

Directors' Report

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Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements of Skyworth Digital Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group") for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries, associate and jointly controlled entities are the manufacture and sales of consumer electronic products and property holding, details of which are set out in notes 44, 19 and 20 to the financial statements, respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2005 are set out in the consolidated income statement on page 49 of the annual report.

An interim dividend of HK2.2 cents (2004: HK2 cents) per share amounting to HK\$50 million was paid to the shareholders on 29 July 2005. The directors now recommend the payment of a final dividend of HK3.3 cents (2004: HK5.5 cents) per share to the shareholders on the register of members of the Company on 10 October 2005, amounting to approximately HK\$74 million.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 114 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, aggregate purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases for the year. During the year, aggregate sales attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

At no time during the year did a director, an associate of a director or a shareholder of the Company which, to the knowledge of the directors of the Company owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest suppliers or customers.

Directors' Report

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately HK\$32 million on the development of the production base located at Shiyan, the People's Republic of China (the "PRC").

The Group acquired additional plant and machinery at a cost of approximately HK\$48 million for the expansion of existing production facilities. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

INVESTMENT PROPERTIES

As at 31 March 2005, the investment properties were revalued at their open market value of HK\$130 million. The revaluation increase of HK\$2 million arising on such revaluation has been credited directly to the investment property revaluation reserve. Details of the movements are set out in note 17 to the financial statements.

BORROWINGS

Details of the secured bank borrowings of the Group are set out in note 31 to the financial statements.

No interest was capitalised by the Group during the year.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 33 to the financial statements.

SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Group during the year are set out in the consolidated statement of changes in equity. The details of movements in the share premium and reserves of the Company are set out in note 35 to the financial statements.

RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 40 to the financial statements.

DONATIONS

During the year, the Group made cash charitable donations amounting to approximately HK\$1 million.

Directors' Report

DIRECTORS

The directors of the Company for the year and up to the date of this report were:

Executive directors:

Wang Dianfu	(appointed on 14 January 2005 as Executive Chairman)
Zhang Xuebin	(appointed on 14 January 2005)
Ding Kai	
Leung Chi Ching, Frederick	(appointed on 14 January 2005)
Ng Kam Fai	(resigned on 6 December 2004)
Wong Pui Sing	(resigned on 6 December 2004)
Cheng Kin Chung	(appointed on 1 September 2004 and resigned on 6 December 2004)

Non-executive director:

Wong Wang Sang, Stephen	(re-designated as Non-executive Chairman on 6 December 2004)
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Independent non-executive directors:

So Hon Cheung, Stephen	
Li Weibin	
Xie Zhengcai	(appointed on 1 September 2004)

In accordance with Clauses 86 and 87 of the Company's Bye-laws, Mr. Wong Wang Sang, Stephen retires and, being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company. In accordance with Clause 86(2) of the Company's Bye-laws, Mr. Wang Dianfu, Mr. Zhang Xuebin and Mr. Leung Chi Ching, Frederick will hold office until the forthcoming annual general meeting of the Company and be eligible for re-election at that meeting. All other directors continue in office.

All directors are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors as at 31 March 2005 and the non-executive director has entered into a service contract with the Company for a term of two or three years ending in the year ending 31 March 2006 or 2007. These service contracts remain valid unless terminated for causes or by either party giving at least three months' written notice.

Directors' Report

DIRECTORS' SERVICE CONTRACTS *(continued)*

During the year, directors' service contracts with Mr. Ng Kam Fai and Mr. Wong Pui Sing were terminated upon their resignation as directors of the Company.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office of each of the independent non-executive directors is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

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

As at 31 March 2005, the interests of the directors and of their associates in the shares of the Company and its associated corporations, 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 Issuers (the "Model Code"), were as follows:

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Zhang Xuebin	Beneficial owner	600	0.00%
Ding Kai	Beneficial owner	10,000,000	0.44%
Wong Wang Sang, Stephen	Beneficial owner	38,905,612	1.72%
	Held by trust (<i>Note a</i>)	847,382,922	37.45%
	Held by spouse (<i>Note b</i>)	3,061,611	0.14%
So Hon Cheung, Stephen	Beneficial owner	100,000	0.00%
		899,450,745	39.75%

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.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND OPTIONS *(continued)*

(b) Share options

- (i) Particulars of the share option schemes of the Company (including certain defined terms used below) are set out in note 34 to the financial statements.
- (ii) As at 31 March 2005, certain directors of the Company had personal interests in the share options granted under the Company's share option schemes as follows:

Name of director	Capacity	Number of share options held	Number of underlying shares of the Company
Zhang Xuebin	Beneficial owner	23,000,000	23,000,000
Ding Kai	Beneficial owner	2,000,000	2,000,000
Wong Wang Sang, Stephen	Beneficial owner	12,500,000	12,500,000
So Hon Cheung, Stephen	Beneficial owner	500,000	500,000
Li Weibin	Beneficial owner	500,000	500,000
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		38,500,000	38,500,000

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND OPTIONS *(continued)*

(b) Share options *(continued)*

- (iii) The particulars of share options granted to the directors and the movement during the year were as follows:

Under Old Scheme:

(a) For directors as at 31 March 2005

Name of director	Consideration paid for the option granted HK\$	Date of grant	Exercise price HK\$	Exercisable period	Number of share options				
					Outstanding at 1 April 2004	Granted during the year	Exercised during the year <i>(Note i)</i>	Cancelled during the year	Outstanding at 31 March 2005
Zhang Xuebin	1.00	24.2001	0.292	24.2004 to 27.3.2010	500,000	-	(500,000)	-	-
				24.2005 to 27.3.2010	500,000	-	-	-	500,000
	1.00	23.1.2002	0.420	23.1.2005 to 27.3.2010	750,000	-	-	-	750,000
				23.1.2006 to 27.3.2010	750,000	-	-	-	750,000
Ding Kai	1.00	25.11.2000	0.336	25.11.2004 to 27.3.2010	1,000,000	-	-	-	1,000,000
Wong Wang Sang, Stephen	1.00	25.11.2000	0.336	25.11.2004 to 27.3.2010	12,500,000	-	-	-	12,500,000

Note i: The closing price of the Company's shares immediately before the date on which the share options were exercised during the year ended 31 March 2005 was HK\$2.775.

(b) For directors resigned during the year

Name of director	Consideration paid for the option granted HK\$	Date of grant	Exercise price HK\$	Exercisable period	Number of share options				
					Outstanding at 1 April 2004	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31 March 2005
Ng Kam Fai	1.00	25.11.2000	0.336	25.11.2004 to 27.3.2010	3,000,000	-	-	-	3,000,000
Wong Pui Sing	1.00	25.11.2000	0.336	25.11.2004 to 27.3.2010	1,000,000	-	-	-	1,000,000

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND OPTIONS *(continued)*

(b) Share options *(continued)*

Under New Scheme:

(a) For directors as at 31 March 2005

Name of director	Consideration paid for the option granted HK\$	Date of grant	Exercise price HK\$	Exercisable period	Number of share options				
					Outstanding at 1 April 2004	Granted during the year <i>(Note ii)</i>	Exercised during the year	Cancelled during the year	Outstanding at 31 March 2005
Zhang Xuebin	1.00	5.10.2002	0.840	5.10.2004 to 28.8.2012	2,000,000	-	-	-	2,000,000
				5.10.2005 to 28.8.2012	2,000,000	-	-	-	2,000,000
				5.10.2006 to 28.8.2012	2,000,000	-	-	-	2,000,000
	1.00	16.10.2003	1.660	16.10.2004 to 28.8.2012	1,500,000	-	-	-	1,500,000
				16.10.2005 to 28.8.2012	1,500,000	-	-	-	1,500,000
				16.10.2006 to 28.8.2012	2,000,000	-	-	-	2,000,000
				16.10.2007 to 28.8.2012	5,000,000	-	-	-	5,000,000
				16.10.2008 to 28.8.2012	5,000,000	-	-	-	5,000,000
Ding Kai	1.00	11.10.2004	2.225	11.10.2005 to 28.8.2012	-	250,000	-	-	250,000
				11.10.2006 to 28.8.2012	-	250,000	-	-	250,000
				11.10.2007 to 28.8.2012	-	250,000	-	-	250,000
				11.10.2008 to 28.8.2012	-	250,000	-	-	250,000
So Hon Cheung, Stephen	1.00	28.7.2004	2.275	28.7.2004 to 28.8.2012	-	500,000	-	-	500,000
Li Weibin	1.00	28.7.2004	2.275	28.7.2004 to 28.8.2012	-	500,000	-	-	500,000

Note ii: The closing prices of the Company's shares on 27 July 2004 and 8 October 2004, the trading days preceding the dates of grant of the share options were HK\$2.275 and HK\$2.225 respectively.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND OPTIONS *(continued)*

(b) Share options *(continued)*

(b) For directors resigned during the year

Name of director	Consideration paid for the option granted HK\$	Date of grant	Exercise price HK\$	Exercisable period	Number of share options				
					Outstanding at 1 April 2004	Granted during the year <i>(Note iii)</i>	Exercised during the year	Cancelled during the year	Outstanding at 31 March 2005
Cheng Kin Chung	1.00	28.7.2004	2.275	28.7.2005 to 28.8.2012	-	5,000,000	-	-	5,000,000
				28.7.2006 to 28.8.2012	-	5,000,000	-	-	5,000,000
				28.7.2007 to 28.8.2012	-	5,000,000	-	-	5,000,000
				28.7.2008 to 28.8.2012	-	5,000,000	-	-	5,000,000

Note iii: The closing price of the Company's shares on 27 July 2004, the trading day preceding the date of grant of the share options, was HK\$2.275.

- (iv) The particulars of share options granted to the eligible persons (including directors and employees) and the movement during the year are set out in note 34 to the financial statements.
- (v) The directors consider that a number of factors crucial for the valuation of the share options of the Company granted are subjective and uncertain. Consequently, any valuation of the options based on various speculative assumptions would not be meaningful and would be misleading. Accordingly, the directors do not consider it appropriate to disclose a theoretical value of the share options of the Company granted during the year.

Save as disclosed above, none of the directors or chief executives, nor 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 31 March 2005, 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 year ended 31 March 2005.

Save as disclosed above, at no time during the year 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 year.

Directors' Report

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 March 2005, the Group had the following transactions with 深圳市創維群欣安防科技有限公司 ("群欣安防"), a jointly controlled entity of the Group which a director of the Company owned, directly or indirectly, more than 30% equity interests, as defined in Chapter 14A to the Listing Rules, in 群欣安防:

- (i) incurred sub-contracting charges of approximately HK\$2 million, which were based on pre-determined rates agreed by the parties involved;
- (ii) sold raw materials of approximately HK\$5 million at prices determined at cost; and
- (iii) received a payment of HK\$1 million being consideration for certain plant and equipment.

The above transactions are regarded as connected transactions pursuant to Chapter 14A of the Listing Rules. Particulars of the transactions are also disclosed in Note 42 to the financial statements.

Save as disclosed above, no other contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Name of shareholder	Capacity	Number of issued ordinary shares held/ Percentage of the issued share capital of the Company					
		Long positions	%	Short positions	%	Lending pool	%
Target Success Group Limited	Trustee (Note a)	847,382,922	37.45	-	-	-	-
HSBC International Trustee Limited	Trustee (Note a)	847,382,922	37.45	-	-	-	-
J.P. Morgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent (Note b)	216,980,323	9.59	-	-	31,154,000	1.38

Note a: Target Success Group Limited held the shares of the Company in the capacity as trustee of the Skysource Unit Trust, all of the units in which are owned by the Skysource Trust. HSBC International Trustee Limited is deemed to be interested in 847,382,922 ordinary shares of the Company as it is the trustee of the Skysource Trust.

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Directors' Report

DISCLOSURE PURSUANT TO RULE 13.21 OF LISTING RULES

On 25 October 2004, the Group entered into a loan facility agreement with several banks under syndication arrangement in relation to a three-year term loan facility of an amount up to US\$60 million (the "Facility"). Pursuant to the Facility, it would be an event of default if (i) Mr. Wong Wang Sang, Stephen ("Mr. Wong"), the controlling shareholder of the Company, and/or his family members cease(s) to beneficially (either directly or indirectly) own 30% or more of the voting share capital of the Company which is not subject to any security or similar arrangement; or (ii) Mr. Wong and/or his family members does/do not or cease(s) to beneficially own (either directly or indirectly), individually or in the aggregate, the single largest shareholding in the Company; or (iii) Mr. Wong and/or his family members cease(s) to control any member of the Group or its management, business or operations.

However, upon repayment of the outstanding balance of US\$10 million on 6 December 2004, being consent by relevant banks, the Facility, including the clause of the above covenants, was cancelled on 28 December 2004.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has complied with the public float requirements of the Listing Rules throughout the year ended 31 March 2005.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which were then in force.

The Company has 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 of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transaction by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

Directors' Report

AUDIT COMMITTEE

The audit committee comprises three members: Mr. So Hon Cheung, Stephen, Mr. Li Weibin and Mr. Xie Zhengcai, all of whom are independent non-executive directors.

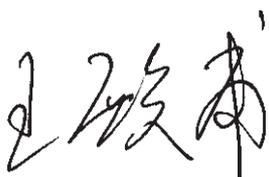
During the year and up to the date of this report, the audit committee held seven meetings and performed the following duties:

1. reviewed and commented on the Company's draft annual and interim financial reports;
2. commented on the Group's internal controls;
3. discussed on the Company's corporate governance practices; and
4. met with the external auditors and participated in the reappointment and assessment of the performance of the external auditors.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board



Wang Dianfu

Executive Chairman

26 August 2005