SKYWORTH

# Skyworth Digital Holdings Limited

# 創維數碼控股有限公司

Incorporated in Bermuda with limited liability

## Healthy TV
## Enlightening Digital Life

Interim Report
2005

# CONTENTS

## FINANCIAL HIGHLIGHTS

Amount expressed in HK$ million (except for share data)

| | Six months ended | | |
|---|---|---|---|
| | **30.9.2005 (unaudited)** | 30.9.2004 (restated) | Change |
| **OPERATING RESULTS** | | | |
| Turnover | **4,644** | 4,349 | +6.8% |
| Profit for operations (EBIT) | **52** | 230 | -77.4% |
| Profit attributable to equity holders of the Company | **43** | 174 | -75.3% |
| **FINANCIAL POSITION** | | | |
| Net cash (used in) from operating activities | **(83)** | 362 | -122.9% |
| Cash position* | **1,014** | 1,742 | -41.8% |
| Bank loans | **133** | 1,021 | -87.0% |
| Bank loans excluding the financial liabilities arising from discounted bills | **109** | 6 | +1,716.7% |
| Equity attributable to equity holders of the Company | **2,940** | 2,700 | +8.9% |
| Working capital | **2,275** | 2,000 | +13.8% |
| Bills receivable | **2,288** | 1,911 | +19.7% |
| Bills discounted with recourse | **24** | 1,015 | -97.6% |
| Trade receivables | **597** | 508 | +17.5% |
| Inventories | **1,630** | 1,979 | -17.6% |
| **KEY RATIOS** | | | |
| Gross profit margin (%) | **16.9%** | 15.2% | +1.7pp |
| Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin (%) | **2.4%** | 6.5% | -4.1pp |
| Net profits margin (%) | **0.9%** | 4.0% | -3.1pp |
| Return on equity holders of the Company (ROE) (%) | **2.9%** | 12.9% | -10.0pp |
| Debt to equity (%)** | **4.5%** | 37.8% | -33.3pp |
| Debt to equity excluding portion of financial liabilities arising from discounted bills (%) | **3.7%** | 0.2% | +3.5pp |
| Net debt to equity | **Net Cash** | Net Cash | n/a |
| Current ratio (times) | **1.6** | 1.4 | +14.3% |
| Trade receivable turnover period (days)*** | **120** | 106 | +13.2% |
| Trade receivable turnover period excluding portion arising from discounted bills receivable (days)*** | **104** | 84 | +23.8% |
| Inventories turnover period (days)*** | **78** | 82 | -4.9% |
| **DATA PER SHARE (HK CENTS)** | | | |
| Earnings per share – Basic | **1.90** | 7.84 | -75.8% |
| Earnings per share – Diluted | **1.87** | 7.55 | -75.2% |
| Dividend per share | **1.0** | 2.2 | -54.5% |
| Book value per share | **129.9** | 119.9 | +8.3% |
| **SHARE INFORMATION AT FINANCIAL PERIOD END** | | | |
| Number of shares in issue (million) | **2,263** | 2,252 | +0.5% |
| Market capitalisation *(Note)* | **6,044** | 4,786 | +26.3% |

* Cash position refers to bank balances and cash, including pledged bank deposits

** Bank loans and financial liabilities arising from discounted bills/equity attributable to equity holders of the Company at period end

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

*Note:* Market capitalisation is calculated with reference to the closing price of the Company's shares on 30 September 2005 as extracted from the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk and the number of shares issued at the balance sheet date.

## CORPORATE INFORMATION

### Board of Directors
***Executive Directors***
Mr. Wang Dianfu *(Executive Chairman)*
Mr. Zhang Xuebin *(Chief Executive Officer)*
Ms. Ding Kai
Mr. Leung Chi Ching, Frederick

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

***Independent Non-executive Directors***
Mr. So Hon Cheung, Stephen
Mr. Li Weibin
Mr. Xie Zhengcai

### Members of Committees
***Independent Committee***
Mr. Cheong Ying Chew, Henry
Mr. Heng Kwoo Seng
Mr. Ip Shing Hing

***Audit Committee***
Mr. So Hon Cheung, Stephen *(Chairman)*
Mr. Li Weibin
Mr. Xie Zhengcai

***Remuneration Committee***
Mr. So Hon Cheung, Stephen *(Chairman)*
Mr. Li Weibin
Mr. Xie Zhengcai
Mr. Leung Chi Ching, Frederick

***Nomination Committee***
Mr. So Hon Cheung, Stephen *(Chairman)*
Mr. Li Weibin
Mr. Xie Zhengcai
Mr. Leung Chi Ching, Frederick

### Company Secretary
Mr. Leung Chi Ching, Frederick

### Auditors
Deloitte Touche Tohmatsu

### Legal Advisors
Richards Butler

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

### Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

### Principal Place of Business
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

### 2005/2006 Results Announcement Date
Interim - 29 December 2005

### Closing Period of the Register of Members
From 23 January 2006 to 27 January 2006, both dates inclusive

### Investor Relations
Mr. Leung Chi Ching, Frederick
*Director of Finance and Executive Director*
Ms. Maggie Mak
*General Manager, Investor Relations*
Telephone: +852 2290 4620
Facsimile: +852 2856 3590
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Website: http://www.skyworth.com

## CHAIRMAN'S STATEMENT

For Skyworth, 2005/06 was a year of both change and challenge. I was very pleased to announce the appointment of Mr. Zhang Xuebin as Chief Executive Officer in June 2005. Xuebin brings to the Board vast experience and management expertise which he demonstrated in his first six months as we undertook a wide-ranging strategic review.

Xuebin presented the outcome of this review in December 2005. The strategy was adopted, which the Board fully supports and endorses. The Board also recognises that there is still much to do to create maximum value for all our stakeholders, and sets out a proactive programme for the immediate future.

Our business has continued to perform well with increasing revenues. In order to further enhance our position in respective markets, we continue to invest in our production capability attempting to reduce our logistic costs by setting up new factories at Shenzhen and Inner Mongolia. Although this investment will increase our fixed cost base, we are confident of achieving a good return in the medium to long term.

### Results and Dividend

I am very pleased to announce that Skyworth again set new records in the 2005/06 interim period. Revenue increased by 6.8% to HK$4,644 million, from HK$4,349 million in the same period last year. Excluding the overseas sales, there was an increase of about 10.8% to more than HK$3,998 million.

The Group's net profit amounted to HK$43 million, a decline of HK$131 million, after the adjustment on the new accounting standards impact, compared with the same period last year.

#### *Foreign exchange impact*
It is noteworthy that the appreciation of Renminbi during the period contributed to an exchange gain of HK$44 million as the Group has opted for Hong Kong dollars as reporting currency because the principal businesses of the Group were transacted in Renminbi.

#### *Dividend*
Your board of directors has declared an interim dividend of HK1 cent for the six months period ended 30 September 2005 compared with the same period last year of HK2.2 cents, representing a decrease of 54.5%. The dividend payout ratio increased from 27.6% in the same period last year to 52.6% in the current period.

### Business Review

#### *TV markets*
The Group continued to experience growth in revenue in the PRC domestic TV markets partly due to the improved standard of living and the digital broadcasting impact. However, the Group recorded a decline in its export market revenue due to the slower than expected product development process. Despite the growth in the overall revenue and a slight improvement in the gross margin, the Group still exposed to thin margin risk both in the domestic and export markets.

The increase in selling expenses, including commission, and temporary worker, advertising and display costs, due to the keen competition in the PRC domestic market, reduced the overall profitability. The export market segment performance was below expectation and could not achieve the expected results.

***AV and small electric appliance markets***

The performance in these markets met our expectation. The competition in the AV markets was also intensive. At the same period, a new team was set up to manage the small electric appliance business. These businesses had already gone through the most difficult period and it is expected to see the growth in both markets in the second half 2005/06.

***Mobile handset markets***

Since the Group started exporting its mobile handsets last year only, the scale of this business is still under development. During the period, a mobile handset license was granted to the Group in the PRC domestic market. Our board believed that after a difficult period in the PRC mobile market, this is a right time to enter into the market by adopting a prudent sales strategy.

***Digital set-top box markets***

The Group recorded a growth of 40% revenue to HK$112 million for the first half 2005/06. Digital broadcasting provides an unprecedented growth opportunity in this market; your board has decided to gain the market share at the expense of margin. This strategy will provide a foundation of our long term development plan.

***Other product markets***

Your board continues to evaluate relevant products to consistently follow our business strategy. Currently, the other investments include automobile electronics, LCD module, and semi-conductors, etc. Our strategy remains firm and our performance on these areas is on track.

Your board has decided to continue investing in these and other new businesses in order to materialize our vision to diversify the product lines and develop the Group's potential growth.

## Our Approach to the Market

For the rest of fiscal 2005/06, we will continue to adopt the following strategies to enhance our competitiveness:

***Research and product development***

We concern our customers' needs. We realise that our research and product development is vital to the success of our business and the satisfaction of the customers' needs. In line with our fundamental strategy, we have set up a Skyworth Science and Technology Committee to share the technology platform within the Group and to formulate the Group's future product strategy.

We continue to invest in the research and product development in high definition TVs to cope with the digital broadcasting programme promulgated by the China government.

Responding to the new market demand and gauging on our V12 and A12 technologies, we have dedicated our effort in the development of broad range slim and 16:9 CRT TVs and other products with 3C and multimedia functionalities.

By successfully launching a wide range of newly designed TVs, we understand that customers like fashionable TVs; therefore, we continue to invest in new industrial and mechanical designs.

We are confident that our new products will further increase the flexibility of the product for our customer base; the development of a new generation of our proprietary TVs.

For mobile handset business, we have prepared to launch mid to high end handsets in the coming months. Our product development team has focused on building in additional functionalities in the mobile handsets in order to provide more mobile entertainment to our customers.

***Marketing and inventory***

To reinforce our emphasis on profitability by reducing the overall selling expenses, we have devoted our effort to:

- strive a balance of market share and profitability in limiting the sales through unprofitable channels;
- improve our logistic planning;
- focus on the efficacy on the spending of advertisement in different markets;
- manage the inventory level to optimum level in order to minimise inventory write down for outdated models.

***People***

To pursue our growth strategy in the overseas markets, we commence to market "Skyworth" TV overseas. Our export market president has relocated overseas to develop these markets. We are glad that Mr. Sean Kim, who had worked with several large multinational electronic manufacturing businesses, has recently joined us to take responsibility of our overseas business.

The greatest asset to a successful business is people. We have commenced developing a series of business management training to our senior management in order to train them up to face future business challenges.

***Information technology***

The Group has progressed the strategy to upgrade the strength and security of our operating systems to best practice levels and to improve the speed and quality of customer, supplier and internal communications, by investing in IT infrastructure.

More resources will be spent on updating and standardising business software and processes. The objective of these upgrades will enhance our operational efficiency. This investment has played a vital role in enabling our management control and decision making process. Further investment in business software will be made in the coming year.

## Tax Inspection

I am pleased to advise you that the tax inspections by various PRC government tax authorities have been completed. All additional tax or charges had been provided in the previous year and fully settled up to the date of this report.

## Corporate Governance

In order to comply with the new Listing Rules requirements and strengthen the Group's corporate governance, the Group has implemented a series of actions to prepare the Board and the staff for facing the challenge. The actions include the set up of a risk management department. Details of which are set out in the interim report sections headed "Corporate Governance Standards and Operational Effectiveness" and "Compliance with the Code of Corporate Governance Practices".

## Outlook

The future for TV markets is both challenging and exciting. Although we remain one of the highest margin businesses in the industry, market conditions remain difficult. We face increasing competition and differing regulatory environments but the opportunities for us remain significant. We are in a unique position and, through our launch of new range of diversified products; we are creating platforms to deliver differentiated products and services to the benefit of our customers.

We expect this pattern to continue throughout this fiscal year. Looking further ahead, whilst TV markets are unlikely to change quickly, Skyworth is well positioned for sustained growth in its other areas of operation.

The Group has strong brands, products, management and financial resources. The Board is confident of the Group's prospects for the current fiscal year.

## Appreciation

In the current period, there are a lot of challenges which required the support from the independent committee and the non-executive directors. May I, on behalf of the board, extend our gratitude for their valuable guidance during the challenging period.

I would like to also take this opportunity to thank all my colleagues at Skyworth for their efforts in this period. They have met the challenges created by our determination to accelerate growth with commitment and enthusiasm. Together we have achieved another good performance. In thanking them all, I look forward to their ongoing contribution to achieving further progress in the current year.

Yours sincerely,

**Wang Dianfu**
*Executive Chairman*
29 December 2005

## Improvement in Turnover

Turnover of the Group reached HK$4,644 million for the six months period ended 30 September 2005, compared to HK$4,349 million in the prior period, represented an increase of 6.8%. The improvement in turnover was mainly attributable to:

- overall increase in spending by the consumers in the PRC as a result of the economic recovery evidenced by an average increase of over 9% in its GDPs during the second and the third quarters of 2005;
- continuous promotion by the PRC Government about the shift from analogue broadcasting to digital broadcasting, positively influencing consumers' behaviour in selection of high definition digital television ("TV") products;
- increase in revenue mix of high-valued TV products, including high definition TV, liquid crystal display ("LCD") TV and plasma TV, from about 33% in prior period to 51% in the current period;
- intensive marketing campaign improving public awareness and recognition of Skyworth's brand and products; and
- expansion of large-scaled electrical and electronic chain stores, strengthening Skyworth's distribution network and increasing market penetration.

## Overall Gross Margin

The overall gross margin of the Group for the period increased by 1.7% point from that of the prior period to 16.9%. The increase was mainly due to changing in product sales mix tilted towards the high-end TV products which generated higher gross margins, together with the better production costs control and the overall reduction in costs of raw materials.

As mentioned in the annual report of the previous year, the Group recorded sales rebate payable to local distributors in the PRC, mainly for incentive payments to local distributors under common practice, for their efforts in promoting and selling Skyworth's products. As a result of the expansion of the large-scaled electrical and electronic chain stores, the local distributors successfully bargained for a higher rate of rebate from the Group during the period. Together with the increase in sales volume during the period, sales rebates of the Group to these local distributors increased by 61.4% over the same period last year. Without such increase, the Group would attain a much better results during the period.

## Geographical Segment and Product Segment Review

### *PRC domestic market*

The Group's sales derived from the PRC domestic market accounted for 86.5% of the Group's total turnover for the six months period ended 30 September 2005. In the current period, turnover from the PRC domestic market amounted to HK$4,017 million compared with HK$3,624 million in the prior period, represented an increase of 10.8%.

During the period, over 95.7% of the sales in the PRC domestic market were derived from the sales of TV products, while about 2.5% was derived from the sales of audio visual ("AV") products and digital set-top boxes. Apart from the sales of the existing TV products, AV products and digital set-top boxes, the Group invested a portion of its resources in its new market on electrical appliances, mobile phones, LCD modules and other related accessories, the sales of which contributed to about HK$52 million of the Group's turnover.

***Overseas market***

The Group's sales derived from overseas market accounted for 13.5% of the Group's total turnover for the six months period ended 30 September 2005. In the current period, turnover generated from the overseas market amounted to HK$627 million compared with HK$725 million in the prior period, represented a 13.5% decline. Such decline in turnover could, in general, be explained by the intensifying competition for overseas market on TV and AV products and a slower than expected product development process.

*TV products*

The Group's overseas TV products sales, accounted for 83.1% of total overseas sales, were primarily related to OEM customers. With intensive competition, selling prices of TV products sold to overseas OEM customers were under enormous downward pressure. The fierce competition started to take its toll in the Group's Asian market, where the Group's sales recorded a reduction of 46.8% in the current period.

*AV products*

Turnover on AV products for overseas market during the period accounted for HK$38 million sales, represented a reduction of about 60.0% compared with the same period last year. Given the profit margin of the AV products continued to decline, the Group commenced to focus its attention from AV products to other high margin business opportunities. With this focus, the Group directed its resources to potentially more lucrative businesses, and had excelled the impact on the competitiveness of the Group's AV products in overseas market.

*Digital set-top boxes*

During the period, the Group successfully explored the overseas market for digital set-top boxes through a newly set-up sales team, managed to achieve about HK$68 million in turnover.

*Geographical distribution*

The percentage of geographical distribution of sales to overseas markets is analyzed below:

| | **For the six months period ended 30 September 2005** ***(%)*** | For the six months period ended 30 September 2004 *(%)* |
|---|---|---|
| Asia (including Japan, Korea, Vietnam, etc.) | **39** | 64 |
| Europe | **25** | 11 |
| America | **21** | 17 |
| Middle East | **7** | 4 |
| Africa | **5** | 1 |
| Australia and New Zealand | **3** | 3 |
| | **100** | 100 |

Two of the Group's major overseas markets were Asia and Europe which in aggregate accounted for about 64% of the Group's total overseas sales.

## New Products and New Technologies

As mentioned in the Chairman's letter, the Group has paid a lot of attention in research and product development. The integration of V12 and A12 technologies, and the 3C technologies will definitely create more entertaining functionalities for future TVs.

## Increase in Selling and Distribution Expenses

As the competition becoming further intensive, management of the Group believed that public awareness of our brand and products is crucial to maintain and gain the market share. In the current period, the Group spent an additional amount of HK$219 million in selling and distribution, compared with the same period last year, mainly on brand promotion and marketing activities in the PRC, achieving a 10.8% increase in turnover in the PRC domestic market. According to the research by GFK Asia Pte. Ltd., Skyworth's market share in sales quantity and sales amount covering 100 major cities in the PRC were 15.2% and 12.4% respectively as at 30 September 2005, increased by about 1.6% point and 1.3% point since 31 March 2005. Our investment in brand building is proven to be vital and effective.

In summary, the Group conducted extensive advertising and promotion campaigns in the current period including:

- carrying out more brand promotion and marketing campaigns which focused on publicizing our "Six Colour Digital" technologies;
- spending more decoration expenses on sales counters and hiring more promotional staff as a result of the expansion of large-scaled electrical and electronic chain stores;
- establishment of over 90 new flagship counters and over 50 new sales offices (including those for the small electrical appliances);
- building up more sign or billboard and other outdoor advertisements in various airports, train stations, bus stops, public transportation and highways in major cities;
- conducting more brand promotion activities on television;
- launching more advertising campaign in popular local magazines and newspapers; and
- dispatch of attractive promotional gifts to customers for stimulating sales of high-end TV products.

To cope with the above promotional activities, more sales and marketing staff were hired by the Group in the current period. As at 30 September 2005, an additional number of 1,000 staff was hired, as compared with the same period last year, resulting in an increase in salaries and sales commission expenses recorded under selling and distribution expenses.

**Inventory Control**

As at 30 September 2005, the Group's inventories had a net carrying value of HK$1,630 million which represented a decrease of HK$49 million or 2.9% as compared with the balance as at 31 March 2005, and also represented a decrease of HK$349 million or 17.6% as compared with the balance as at 30 September 2004. Such reduction in inventory balance was due to the tightening control over the level of inventory with a view to enhance flexibility in working capital management.

As at 30 September 2005, the inventory turnover periods (based on average inventory balance net of provision) for raw materials and finished goods were 21 days and 49 days, respectively; as at 30 September 2004, the inventories turnover periods for raw materials and finished goods were 27 days and 48 days, respectively. With the tightened control measures, the Group expects to progressively reduce the inventory turnover periods in the coming periods.

**Trade Receivables and Bills Receivable**

As at 30 September 2005, trade receivables and bills receivable of the Group amounted to HK$597 million and HK$2,288 million, respectively, totalling HK$2,885 million. As compared with 31 March 2005, the amount of trade receivables had increased by HK$240 million or 67.2%, whilst the amount of bills receivable had reduced by HK$540 million or 19.1%. Also, compared with 31 March 2005, the total amount of trade receivables and bills receivable had recorded a decline of HK$300 million or 9.4%. Receivables of the Group at September each year is generally higher than that at March, as supported by the normal seasonal impact on higher sales achieved in September for the golden week in early October.

Comparing with the trade receivables and bills receivable of the Group as at 30 September 2004, the amounts as at 30 September 2005 showed an increase of HK$89 million and HK$377 million, respectively. Such increase in total receivables of HK$466 million or 19.3% was mainly owing to the overall increase in sales during the period and the recent expansion of the large-scaled electrical and electronic chain stores to which the Group sold in larger volume and with longer credit terms.

**Trade Payables and Bills Payable**

Total trade payables and bills payable of the Group as at 30 September 2005 amounted to HK$2,255 million, represented a reduction of HK$3 million and a reduction of HK$519 million as compared with that as at 30 September 2004 and as at 31 March 2005, respectively. During the period, the Group discontinued the practice in issuing bills payable to suppliers. Certain flat panels and integrated circuits suppliers required sight letter of credit or cash settlement; it implied that more flat panel TV sales would require more cash flow to support the purchase cycle. Accordingly, only about 7.8% of the trade payables balance as at 30 September 2005 aged over 60 days. Likewise, this also explained the reduction in total trade payables and bills payable as at 30 September 2005.

**Liquidity and Financial Resources**

As at 30 September 2005, the Group had bank balances and cash of HK$904 million, represented a HK$19 million increase compared with that as at 31 March 2005, and a HK$354 million increase when compared with that as at 30 September 2004.

As at 30 September 2005, the Group had HK$110 million pledged bank balances with banks mainly for trade facilities. In the past, the Group had arrangements to issue bills payable to the suppliers which required pledging of the Group's liquid cash (the "Arrangement"). The Group had terminated the Arrangement during the period, resulting in a significant reduction in pledged bank deposits of HK$945 million from the balance as at 31 March 2005. The release of cash from these pledged bank deposits were partly utilized for additional investments in property, plant and equipment, and settlement of trade payables and bills payable during the period.

Excluding the remaining balance of the associated financial liabilities arising from discounting bills receivable with recourse which would be released upon maturity, bank borrowings of the Group represented a mortgage loan of HK$4 million in respect of the land and buildings located in Hong Kong, and a bank loan of HK$105 million for the development of a new production plan in Shiyan, Shenzhen. By agreement in principle, part of the interest of the construction loan would be subsidized by the PRC government due to the high-technology nature of the project.

As at 30 September 2005, the gearing ratio of the Group was 3.7%, showing an increase of 3.5% point from that as at 31 March 2005. The ratio is calculated with reference to the total bank borrowings of HK$133 million and shareholders' fund of HK$2,940 million. Although the gearing ratio of the Group increased in the current period, the Group still maintained a healthy gearing position, comparing with the gearing ratio of companies within the same industry in general.

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 the PRC and its main revenue stream generates Renminbi. Other than Renminbi assets, other Group's assets and liabilities are denominated either in Hong Kong dollars or in US dollars. Management believes that the operations of the Group are not subject to significant and adverse foreign exchange risks and accordingly, the Group does not engage in any hedging activities at present. Similarly, the Group does not engage in any instrument to hedge against any risk relating 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.

As mentioned in the above section, the Group has terminated the Arrangement; accordingly, the management will continue to review new financial products which will assist the Group to build in flexibility in managing its cash flow.

### Significant Investments and Acquisition

During the period, the Group spent approximately HK$106 million for the construction of two new factory plants located in Shiyan, Shenzhen; and in Huhot, Inner Mongolia, the PRC. The status of these two plants is further discussed in the section headed "Future Prospects" below.

### Contingent Liabilities

As at 30 September 2005, the Group had no significant contingent liabilities.

## Human Resources

As at 30 September 2005, the Group had approximately 15,500 employees in Hong Kong and the PRC, including sales persons located in the sales offices covering over 175 sales points. This extensive and strong team of human capital provides great supports to the successful expansion and development of Skyworth's business and branding.

Employees' remuneration packages are determined with reference to the qualifications and experience of individuals and are reviewed annually and as required from time to time. The Group also offers incentives to employees, such as discretionary bonus and share options. The Group has also continuously spent resources in training, retention and recruitment programs, and encouraging staff for self development and improvements. The Group used the "key performance indicators", a methodical system, to monitor and evaluate the performance of managerial staff, aiming to achieve continuous improvements and correction of deficiencies. 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. The Group is fully committed to build up such human resource capital to enhance its assets for ensuring future growth.

Currently, the emoluments payable to directors are determined with reference to the qualifications and experience of the directors, and include incentive bonus primarily based on the results of the Group. With the set up of a remuneration committee in February 2005, the remuneration packages of directors and senior management of the Group have been and will be reviewed by the remuneration committee from time to time. The Company has set up a nomination committee, also in February 2005, to deal with nomination of directors and senior management.

## Future Prospects

With the change in PRC domestic TV market strategy, and the commencement of the streamlining in the research manufacturing, and sales processes, the Group is not able to project overall revenue position at the moment. However, the management has formulated strategies to approach the target for this 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 other things, the fact that management emphasizes on people and technology and always looking for breakthroughs in sales strategy.

In 2005, the Group has integrated the V12 technology with the A12 technology in order to launch TVs with more multimedia functionalities for home entertainment purposes. The emphasis in the 3C integrated TVs will again be the focus for the coming fiscal year. The 16:9 and slim CRT TVs have contributed and will be contributing the growth in the coming months for the high-definition digitalization programmes.

The Group aims at restructuring its core business to produce high technology TV products whilst increasing its margin and broadening its revenue base through improved technology in producing low cost TVs and creative sales strategies.

The Group is looking for good investments opportunity in areas complimentary to its core business. As mentioned in the Chairman's letter, the Group has continued to invest in certain electronic businesses to diversify the Group businesses, and integrating the upper stream accessories production.

Owing to some variations in the design of the factory, the Group expects that the construction of the new production plant in Shiyan, Shenzhen will commence production by the end of May 2006. Another new production plant for manufacturing of TV products in Huhot, Inner Mongolia will also be completed at the same time. The new Shiyan production plant will provide the Group with additional production facilities for high end TVs and other electronic products. The Huhot production plant will also enhance the Group's competitive edge in selling TV products in the Northern region by improving the logistic arrangement and costs.

Owing to the delay in obtaining government approval in certain environmental protection licenses, the proposed set-up of the semi-conductor project has been delayed. The management will try to mobilize its resources to expedite the process. During the period, the Group has invested HK$14 million in and formed a joint venture with one of our suppliers for semi-conductor packaging. This showed that the Group continues its strategy to consolidate the upstream component businesses.

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

With the right strategies in investing in the product development and human assets; in diversifying the businesses in a prudent manner; and in monitoring and controlling the selling expenses, the management looks towards fiscal 2005/06 with confidence.

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 September 2005*

| | | Six months ended | |
|---|---|---|---|
| | | **30.9.2005** | 30.9.2004 |
| | | **(unaudited)** | (restated) |
| | *Notes* | ***HK$ million*** | *HK$ million* |
| Turnover | *5* | **4,644** | 4,349 |
| Cost of sales | | **(3,858)** | (3,687) |
| Gross profit | | **786** | 662 |
| Other operating income | | **77** | 38 |
| Reversal of provision against value added tax | | **–** | 127 |
| Reversal of provision against the patent rights litigation | | **–** | 33 |
| Selling and distribution expenses | | **(690)** | (471) |
| General and administrative expenses | | **(118)** | (159) |
| Finance costs | | **(1)** | (9) |
| Impairment loss recognised in respect of available-for-sale investments | | **(3)** | – |
| Gain on disposal of subsidiaries | | **3** | – |
| Write off of interest in an associate | | **–** | (10) |
| Share of results of jointly controlled entities | | **(3)** | (8) |
| Profit before taxation | *6* | **51** | 203 |
| Taxation | *7* | **(8)** | (27) |
| Profit for the period | | **43** | 176 |
| Attributable to: | | | |
| Equity holders of the Company | | **43** | 174 |
| Minority interests | | **–** | 2 |
| | | **43** | 176 |
| Dividends | *8* | **23** | 50 |
| Earnings per share | | | |
| Basic *(HK cents)* | *9* | **1.90** | 7.84 |
| Diluted *(HK cents)* | *9* | **1.87** | 7.55 |

## CONDENSED CONSOLIDATED BALANCE SHEET

*At 30 September 2005*

| | Notes | **30.9.2005 (unaudited) HK$ million** | 31.3.2005 (restated) HK$ million |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current Assets** | | | |
| Property, plant and equipment | *10* | **672** | 594 |
| Interests in jointly controlled entities | | **8** | 11 |
| Amount due from a jointly controlled entity | | **–** | 9 |
| Investments in securities | | **–** | 24 |
| Available-for-sale investments | | **26** | – |
| Prepaid lease payments on land use rights | | **71** | 70 |
| | | **777** | 708 |
| **Current Assets** | | | |
| Inventories | *11* | **1,630** | 1,679 |
| Trade and other receivables | *12* | **805** | 556 |
| Bills receivable | *13* | **2,288** | 2,828 |
| Prepaid lease payments on land use rights | | **2** | 2 |
| Tax recoverable | | **2** | 2 |
| Amount due from a jointly controlled entity | | **15** | 10 |
| Investments in securities | | **–** | 20 |
| Held-for-trading investments | | **25** | – |
| Pledged bank deposits | | **110** | 1,055 |
| Bank balances and cash | | **904** | 885 |
| | | **5,781** | 7,037 |
| **Current liabilities** | | | |
| Trade and other payables | *14* | **3,406** | 2,973 |
| Bills payable | *15* | **17** | 981 |
| Amount due to a jointly controlled entity | | **2** | 2 |
| Tax liabilities | | **55** | 91 |
| Secured bank borrowings | *16* | **26** | 766 |
| | | **3,506** | 4,813 |
| **Net current assets** | | **2,275** | 2,224 |
| **Total assets less current liabilities** | | **3,052** | 2,932 |
| **Non-current liabilities** | | | |
| Secured bank borrowings | *16* | **107** | 3 |
| Deferred taxation | | **5** | 5 |
| | | **112** | 8 |
| **NET ASSETS** | | **2,940** | 2,924 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *17* | **226** | 226 |
| Share premium | | **1,186** | 1,186 |
| Share option reserve | | **40** | 29 |
| Investment revaluation reserve | | **5** | 4 |
| Surplus account | | **102** | 102 |
| Capital reserve | | **31** | 31 |
| Exchange reserve | | **12** | 1 |
| Accumulated profits | | **1,338** | 1,345 |
| **TOTAL EQUITY** | | **2,940** | 2,924 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2005*

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$ million* | Share premium *HK$ million* | Share option reserve *HK$ million* | Investment property revaluation reserve *HK$ million* | Investment revaluation reserve *HK$ million* | Surplus account *HK$ million* | Capital reserve *HK$ million* | Exchange reserve *HK$ million* | Accumulated profits *HK$ million* | Total *HK$ million* | Minority interest *HK$ million* | Total equity *HK$ million* |
| Balance at 1 April 2004 | | | | | | | | | | | | |
| – As originally stated | 222 | 1,108 | – | 3 | – | 102 | 30 | 3 | 1,104 | 2,572 | 8 | 2,580 |
| – Effect of changes in accounting policies *(Notes 3 & 4)* | – | – | 7 | (3) | – | – | – | – | (12) | (8) | – | (8) |
| – As restated | 222 | 1,108 | 7 | – | – | 102 | 30 | 3 | 1,092 | 2,564 | 8 | 2,572 |
| Surplus on revaluation of investments in securities recognised directly in equity | – | – | – | – | 3 | – | – | – | – | 3 | – | 3 |
| Profit for the period | – | – | – | – | – | – | – | – | 174 | 174 | 2 | 176 |
| Total recognised profit for the period | – | – | – | – | 3 | – | – | – | 174 | 177 | 2 | 179 |
| Recognition of equity-settled share based payments | – | – | 10 | – | – | – | – | – | – | 10 | – | 10 |
| Issue of shares under share option schemes | – | 1 | – | – | – | – | – | – | – | 1 | – | 1 |
| Issue of shares pursuant to scrip dividend scheme for 2003/04 final dividends | 3 | 67 | – | – | – | – | – | – | (70) | – | – | – |
| Dividend paid | – | – | – | – | – | – | – | – | (52) | (52) | – | (52) |
| Balance at 30 September 2004 | 225 | 1,176 | 17 | – | 3 | 102 | 30 | 3 | 1,144 | 2,700 | 10 | 2,710 |

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (unaudited) *HK$ million* | Share premium (unaudited) *HK$ million* | Share option reserve (unaudited) *HK$ million* | Investment property revaluation reserve (unaudited) *HK$ million* | Investment revaluation reserve (unaudited) *HK$ million* | Surplus account (unaudited) *HK$ million* | Capital reserve (unaudited) *HK$ million* | Exchange reserve (unaudited) *HK$ million* | Accumulated profits (unaudited) *HK$ million* | Total (unaudited) *HK$ million* | Minority interest (unaudited) *HK$ million* | Total equity (unaudited) *HK$ million* |
| Balance at 1 April 2005 | | | | | | | | | | | | |
| – As originally stated | 226 | 1,186 | – | 5 | 4 | 102 | 31 | 1 | 1,384 | 2,939 | – | 2,939 |
| – Effect of changes in accounting policies *(Notes 3 & 4)* | – | – | 29 | (5) | – | – | – | – | (39) | (15) | – | (15) |
| – As restated | 226 | 1,186 | 29 | – | 4 | 102 | 31 | 1 | 1,345 | 2,924 | – | 2,924 |
| Surplus on revaluation of available-for-sale investments | – | – | – | – | 1 | – | – | – | – | 1 | – | 1 |
| Exchange differences on translation of the financial statements of overseas operations | – | – | – | – | – | – | – | 11 | – | 11 | – | 11 |
| Income recognised directly in equity | – | – | – | – | 1 | – | – | 11 | – | 12 | – | 12 |
| Profit for the period | – | – | – | – | – | – | – | – | 43 | 43 | – | 43 |
| Total recognised profit for the period | – | – | – | – | 1 | – | – | 11 | 43 | 55 | – | 55 |
| Recognition of equity-settled share based payments | – | – | 11 | – | – | – | – | – | – | 11 | – | 11 |
| Dividend paid *(Note 8)* | – | – | – | – | – | – | – | – | (50) | (50) | – | (50) |
| Balance at 30 September 2005 | 226 | 1,186 | 40 | – | 5 | 102 | 31 | 12 | 1,338 | 2,940 | – | 2,940 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 September 2005*

| | | Six months ended | |
|---|---|---|---|
| | | **30.9.2005** | 30.9.2004 |
| | | **(unaudited)** | |
| | *Note* | ***HK$ million*** | *HK$ million* |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | | **(83)** | 362 |
| INVESTING ACTIVITIES | | | |
| Interest received | | **7** | 12 |
| Purchase of property, plant and equipment | | **(164)** | (78) |
| Disposal of subsidiaries | *19* | **11** | – |
| Cash paid for the acquisition of available-for-sale investments/investments in securities | | **(4)** | (3) |
| Cash paid for the acquisition of held-for-trading investments | | **(1)** | – |
| Proceeds on disposal of investments in securities | | **–** | 50 |
| Decrease (increase) in pledged bank deposits | | **945** | (1,192) |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | | **794** | (1,211) |
| FINANCING ACTIVITIES | | | |
| Interest paid | | **(2)** | (9) |
| Dividends paid | | **(50)** | (52) |
| Issue of shares for cash | | **–** | 1 |
| New bank loan raised | | **105** | – |
| Repayment of mortgage loans | | **–** | (1) |
| Funds arisen from discounted bills with recourse | | **112** | 1,589 |
| Repayment of funds arisen from discounted bills with recourse upon maturity | | **(853)** | (574) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | | **(688)** | 954 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **23** | 105 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | | **885** | 445 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **(4)** | – |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | | **904** | 550 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash | | **904** | 550 |



### 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 an investment holding company. The principal activities of the Group are the manufacture and sales of consumer electronic products and upstream accessories, and property holding.

### 2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

**Share-based Payments**

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In accordance with the relevant transitional provision, the Group has applied HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 April 2005. Comparative figures have been restated.

**Financial Instruments**

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for the current and prior periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for Investments in Securities". Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for that period. From 1 April 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in income statement and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39.

*Financial assets and financial liabilities other than debt and equity securities*
From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The changes did not have significant effect for the current and prior periods.

**Owner-occupied Leasehold Interest in Land**
In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "prepaid lease payments", which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

**Investment Properties**
In previous periods, the Group had applied SSAP 13 "Accounting in Investment Properties" to account for a property separately as investment property, being the portion held to earn rentals or for capital appreciation, and as property, plant and equipment, being the portion held for administrative purposes. Under SSAP 13, investment properties were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged.

In the current period, SSAP 13 was superseded by HKAS 40 "Investment Property", under which any property comprises a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes, the entire property should be classified as property, plant and equipment if the portion held for use in the production or supply of goods or services or for administrative purposes is more than insignificant and not able to be sold separately (or leased out separately under a finance lease). Based on these requirements, the properties of the Group were no longer to be accounted for as investment properties but should adopt HKAS 16 "Property, Plant and Equipment". The adoption of HKAS 16 has resulted in a change in accounting policy and retrospective application is required.

## 4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policies described in note 3 on the results for the current and prior period are as follows:

***Income Statement for the six months ended 30 September 2005 (unaudited)***

| | **HKFRS 2**<br>***HK$ million*** | **HKAS 40**<br>***HK$ million*** | **Total effect on adoption of HKFRSs and HKASs**<br>***HK$ million*** |
|---|---|---|---|
| **Increase in cost of sales** | | | |
| **– increase in depreciation** | **–** | **3** | **3** |
| **Increase in administrative expenses** | | | |
| **– increase in employee share option benefits** | **11** | **–** | **11** |
| **Total decrease in profit** | **11** | **3** | **14** |
| **Decrease in basic earnings per share (HK cents)** | **0.49** | **0.13** | **0.62** |
| **Decrease in diluted earnings per share (HK cents)** | **0.48** | **0.13** | **0.61** |

*Income Statement for the six months ended 30 September 2004*

| | HKFRS 2<br>*HK$ million* | HKAS 40<br>*HK$ million* | Total effect on adoption of HKFRSs and HKASs<br>*HK$ million* |
|---|---|---|---|
| Increase in cost of sales | | | |
| – increase in depreciation | – | 3 | 3 |
| Increase in administrative expenses | | | |
| – increase in employee share option benefits | 10 | – | 10 |
| Total decrease in profit | 10 | 3 | 13 |
| Decrease in basic earnings per share (HK cents) | 0.45 | 0.14 | 0.59 |
| Decrease in diluted earnings per share (HK cents) | 0.43 | 0.13 | 0.56 |

The cumulative effects of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

| | | Retrospective adjustments | | | | Adjustments on 1 April 2005 | |
|---|---|---|---|---|---|---|---|
| | **As at 31.3.2005 (originally stated)** | HKFRS 2 | HKAS 17 | HKAS 40 | **As at 31.3.2005 (restated)** | HKAS 39 | **As at 1.4.2005 (restated)** |
| | ***HK$ million*** | *HK$ million* | *HK$ million* | *HK$ million* | ***HK$ million*** | *HK$ million* | ***HK$ million*** |
| **Balance sheet items** | | | | | | | |
| Property, plant and equipment | **552** | – | (72) | 114 | **594** | – | **594** |
| Investment properties | **130** | – | – | (130) | **–** | – | **–** |
| Investments in securities | | | | | | | |
| – non-current assets | **24** | – | – | – | **24** | (24) | **–** |
| – current assets | **20** | – | – | – | **20** | (20) | **–** |
| Available-for-sale investments | **–** | – | – | – | **–** | 24 | **24** |
| Held-for-trading investments | **–** | – | – | – | **–** | 20 | **20** |
| Prepaid lease payments on land use rights | | | | | | | |
| – non-current assets | **–** | – | 70 | – | **70** | – | **70** |
| – current assets | **–** | – | 2 | – | **2** | – | **2** |
| Deferred taxation | **(6)** | – | – | 1 | **(5)** | – | **(5)** |
| Total effects on assets and liabilities | **720** | – | – | (15) | **705** | – | **705** |
| Share option reserve | **–** | 29 | – | – | **29** | – | **29** |
| Investment property revaluation reserve | **5** | – | – | (5) | **–** | – | **–** |
| Accumulated profits | **1,384** | (29) | – | (10) | **1,345** | – | **1,345** |
| Total effects on equity | **1,389** | – | – | (15) | **1,374** | – | **1,374** |

The financial effects of the application of the new HKFRSs to the Group's equity at 1 April 2004 were to increase the share option reserve by HK$7 million, decrease the investment property revaluation reserve by HK$3 million and decrease the accumulated profits by HK$12 million due to the application of HKFRS 2 and HKAS 40.

## 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 properties for the period, and is analysed as follows:

| | Six months ended | |
|---|---|---|
| | **30.9.2005 (unaudited)** | 30.9.2004 |
| | ***HK$ million*** | *HK$ million* |
| Sales of goods | **4,625** | 4,333 |
| Property rental income | **19** | 16 |
| | **4,644** | 4,349 |

**Business segments**

The Group is principally engaged in the design, manufacture and sales of colour televisions and audio visual products and property holding. The management considers that the revenue and result of the Group is mainly contributed by the design, manufacture 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 location of customers is presented as below:

***Income statement for the six months ended 30 September 2005 (unaudited)***

| | PRC<br>*HK$ million* | Asia region (Other than PRC)<br>*HK$ million* | Other regions<br>*HK$ million* | Consolidated<br>*HK$ million* |
|---|---|---|---|---|
| **Turnover** | | | | |
| **External sales and rental income** | **4,017** | **243** | **384** | **4,644** |
| **Result** | | | | |
| **Segment results** | **76** | **(15)** | **(11)** | **50** |
| **Interest income** | | | | **7** |
| **Unallocated corporate income less expenses** | | | | **(5)** |
| **Finance costs** | | | | **(1)** |
| **Gain on disposal of subsidiaries** | **3** | **–** | **–** | **3** |
| **Share of results of jointly controlled entities** | **(3)** | **–** | **–** | **(3)** |
| **Profit before taxation** | | | | **51** |
| **Taxation** | | | | **(8)** |
| **Profit for the period** | | | | **43** |

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

| | PRC<br>*HK$ million* | Asia region (Other than PRC)<br>*HK$ million* | Other regions<br>*HK$ million* | Consolidated<br>*HK$ million* |
|---|---|---|---|---|
| Turnover | | | | |
| External sales and rental income | 3,624 | 457 | 268 | 4,349 |
| Result | | | | |
| Segment results | 200 | 10 | 28 | 238 |
| Interest income | | | | 12 |
| Unallocated corporate income less expenses | | | | (20) |
| Finance costs | | | | (9) |
| Write off of interest in an associate | (10) | – | – | (10) |
| Share of results of jointly controlled entities | (8) | – | – | (8) |
| Profit before taxation | | | | 203 |
| Taxation | | | | (27) |
| Profit for the period | | | | 176 |

## 6. PROFIT BEFORE TAXATION

| | Six months ended | |
|---|---|---|
| | **30.9.2005** | 30.9.2004 |
| | **(unaudited)** | (restated) |
| | ***HK$ million*** | *HK$ million* |
| Profit before taxation has been arrived at after charging (crediting): | | |
| Allowance for doubtful debts | **5** | 3 |
| Depreciation and amortisation of property, plant and equipment | **59** | 53 |
| Loss on disposal of property, plant and equipment | **1** | 1 |
| Interest income | **(7)** | (12) |
| Interest on bank borrowings wholly repayable within five years less amount capitalised of HK$1 million (for the six months ended 30 September 2004: nil) | **1** | 9 |
| Net foreign exchange gains *(Note)* | **(44)** | (4) |
| Net realised loss on disposal of investments in securities | **–** | 2 |
| Unrealised (gain) loss on revaluation of held-for-trading investments/investments in securities | **(4)** | 1 |
| Write-down of inventories to net realisable value | **44** | 23 |

*Note*: For the period ended 30 September 2005, as a result of the revaluation of Renminbi, the PRC subsidiaries which had payables in foreign currencies recorded a net foreign exchange gain of HK$44 million.

## 7. TAXATION

| | Six months ended | |
|---|---|---|
| | **30.9.2005** | 30.9.2004 |
| | **(unaudited)** | |
| | ***HK$ million*** | *HK$ million* |
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| Current period | **–** | 4 |
| PRC income tax | | |
| Current period | **2** | 20 |
| Overprovision for previous years | **(1)** | – |
| | **1** | 20 |
| Other PRC taxes | | |
| Current period | **8** | 5 |
| Overprovision for previous years | **(1)** | (2) |
| | **7** | 3 |
| | **8** | 27 |

No provision for Hong Kong Profits Tax has been made as the relevant entities incurred a tax loss for the period. Hong Kong Profits Tax for the six months ended 30 September 2004 was calculated at the rate of 17.5% on the estimated assessable profits for that period.

PRC income tax is calculated at the rate prevailing in the 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.

## 8. DIVIDENDS

On 29 July 2005, a dividend of HK2.2 cents per share amounting to HK$50 million was paid to shareholders as an interim dividend for the six months ended 30 September 2004.

On 28 October 2005, a dividend of HK3.3 cents per share amounting to HK$75 million was paid to shareholders as the final dividend for the year ended 31 March 2005.

The Board of Directors has resolved that an interim dividend of HK1 cent per share to be paid to the shareholders of the Company whose names appear in the register of members on 27 January 2006.

## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

| | **Six months ended** | |
|---|---|---|
| | **30.9.2005** | 30.9.2004 |
| | **(unaudited)** | (restated) |
| | ***HK$ million*** | *HK$ million* |
| Earnings: | | |
| Earnings for the purposes of basic and diluted earnings per share - profit for the period attributable to the equity holders of the Company | **43** | 174 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,262,607,699** | 2,218,026,745 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **41,582,280** | 86,836,946 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **2,304,189,979** | 2,304,863,691 |

The basic and diluted earnings per share for the six months ended 30 September 2004 have been restated for the effects of changes in the accounting policies described in notes 3 and 4.

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.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$106 million (for the six months ended 30 September 2004: HK$15 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$60 million (for the six months ended 30 September 2004: HK$63 million) on the acquisition of other property, plant and equipment for business operation and expansion.

## 11. INVENTORIES

| | **30.9.2005 (unaudited) *HK$ million*** | 31.3.2005 *HK$ million* |
|---|---|---|
| Raw materials | **463** | 394 |
| Work in progress | **234** | 150 |
| Finished goods | **933** | 1,135 |
| | **1,630** | 1,679 |

Included above are raw materials of HK$85 million (31.3.2005: HK$173 million), work in progress of HK$2 million (31.3.2005: HK$1 million) and finished goods of HK$199 million (31.3.2005: HK$246 million) which are carried at net realisable value.

## 12. 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.

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

| | **30.9.2005 (unaudited) *HK$ million*** | 31.3.2005 *HK$ million* |
|---|---|---|
| Within 30 days | **444** | 194 |
| 31 to 60 days | **73** | 109 |
| 61 to 90 days | **27** | 28 |
| 91 days or over | **53** | 26 |
| Trade receivables | **597** | 357 |
| Deposits, prepayments and other receivables | **208** | 199 |
| | **805** | 556 |

## 13. BILLS RECEIVABLE

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

| | **30.9.2005 (unaudited)** | 31.3.2005 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Within 30 days | **198** | 124 |
| 31 to 60 days | **173** | 57 |
| 61 to 90 days | **140** | 105 |
| 91 days or over | **857** | 1,108 |
| Bills endorsed to suppliers | **896** | 669 |
| Bills discounted with recourse | **24** | 765 |
| | **2,288** | 2,828 |

## 14. TRADE AND OTHER PAYABLES

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

| | **30.9.2005 (unaudited)** | 31.3.2005 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Within 30 days | **951** | 405 |
| 31 to 60 days | **214** | 239 |
| 61 to 90 days | **80** | 274 |
| 91 days or over | **97** | 206 |
| Trade payables under endorsed bills | **896** | 669 |
| Trade payables | **2,238** | 1,793 |
| Deposits in advance, accruals and other payables | **1,168** | 1,180 |
| | **3,406** | 2,973 |

## 15. BILLS PAYABLE

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

| | **30.9.2005 (unaudited)** | 31.3.2005 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Within 30 days | **16** | 330 |
| 31 to 60 days | **1** | 236 |
| 61 to 90 days | **–** | 199 |
| 91 days or over | **–** | 216 |
| | **17** | 981 |

## 16. SECURED BANK BORROWINGS

| | **30.9.2005** | 31.3.2005 |
|---|---|---|
| | **(unaudited)** | |
| | ***HK$ million*** | *HK$ million* |
| Secured bank borrowings comprise the following: | | |
| Mortgage loans | **4** | 4 |
| Other bank loans | **129** | 765 |
| | **133** | 769 |
| The bank borrowings are repayable as follows: | | |
| Within one year or on demand | **26** | 766 |
| More than one year, but not exceeding two years | **2** | 2 |
| More than two years, but not exceeding five years | **105** | 1 |
| | **133** | 769 |
| *Less:* Amount due within one year or on demand included in current liabilities | **(26)** | (766) |
| Amount due after one year | **107** | 3 |

## 17. SHARE CAPITAL

| | **Number of shares** | | **Share capital** | |
|---|---|---|---|---|
| | **1.4.2005 to 30.9.2005** | 1.4.2004 to 31.3.2005 | **1.4.2005 to 30.9.2005** | 1.4.2004 to 31.3.2005 |
| | | | **(unaudited)** | |
| | | | ***HK$ million*** | *HK$ million* |
| Ordinary shares of HK$0.1 each: | | | | |
| Authorised: | | | | |
| At beginning and at end of the period/year | **10,000,000,000** | 10,000,000,000 | **1,000** | 1,000 |
| Issued and fully paid: | | | | |
| At beginning of the period/year | **2,262,572,391** | 2,215,208,170 | **226** | 222 |
| Issue of shares under share option schemes | **918,000** | 14,241,000 | **–** | 1 |
| Issue of shares pursuant to scrip dividend scheme for 2003/04 final dividends | **–** | 33,123,221 | **–** | 3 |
| At end of the period/year | **2,263,490,391** | 2,262,572,391 | **226** | 226 |

## 18. SHARE OPTIONS

The particulars of the share option schemes of the Company and the movements in share options during the period ended 30 September 2005 are disclosed in the section headed "Other Information" of this interim report. A summary of the number of share options outstanding as at 30 September 2005 and 31 March 2005 is presented below:

| Date of grant of the share options | Exercise price of the share options | Number of share options outstanding | |
|---|---|---|---|
| | | 30.9.2005 | 31.3.2005 |
| | *HK$* | | |
| 25 November 2000 | 0.336 | 30,146,000 | 30,691,000 |
| 2 April 2001 | 0.292 | 500,000 | 500,000 |
| 23 January 2002 | 0.420 | 7,500,000 | 7,500,000 |
| 25 March 2002 | 0.520 | 100,000 | 868,000 |
| 8 August 2002 | 0.750 | 1,000,000 | 1,000,000 |
| 5 October 2002 | 0.840 | 23,902,000 | 27,900,000 |
| 14 February 2003 | 0.874 | 734,000 | 734,000 |
| 18 March 2003 | 0.800 | – | 750,000 |
| 28 March 2003 | 0.776 | 224,000 | 224,000 |
| 9 June 2003 | 0.752 | 1,500,000 | 1,500,000 |
| 27 June 2003 | 0.742 | 750,000 | 750,000 |
| 16 October 2003 | 1.660 | 148,687,000 | 150,537,000 |
| 26 February 2004 | 2.575 | 400,000 | 10,400,000 |
| 16 April 2004 | 2.740 | 530,000 | 530,000 |
| 28 July 2004 | 2.275 | 21,000,000 | 21,000,000 |
| 30 September 2004 | 2.175 | 120,000 | 320,000 |
| 5 October 2004 | 2.200 | 5,000,000 | 5,000,000 |
| 11 October 2004 | 2.225 | 1,000,000 | 1,000,000 |
| | | 243,093,000 | 261,204,000 |

As mentioned in Note 3, the Company has applied HKFRS 2 "Share-based Payment" to account for its share options in the current period. In accordance with HKFRS 2, the fair value of the share options granted to directors and employees of the Group determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Company's share option reserve. An amount of share option expense of HK$11 million (for the six months ended 30 September 2004: HK$10 million) has been recognised in the current period, with a corresponding adjustment recognised in the Company's share option reserve for those share options that were granted after 7 November 2002 and had not yet vested on 1 April 2005.

In assessing the fair value of the share options at their respective dates of grants, 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 share options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules.

The variables used in the Black-Scholes Model for calculating fair value of the share options granted after 7 November 2002 and not yet vested on 1 April 2005 are summarised as follows:

| Date of grant of the share options | Expected life of the share options | Risk-free interest rate | Expected volatility of share prices | Expected dividend yield |
|---|---|---|---|---|
| 14 February 2003 | 5 years | 3.11% | 34% | 3.5% |
| 18 March 2003 | 5 years | 3.17% | 34% | 3.5% |
| 28 March 2003 | 5 years | 3.18% | 34% | 3.5% |
| 9 June 2003 | 5 years | 2.44% | 34% | 3.5% |
| 27 June 2003 | 5 years | 2.67% | 34% | 3.5% |
| 16 October 2003 | 5 years | 3.27% | 34% | 3.5% |
| 26 February 2004 | 5 years | 2.59% | 34% | 3.5% |
| 16 April 2004 | 5 years | 3.05% | 34% | 3.5% |
| 28 July 2004 | 5 years | 3.81% | 34% | 3.5% |
| 30 September 2004 | 5 years | 3.05% | 34% | 3.5% |
| 5 October 2004 | 5 years | 3.08% | 34% | 3.5% |
| 11 October 2004 | 5 years | 2.99% | 34% | 3.5% |

(a) The expected life of the share options is determined as five years, which represents the expected years of services of the employees with the Group from the date of grant up to the date of exercise of option.

(b) The risk-free interest rate applied to the Black-Scholes Model represents the yield of the Hong Kong Exchange Fund Notes closest to the fifth anniversary day of the date of grant of the share options as at that date of grant.

(c) The expected volatility of share prices applied to the Black-Scholes Model is derived with reference to the annualised average standard deviation of the daily closing share prices of the Company since 26 April 2000 (the date of initial share dealing of the Company in the Stock Exchange) to the respective dates of grant and management's expectation on the future movements in share prices.

(d) The expected dividend yield is derived with reference to the expected annual dividend to the expected share price of the Company.

The fair value of share options granted determined using the Black-Scholes Model as at the respective dates of grant with the above variables are summarised as follows:

| Date of grant of the share options | Number of share options granted after 7 November 2002 and not yet vested on 1 April 2005 | Estimated fair value per share option | Total estimated fair value of corresponding share options |
|---|---|---|---|
| | | *HK$* | *HK$* |
| 14 February 2003 | 368,000 | 0.20 | 73,600 |
| 18 March 2003 | 500,000 | 0.19 | 95,000 |
| 28 March 2003 | 148,000 | 0.19 | 28,120 |
| 9 June 2003 | 1,500,000 | 0.16 | 240,000 |
| 27 June 2003 | 750,000 | 0.19 | 142,500 |
| 16 October 2003 | 120,790,000 | 0.39 | 47,108,100 |
| 26 February 2004 | 7,800,000 | 0.61 | 4,758,000 |
| 16 April 2004 | 530,000 | 0.65 | 344,500 |
| 28 July 2004 | 20,000,000 | 0.56 | 11,200,000 |
| 30 September 2004 | 320,000 | 0.50 | 160,000 |
| 5 October 2004 | 5,000,000 | 0.53 | 2,650,000 |
| 11 October 2004 | 1,000,000 | 0.54 | 540,000 |
| | | | 67,339,820 |

For the purpose 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 expected volatility of share price and expected dividend yield, etc. 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.

## 19. DISPOSAL OF SUBSIDIARIES

| | **30.9.2005 (unaudited) *HK$ million*** | 31.3.2005 *HK$ million* |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | **42** | – |
| Trade and other receivables | **2** | – |
| Trade and other payables | **(36)** | – |
| | **8** | – |
| Gain on disposal | **3** | – |
| Total consideration, satisfied by cash | **11** | – |
| Net cash inflow arising on disposal: | | |
| Cash consideration | **11** | – |

During the period, the Group disposed of 100% equity interest in two subsidiaries, which had no significant impact on the Group's results and cash flows for the period.

## 20. PLEDGE OF ASSETS

At 30 September 2005, the Group's bank borrowings were secured by the following:

(a) first legal charges over land and buildings with aggregate net book value of HK$19 million (31.3.2005: HK$19 million);

(b) bills receivable of HK$514 million (31.3.2005: nil); and

(c) bank deposits of HK$110 million (31.3.2005: HK$1,055 million).

In addition, there were other bills receivable endorsed to suppliers and discounted with recourse of HK$896 million (31.3.2005: HK$669 million) and HK$24 million (31.3.2005: HK$765 million) respectively as disclosed in note 13.

## 21. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

| | **30.9.2005 (unaudited) *HK$ million*** | 31.3.2005 *HK$ million* |
|---|---|---|
| Contracted but not provided for, in respect of: | | |
| Purchase of other property, plant and equipment | **25** | 6 |
| Investment in unlisted equity securities in the PRC | **14** | 4 |
| Factory buildings under development | **270** | 258 |
| | **309** | 268 |
| Authorised but not contracted for, in respect of: | | |
| Factory buildings under development | **14** | 57 |
| | **14** | 57 |

## 22. 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 (for the six months ended 30 September 2004: HK$1 million) and sold raw materials of approximately HK$1 million (for the six months ended 30 September 2004: HK$2 million) to 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. 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 incurred advertising and promotional expenses of approximately HK$12 million (for the six months ended 30 September 2004: HK$1 million) during the period. Such advertising and promotional activities were arranged by 廣州喜馬拉雅廣告有限公司, a jointly controlled entity of the Group, and the terms were mutually agreed by both parties.

(c) The Group expended short-term employee benefits of HK$7 million (for the six months ended 30 September 2004: HK$7 million) and share-based payment of HK$1 million (for the six months ended 30 September 2004: HK$1 million) for the Group's key management personnel compensation.

## 23. OTHER MATTERS

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

The background of the incident occurred on 30 November 2004 and the related charges and allegation, and the measures taken by the Company in response to the incident had been disclosed in note 43(a) to the financial statements for the year ended 31 March 2005 as set out in the annual report of the Company published on 26 August 2005. Up to the date of this report, nothing has come to the attention of the directors of the Company (the "Directors") that, in the opinion of the directors, is significant and requires additional disclosure in this interim report.

In the absence of further information about the Charges and the Allegation (as defined in the aforementioned note 43(a)), the Directors of the Company are unable to determine, on a reasonable and proper basis, the financial impact that might arise in respect of the Charges and the Allegation.

The Board has taken the initiative to put in place a series of corporate and internal restructuring to enhance corporate governance standard of the Company in order to comply with the Listing Rules requirements. Details of which are set out in the section headed "Other Information" in this interim report.

### (b) 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 major subsidiaries of the Company in the PRC (the "Inspected PRC Subsidiaries") to carry out tax inspections (the "Tax Inspections"). The Tax Authorities have finalised the Tax Inspections and issued their tax inspection reports on all the Inspected PRC Subsidiaries. Taking into account the results of the finalised tax inspection reports and the provision made previously by the Group, no further provision is considered necessary to be made for the six months ended 30 September 2005.

**Deloitte.**
**德勤**

**TO THE BOARD OF DIRECTORS OF SKYWORTH DIGITAL HOLDINGS LIMITED**
**創維數碼控股有限公司**
*(incorporated in Bermuda with limited liability)*

## Introduction

We have been instructed by the Company to review the interim financial report set out on pages 15 to 33.

## Directors' responsibilities

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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants 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 conclusion, based on our review, on the interim financial report, and to report our conclusion 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.

## Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited in respect of certain Charges and an Allegation, as mentioned in the note 23(a) to the condensed financial statements. 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 1 April 2005 and 30 September 2005 and to the results for the six months ended 30 September 2005.

## Modified review conclusion arising from limitation of review scope

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments that might have been determined to be necessary had the above limitation not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2005.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
29 December 2005



## Interim Dividend

The Board of Directors (the "Board") of Skyworth Digital Holdings Limited (the "Company") has resolved to pay an interim dividend for the six months ended 30 September 2005 of HK1 cent (2004: HK2.2 cents) per ordinary share, totalling approximately HK$23 million (2004: HK$50 million) to shareholders of the Company on or about 7 February 2006 whose names appear on the register of members of the Company at the close of business on 27 January 2006.

## Directors' Interest in Shares and Options

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

As at 30 September 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 to 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 *(Note a)* | 847,382,922 | 37.44 |
| | Held by spouse *(Note b)* | 3,061,611 | 0.14 |
| So Hon Cheung, Stephen | Beneficial owner | 100,000 | 0.00 |
| | | 899,450,745 | 39.74 |

*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 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 |
| | | 38,500,000 | 38,500,000 |

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 30 September 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 six months ended 30 September 2005.

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.

## Substantial Shareholders

As at 30 September 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 their relevant interests and short positions in the issued share capital of the Company.

| | | Number of issued ordinary shares held/ Percentage to the issued share capital of the Company | | | | | |
|---|---|---|---|---|---|---|---|
| **Name of shareholder** | **Capacity** | **Long positions** | **%** | **Short positions** | **%** | **Lending pool** | **%** |
| Target Success Group Limited | Trustee *(Note a)* | 847,382,922 | 37.44 | – | – | – | – |
| HSBC International Trustee Limited | Trustee *(Note a)* | 847,382,922 | 37.44 | – | – | – | – |
| J.P. Morgan Chase & Co. | Beneficial owner, investment manager and custodian corporation/ approved lending agent *(Note b)* | 142,384,106 | 6.29 | – | – | 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 30 September 2005.

## Share Options

The Company adopted two share option schemes mainly for the purpose of providing incentives to directors and eligible employees. Particulars of the share option schemes are detailed below:

(i) Pursuant to a resolution passed on 27 March 2000, the Company adopted a share option scheme under which 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 (the "Old Scheme").

Options granted must be taken up within a period of 30 days from the date of grant, upon payment of HK$1 per grant. Options may be exercised in portions and in the exercisable period determined by the directors of the Company at the date of grant. All of the options, if not otherwise exercised, amended or cancelled, will lapse on 27 March 2010.

Under the Old Scheme, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the 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, in accordance with the amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the exercise price of any share options granted by the Company must be at least the higher of the closing price of the Company's shares on the date of grant, and the average closing prices of the shares for the five business days immediately preceding the date of grant. Unless the grant of share options under the Old Scheme complies with the amended rules in the Listing Rules governing share option schemes, no further option can be granted under the Old Scheme from 1 September 2001. Nevertheless, options previously granted under the Old Scheme will continue to be exercisable in accordance with the Old Scheme.

(ii) Pursuant to a special resolution passed on 28 August 2002, the Company adopted a new share option scheme under which 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 Group (the "New Scheme").

Options granted must be taken up within a period of 30 days from the date of grant, upon payment of HK$1 per grant. Options may be exercised in portions and in the exercisable period determined by the directors of the Company at the date of grant. All of the options, if not otherwise exercised, amended or cancelled, will lapse on 28 August 2012.

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 any 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 exceed any of the refreshed limit.

No option shall be granted to an eligible person which would cause the aggregate number of shares already issued and to be issued upon exercise of options granted to such eligible person under the New Scheme and any other share option schemes of the Company (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant exceeding 1% of the shares in issue. Any further grant of options in excess of this limit may be made only with the separate approval of the shareholders in general meeting with that eligible person and his associates abstaining from voting.

The total number of share options available for grant under the share option schemes of the Company is approximately 215,525,000, representing approximately 9.52% of the issued share capital of the Company as at the date of this report.

The following tables showed the movements in the Company's share options granted to the directors and the employees under both the Old Scheme and the New Scheme during the period ended 30 September 2005:

***Under Old Scheme***

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| **Date of grant** | **Exercise price** *HK$* | **Exercisable period** | **Outstanding at 1 April 2005** | **Exercised during the period** *(Note a)* | **Cancelled during the period** | **Reclassified during the period** *(Note b)* | **Outstanding at 30 September 2005** |
| **Directors:** | | | | | | | |
| **Zhang Xuebin** | | | | | | | |
| 2 April 2001 | 0.292 | 2 April 2005 to 27 March 2010 | 500,000 | – | – | – | 500,000 |
| 23 January 2002 | 0.420 | 23 January 2005 to 27 March 2010 | 750,000 | – | – | – | 750,000 |
| | | 23 January 2006 to 27 March 2010 | 750,000 | – | – | – | 750,000 |
| **Ding Kai** | | | | | | | |
| 25 November 2000 | 0.336 | 25 November 2004 to 27 March 2010 | 1,000,000 | – | – | – | 1,000,000 |
| **Wong Wang Sang, Stephen** | | | | | | | |
| 25 November 2000 | 0.336 | 25 November 2004 to 27 March 2010 | 12,500,000 | – | – | – | 12,500,000 |
| | | | 15,500,000 | – | – | – | 15,500,000 |
| **Employees:** | | | | | | | |
| 25 November 2000 | 0.336 | 25 November 2001 to 27 March 2010 | 430,000 | – | – | 34,000 | 464,000 |
| | | 25 November 2002 to 27 March 2010 | 540,000 | – | – | 78,000 | 618,000 |
| | | 25 November 2003 to 27 March 2010 | 36,000 | – | – | 2,000 | 38,000 |
| | | 25 November 2004 to 27 March 2010 | 16,185,000 | – | (545,000) | (114,000) | 15,526,000 |
| 23 January 2002 | 0.420 | 23 January 2005 to 27 March 2010 | 3,000,000 | – | – | – | 3,000,000 |
| | | 23 January 2006 to 27 March 2010 | 3,000,000 | – | – | – | 3,000,000 |
| 25 March 2002 | 0.520 | 25 March 2005 to 27 March 2010 | 868,000 | (668,000) | (100,000) | – | 100,000 |
| 8 August 2002 | 0.750 | 8 August 2005 to 27 March 2010 | 500,000 | – | – | – | 500,000 |
| | | 8 August 2006 to 27 March 2010 | 500,000 | – | – | – | 500,000 |
| | | | 25,059,000 | (668,000) | (645,000) | – | 23,746,000 |
| | | | 40,559,000 | (668,000) | (645,000) | – | 39,246,000 |

*Note a:* The Company's shares have been suspended since 30 November 2004. The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised is deemed as HK$2.725, the closing share price of the Company immediately before the day of its suspension.

*Note b:* During the period, the exercisable period of certain share options granted had been restated.

### *Under New Scheme*

| Date of grant | Exercise price HK$ | Exercisable period | Number of share options: Outstanding at 1 April 2005 | Exercised during the period (Note c) | Cancelled during the period | Outstanding at 30 September 2005 |
|---|---|---|---|---|---|---|
| **Directors:** | | | | | | |
| **Zhang Xuebin** | | | | | | |
| 5 October 2002 | 0.840 | 5 October 2004 to 28 August 2012 | 2,000,000 | – | – | 2,000,000 |
| | | 5 October 2005 to 28 August 2012 | 2,000,000 | – | – | 2,000,000 |
| | | 5 October 2006 to 28 August 2012 | 2,000,000 | – | – | 2,000,000 |
| 16 October 2003 | 1.660 | 16 October 2004 to 28 August 2012 | 1,500,000 | – | – | 1,500,000 |
| | | 16 October 2005 to 28 August 2012 | 1,500,000 | – | – | 1,500,000 |
| | | 16 October 2006 to 28 August 2012 | 2,000,000 | – | – | 2,000,000 |
| | | 16 October 2007 to 28 August 2012 | 5,000,000 | – | – | 5,000,000 |
| | | 16 October 2008 to 28 August 2012 | 5,000,000 | – | – | 5,000,000 |
| **Ding Kai** | | | | | | |
| 11 October 2004 | 2.225 | 11 October 2005 to 28 August 2012 | 250,000 | – | – | 250,000 |
| | | 11 October 2006 to 28 August 2012 | 250,000 | – | – | 250,000 |
| | | 11 October 2007 to 28 August 2012 | 250,000 | – | – | 250,000 |
| | | 11 October 2008 to 28 August 2012 | 250,000 | – | – | 250,000 |
| **So Hon Cheung, Stephen** | | | | | | |
| 28 July 2004 | 2.275 | 28 July 2004 to 28 August 2012 | 500,000 | – | – | 500,000 |
| **Li Weibin** | | | | | | |
| 28 July 2004 | 2.275 | 28 July 2004 to 28 August 2012 | 500,000 | – | – | 500,000 |
| | | | 23,000,000 | – | – | 23,000,000 |
| **Employees:** | | | | | | |
| 5 October 2002 | 0.840 | 5 October 2004 to 28 August 2012 | 2,100,000 | – | – | 2,100,000 |
| | | 5 October 2005 to 28 August 2012 | 9,900,000 | – | (1,999,000) | 7,901,000 |
| | | 5 October 2006 to 28 August 2012 | 9,900,000 | – | (1,999,000) | 7,901,000 |
| 14 February 2003 | 0.874 | 14 February 2005 to 28 August 2012 | 366,000 | – | – | 366,000 |
| | | 14 February 2006 to 28 August 2012 | 368,000 | – | – | 368,000 |
| 18 March 2003 | 0.800 | 18 March 2005 to 28 August 2012 | 250,000 | (250,000) | – | – |
| | | 18 March 2006 to 28 August 2012 | 250,000 | – | (250,000) | – |
| | | 18 March 2007 to 28 August 2012 | 250,000 | – | (250,000) | – |
| 28 March 2003 | 0.776 | 28 March 2005 to 28 August 2012 | 76,000 | – | – | 76,000 |
| | | 28 March 2006 to 28 August 2012 | 76,000 | – | – | 76,000 |
| | | 28 March 2007 to 28 August 2012 | 72,000 | – | – | 72,000 |

| Date of grant | Exercise price HK$ | Exercisable period | Number of share options: Outstanding at 1 April 2005 | Exercised during the period (Note c) | Cancelled during the period | Outstanding at 30 September 2005 |
|---|---|---|---|---|---|---|
| **Employees:** | | | | | | |
| 9 June 2003 | 0.752 | 9 June 2005 to 28 August 2012 | 500,000 | – | – | 500,000 |
| | | 9 June 2006 to 28 August 2012 | 500,000 | – | – | 500,000 |
| | | 9 June 2007 to 28 August 2012 | 500,000 | – | – | 500,000 |
| 27 June 2003 | 0.742 | 27 June 2005 to 28 August 2012 | 250,000 | – | – | 250,000 |
| | | 27 June 2006 to 28 August 2012 | 250,000 | – | – | 250,000 |
| | | 27 June 2007 to 28 August 2012 | 250,000 | – | – | 250,000 |
| 16 October 2003 | 1.660 | 16 October 2004 to 28 August 2012 | 28,247,000 | – | (200,000) | 28,047,000 |
| | | 16 October 2005 to 28 August 2012 | 30,830,000 | – | (550,000) | 30,280,000 |
| | | 16 October 2006 to 28 August 2012 | 33,430,000 | – | (550,000) | 32,880,000 |
| | | 16 October 2007 to 28 August 2012 | 37,030,000 | – | (550,000) | 36,480,000 |
| | | 16 October 2008 to 28 August 2012 | 6,000,000 | – | – | 6,000,000 |
| 26 February 2004 | 2.575 | 26 February 2005 to 28 August 2012 | 2,600,000 | – | (2,500,000) | 100,000 |
| | | 26 February 2006 to 28 August 2012 | 2,600,000 | – | (2,500,000) | 100,000 |
| | | 26 February 2007 to 28 August 2012 | 2,600,000 | – | (2,500,000) | 100,000 |
| | | 26 February 2008 to 28 August 2012 | 2,600,000 | – | (2,500,000) | 100,000 |
| 16 April 2004 | 2.740 | 16 April 2005 to 28 August 2012 | 132,500 | – | – | 132,500 |
| | | 16 April 2006 to 28 August 2012 | 132,500 | – | – | 132,500 |
| | | 16 April 2007 to 28 August 2012 | 132,500 | – | – | 132,500 |
| | | 16 April 2008 to 28 August 2012 | 132,500 | – | – | 132,500 |
| 28 July 2004 | 2.275 | 28 July 2005 to 28 August 2012 | 5,000,000 | – | – | 5,000,000 |
| | | 28 July 2006 to 28 August 2012 | 5,000,000 | – | – | 5,000,000 |
| | | 28 July 2007 to 28 August 2012 | 5,000,000 | – | – | 5,000,000 |
| | | 28 July 2008 to 28 August 2012 | 5,000,000 | – | – | 5,000,000 |
| 30 September 2004 | 2.175 | 30 September 2005 to 28 August 2012 | 80,000 | – | (50,000) | 30,000 |
| | | 30 September 2006 to 28 August 2012 | 80,000 | – | (50,000) | 30,000 |
| | | 30 September 2007 to 28 August 2012 | 80,000 | – | (50,000) | 30,000 |
| | | 30 September 2008 to 28 August 2012 | 80,000 | – | (50,000) | 30,000 |
| 5 October 2004 | 2.200 | 5 October 2005 to 28 August 2012 | 1,250,000 | – | – | 1,250,000 |
| | | 5 October 2006 to 28 August 2012 | 1,250,000 | – | – | 1,250,000 |
| | | 5 October 2007 to 28 August 2012 | 1,250,000 | – | – | 1,250,000 |
| | | 5 October 2008 to 28 August 2012 | 1,250,000 | – | – | 1,250,000 |
| | | | 197,645,000 | (250,000) | (16,548,000) | 180,847,000 |
| | | | 220,645,000 | (250,000) | (16,548,000) | 203,847,000 |

*Note c:* The Company's shares have been suspended since 30 November 2004. The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised is deemed as HK$2.725, the closing share price of the Company immediately before the day of its suspension.

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

During the six months ended 30 September 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## Model Code

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 transactions by directors adopted by the Company.

## Corporate Governance Standards and Operational Effectiveness

The Company has implemented a series of corporate governance practices and internal restructuring programmes during the period for enhancement of corporate governance standards and operational effectiveness. They can be analysed as provisional improvement programmes which indicate the Company's specific and immediate improvement plans during the period, and continuing improvement programmes which reveal the Company's long-term strategy in achieving better corporate governance. Details of the enhancements are highlighted below:

***Provisional improvement programmes:***

1. ***Formation of Independent Committee***
   On 8 December 2004, an independent committee ("Independent Committee") comprising Mr. Cheong Ying Chew, Henry and Mr. Ip Shing Hing was constituted, with Mr. Heng Kwoo 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. The Independent Committee had held more than ten meetings with the Company and/or other professional parties since its formation to deal with matters of the Group in accordance with its terms of reference.

2. ***Financial monitoring and internal control review***
   The Company has appointed Grant Thornton, a firm of certified public accountants, in December 2004 as a finance monitor to provide assistance to the Independent Committee to safeguard and control the assets of the Group. Grant Thornton has been reporting, on a regular basis, their findings and recommendations on financial monitoring and internal control review to both the Company and the Independent Committee. The Group has, to the extent practicable, adopted and implemented most of these recommendations.

***Continuing improvement programmes:***

1. ***Remuneration Committee***
   A remuneration committee was set up under the auspices of the Board on 5 February 2005 (the "Remuneration Committee") with written terms of reference adopted on 19 August 2005. The major duties of the Remuneration Committee are to review matters relating to the compensation and the incentives proposed for executive directors and senior management of the Company. The Remuneration Committee currently comprises four members, including three independent non-executive directors and an executive director.

   During the period under review, the Remuneration Committee had reviewed the compensation and incentives package for the newly appointed senior management of the Group and had reviewed the amount of bonus payable to executive directors of the Group for incentive payments on their performance for the year ended 31 March 2005.

## 2. *Nomination Committee*

A nomination committee was set up under the auspices of the Board on 5 February 2005 (the "Nomination Committee") with written terms of reference adopted on 19 August 2005. The major duties of the Nomination Committee are to carry out the process of nominating and recommending candidates to fill vacancies on the Board and of senior management of the Company. The Nomination Committee currently comprises four members, including three independent non-executive directors and an executive director.

During the period under review, the Nomination Committee had reviewed the experience and qualifications of the newly appointed senior management of the Group prior to its recommendation of their appointment to the Board.

## 3. *Segregation of responsibilities of the Chairman and the Chief Executive Officer*

The Board established clearly the division of responsibilities between the Chairman and the Chief Executive Officer of the Company with the purpose of ensuring a balance of power and authority within the Company. On 29 June 2005, Mr. Zhang Xuebin was elected as the Chief Executive Officer of the Company in succession to Mr. Wang Dianfu. Mr, Wang Dianfu remains as the Chairman of the Board of the Company.

## 4. *Setting up of Risk Management Department and appointment of Head of Risk Management*

On 29 December 2005, the Board resolved to appoint the Head of Risk Management of the Company, with his major duty in overseeing the Risk Management Department established during the period.

The key function of the Risk Management Department is to provide an independent appraisal function to examine and evaluate operations, the system of internal control and risk management as a service to the Company and its subsidiaries. The Risk Management Department assists all levels of administrations in the achievement of the organisational goals and objectives by striving to provide a positive impact on:

(a) efficiency and effectiveness of operating functions;

(b) reliability of financial reporting;

(c) status of implementation and effectiveness of the internal control policies and procedures; and

(d) compliance with applicable laws and regulations.

## 5. *Organisational restructuring*

During the period under review, the Group has implemented a series of organisational restructuring programmes in order to achieve a unit chain of command and improve the operation flow. With the continuous focus on the unit chain of command, the Group anticipates to attain better controls and effectively monitor the management, operational and financial processes.

## Compliance with the Code of Corporate Governance Practices

During the period under review, the Company has complied with the code provisions (those which became effective for the accounting period commencing on 1 January 2005) as set out in the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "CG Code"), except for certain major deviations described as follows:

1. Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Currently, the independent non-executive directors of the Company are not appointed for a specific term but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

2. Under code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

   According to the Bye-laws of the Company, one-third of the directors for the time being shall retire from office by rotation and shall be eligible for re-election at each annual general meeting. The directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. The current Bye-laws of the Company does not comply fully with the provisions of the CG Code. The Board will review in the current year the relevant Bye-laws of the Company and propose any amendments, if necessary, to ensure compliance with the CG Code.

3. Under code provision A.5.1 of the CG Code, every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.

   On 14 January 2005, three directors were newly appointed as executive directors of the Company. These directors were senior management of the Group prior to their appointments as director of the Company, and accordingly, they have already established adequate understanding on the operations and business of the Group. The Company did not conduct a comprehensive, formal and tailored induction to those newly appointed directors on their responsibilities under applicable rules and regulatory requirements on the first occasion of their appointments, which does not comply fully with the provisions of the CG Code. The Board is currently organising a session on this aspect for the directors and senior management of the Company to ensure compliance with the CG Code.

## 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 period and up to the date of this report, the audit committee held four 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;

4. met with the external auditors; and

5. reviewed the working manual of the Risk Management Department and the nomination of the Head of Risk Management.

## Closure of the Register of Members

The register of members of the Company will be closed from Monday, 23 January 2006 to Friday, 27 January 2006, both dates inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend payable on or around 7 February 2006, all completed transfer forms accompanied by the relevant shares 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, 20 January 2006.

## Board of Directors

As at the date of this report, the Board of the Company comprises Mr. Wang Dianfu as executive Chairman of the Board, Mr. Zhang Xuebin, Ms. Ding Kai and Mr. Leung Chi Ching, Frederick as executive directors, Mr. Wong Wang Sang, Stephen as non-executive Chairman of the Board, and Mr. So Hon Cheung, Stephen, Mr. Li Weibin and Mr. Xie Zhengcai as independent non-executive directors.

On behalf of the Board

**Wang Dianfu**
*Executive Chairman*

29 December 2005