers as settlement for raw materials supplies. As part of the arrangements with banks to issue bills to suppliers, cash balances were pledged to banks as security. This entirely explained the Group's position of inclusion of HK\$1,192 million pledged bank deposits as at 30 September 2004, shown as part of investing activities in the condensed consolidated cash flow statements, and HK\$1,015 million associated financial liabilities as at 30 September 2004, shown as part of financing activities in the condensed consolidated cash flow statements.

***Trade payables; and bills payable***

Total trade payables and bills payable of the Group as at 30 September 2004 amounted to HK\$2,258 million, representing an increase of HK\$578 million or 34.4% from 30 September 2003. As explained above, in the current interim period, the Group arranged with banks to issue bills to settle purchases from suppliers. Since most of the suppliers granted longer credit terms to the Group when payments were made through bills payable, bills payable significantly increased. Another reason for the increase in trade payables was due to the Group's need to increase production in September 2004 in order to meet the expected increase in demand in late September and early October 2004 for the National Day golden week.

**Product Segment and Geographical Segment Review**

***China market***

Over 80% of the Group's sales were derived from the Mainland China market. For the six months period ended 30 September 2004, turnover from the Mainland China market amounted to HK\$3,624 million compared with HK\$2,948 million of the same period last year, accounted for a 22.9% increase.

**Overseas market**

The Group's sales derived from overseas market accounted for 16.7% of the Group's total turnover in the current interim period. Overall increase in sales to overseas market in this interim period as compared to the last one was 4.2%, which can be analysed by a 17.7% increase in sales of TV products and a 46.7% decrease in sales of audio-visual ("AV") products.

*TV products*

The Group's overseas sales of TV products (87.3% of total overseas sales in the current interim period) are mainly to overseas OEM customers.

Following the outbreak of Iraq war and SARS, the economy of many countries had recovered to a significant extent in the six months ended 30 September 2004. This raised the demand for consumer electronics products.

Management believes that sales of TV products to overseas market can still maintain a steady growth by the Group's strong effort in exploring new markets in other countries, and the reputation of Skyworth high quality products.

*AV products*

Sales of AV products represented 12.7% of the total overseas sales in the current interim period as compared to 26.6% of the same in the same period last year.

As the sale of AV products is not the core business of the Group, the production volume and resources devoted to it are not significant, making the Group less competitive against other AV suppliers.

*Geographical distribution*

The percentage of geographical distribution of sales to overseas market is analysed below:

	<b>For the six months period ended 30 September 2004 (%)</b>	For the six months period ended 30 September 2003 (%)
Asia (including Japan, Korea, Vietnam, etc.)	<b>64</b>	61
America	<b>17</b>	12
Europe	<b>11</b>	20
Middle East	<b>4</b>	4
Australia and New Zealand	<b>3</b>	2
Africa	<b>1</b>	1
	<b>100</b>	100

The biggest overseas market for the Group is Asia. The sales to Asia represented over 60% of the total overseas sales for both of the periods.

## Liquidity and Financial Resources

As at 30 September 2004, the Group had bank balances and cash of HK\$1,742 million, which includes HK\$1,192 million pledged deposits maintained in banks to secure the issuance of bills payable to suppliers. Bank balances and cash of the Group as at 31 March 2004 was HK\$445 million only. This indicated that the Group achieved a 291.5% increase in bank balances and cash over the six months ended 30 September 2004.

Except for the associated financial liabilities arising from discounting bills receivables with recourse, bank borrowings of the Group represented mortgage loans amounting to HK\$6 million in respect of the land and building located in Hong Kong. As at 30 September 2004, the book value of the mortgaged land and buildings was HK\$18 million.

Gearing ratio of the Group was 0.2% as at 30 September 2004. This ratio is calculated with reference to the mortgage loans of HK\$6 million and shareholders' fund of HK\$2,711 million.

For other key financial ratios, such as current ratio, trade receivables turnover days and inventories turnover days, please refer to page 2 for a summary of financial ratios.

## Treasury Policy and Cash Flow Management

The Group's investments are mostly in Mainland China and its main revenue stream is in Renminbi. Other than Renminbi, most of the Group's remaining assets and liabilities are denominated in either Hong Kong dollars or US dollars. Management believes that the operations of the Group are not subject to significant foreign exchange risks and accordingly, the Group does not engage in any hedging activities at present. Similarly, the Group does not engage in any hedging instrument due to the uncertainty of interest rate development. However, management will monitor the foreign currency movement and interest rate movement to evaluate the need of any hedging policy in the future.

In this fiscal year, the Group has changed its policy for the utilisation of bills received from customers, which are guaranteed by local banks. The Group has initiated the discounting of such bills by either putting it as a pledged deposit to secure the issuance of bills payable to suppliers or as liquid cash for settlement of accounts payable.

## Significant Investments and Acquisition

During the six months ended 30 September 2004, the Group's addition to construction-in-progress was HK\$15 million mainly for the development of a production plant in Shiyan of Shenzhen, the PRC. Construction of the Shiyan production plant is expected to be completed by the end of December 2005. The Group will use this production plant as its new base for manufacturing panel TVs and mobile phones as well as related products such as liquid crystal displays and precision moulds.

During the same period, the Group also spent about HK\$38 million mainly in the replacement of old production facilities.

## Human Resource

As at 30 September 2004, the Group had approximately 12,600 employees in Hong Kong and Mainland China. This includes sales persons located in the sales office covering approximately 160 sales points in Mainland China.

Employees' remuneration packages are determined with reference to the qualifications and experiences of individuals and are reviewed annually and as required from time to time. The Group also offer incentives for employees, such as discretionary bonus and share options.

In the six months ended 30 September 2004, the Group has spent more resources in training, retention and recruitment programs. In the same period, it commenced to set the "key performance indicators" for managerial staff using a methodical system to monitor and evaluate the performance of such staff.

The Group acknowledges that its future success depends on its ability to build up a team of high quality professional managers as its human resource capital. It is fully committed to build up such human resource capital to enhance its assets for ensuring future growth.

## Subsequent Events

### ***Business operations returned to normal***

Apart from the changes, resulting from the events as set out in note 26(a) to the condensed consolidated financial statements, the Group's business operations has returned to normal immediately after the reorganisation of management and the board of directors of the Company. This is evidenced by the satisfactory sales volume accomplished by the Group (based on unaudited management reports) in respect of TV products in November 2004 to May 2005, which have been announced by the Company and are summarised in the following table:

	<b>PRC market</b>	<b>Overseas market</b>	<b>Total</b>
	<b>TV sets</b>	<b>TV sets</b>	
	<i>Unit ('000)</i>	<i>Unit ('000)</i>	<i>Unit ('000)</i>
November 2004	642	188	830
December 2004	974	204	1,178
January 2005	1,126	168	1,294
February 2005	382	87	469
March 2005	338	215	553
April 2005	388	234	622
May 2005	338	166	504

### ***Syndicated loan of US\$60 million***

As referred to in note 26(b) to the condensed consolidated financial statement, the Group has, on 6 December 2004, repaid the entire outstanding principal together with accrued interest drawn from a banking facility granted by several banks under a syndication arrangement. The Group has also on 10 December 2004 served a cancellation notice to cancel the entire facility. Management believes that this is a good gesture evidencing the healthy financial position of the Group.

## Future Prospects

Judging from the sales of the Group for the six months ended 31 March 2005, management is confident that the Group will have another successful fiscal year.

Amid fierce competition in the electronic industry, management still believes that the Group has its competitive edge to stand out from its competitors. This is due to, among others, that management emphasizes on technology and always looking for breakthroughs. In August 2004, the Group has launched "Magic Picture" TVs to the market. The "Magic Picture" or "V12" technology is based on a processor that can handle six primary colours (red, yellow, green, blue, indigo and violet) instead of the traditional three primary colours (red, green and blue). The marvellous picture quality of Magic Picture TVs has created another revolution for the TV market. In April 2005, the Group also added "A12" technology to certain of its TV products. The "A12" technology improves the sound system of the TV products.

The Group aims at focusing on its core business to produce high technology TV products whilst increasing its margin and broadening its revenue base by vertical integration. The Group is looking for good investments opportunity in areas complimentary to its core business.

The Group expects that the construction of the new production plant in Shiyan of Shenzhen will be completed by the end of December 2005. It has also commenced the setting up of another new production plant for manufacturing of TV products in Huhot, Inner Mongolia, the PRC. The construction of Huhot production plant is expected to be completed by the end of December 2005 as well. The new Shiyan production plant will provide the Group with additional production facilities for TV and other products. The setting up of the Huhot production plant would enhance the Group's competitiveness in its sale of TV products in the Northern region by improving working capital control and saving increasing transportation costs.

Recognising the growth potential for semi-conductors, the Group proposes to build a factory sized of 36,000 square meters to produce semi-conductor chips. This proposed project has obtained the in-principle approval and support from the Shenzhen government.

The Group has also started its manufacturing of liquid crystal display module in June 2005 and obtained a licence to manufacture mobile phones in May 2005.



**CONDENSED CONSOLIDATED INCOME STATEMENT***For the six months ended 30 September 2004*

Amounts expressed in HK\$ million (except per share data)

	<i>Notes</i>	<b>1.4.2004 to 30.9.2004 (audited)</b>	1.4.2003 to 30.9.2003 (unaudited)	1.4.2003 to 31.3.2004 (audited)
Turnover	5	<b>4,349</b>	3,644	9,211
Cost of sales	6	<b>(3,684)</b>	(3,107)	(7,712)
Gross profit		<b>665</b>	537	1,499
Other operating income		<b>38</b>	32	38
Reversal of provision against value added tax	7	<b>127</b>	–	–
Reversal of provision against the patent rights litigation	8	<b>33</b>	–	–
Selling and distribution expenses		<b>(471)</b>	(380)	(903)
General and administrative expenses		<b>(149)</b>	(94)	(218)
Allowance for loan to a jointly controlled entity		–	–	(3)
Impairment loss recognised in respect of other securities		–	–	(2)
Profit from operations		<b>243</b>	95	411
Finance costs		<b>(9)</b>	–	(1)
Write off of interest in an associate		<b>(10)</b>	–	–
Share of results of jointly controlled entities		<b>(8)</b>	(7)	(11)
Profit before taxation	9	<b>216</b>	88	399
Taxation	10	<b>(27)</b>	(7)	(47)
Profit after taxation		<b>189</b>	81	352
Minority interests		<b>(2)</b>	–	(10)
Net profit for the period/year		<b>187</b>	81	342
Dividends	11	<b>50</b>	44	166
Earnings per share				
Basic ( <i>HK cents</i> )	12	<b>8.43</b>	3.78	15.80
Diluted ( <i>HK cents</i> )	12	<b>8.06</b>	3.67	15.15

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 September 2004

Amounts expressed in HK\$ million

	<i>Notes</i>	<b>30.9.2004 (audited)</b>	30.9.2003 (unaudited)	31.3.2004 (audited)
<b>Non-current assets</b>				
Property, plant and equipment	13	549	462	522
Investment properties		128	125	128
Interest in an associate		–	10	10
Interests in jointly controlled entities		27	36	35
Investments in securities	14	26	19	20
		<b>730</b>	652	715
<b>Current assets</b>				
Inventories	15	1,979	1,935	1,336
Trade and other receivables	16	915	670	584
Bills receivable	17	1,911	1,470	2,366
Amount due from a jointly controlled entity		6	–	7
Investments in securities	14	19	55	72
Pledged bank deposits		1,192	–	–
Bank balances and cash		550	500	445
		<b>6,572</b>	4,630	4,810
<b>Current liabilities</b>				
Trade and other payables	18	2,192	2,632	2,466
Bills payable	19	1,071	52	170
Amount due to an associate		–	12	12
Amount due to a jointly controlled entity		–	1	2
Amount due to a minority shareholder		–	20	–
Taxation	10	294	258	285
Secured bank borrowings	20	1,017	1	3
		<b>4,574</b>	2,976	2,938
<b>Net current assets</b>		<b>1,998</b>	1,654	1,872
<b>Total assets less current liabilities</b>		<b>2,728</b>	2,306	2,587
<b>Non-current liabilities</b>				
Secured bank borrowings	20	4	5	4
Deferred taxation		3	3	3
		<b>7</b>	8	7
<b>Minority interests</b>		<b>10</b>	–	8
<b>Net assets</b>		<b>2,711</b>	2,298	2,572
<b>Capital and reserves</b>				
Share capital	21	225	215	222
Share premium		1,176	1,061	1,108
Investment property revaluation reserve		3	1	3
Investment revaluation reserve		3	–	–
Surplus account		102	102	102
Capital reserve		30	30	30
Exchange reserve		3	2	3
Accumulated profits		1,169	887	1,104
		<b>2,711</b>	2,298	2,572

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 September 2004*

Amounts expressed in HK\$ million

	Share capital (unaudited)	Share premium (unaudited)	Investment property revaluation reserve (unaudited)	Investment revaluation reserve (unaudited)	Surplus account (unaudited)	Capital reserve (unaudited)	Exchange reserve (unaudited)	Accumulated profits (unaudited)	Total (unaudited)
Balance at 1 April 2003	214	1,059	1	-	102	30	2	903	2,311
Issue of shares under share option schemes	1	2	-	-	-	-	-	-	3
Net profit for the period	-	-	-	-	-	-	-	81	81
Dividends	-	-	-	-	-	-	-	(97)	(97)
Balance at 30 September 2003	215	1,061	1	-	102	30	2	887	2,298

	Share capital (audited)	Share premium (audited)	Investment property revaluation reserve (audited)	Investment revaluation reserve (audited)	Surplus account (audited)	Capital reserve (audited)	Exchange reserve (audited)	Accumulated profits (audited)	Total (audited)
Balance at 1 April 2004	222	1,108	3	-	102	30	3	1,104	2,572
Revaluation increase	-	-	-	3	-	-	-	-	3
Net gains not recognised in the income statement	-	-	-	3	-	-	-	-	3
Issue of shares under share option schemes	-	1	-	-	-	-	-	-	1
Issue of shares in respect of scrip dividend	3	67	-	-	-	-	-	-	70
Net profit for the period	-	-	-	-	-	-	-	187	187
Dividends	-	-	-	-	-	-	-	(122)	(122)
Balance at 30 September 2004	225	1,176	3	3	102	30	3	1,169	2,711

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

Amounts expressed in HK\$ million

	<b>1.4.2004 to 30.9.2004 (audited)</b>	1.4.2003 to 30.9.2003 (unaudited)	1.4.2003 to 31.3.2004 (audited)
Net cash from (used in) operating activities	<b>362</b>	(3)	73
Net cash used in investing activities	<b>(1,211)</b>	(116)	(256)
Net cash from (used in) financing activities	<b>954</b>	(95)	(86)
Net increase (decrease) in cash and cash equivalents	<b>105</b>	(214)	(269)
Cash and cash equivalents at beginning of the period/year	<b>445</b>	714	714
Cash and cash equivalents at end of the period/year	<b>550</b>	500	445

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2004

### 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 and its subsidiaries are principally engaged in the manufacturing and sales of consumer electronic products.

Financial information for the year ended 31 March 2004 and as at 30 September 2003 have been provided in the condensed interim financial statements for evaluation of the Group's seasonal performance.

### 2. BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (formerly known as the 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 (the "Listing Rules").

### 3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the condensed financial statements for the period ended 30 September 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results of operations and financial position are prepared and presented.

### 4. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods adopted for the preparation of the condensed interim financial statements are the same as those adopted by the Group in the preparation of the annual financial statements for the year ended 31 March 2004.

### 5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the aggregate value of goods sold after goods returns and trade discounts, and rental income from leasing of investment properties for the period/year, and is analysed as follows:

	<b>1.4.2004 to 30.9.2004 (audited) HK\$ million</b>	1.4.2003 to 30.9.2003 (unaudited) HK\$ million	1.4.2003 to 31.3.2004 (audited) HK\$ million
Sales of goods	<b>4,333</b>	3,644	9,181
Property rental income	<b>16</b>	–	30
	<b>4,349</b>	3,644	9,211

### Business segments

The Group is principally engaged in the design, manufacturing and sales of colour televisions and audio visual products and property investment. The management considers that the profit from operations of the Group is mainly contributed by the design, manufacturing and sales of colour televisions and audio visual products and accordingly, no business segment analysis is presented.

### Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China (the "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:

#### *Income statement for the six months ended 30 September 2004 (audited)*

	PRC <i>HK\$ million</i>	Other Regions <i>HK\$ million</i>	Consolidated <i>HK\$ million</i>
Revenue			
External sales and rental income	<b>3,624</b>	<b>725</b>	<b>4,349</b>
Result			
Segment results	<b>213</b>	<b>38</b>	<b>251</b>
Interest income			12
Unallocated corporate expenses			(20)
Profit from operations			<b>243</b>
Finance costs			(9)
Write off of interest in an associate	(10)	–	(10)
Share of results of jointly controlled entities	(8)	–	(8)
Profit before taxation			<b>216</b>
Taxation			(27)
Profit after taxation			<b>189</b>
Minority interests			(2)
Net profit for the period			<b>187</b>

#### *Income statement for the six months ended 30 September 2003 (unaudited)*

	PRC <i>HK\$ million</i>	Other Regions <i>HK\$ million</i>	Consolidated <i>HK\$ million</i>
Revenue			
External sales	2,948	696	3,644
Result			
Segment results	84	11	95
Interest income			4
Unallocated corporate expenses			(4)
Profit from operations			95
Share of results of jointly controlled entities	(7)	–	(7)
Profit before taxation			88
Taxation			(7)
Profit after taxation			81
Minority interests			–
Net profit for the period			81

**Income statement for the year ended 31 March 2004 (audited)**

	PRC HK\$ million	Other Regions HK\$ million	Consolidated HK\$ million
Revenue			
External sales and rental income	7,734	1,477	9,211
Result			
Segment results	361	47	408
Interest income			9
Unallocated corporate expenses			(6)
Profit from operations			411
Finance costs			(1)
Share of results of jointly controlled entities	(11)	–	(11)
Profit before taxation			399
Taxation			(47)
Profit after taxation			352
Minority interests			(10)
Net profit for the year			342

**6. COST OF SALES**

The following items are included in cost of sales for the six months ended 30 September 2004.

- (a) Adjustment of an accounting error amounted to HK\$26 million which is in relation to certain cash volume discounts. In May 2001, cash volume discounts in an aggregate amount of approximately HK\$26 million were received from three of the Group's raw material suppliers in the PRC. These purchase discounts were related to the Group's purchase in the year ended 31 March 2001 and were recorded as a reduction of the Group's cost of sales for the year ended 31 March 2001.

According to the PRC tax laws, the three raw material suppliers were required to issue credit value added tax ("VAT") invoices to the Group for the cash volume discounts. In May 2002, these three raw material suppliers, upon approval by the relevant tax authorities, issued credit VAT invoices to the Group. After receiving the credit VAT invoices, the Group committed an accounting error by recording, once again, the same amount of HK\$26 million as a reduction of cost of sales. To correct this accounting error, the same amount was, accordingly, charged to cost of sales of the Group during the period.

- (b) An underprovision of accrued purchases amounted to HK\$29 million as at 31 March 2004. The underprovision was resulted from the delay, for more than one year, in the issuance of invoices for raw materials by a supplier in respect of purchases took place in the year ended 31 March 2003.

**7. REVERSAL OF PROVISION AGAINST VALUE ADDED TAX**

During the financial year ended 31 March 2003, certain input VAT invoices were utilised to set off against the output VAT invoices when the Group was still in the process of seeking the confirmation from the relevant tax authorities about the appropriateness of such set off. Due to the uncertainty of such set off, a provision of HK\$127 million was made at that year against such VAT invoices and included in other payables in the previous years' financial statements. Until recently, after consultation with the relevant tax authorities, the directors of the Company are of an opinion that the Group can utilise such input VAT invoices without incurring further liability and therefore has recognised the full amount of HK\$127 million as income for the current period.

**8. REVERSAL OF PROVISION AGAINST THE PATENT RIGHTS LITIGATION**

In previous years, the Group had made a provision in an aggregate amount of HK\$33 million for an alleged infringement of the patent rights of RCA Thomson Licensing Corporation ("RCA") in the manufacture and sales of certain colour television sets exported by the Group. Details of the litigation on such alleged infringement had been set out in the Company's prospectus dated 28 March 2000.



During the period, the Group applied to the court for dismissing and striking out RCA's claims. The matter was subsequently settled by a consent order to the effect that the relevant court action be dismissed with an award of agreed costs of HK\$100,000 to the Group. The Group has received from RCA the agreed costs of HK\$100,000 on 23 February 2005. As a result, the Group had written back the associated provision of HK\$33 million.

## 9. PROFIT BEFORE TAXATION

	<b>1.4.2004 to 30.9.2004 (audited) HK\$ million</b>	1.4.2003 to 30.9.2003 (unaudited) HK\$ million	1.4.2003 to 31.3.2004 (audited) HK\$ million
Profit before taxation has been arrived at after charging (crediting):			
Allowance for doubtful debts	3	6	14
Depreciation and amortisation of property, plant and equipment	50	38	94
Loss on disposal of property, plant and equipment	1	4	5
Interest on bank borrowings wholly repayable within five years	9	–	1
Interest income	(12)	(4)	(9)
Net realised loss (gain) on disposal of investments in securities	2	(1)	(2)
Provision for surcharge in respect of value added tax	24	–	–
Unrealised loss (gain) on investments in securities	1	(6)	(13)
Write back of payables to sales agents	(14)	–	(3)

## 10. TAXATION

	<b>1.4.2004 to 30.9.2004 (audited) HK\$ million</b>	1.4.2003 to 30.9.2003 (unaudited) HK\$ million	1.4.2003 to 31.3.2004 (audited) HK\$ million
The charge (credit) comprises:			
Hong Kong Profits Tax	4	2	6
PRC income tax	20	1	37
Other PRC taxes	5	4	8
Overprovision of Hong Kong Profits Taxes in prior years	–	–	(4)
Overprovision of other PRC taxes in prior years	(2)	–	–
	<b>27</b>	7	47

Hong Kong Profits Tax is calculated at the rate of 17.5% (1.4.2003 to 31.3.2004: 17.5%) of the estimated assessable profits for the period/year.

PRC income tax is calculated at the rate prevailing in that areas which the Group operates.

Other PRC taxes are calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretations and practices in respect thereof, on the intra-group technical and other services related fees charged to a subsidiary of the Company registered in the PRC.

Certain subsidiaries of the Group operating in the PRC are eligible for certain tax holidays and concessions and were exempted from PRC income taxes for the period.

Included in the balance of taxation as at 30 September 2004 was other PRC taxes payable of HK\$207 million (30.9.2003: HK\$207 million; 31.3.2004: HK\$207 million) in respect of the technical and service related fees received by Skyworth TV Holdings Limited ("Skyworth TV") from Skyworth Chuangwei-RGB Electronics Co., Limited ("Skyworth-RGB") for the years 1995 to 2000. The Group is currently in the process of finalising a basis of assessment with the PRC tax authorities on various PRC taxes on these technical and service related fees.

At this stage, Tax Inspection (as defined in note 26(c)) is still carried on by the tax authorities of the PRC. 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.

## 11. DIVIDENDS

	<b>1.4.2004 to 30.9.2004 (audited) HK\$ million</b>	1.4.2003 to 30.9.2003 (unaudited) HK\$ million	1.4.2003 to 31.3.2004 (audited) HK\$ million
Interim dividend of HK2.2 cents (2003: HK2 cents) per share:			
Declared	<b>50</b>	–	–
Cash payment	–	15	15
Share alternative	–	29	29
	<b>50</b>	44	44
Final dividend of HK5.5 cents per share:			
Scrip dividend	–	–	70
Cash alternative	–	–	52
	–	–	122
<b>Total</b>	<b>50</b>	44	166

The Board of Directors has resolved to pay an interim dividend for the six months ended 30 September 2004 of HK2.2 cents per ordinary share (1.4.2003 to 30.9.2003: HK2 cents), totaling approximately HK\$50 million (1.4.2003 to 30.9.2003: HK\$44 million) to shareholders whose names appear on the register of members of the Company at the close of business on 22 July 2005.

## 12. EARNINGS PER SHARE

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

	<b>1.4.2004 to 30.9.2004 (audited) HK\$ million</b>	1.4.2003 to 30.9.2003 (unaudited) HK\$ million	1.4.2003 to 31.3.2004 (audited) HK\$ million
Earnings for the purposes of basic and diluted earnings per share:			
Net profit for the period/year	<b>187</b>	81	342
		Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>2,218,026,745</b>	2,141,867,825	2,163,704,263
Effect of dilutive potential ordinary shares:			
Share options	<b>101,032,562</b>	64,605,862	92,371,324
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,319,059,307</b>	2,206,473,687	2,256,075,587

The weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted for the shares issued under the share option schemes and the scrip dividend shares issued during the period ended 30 September 2004 in respect of the final dividend for the year ended 31 March 2004.

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the average fair value per share.

### 13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$15 million (1.4.2003 to 30.9.2003: HK\$57 million; 1.4.2003 to 31.3.2004: HK\$96 million) in construction in progress, mainly for the development of a factory plant situated on land in the PRC held under medium-term leases, and spent approximately HK\$63 million (1.4.2003 to 30.9.2003: HK\$80 million; 1.4.2003 to 31.3.2004: HK\$154 million) on the acquisition of other property, plant and equipment for business operation and expansion.

### 14. INVESTMENTS IN SECURITIES

	Trading securities			Other securities			Total		
	30.9.2004	30.9.2003	31.3.2004	30.9.2004	30.9.2003	31.3.2004	30.9.2004	30.9.2003	31.3.2004
	(audited)	(unaudited)	(audited)	(audited)	(unaudited)	(audited)	(audited)	(unaudited)	(audited)
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
<b>Equity securities</b>									
Listed in Hong Kong	-	14	15	4	-	-	4	14	15
Unlisted in overseas	19	14	31	-	-	-	19	14	31
Unlisted in the PRC	-	-	-	24	19	22	24	19	22
<b>Debt securities</b>									
Listed in overseas	-	23	26	-	-	-	-	23	26
Unlisted in overseas	-	4	-	-	-	-	-	4	-
	19	55	72	28	19	22	47	74	94
Impairment loss recognised in respect of unlisted equity securities in the PRC	-	-	-	(2)	-	(2)	(2)	-	(2)
	19	55	72	26	19	20	45	74	92
Market value of listed securities	-	37	41	4	-	-	4	37	41
Carrying amount analysed for reporting purposes									
Non-current	-	-	-	26	19	20	26	19	20
Current	19	55	72	-	-	-	19	55	72
	19	55	72	26	19	20	45	74	92

### 15. INVENTORIES

	30.9.2004 (audited) HK\$ million	30.9.2003 (unaudited) HK\$ million	31.3.2004 (audited) HK\$ million
Raw materials	753	674	334
Work in progress	171	196	120
Finished goods	1,055	1,065	882
	1,979	1,935	1,336

Included above are raw materials of HK\$53 million (30.9.2003: HK\$36 million; 31.3.2004: HK\$70 million), work in progress of nil (30.9.2003: nil; 31.3.2004: HK\$4 million) and finished goods of HK\$166 million (30.9.2003: HK\$126 million; 31.3.2004: HK\$175 million) which are carried at net realisable value.

**16. TRADE AND OTHER RECEIVABLES**

Sales in the PRC are generally made by payment on delivery or against bills issued by banks with maturity dates ranging from 30 to 180 days. Sales to certain wholesalers in the PRC are 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 respective offices.

Export sales of the Group are mainly settled by letters of credit with credit term ranging from 30 to 90 days.

An aged analysis of trade receivables at the relevant balance sheet dates is set out below:

	<b>30.9.2004 (audited) HK\$ million</b>	30.9.2003 (unaudited) HK\$ million	31.3.2004 (audited) HK\$ million
Within 30 days	<b>415</b>	168	178
31 to 60 days	<b>58</b>	21	48
61 to 90 days	<b>12</b>	13	10
91 days or over	<b>23</b>	63	12
Trade receivables	<b>508</b>	265	248
Deposits, prepayments and other receivables	<b>407</b>	405	336
	<b>915</b>	670	584

**17. BILLS RECEIVABLE**

The maturity dates of bills receivable at the relevant balance sheet dates are analysed as follows:

	<b>30.9.2004 (audited) HK\$ million</b>	30.9.2003 (unaudited) HK\$ million	31.3.2004 (audited) HK\$ million
Within 30 days	<b>123</b>	118	374
31 to 60 days	<b>45</b>	31	136
61 to 90 days	<b>72</b>	28	579
91 days or over	<b>618</b>	744	671
Bills endorsed to suppliers	<b>38</b>	549	606
Bills discounted with recourse	<b>1,015</b>	–	–
	<b>1,911</b>	1,470	2,366

**18. TRADE AND OTHER PAYABLES**

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

	<b>30.9.2004 (audited) HK\$ million</b>	30.9.2003 (unaudited) HK\$ million	31.3.2004 (audited) HK\$ million
Within 30 days	<b>847</b>	856	283
31 to 60 days	<b>123</b>	103	212
61 to 90 days	<b>62</b>	48	132
91 days or over	<b>117</b>	72	121
Trade payables under endorsed bills	<b>38</b>	549	606
Trade payables	<b>1,187</b>	1,628	1,354
Deposits in advance, accruals and other payables	<b>1,005</b>	1,004	1,112
	<b>2,192</b>	2,632	2,466

**19. BILLS PAYABLE**

The maturity dates of bills payable at the relevant balance sheet dates are analysed as follows:

	<b>30.9.2004</b> <b>(audited)</b> <i>HK\$ million</i>	30.9.2003 (unaudited) <i>HK\$ million</i>	31.3.2004 (audited) <i>HK\$ million</i>
Within 30 days	277	39	36
31 to 60 days	181	11	7
61 to 90 days	195	–	84
91 days or over	418	2	43
	<b>1,071</b>	52	170

**20. SECURED BANK BORROWINGS**

	<b>30.9.2004</b> <b>(audited)</b> <i>HK\$ million</i>	30.9.2003 (unaudited) <i>HK\$ million</i>	31.3.2004 (audited) <i>HK\$ million</i>
Secured bank borrowings comprise the followings:			
Mortgage loans	6	1	6
Short-term bank loans	–	5	1
Other bank loans ( <i>Note</i> )	1,015	–	–
	<b>1,021</b>	6	7

The bank borrowings are repayable as follows:

Within one year or on demand	1,017	1	3
More than one year, but not exceeding two years	2	1	1
More than two year, but not exceeding five years	2	4	3
	<b>1,021</b>	6	7
Less: Amounts due within one year or on demand included in current liabilities	1,017	1	3
Amount due after one year	4	5	4

*Note:* Since the bills receivable are discounted with recourse, the associated financial liabilities were recognised as secured bank borrowings.

**21. SHARE CAPITAL**

	<b>At 30 September 2004</b>	
	<b>Number of shares</b>	<b>Value (audited) <i>HK\$ million</i></b>
Ordinary shares of HK\$0.1 each		
<b>Authorised</b>		
At 1 April 2004 and 30 September 2004	<b>10,000,000,000</b>	<b>1,000</b>
<b>Issued and fully paid</b>		
At 1 April 2004	<b>2,215,208,170</b>	<b>222</b>
Issue of shares under share option schemes	<b>3,246,000</b>	<b>–</b>
Issue of shares in respect of scrip dividend	<b>33,123,221</b>	<b>3</b>
At 30 September 2004	<b>2,251,577,391</b>	<b>225</b>

**22. PLEDGE OF ASSETS**

At 30 September 2004, the Group's land and buildings with an aggregate net book value of approximately HK\$18 million (30.9.2003: HK\$20 million; 31.3.2004: HK\$18 million) and bank deposits of HK\$1,192 million (30.9.2003: nil; 31.3.2004: nil) were pledged to banks to secure general banking facilities, including issuance of bills payable, granted to the Group.

**23. CAPITAL COMMITMENTS**

At 30 September 2004, the Group had the following capital commitments:

	<b>30.9.2004</b> <b>(audited)</b> <b>HK\$ million</b>	30.9.2003 (unaudited) <i>HK\$ million</i>	31.3.2004 (audited) <i>HK\$ million</i>
Contracted but not provided for, in respect of:			
Purchase of other property, plant and equipment	<b>10</b>	35	12
Investment in unlisted equity securities in the PRC	–	5	2
Factory buildings under development	<b>12</b>	–	13
	<b>22</b>	40	27
Authorised but not contracted for, in respect of:			
Factory buildings under development	<b>275</b>	–	–

**24. LITIGATION**

On 5 August 2003, the Group received a writ of summons issued by Digital Theater Systems, Inc. ("DTS") from the High Court of Hong Kong (the "Court") against two wholly-owned subsidiaries of the Company (the "Subsidiaries"), in respect of the alleged claims in connection with the use of certain logos and technology of DTS by the Subsidiaries. During the period, the Subsidiaries had provided more information to the Court for assessment of the alleged claims.

On 17 November 2004, DTS issued a summons applying for summary judgment and interim payment against the Subsidiaries (the "Summons"). On 23 February 2005, one of the Subsidiaries consented to making an interim payment which DTS applied for under the Summons. On 4 May 2005, DTS had counter signed a settlement agreement among DTS and the Subsidiaries as of 29 April 2005 whereby a full and final settlement of the claims and any possible counterclaims was reached. The total sum of the settlement, which has been fully provided for by the Group as at 30 September 2004, has already been settled as at the date of this report.

**25. RELATED PARTY TRANSACTIONS**

The Group had entered into the following significant related party transactions during the period:

- (a) The Group incurred sub-contracting charges of approximately HK\$1 million (1.4.2003 to 30.9.2003: HK\$1 million; 1.4.2003 to 31.3.2004: HK\$3 million) and sold raw materials of approximately HK\$2 million (1.4.2003 to 30.9.2003: nil; 1.4.2003 to 31.3.2004: HK\$4 million) to 深圳市創維群欣安防科技有限公司, a jointly controlled entity of the Group. The sub-contracting charges were based on pre-determined rates agreed by the parties involved and the prices of raw materials sold were determined at cost.
- (b) The Group acquired certain land and buildings from the minority shareholder of Skyworth-RGB at an aggregate consideration of approximately HK\$20 million during the period ended 30 September 2003. The purchase consideration of the land and buildings was determined by both parties involved.

## 26. SUBSEQUENT EVENTS

### (a) Incident occurred on 30 November 2004

#### *Background*

On 30 November 2004, officers from the Independent Commission Against Corruption (“ICAC”) searched and seized documents from the head office and principal place of business of the Company in Hong Kong and other related offices in connection with an investigation being undertaken by the ICAC. As set out in the ICAC’s website, [www.icac.org.hk](http://www.icac.org.hk), on 2 December 2004, Mr. Wong Wang Sang, Stephen (“Mr. Stephen Wong”), then an executive director and executive chairman of the Company until 5 December 2004, and Mr. Wong Pui Sing (“Mr. P.S. Wong”), then an executive director of the Company until 5 December 2004, were charged with allegedly misappropriating funds belonging to the Group of about HK\$48 million (the “Funds”) during the period from November 2000 to April 2003. Subsequently, on 2 March 2005, additional charges of conspiracy with others to steal money from the Group and conspiracy to defraud the Company in the grant of certain share options (together with the misappropriation of Funds collectively known as “Charges”) were pressed.

Besides, according to a press released by the ICAC dated 30 November 2004, there was an allegation that the company chairman might have secured the corrupt assistance of a former accountant of a certified public accountant firm in falsifying accounting records to assist the listing of the Company with the Stock Exchange of Hong Kong (the “Allegation”).

The Company is neither a party to any Charges nor is it in any way implicated under the Charges. Except for the above, there are no other legal proceedings known to the Company that might involve or concern the Company, nor its present or past officers in relation to the above events.

As a result, the Stock Exchange directed a suspension in the trading of the Company’s shares with effect from 9:44 a.m. on 30 November 2004. Further details of the above have been disclosed in the announcements dated 22 December 2004 and 4 March 2005 published by the Company.

#### *Measures taken by the Company*

With a view to restoring the creditability of the board of directors of the Company (the “Board”) and safeguarding the interests of the Company, the Board has implemented the following measures:

1. Changes in directorships and company secretary
  - (a) On 6 December 2004, Mr. P.S. Wong, Mr. Ng Kam Fai and Mr. Cheng Kin Chung resigned as executive directors of the Company;
  - (b) On 6 December 2004, Mr. Stephen Wong was re-designated from an executive director of the Company to a non-executive director of the Company;
  - (c) On 7 December 2004, Mr. Wang Dianfu (“Mr. Wang”) was appointed as Chief Executive Officer of the Company and on 14 January 2005, Mr. Wang was appointed as executive director and executive chairman of the Board;
  - (d) With effect from 17 December 2004, Mr. Leung Chi Ching, Frederick (“Mr. Frederick Leung”) was appointed as the company secretary of the Company. On 20 December 2004, Mr. Frederick Leung was appointed as Director of Finance of the Company and on 14 January 2005, Mr. Frederick Leung was appointed as executive director of the Company; and
  - (e) On 14 January 2005, Mr. Zhang Xuebin was appointed as executive director of the Company.

Details of the above appointments, resignations and changes in duties and positions of other officers have been disclosed in the announcements dated 22 December 2004 and 25 January 2005 published by the Company.



2. Formation of Independent Committee

On 8 December 2004, an independent committee (the "Independent Committee") comprising Mr. Cheong Ying Chew, Henry and Mr. Ip Shing Hing was constituted, with Mr. Heng Kwo Seng joining as an additional member on 9 December 2004. The Independent Committee is delegated with duties and power to deal with matters relating to, among others, risk management, corporate governance and safeguard and control of assets of the Group as set out in detail in the announcement dated 22 December 2004 published by the Company.

3. Control over the Group's assets

The Company has also appointed Grant Thornton, a firm of certified public accountants, as a financial monitor to provide assistance to the Independent Committee to safeguard and control the assets of the Group. The scope of work of Grant Thornton has also been described in the announcement dated 22 December 2004 published by the Company.

4. Audit of the interim results

Despite that the Hong Kong Companies Ordinance or any other applicable rules and regulations do not require audit to be undertaken on interim results, the Company engaged its auditors to perform an audit on the interim results of the Group for the six months ended 30 September 2004.

5. Responses to the Charges

In respect of the Charges laid by the ICAC, as the proceedings are still ongoing, the Company considers it inappropriate to make any comment thereon at this stage. If and when the Company obtains further information on the Charges, it will seek legal advice as to what appropriate steps should be taken, taking into account all relevant factors including the status of any legal proceedings ongoing at that time.

Based on the information available to the Company as at the date of this report, the directors of the Company believe that the Charges would not have a significant adverse impact to the financial and trading position of the Group.

6. Responses to the Allegation

The Company undertook, in its announcement dated 22 December 2004, with the Stock Exchange that it would look into this matter so far as practicable. In this respect, the current management is monitoring the position in conjunction with the financial and legal advisers of the Company to determine what steps are feasible and appropriate to be taken.

Based on the information available to the Company as at the date of this report, the directors of the Company are not aware of any evidence that can substantiate the Allegation.

In the absence of further information about the Charges and the Allegation, the directors of the Company are however unable to determine, on a reasonable and proper basis, the financial impact that might arise in respect of the Charges and the Allegation.

**(b) Syndicated loan facility of US\$60 million**

On 25 October 2004, Skyworth TV, as borrower, entered into a loan facility agreement with several banks under syndication arrangement in relation to a three-year term loan facility of amount up to US\$60 million (equivalent to approximately HK\$465 million) (the "Facility"), which was secured by parental guarantee and interest bearing of at a rate of LIBOR plus 0.80%. Details of the Facility has been disclosed in the announcement dated 25 October 2004 published by the Company.

On 12 November 2004, Skyworth TV made a drawdown of US\$10 million from the Facility for working capital. The entire amount together with accrued interest was subsequently repaid on 6 December 2004. Subsequently after such repayment, Skyworth TV, on 10 December 2004, served a cancellation notice to cancel the entire Facility.

**(c) Tax inspection carried out by the tax authorities of the PRC**

On 29 March 2005, the tax authorities of the PRC (the "Tax Authorities") visited certain subsidiaries of the Company in the PRC to carry out normal tax inspection (the "Tax Inspection"). Certain documents and accounting records were collected from the Group by the Tax Authorities on the same date. As at the date of this report, those documents and accounting records were returned to the Group and the Tax Inspection has substantially been completed. Pending the finalisation of the Tax Inspection, based on the information received by the Company up to the date of this report and consultation with the relevant tax authorities, the directors of the Company believe that although there may be over or under-provision regarding individual category of tax, the aggregate amount of tax provision made by the Group as at 30 September 2004 are sufficient to cover any additional tax liabilities and/or surcharges which may be charged by the Tax Authorities.



## AUDITORS' REPORT

### TO THE DIRECTORS OF SKYWORTH DIGITAL HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

We have audited the interim financial report (the "Interim Financial Report") on pages 15 to 30 which has been prepared in accordance with accounting principles generally accepted in Hong Kong applicable for interim financial reports.

#### Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The Interim Financial Report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent opinion, based on our audit, on the Interim Financial Report and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the HKICPA except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Interim Financial Report. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Interim Financial Report, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Interim Financial Report is free from material misstatement. However, the evidence available to us was limited. Note 26(a) to the Interim Financial Report discloses details of certain Charges and an Allegation, as defined in that note. In the absence of any further information about the Charges and the Allegation, the directors of the Company are unable to determine the financial impact that might arise in respect of the Charges and the Allegation and which might result in material adjustments to the net assets as at 1st April 2004 and to the results for the six months ended 30th September 2004.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Interim Financial Report. We believe that our audit provides a reasonable basis for our opinion.

## **Tax Inspection**

In forming our opinion we have considered the adequacy of the disclosure made in note 26(c) to the Interim Financial Report which explains that certain subsidiaries of the Company in the People Republic of China (“PRC”) are the subject of an inspection by the PRC tax authorities. Pending the finalization of the tax inspection, the directors of the Company believe that although there may be over or under-provision regarding individual category of tax, the Group should have sufficient tax provision made in the balance sheet as at 30 September 2004 to cover any additional tax liabilities and/or surcharges which may be charged by the tax authorities. We consider that this matter has been adequately disclosed in the Interim Financial Report and our opinion is not qualified in this respect.

## **Qualified opinion arising from limitation in audit scope**

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the Charges and the Allegation, in our opinion the Interim Financial Report gives a true and fair view of the state of the Group’s affairs as at 30 September 2004 and of its profit and cash flows for the six months then ended.

In respect alone of the limitation on our work relating to the Charges and the Allegation:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

## **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

29 June 2005

## OTHER INFORMATION

### Interim Dividend

The Board of Directors of Skyworth Digital Holdings Limited (the "Company") has resolved to pay an interim dividend for the six months ended 30 September 2004 of HK2.2 cents (2003: HK2 cents) per ordinary share, totaling approximately HK\$50 million (2003: HK\$44 million) to shareholders on or about 29 July 2005 whose names appear on the register of members of the Company at the close of business on 22 July 2005.

### Directors' Interest in Shares and Options

#### (a) Ordinary shares of HK\$0.1 each of the Company

At 30 September 2004, the interests of the directors and of their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Name of director	Capacity	Number of issued ordinary shares interested	Percentage of the issued shares capital of the Company
Wong Wang Sang, Stephen (re-designated as non-executive director on 6 December 2004)	Beneficial owner	38,905,612	1.73%
	Held by trust ( <i>Note a</i> )	847,382,922	37.64%
	Held by spouse ( <i>Note b</i> )	3,061,611	0.14%
Ng Kam Fai (resigned on 6 December 2004)	Beneficial owner	65,911,321	2.93%
Wong Pui Sing (resigned on 6 December 2004)	Beneficial owner	23,906,755	1.06%
Ding Kai	Beneficial owner	10,000,000	0.44%
		989,168,221	43.94%

*Note a:* These shares are held by Target Success Group Limited in its capacity as trustee of the Skysource Unit Trust. Mr. Wong Wang Sang, Stephen is deemed to be interested in 847,382,922 ordinary shares of the Company as his spouse and his children are the discretionary beneficiaries of the Skysource Unit Trust.

*Note b:* Mr. Wong Wang Sang, Stephen is deemed to be interested in 3,061,611 shares of the Company, being the interests held beneficially by his spouse.

**(b) Share options**

As at 30 September 2004, certain directors of the Company had personal interests in share options granted by the Company as follows:

Name of director	Capacity	Number of options held	Number of shares underlying
<b>Executive directors:</b>			
Wong Wang Sang, Stephen (re-designated as non-executive director on 6 December 2004)	Beneficial owner	12,500,000	12,500,000
Ng Kam Fai (resigned on 6 December 2004)	Beneficial owner	3,000,000	3,000,000
Wong Pui Sing (resigned on 6 December 2004)	Beneficial owner	1,000,000	1,000,000
Ding Kai	Beneficial owner	1,000,000	1,000,000
Cheng Kin Chung (appointed on 1 September 2004 and resigned on 6 December 2004)	Beneficial owner	20,000,000	20,000,000
		37,500,000	37,500,000
<b>Independent non-executive directors:</b>			
So Hon Cheung, Stephen	Beneficial owner	500,000	500,000
Li Weibin	Beneficial owner	500,000	500,000
		1,000,000	1,000,000
		38,500,000	38,500,000

Save as disclosed above, none of the directors and chief executives, or their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 30 September 2004, and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the period ended 30 September 2004.

**Substantial Shareholders**

As at 30 September 2004, the following corporations have interests in the shares of the Company, other than the interests disclosed above in respect of certain directors of the Company, as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name	Capacity	Number of issued ordinary shares interested	Percentage of the issued shares capital of the Company
Target Success Group Limited	Trustee (Note a)	847,382,922	37.64%
HSBC International Trustee Limited	Trustee (Note a)	847,382,922	37.64%
J.P. Morgan Chase & Co.	Investment manager (Note b)	192,271,189	8.54%
	Custodian corporate agent (Note b)	74,708,160	3.32%

*Note a:* 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.

*Note b:* The interests of J.P. Morgan Chase & Co. in the Company were held by a number of its wholly-owned subsidiaries.

Save as disclosed above, there was no person, other than certain directors of the Company as disclosed above, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## Share Options

- (i) The Company adopted a share option scheme (the "Old Scheme"), pursuant to a resolution passed on 27 March 2000 for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, would expire on 27 March 2010. Under the Old Scheme, the directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries and associates, to subscribe for shares in the Company.

Options granted must be taken up within a period of 30 days from the date of grant, upon payment of HK\$1 per grant. The first portion is exercisable at any time commencing on the first anniversary date from the date of grant of the share option, and each further portion becomes exercisable on the next anniversary date in each of the following years. All of the options, if not otherwise exercised, will lapse on 27 March 2010.

Prior to 1 September 2001, the exercise price is determined by the directors of the Company at a price not less than 80% of the average closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. With effect from 1 September 2001, the exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant.

As the Old Scheme no longer complies with the amended rules in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in relation to share option schemes, no further option can be granted under the Old Scheme from 1 September 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the Old Scheme will continue to be exercisable in accordance with the Old Scheme.

- (ii) In compliance with the amended Chapter 17 of the Listing Rules, the Old Scheme was replaced by a new share option scheme (the "New Scheme"), pursuant to a special resolution passed on 28 August 2002. Under the New Scheme, the directors of the Company may grant options to eligible person, including any directors, whether executive or non-executive (including any independent non-executive directors), and any employee, whether full time or part time, of any member of the Company and its subsidiaries (the "Group").

Options granted must be taken up within a period of 30 days from the date of grant, upon payment of HK\$1 per grant.

Each grant of an option to a director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive directors, excluding an independent non-executive director who is the grantee of the option.

Under the New Scheme, the maximum number of shares issuable upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company as from the commencement of the scheme period, excluding those options which have lapsed in accordance with the terms of the New Scheme or any other share option schemes of the Company, must not in aggregate exceed 10% of the Company's shares in issue as at the date of adoption of the New Scheme or as at the date of approval of the refreshed limit by shareholders in general meeting, whichever is later.

The total number of shares available for issue under the share option scheme is approximately 215,525,417, representing approximately 9.53% of the issued share capital of the Company as at the date of this report.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the period. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

The following tables showed the movements in the Company's share options granted to the directors and the employees under both of the Old Scheme and the New Scheme during the period ended 30 September 2004:

#### Under Old Scheme

Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1 April 2004	Granted during the period	Exercised during the period (Note a)	Cancelled during the period	Outstanding at 30 September 2004
<b>Executive Directors</b>							
<i>Wong Wang Sang, Stephen (re-designated as non-executive director on 6 December 2004):</i>							
25 November 2000	0.336	25 November 2004 to 27 March 2010	12,500,000	-	-	-	12,500,000
<i>Ng Kam Fai (resigned on 6 December 2004):</i>							
25 November 2000	0.336	25 November 2004 to 27 March 2010	3,000,000	-	-	-	3,000,000
<i>Wong Pui Sing (resigned on 6 December 2004):</i>							
25 November 2000	0.336	25 November 2004 to 27 March 2010	1,000,000	-	-	-	1,000,000
<i>Ding Kai:</i>							
25 November 2000	0.336	25 November 2004 to 27 March 2010	1,000,000	-	-	-	1,000,000
			17,500,000	-	-	-	17,500,000



Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1 April 2004	Granted during the period	Exercised during the period (Note a)	Cancelled during the period	Outstanding at 30 September 2004
<b>Employees</b>							
25 November 2000	0.336	25 November 2001 to 27 March 2010	484,000	-	(10,000)	-	474,000
		25 November 2002 to 27 March 2010	648,000	-	(12,000)	-	636,000
		25 November 2003 to 27 March 2010	690,000	-	(682,000)	-	8,000
		25 November 2004 to 27 March 2010	12,185,000	-	-	-	12,185,000
2 April 2001	0.292	2 April 2004 to 27 March 2010	500,000	-	(500,000)	-	-
		2 April 2005 to 27 March 2010	500,000	-	-	-	500,000
23 January 2002	0.420	23 January 2005 to 27 March 2010	3,750,000	-	-	-	3,750,000
		23 January 2006 to 27 March 2010	3,750,000	-	-	-	3,750,000
25 March 2002	0.520	25 March 2004 to 27 March 2010	966,000	-	(966,000)	-	-
		25 March 2005 to 27 March 2010	868,000	-	-	-	868,000
8 August 2002	0.750	8 August 2004 to 27 March 2010	500,000	-	-	-	500,000
		8 August 2005 to 27 March 2010	500,000	-	-	-	500,000
		8 August 2006 to 27 March 2010	500,000	-	-	-	500,000
			25,841,000	-	(2,170,000)	-	23,671,000
			43,341,000	-	(2,170,000)	-	41,171,000

Note a: The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised during the period ended 30 September 2004 was HK\$2.45.

**Under New Scheme**

Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1 April 2004	Granted during the period (Note b)	Exercised during the period (Note c)	Cancelled during the period	Outstanding at 30 September 2004
<b>Executive Directors</b>							
<i>Cheng Kin Chung (appointed on 1 September 2004 and resigned on 6 December 2004):</i>							
28 July 2004	2.275	28 July 2005 to 27 March 2010	–	5,000,000	–	–	5,000,000
		28 July 2006 to 27 March 2010	–	5,000,000	–	–	5,000,000
		28 July 2007 to 27 March 2010	–	5,000,000	–	–	5,000,000
		28 July 2008 to 27 March 2010	–	5,000,000	–	–	5,000,000
<b>Independent Non-Executive Directors</b>							
<i>So Hon Cheung, Stephen:</i>							
28 July 2004	2.275	28 July 2004 to 27 March 2010	–	500,000	–	–	500,000
<i>Li Weibin:</i>							
28 July 2004	2.275	28 July 2004 to 27 March 2010	–	500,000	–	–	500,000
			–	21,000,000	–	–	21,000,000

**Employees**

5 October 2002	0.840	5 October 2004 to 27 March 2010	11,900,000	–	–	–	11,900,000
		5 October 2005 to 27 March 2010	11,900,000	–	–	–	11,900,000
		5 October 2006 to 27 March 2010	11,900,000	–	–	–	11,900,000
14 February 2003	0.874	14 February 2005 to 27 March 2010	366,000	–	–	–	366,000
		14 February 2006 to 27 March 2010	368,000	–	–	–	368,000
18 March 2003	0.800	18 March 2004 to 27 March 2010	250,000	–	(250,000)	–	–
		18 March 2005 to 27 March 2010	250,000	–	–	–	250,000
		18 March 2006 to 27 March 2010	250,000	–	–	–	250,000
		18 March 2007 to 27 March 2010	250,000	–	–	–	250,000

Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1 April 2004	Granted during the period (Note b)	Exercised during the period (Note c)	Cancelled during the period	Outstanding at 30 September 2004
28 March 2003	0.776	28 March 2004 to 27 March 2010	76,000	-	(76,000)	-	-
		28 March 2005 to 27 March 2010	76,000	-	-	-	76,000
		28 March 2006 to 27 March 2010	76,000	-	-	-	76,000
		28 March 2007 to 27 March 2010	72,000	-	-	-	72,000
9 June 2003	0.752	9 June 2004 to 27 March 2010	500,000	-	(500,000)	-	-
		9 June 2005 to 27 March 2010	500,000	-	-	-	500,000
		9 June 2006 to 27 March 2010	500,000	-	-	-	500,000
		9 June 2007 to 27 March 2010	500,000	-	-	-	500,000
27 June 2003	0.742	27 June 2004 to 27 March 2010	250,000	-	(250,000)	-	-
		27 June 2005 to 27 March 2010	250,000	-	-	-	250,000
		27 June 2006 to 27 March 2010	250,000	-	-	-	250,000
		27 June 2007 to 27 March 2010	250,000	-	-	-	250,000
16 October 2003	1.660	16 October 2004 to 27 March 2010	32,330,000	-	-	-	32,330,000
		16 October 2005 to 27 March 2010	32,330,000	-	-	-	32,330,000
		16 October 2006 to 27 March 2010	35,430,000	-	-	-	35,430,000
		16 October 2007 to 27 March 2010	42,030,000	-	-	-	42,030,000
		16 October 2008 to 27 March 2010	11,000,000	-	-	-	11,000,000
26 February 2004	2.575	26 February 2005 to 27 March 2010	2,600,000	-	-	-	2,600,000
		26 February 2006 to 27 March 2010	2,600,000	-	-	-	2,600,000
		26 February 2007 to 27 March 2010	2,600,000	-	-	-	2,600,000
		26 February 2008 to 27 March 2010	2,600,000	-	-	-	2,600,000

Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1 April 2004	Granted during the period (Note b)	Exercised during the period (Note c)	Cancelled during the period	Outstanding at 30 September 2004
16 April 2004	2.740	16 April 2005 to 27 March 2010	–	132,500	–	–	132,500
		16 April 2006 to 27 March 2010	–	132,500	–	–	132,500
		16 April 2007 to 27 March 2010	–	132,500	–	–	132,500
		16 April 2008 to 27 March 2010	–	132,500	–	–	132,500
30 September 2004	2.175	30 September 2005 to 27 March 2010	–	80,000	–	–	80,000
		30 September 2006 to 27 March 2010	–	80,000	–	–	80,000
		30 September 2007 to 27 March 2010	–	80,000	–	–	80,000
		30 September 2008 to 27 March 2010	–	80,000	–	–	80,000
			204,254,000	850,000	(1,076,000)	–	204,028,000
			204,254,000	21,850,000	(1,076,000)	–	225,028,000

*Note b:* During the period ended 30 September 2004, 21,850,000 share options were granted to eligible persons as defined in the New Scheme. The closing share prices of the Company on 15 April 2004, 27 July 2004 and 28 September 2004, the trading days preceding the dates of grant of the share options were HK\$2.700, HK\$2.275 and HK\$2.100 respectively.

*Note c:* The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised during the period ended 30 September 2004 was HK\$2.525.

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 debentures 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.

### Valuation of the Share Options Granted during the Period

In assessing the value of the share options granted during the period ended 30 September 2004, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules. The variables of the Black-Scholes Model include:

- expected life of the share options;
- risk-free interest rate; and
- expected volatility.

In assessing the value of the share options granted during the period, the variables of the Black-Scholes Model and its values are listed as follows:

Date of grant of the share options	Expected life of the share options	Risk-free interest rate	Expected volatility
16 April 2004	6.0 years	3.8%	42%
28 July 2004	5.7 years	3.8%	23%
30 September 2004	5.5 years	3.8%	13%

- (a) The expected life of the share options is measured from the date of grant of the share options (the "Measurement Date") to 27 March 2010, the expiry date of the share options.
- (b) The risk-free interest rate applied to the Black-Scholes Model represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the share options as at the Measurement Date.
- (c) The expected volatility used in the calculation represents standard deviation of the daily closing share prices of the Company for the last twelve months from the Measurement Date.

Using the Black-Scholes Model in assessing the value of share options granted during the period, the options would have an aggregate value of approximately HK\$15,090,000 as follows:

Date of grant of the share options	Number of share options granted during the period	Estimated value per share option HK\$	Estimated value of share options granted during the period HK\$
16 April 2004	530,000	1.25	663,000
28 July 2004	21,000,000	0.68	14,280,000
30 September 2004	320,000	0.46	147,000
Total	21,850,000		15,090,000

For the purposes of the calculation of the fair value of share options, no adjustment has been made in respect of share options expected to be forfeited, due to lack of historical data.

The Black-Scholes Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the directors, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **Model Code**

The Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with all directors, the directors have complied with the required standard set out in the Model Code regarding securities transaction by directors.

### **Corporate Governance**

The Company has throughout the six months period ended 30 September 2004 complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which was effective until 1 January 2005.

### **Audit Committee**

As at 30 September 2004, the audit committee comprises three members, all of whom are independent non-executive directors. The principal duties of the audit committee include the review of the completeness, accuracy and fairness of the Company's financial reports (including the interim report for the six months ended 30 September 2004) and the effectiveness of the Company's internal control system. During the period ended 30 September 2004, three meetings of the audit committee have been held.

### **Closure of the Register of Members**

The Register of Members of the Company will be closed from Monday, 18 July 2005 to Friday, 22 July 2005, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend payable on or around 29 July 2005, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Hong Kong Registrars Limited, at Rooms 1712-16 Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 15 July 2005.

On behalf of the Board



**Wang Dianfu**

*Executive Chairman*

Hong Kong, 29 June 2005