

# Report of the Directors and Financial Information

## 2006/07 Potential Growth Factors

- Moving to digitalisation era
- Skyworth brand popularity
- Beijing Olympic 2008 hit
- Launch of multi-functions TV products





## Report of the Directors

The directors have pleasure in presenting their annual report and the audited consolidated financial statements of Skyworth Digital Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group") for the year ended 31 March 2006.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries and jointly controlled entities are the manufacture and sales of consumer electronic products and upstream accessories, and property holding, details of which are set out in notes 47 and 21 to the consolidated financial statements, respectively.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 73 of the annual report.

An interim dividend of HK1 cent (2005: HK2.2 cents) per share amounting to HK\$23 million was paid to the shareholders on 7 February 2006. The directors now recommend the payment of a final dividend of HK2.8 cents (2005: HK3.3 cents) per share to the shareholders on the register of members of the Company at the close of business on 15 September 2006, estimated to be HK\$64 million, and the retention of the remaining profit in reserves.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 164 and 165 of the annual report.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of sales and purchases attributable to the Group's five largest customers and suppliers accounted for less than 30% in aggregate of the Group's total sales and purchases respectively.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately HK\$329 million on the development of the new production plants located at Shiyan of Shenzhen, Guangdong Province and Ruyi of Huhhot, Inner Mongolia, the People's Republic of China (the "PRC").

The Group acquired additional plant and machinery at a cost of approximately HK\$94 million for the expansion of existing and setting up new production facilities. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 19 to the consolidated financial statements.



## Report of the Directors

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

### SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Group during the year are set out in the consolidated statement of changes in equity.

### DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 March 2006 amounted to approximately HK\$1,010 million (2005: HK\$1,008 million).

### DONATIONS

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

### DIRECTORS

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

#### **Executive directors:**

Wang Dianfu (*Executive Chairman*)

Zhang Xuebin (*Chief Executive Officer*)

Ding Kai

Leung Chi Ching, Frederick

Lin Weiping

(appointed on 8 February 2006)

Yang Dongwen

(appointed on 8 February 2006)

#### **Non-executive director:**

Wong Wang Sang, Stephen (*Non-executive Chairman*)

#### **Independent non-executive directors:**

So Hon Cheung, Stephen

Li Weibin

Xie Zhengcai





## Report of the Directors

### **DIRECTORS** *(continued)*

In accordance with Clauses 86 and 87 of the Company's bye-laws, Ms. Ding Kai and Mr. Xie Zhengcai retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. In accordance with Clause 86(2) of the Company's bye-laws, Ms. Lin Weiping and Mr. Yang Dongwen will hold office until the forthcoming annual general meeting of the Company and be eligible for re-election at that meeting. All other directors continue in office.

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

### **DIRECTORS' SERVICE CONTRACTS**

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

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



## Report of the Directors

### DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 March 2006, the interests of the directors and of their associates in the shares and share options 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:

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

As at 31 March 2006, certain directors of the Company had long positions in the shares of the Company as follows:

| Name of director        | Capacity                         | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|-------------------------|----------------------------------|---------------------------------------|-------------------------------------------------------|
| Wong Wang Sang, Stephen | Beneficial owner                 | 51,405,612                            | 2.25%                                                 |
|                         | Held by trust ( <i>note a</i> )  | 847,382,922                           | 37.09%                                                |
|                         | Held by spouse ( <i>note b</i> ) | 3,061,611                             | 0.13%                                                 |
|                         |                                  | 901,850,145                           | 39.47%                                                |
| Lin Weiping             | Beneficial owner                 | 3,061,611                             | 0.13%                                                 |
|                         | Held by trust ( <i>note a</i> )  | 847,382,922                           | 37.09%                                                |
|                         | Held by spouse ( <i>note c</i> ) | 51,405,612                            | 2.25%                                                 |
|                         |                                  | 901,850,145                           | 39.47%                                                |
| Ding Kai                | Beneficial owner                 | 11,000,000                            | 0.48%                                                 |
| Yang Dongwen            | Beneficial owner                 | 4,876,000                             | 0.21%                                                 |
| So Hon Cheung, Stephen  | Beneficial owner                 | 100,000                               | 0.00%                                                 |
| Zhang Xuebin            | Beneficial owner                 | 600                                   | 0.00%                                                 |

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

*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.

*Note c:* Ms. Lin Weiping is deemed to be interested in 51,405,612 shares of the Company being the interests held beneficially by her spouse.



## Report of the Directors

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

#### (b) Share options of the Company

- (i) Particulars of the share option schemes of the Company (including certain defined terms used below) are set out in note 37 to the consolidated financial statements.
- (ii) As at 31 March 2006, certain directors of the Company had 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                                 |
| Yang Dongwen           | Beneficial owner | 19,000,000                   | 19,000,000                                 |
| Ding Kai               | Beneficial owner | 1,000,000                    | 1,000,000                                  |
| So Hon Cheung, Stephen | Beneficial owner | 500,000                      | 500,000                                    |
| Li Weibin              | Beneficial owner | 500,000                      | 500,000                                    |
|                        |                  | 44,000,000                   | 44,000,000                                 |



## Report of the Directors

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

#### (b) Share options of the Company *(continued)*

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

Under Old Scheme:

| Name of director        | Consideration paid for the option granted<br><i>HK\$</i> | Date of grant    | Exercise price<br><i>HK\$</i> | Exercisable period                                                   | Number of share options     |                                            |                                               |                           |                              |
|-------------------------|----------------------------------------------------------|------------------|-------------------------------|----------------------------------------------------------------------|-----------------------------|--------------------------------------------|-----------------------------------------------|---------------------------|------------------------------|
|                         |                                                          |                  |                               |                                                                      | Outstanding at 1 April 2005 | Granted during the year<br><i>(note i)</i> | Exercised during the year<br><i>(note ii)</i> | Cancelled during the year | Outstanding at 31 March 2006 |
| Zhang Xuebin            | 1.00                                                     | 2 April 2001     | 0.292                         | 2 April 2005 to 27 March 2010                                        | 500,000                     | -                                          | -                                             | -                         | 500,000                      |
|                         | 1.00                                                     | 23 January 2002  | 0.420                         | 23 January 2005 to 27 March 2010<br>23 January 2006 to 27 March 2010 | 750,000<br>750,000          | -<br>-                                     | -<br>-                                        | -<br>-                    | 750,000<br>750,000           |
| Ding Kai                | 1.00                                                     | 25 November 2000 | 0.336                         | 25 November 2004 to 27 March 2010                                    | 1,000,000                   | -                                          | (1,000,000)                                   | -                         | -                            |
| Yang Dongwen            | 1.00                                                     | 25 November 2000 | 0.336                         | 25 November 2004 to 27 March 2010                                    | 626,000                     | -                                          | (626,000)                                     | -                         | -                            |
|                         | 1.00                                                     | 23 January 2002  | 0.420                         | 23 January 2005 to 27 March 2010<br>23 January 2006 to 27 March 2010 | 750,000<br>750,000          | -<br>-                                     | (750,000)<br>(750,000)                        | -<br>-                    | -<br>-                       |
| Wong Sang Sang, Stephen | 1.00                                                     | 25 November 2000 | 0.336                         | 25 November 2004 to 27 March 2010                                    | 12,500,000                  | -                                          | (12,500,000)                                  | -                         | -                            |

## Report of the Directors

## DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (continued)

## (b) Share options of the Company (continued)

Under New Scheme:

| Name of director                  | Consideration paid for the option granted<br>HK\$ | Date of grant   | Exercise price<br>HK\$ | Exercisable period                | Number of share options           |                                     |                                        |                           |                              |         |
|-----------------------------------|---------------------------------------------------|-----------------|------------------------|-----------------------------------|-----------------------------------|-------------------------------------|----------------------------------------|---------------------------|------------------------------|---------|
|                                   |                                                   |                 |                        |                                   | Outstanding at 1 April 2005       | Granted during the year<br>(note i) | Exercised during the year<br>(note ii) | Cancelled during the year | Outstanding at 31 March 2006 |         |
| Zhang Xuebin                      | 1.00                                              | 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                    |         |
|                                   | 1.00                                              | 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                                          | 1.00            | 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                   |                              |         |
| Yang Dongwen                      | 1.00                                              | 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                    |         |
|                                   | 1.00                                              | 25 January 2006 | 1.136                  | 25 January 2007 to 28 August 2012 | -                                 | 3,750,000                           | -                                      | -                         | 3,750,000                    |         |
|                                   |                                                   |                 |                        | 25 January 2008 to 28 August 2012 | -                                 | 3,750,000                           | -                                      | -                         | 3,750,000                    |         |
|                                   |                                                   |                 |                        | 25 January 2009 to 28 August 2012 | -                                 | 3,750,000                           | -                                      | -                         | 3,750,000                    |         |
|                                   |                                                   |                 |                        | 25 January 2010 to 28 August 2012 | -                                 | 3,750,000                           | -                                      | -                         | 3,750,000                    |         |
| So Hon Cheung, Stephen            | 1.00                                              | 28 July 2004    | 2.275                  | 28 July 2004 to 28 August 2012    | 500,000                           | -                                   | -                                      | -                         | 500,000                      |         |
| Li Weibin                         | 1.00                                              | 28 July 2004    | 2.275                  | 28 July 2004 to 28 August 2012    | 500,000                           | -                                   | -                                      | -                         | 500,000                      |         |

*note i:* The closing price of the Company's shares on 24 January 2006, the trading day preceding the date of grant of share options, was HK\$1.11.

*note ii:* The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the year ended 31 March 2006 was HK\$1.30.





## Report of the Directors

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

#### (b) Share options of the Company *(continued)*

- (iv) The particulars of share options granted to the eligible persons (including directors and employees) and the movement during the year are set out in note 37 to the consolidated financial statements.

Save as disclosed above and the nominee shares in certain subsidiaries held in trust for the Group, none of the directors or chief executives, nor their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 31 March 2006, and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the year ended 31 March 2006.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

### CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the year ended 31 March 2006, the Group had the following transactions with 深圳市創維群欣安防科技有限公司 ("群欣安防"), a jointly controlled entity of the Group in which a director of the Company owned, directly or indirectly, more than 30% equity interests, which are regarded as continuing connected transactions pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), in 群欣安防:

- (i) incurred sub-contracting charges of approximately HK\$4 million, which were based on pre-determined rates agreed by the parties involved; and
- (ii) sold raw materials of approximately HK\$5 million at prices determined at cost.

Particulars of the transactions are also disclosed in note 45 to the consolidated financial statements.

The Company does not comply strictly to the disclosure requirements in accordance with Chapter 14A of the Listing Rules. The Company will make the necessary disclosure in accordance with the requirements under the Listing Rules as soon as practicable.



## Report of the Directors

### CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE *(continued)*

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

### MANAGEMENT CONTRACTS

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

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, 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 the relevant interests in the issued share capital of the Company.

| Name of shareholder                            | Capacity                           | Number of issued ordinary shares held – long positions | Percentage of the issued share capital of the Company |
|------------------------------------------------|------------------------------------|--------------------------------------------------------|-------------------------------------------------------|
| Target Success Group Limited                   | Trustee <i>(Note a)</i>            | 847,382,922                                            | 37.09%                                                |
| HSBC International Trustee Limited             | Trustee <i>(Note b)</i>            | 866,141,413                                            | 37.91%                                                |
| Legg Mason Inc.                                | Investment manager <i>(Note c)</i> | 192,068,000                                            | 8.41%                                                 |
| LM International Holding LP                    | Investment manager <i>(Note c)</i> | 192,068,000                                            | 8.41%                                                 |
| Legg Mason Asset Management (Asia) Pte Limited | Investment manager <i>(Note d)</i> | 192,068,000                                            | 8.41%                                                 |

*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.

*Note b:* 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. HSBC International Trustee Limited held the remaining 18,758,491 ordinary shares of the Company in its capacity as the trustee of other trusts.

*Note c:* Legg Mason Asset Management (Asia) Pte Limited is the wholly owned subsidiary of LM International Holding LP. LM International Holding LP is the wholly owned subsidiary of Legg Mason Inc.. Accordingly, Legg Mason Inc. and LM International Holding LP is deemed to be interested in 192,068,000 ordinary shares of the Company being beneficially held by Legg Mason Asset Management (Asia) Pte Limited.

*Note d:* Legg Mason Asset Management (Asia) Pte Limited was beneficially interested in 192,068,000 ordinary shares of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2006.



## Report of the Directors

### EMOLUMENT POLICY

The emoluments of the directors of the Company are reviewed by the Remuneration Committee of the Company from time to time, with reference to the qualifications, experience and performance of the individual directors, and the operating results of the Group. Details of policy are set out in the "Corporate Governance Report" on page 36.

### PRE-EMPTIVE RIGHTS

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

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

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

### PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has complied with the public float requirements of the Listing Rules throughout the year ended 31 March 2006.

### AUDITORS

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

On behalf of the Board

**Wang Dianfu**  
*Executive Chairman*

24 July 2006