

The logo features the word "Skyworth" in a bold, white, sans-serif font. It is centered within a horizontal rectangular area. The background of this area is a vibrant, multi-colored swirl of light trails in shades of green, yellow, orange, red, and blue, creating a sense of motion and energy. The entire logo is set against a dark blue background.

Skyworth

Skyworth Digital Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2006/07

Stock Code : 751



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FINANCIAL HIGHLIGHTS

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

| | Six months ended 30 September | | Change |
|--|-------------------------------|------------------------------------|---------|
| | 2006 (unaudited) | 2005 (restated)* (unaudited) | |
| OPERATING RESULTS | | | |
| Turnover | 5,617 | 4,644 | +21.0% |
| Operating Profit (EBIT) | 39 | 18 | +116.7% |
| Profit attributable to equity holders of the Company | 28 | 9 | +211.1% |
| FINANCIAL POSITION | | | |
| Net cash used in operating activities | (8) | (117) | -93.2% |
| Cash position** | 590 | 1,014 | -46.6% |
| Bank loans | 252 | 133 | +89.5% |
| Bank loans excluding the financial liabilities arising from discounted bills | 245 | 109 | +124.8% |
| Equity attributable to equity holders of the Company | 3,171 | 2,940 | +7.9% |
| Working capital | 2,257 | 2,275 | -0.8% |
| Bills receivable | 2,539 | 2,288 | +11.0% |
| Bills discounted with recourse | 7 | 24 | -70.8% |
| Trade receivables | 941 | 597 | +57.6% |
| Inventories | 2,430 | 1,630 | +49.1% |
| KEY RATIOS | | | |
| Gross profit margin (%) | 16.3% | 16.9% | -0.6pp |
| Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin (%) | 1.8% | 1.7% | +0.1pp |
| Profits margin (%) | 0.5% | 0.2% | +0.3pp |
| Return on equity holders of the Company (ROE) (%) | 1.8% | 0.6% | +1.2pp |
| Debt to equity (%)*** | 7.9% | 4.5% | +3.4pp |
| Debt to equity excluding portion of financial liabilities arising from discounted bills (%) | 7.7% | 3.7% | +4.0pp |
| Net debt to equity | Net Cash | Net Cash | n/a |
| Current ratio (times) | 1.5 | 1.6 | -6.3% |
| Trade receivable turnover period (days)**** | 117 | 120 | -2.5% |
| Trade receivable turnover period excluding portion arising from discounted bills receivable (days)**** | 114 | 104 | +9.6% |
| Inventories turnover period (days)**** | 81 | 78 | +3.8% |
| DATA PER SHARE (HK CENTS) | | | |
| Earnings per share – Basic | 1.22 | 0.40 | +205.0% |
| Earnings per share – Diluted | 1.22 | 0.39 | +212.8% |
| Dividend per share | 0.5 | 1.0 | -50.0% |
| Book value per share | 138.5 | 129.9 | +6.6% |
| SHARE INFORMATION AT FINANCIAL PERIOD END | | | |
| Number of shares in issue (million) | 2,289 | 2,263 | +1.1% |
| Market capitalisation (Note) | 2,060 | 2,466 | -16.5% |

* 2005 figures have been restated in accordance with HKAS 21 (Amendment) "Net Investment in a Foreign Operation". For the details of such restatement, please refer to note 3 of the condensed consolidated financial statements.

** Cash position refers to bank balances and cash, including pledged bank deposits of approximately HK\$105 million.

*** 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: In the six months ended 30 September 2005, market capitalisation was calculated with reference to the closing price of the Company's shares on 11 January 2006 (the day of resumption of trading of the shares) and the number of shares issued at 30 September 2005.

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
 Ms. Lin Weiping
 Mr. Yang Dongwen

Independent Non-executive Directors

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

Members of Committees

Executive Committee

Mr. Wang Dianfu (*Chairman*)
 Ms. Ding Kai
 Mr. Hu Zhaohui
 Mr. Kim Sang Yeop
 Mr. Le Yesheng
 Mr. Leung Chi Ching, Frederick
 Ms. Lin Weiping
 Mr. Liu Tangzhi
 Mr. Lu Rongchang
 Mr. Shi Chi
 Mr. Yang Dongwen
 Mr. Yu Kon Hoe, Finsen
 Mr. Zhang Xuebin
 Mr. Zhao Kejun

Nomination Committee

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

Remuneration Committee

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

Audit Committee

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

Company Secretary

Mr. Leung Chi Ching, Frederick

Auditors

Deloitte Touche Tohmatsu

Legal Advisors

Kwok, Ng & Chan Solicitors
 Richards Butler

Principal Bankers

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

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

Principal Share Registrar and Transfer Office

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

Branch Share Registrar and Transfer Office

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

Share Listing

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

Important Information for 2006/2007

Results Announcement Date

Interim results – 20 December 2006

Dividend Per Share

Interim dividend – HK0.5 cents

Dividend Payment Date

Interim dividend – 7 February 2007

Closing Period of the Register of Members

Interim – From 22 January 2007 to 26 January 2007,
 both dates inclusive

Investor Relations

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OPERATIONAL AND FINANCIAL REVIEW

Highlights of Results

The Group recorded the following results during the six months ended 30 September 2006 (the "Period"):

- Turnover reached HK\$5,617 million, representing an increase of 21.0%.
- Emerging business segments, including digital set-top box and mobile phone businesses, contributed to more than HK\$730 million in turnover.
- Turnover in the mainland China market accounted for 86.3% of the Group's total turnover.
- Gross profit achieved HK\$913 million, representing 16.3% of the turnover.
- Profit for the Period reached HK\$28 million.

Business Performance Review

Steady growth in turnover

Turnover of the Group grew by 21.0%, reaching a record of HK\$5,617 million for the Period, compared with HK\$4,644 million for the same period last year.

The major force on the increase in turnover for the Period was attributable to the Group's continuous expansion to high-end TV market and the exploration of other profitable business opportunities within the electronic industry. Thanks to the PRC Government's drive in pushing the digital broadcasting momentum in the mainland China and taking advantage of the expected increase in demand of digital set-top boxes, the Group has managed to capture the mainland China market growth during the Period. The Group's another investment to expand its market share of "Skyworth" brand mobile phones in the mainland China market also achieved one of the Group's corporate objectives in securing the targeted market share during the Period.

The Group has also successfully implemented its plan to expand in the high-end TV market. The market demand in the high-end TV products that carried a higher unit price was moving upward during the Period.

The above achievements evidence that the Group is in the process of transforming the strategy as set out in the last year's annual report, (i.e. expansion of core business, and incubation and extension of businesses within the related electronics chain, particularly relating to digital broadcasting solutions in respect of image and signal processing and TV entertainment through mobile phones and automobile electronics), into action plans and has attained satisfactory results during the Period.

Turnover analysis by geographical segment and product segment

Mainland China market

The turnover derived from the mainland China market during the Period amounted to HK\$4,849 million, representing 86.3% of its total turnover. Compared with the sales of HK\$4,017 million in the same period last year, it recorded a 20.7% growth.

With the continuous and effective-conscious marketing efforts put forward to the emerging market segments in the mainland China market, the digital set-top box and mobile phone businesses were able to strive for a higher share in the product mix of the Group. During the Period, over 84.1% of the Group's sales in the mainland China market was derived from the sale of TV products, while the sales of digital set-top boxes and the sales of mobile phones and related accessories represented 6.1% and 7.1% of its sales, respectively. The rest of the turnover in the mainland China market was attributable to the sales of other products, including electrical appliances, LCD modules and audio-visual products.

TV products

The sale of TV products in the mainland China market amounted to HK\$4,077 million for the Period, representing approximately 6.2% increase compared with that in the same period last year.

GFK Asia Pte. Ltd., a market research company which conducts regular research covering 100 major cities in the mainland reported that in September 2006, Skyworth's market share in terms of sales quantity and sales amount were 13.9% and 10.6%, respectively. It also reported that Skyworth ranked No. 1 in terms of sales amount in September 2006. Skyworth's crucial market positioning in the high-end TV market was one of the key success factors for the Group in achieving a growth in turnover and market share during the Period.

It is expected that the analogue broadcasting will, in the next decade, be phased out and be replaced by digital broadcasting. The Group actively reacts to these enormous business opportunities for the high-end TV products, including high-definition CRT TVs, liquid crystal display TVs and plasma TVs. During the Period, about 902,400 units of high-end TV products were sold, rose by 44.1% over the same period last year and accounted for 31.3% of the total sales volume of TV products in the mainland China market.

In addition to the above reasons, the growth in turnover for TV products in the mainland China market was also attributable to the following factors and promotion strategies:

- the continuing expansion of product range, including recordable and 3G USB TVs;
- the World Cup 2006 stimulus;
- the improved competitiveness resulting from the Group's remarkable after-sale services; and
- the successful repositioning of Skyworth's conventional TVs in the rural market through enhancement of brand promotion activities in the rural areas.

Digital set-top boxes

The PRC Government's determination to enter into a new era of full digitalisation in 2015, together with the recent growth in popularity and coverage of digital broadcasting, contributed to the remarkable result attained by the Group from the sale of digital set-top boxes in the Period.

From 2004 onwards, the Group's dedicated team has provided unique technical solutions to its customers, together with the "Skyworth" brand digital set-top box market in the mainland China market well recognised by the general public has also contributed to the significant growth in its sales. During the Period, the sale of digital set-top boxes in the mainland China market reached HK\$296 million, representing approximately 5.7 times growth compared with HK\$44 million recorded in the same period last year.

Mobile phones and related accessories

The Group has been continuously carrying out research and development for mobile phones from 2003, and successfully launched "Skyworth" brand mobile phones in the last year. With the assistance from the strong technical and research team, the Group developed and launched certain new and well received models of "Skyworth" mobile phones during the Period. The industrial designs of these new models were fashionable and attractive. Each of the new models was equipped with variety of functions and smart features, including fingerprint security control, audio-visual tools, creative animation, and personal diary function. The success in technical development, together with the significant turnover of HK\$345 million achieved during the Period, supported Skyworth's further advancement to the mobile phone market in the mainland China market.

Overseas markets

The Group's turnover for the overseas markets amounted to HK\$768 million and accounted for 13.7% of the total turnover for the Period. Compared with HK\$627 million turnover recorded in the same period last year, it represented a 22.5% increase.

TV products

Turnover of the TV products for the overseas markets was primarily derived from OEM customers. The amount for the Period was HK\$668 million, accounted for 87.0% of the total overseas turnover, representing a 28.2% increase compared with the same period last year. Under the current intense competition, selling prices of TV products sold to overseas OEM customers were under downward pressure. In spite of the pressure, the Group was able to secure the cooperative opportunities with multinational corporations, resulting in an improvement in turnover for the Period.

Digital set-top boxes

Turnover of digital set-top boxes for the overseas markets was HK\$93 million during the Period, representing a 36.8% increase when compared with that in the same period last year. Such increase was due to the establishment of the Group's goodwill in the set-top box market for the past years and the Group's continuous marketing effort in exploring the European market.

Geographical distribution

The percentage of geographical distribution of turnover to overseas markets is analysed below:

| | For the six months ended 30 September 2006 (%) | For the six months ended 30 September 2005 (%) |
|--|---|---|
| Europe | 37 | 25 |
| Asia (including Japan, Korea, Vietnam, etc.) | 24 | 39 |
| America | 18 | 21 |
| Middle East | 9 | 7 |
| Australia and New Zealand | 7 | 3 |
| Africa | 5 | 5 |
| | 100 | 100 |

Two of the Group's major overseas markets were Asia and Europe, which in aggregate accounted for 61% of the total sales for the overseas markets. The increased sales of set-top boxes to the European region contributed to the increase of the Group's sales to that region.

Gross margin

The overall gross margin of the Group for the Period was 16.3%, representing a minor reduction of 0.6 percentage point from that in the same period last year. As affected by the intense competition in the panel TV market, the Group was under severe price pressure. Although the overall sales quantities of the panel TV products reported a significant rise during the Period, the overall gross margin was slightly reduced by the above unfavourable change in market conditions.

As mentioned in the last year's annual report, it is a common practice in this industry to offer sales rebates to the distributors who promote the Group's products. During the Period, the Group's overall sales incentive payments to these distributors were increased to push the sales of high-end TV products. As a result, the gross margin recorded a minor downward adjustment during the Period.

Consistent with the management expectation, the panel TV products which had a higher unit price carried a gross margin relatively lower than the high resolution cathode ray tube TV products. The change in the product sales mix triggered a minor adjustment in the gross profit margin during the Period. Notwithstanding with such adjustment, the gross profit of the Group increased by HK\$127 million during the Period, representing a 16.2% increase compared with the same period last year.

Increase in selling and distribution expenses

For the Period, the Group put in an extra of HK\$69 million in selling and distribution expenses primarily on the brand promotion and marketing activities in the mainland China, and on certain direct expenses contributed to the growth in the sales of high-end TV products. Such increase represented a 10.0% growth from that incurred in the same period last year.

The effect on the said brand promotion and marketing activities, together with the contribution from the specific advertising campaign launched during World Cup 2006 event; the sponsorship contracted in respect of certain popular television programmes and the support from the additional promotional staff recruited, have proven to be rewarding. It was evidenced by the encouraging growth in sales volume of high-end TV products by nearly 44% for the mainland China market compared with the same period last year. Such achievement in sales volume resulted in a corresponding increase in other related expenses, such as installation costs and transportation costs.

The branding effect not only contributed to the significant increase in sales volume mentioned above, but also added value to Skyworth brand. On 9 July 2006, in Qingdao, at the first ever held News Conference for The Brand Values Of The Electronic Enterprises in the mainland China, Skyworth brand valued at RMB7,683 million up from RMB5,000 million in the prior year, won the Most Valuable Brand Award among 112 candidates. This investment return further enhanced the public awareness of “Skyworth” brand and products. Together with Skyworth’s repositioning through the new visual identity that advocates sagacity, amiability and prosperity, Skyworth has laid a good foundation to take the brand to the world.

In addition to the abovementioned reasons, the increase in selling and distribution expenses was also attributable to:

- the increase in warranty allowance as a result of introduction of new business segments, including digital set-top box and mobile phone businesses, and changes to existing products; and
- the initial distribution workflow restructuring carried out with the objectives of improving the logistic management of finished goods, saving storage costs and transportation costs, improving flexibility of inventory level being kept by the distributors, and eventually improving inventory turnover and reducing the risk of inventory obsolescence.

The Group was committed to improving the quality of its products and had performed continuous assessment on the product quality. Thanks to the great efforts in the quality management, the defective rate of TV products of the Group reduced during the Period, accomplishing an overall decline in warranty allowance for TV products.

Increase in general and administration expenses

For the Period, the Group had incurred general and administration expenses amounted to HK\$161 million, representing an increase of HK\$43 million compared with the same period last year.

During the Period, the management of the Group continued to focus on its effective general cost control measures implemented since 2005. Due to the dynamic changes in the market environment, although the cost control measures had achieved to control the general expenses, the Group had to incur more expenses to couple with the expansion of businesses, including digital set-top box, mobile phone, new production plants, etc., and for improvement in corporate governance. The Group envisages that these investments will soon bring reward to the performance of the Group.

Inventory control

As at 30 September 2006, the carrying value of the Group's inventories reached HK\$2,430 million, representing an increase of HK\$683 million or 39.1% as compared with the balance as at 31 March 2006 and an increase of HK\$800 million or 49.1% as compared with the balance as at 30 September 2005.

The major reasons contributing to the significant increase in inventory balances of the Group as at 30 September 2006 were summarised as follows:

- The continuous expansion in the high-end TV market building up the proportion of high-value inventory items as at 30 September 2006;
- The successful entry to certain emerging business segments, such as digital set-top box and mobile phone, during the Period also created new inventory items for the Group; and
- The revised procurement strategy effected during the Period, which took into account the historical trend in price fluctuation of raw materials, resulted in an increase in the procurement of raw materials, including cathode ray tubes and integrated circuits, to meet the continuing and future production requirements.

As at 30 September 2006, the inventory turnover days (calculated with reference to the average inventory balances net of provision) for raw materials and finished goods were 27 days and 44 days, respectively; while as at 30 September 2005, such inventory turnover days were 21 days and 49 days, respectively. The reasons for the increase in turnover days for raw materials are fully accounted for by the above summary. The obvious reason for the reduction in turnover days for finished goods during the Period was due to the improvement in the logistic management that created more flexibility on the delivery of finished goods to distributors.

Trade receivables and bills receivable

At 30 September 2006, trade receivables and bills receivable of the Group amounted to HK\$941 million and HK\$2,539 million, respectively, totalling HK\$3,480 million. As compared with the balance at 31 March 2006, the amount of trade receivables was increased by HK\$424 million or 82.0%, whilst the amount of bills receivable was reduced by HK\$642 million or 20.2%. Trade receivables of the Group as 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.

Compared with the amounts of trade receivables and bills receivable of the Group as at 30 September 2005, the amounts at 30 September 2006 showed an increase of HK\$344 million and HK\$251 million, respectively. The increase in total receivables of HK\$595 million or 20.6% was mainly owing to the overall increase in sales during the Period and the recent expansion of other business segments in which customers required longer credit terms.

Trade payables and bills payable

At 30 September 2006, trade payables and bills payable of the Group amounted to HK\$3,239 million and HK\$16 million, respectively. As compared with that at 30 September 2005, the amount of trade payables grew by HK\$1,001 million or 44.7%, whereas the amount of bills payable reduced by HK\$1 million. Compared with the amounts at 31 March 2006, the amounts of trade payables and bills payable were increased by HK\$501 million and HK\$8 million, respectively. As explained fully in the "Inventory control" section above, the Group reported a significant increase in the inventory level during the Period and consequently, the accounts payable balances increased correspondingly.

Liquidity, Financial Resources and Cash Flow Management

At 30 September 2006, the Group had bank balances and cash of HK\$485 million, representing a reduction of HK\$275 million and HK\$419 million when compared with that at 31 March 2006 and at 30 September 2005, respectively; while pledged bank deposits amounted to HK\$105 million at 30 September 2006, representing an increase of HK\$67 million and a decline of HK\$5 million from that at 31 March 2006 and 30 September 2005, respectively.

As mentioned in the above sections, the Group had procured more raw materials during the Period to facilitate the production for new products in the new business segments and the implementation of the revised procurement management strategy. These reactions to the dynamic market change, together with the longer credit terms granted to customers by the Group, increased the overall operating cash flow requirements of the Group during the Period. The operating cash flows were mainly financed by the internal generated funds of the Group and also the trade facilities obtained from certain banks in the mainland China and certain suppliers.

Apart from the trade facilities obtained, during the Period, the Group drawdown additional loan of HK\$77 million from banks in the mainland China for the development of the new production plant in Shiyan of Shenzhen. The balance of financial liabilities, mainly the discounted bills with recourse, amounted to HK\$7 million and HK\$151 million recorded at 30 September 2006 and at 31 March 2006, respectively. Such discounted bills receivable with recourse would be released upon maturity.

At 30 September 2006, the utilised trade facilities and the loans granted from various banks were secured by certain assets of the Group, including bank deposits of HK\$105 million, bills receivable of HK\$358 million, and certain of the Group's land and properties in the mainland China and Hong Kong with carrying value of HK\$333 million.

The gearing ratio of the Group, calculated with reference to the total bank borrowings of HK\$252 million and shareholders' fund of HK\$3,171 million, was 7.9% at 30 September 2006. Such gearing ratio reported a 2.4 percentage point reduction from that at 31 March 2006. In comparison with companies operated in the same industry, the Group maintained a healthy gearing position at 30 September 2006.

For other key ratios such as current ratio, trade receivables turnover days and inventories turnover days, please refer to financial highlights on page 2 to the interim report.

Treasury Policy

The Group's investments are mostly in the mainland China and its main revenue stream generates mainly Renminbi. Other than Renminbi, other Group's assets and liabilities are mainly denominated either in Hong Kong dollars or in US dollars.

Exchange rate movements revealed that Renminbi appreciated continuously during the Period. As most of the Group's transactions were denominated in Renminbi, the Group had recognised net foreign exchange gains of HK\$12 million during the Period. The Group adopted a new accounting standard in respect of net investment in a foreign operation; accordingly, exchange differences from the translation of monetary item that forms part of the Company's net investment in a foreign operations, including operations in the mainland China, and is denominated in any currency are reclassified to the exchange reserve in the condensed consolidated financial statements. As a result, the Group's profit for the same period last year was restated and reduced by the amount of net exchange gains of HK\$34 million. Taking into account of the above restatement, the movement in exchange reserve during the current and the prior periods was HK\$43 million and HK\$45 million, respectively.

Currently, the Group does not engage in any instrument to hedge against the foreign exchange risk or any risk relating to the uncertainty of interest rate development. In view of the current and expected fluctuation in Renminbi, the management is preparing to monitor the foreign currency movement and to evaluate the mode of the Group's operations from time to time, and to determine the appropriate hedging activities when necessary.

Significant Investments and Acquisition

The Group had made additional investments of HK\$83 million in the construction of two new production plants located in Shiyan of Shenzhen, funded partly by the bank loan as described above, and in Ruyi of Huhhot, funded by internal funding. The production plant in Shiyan had commenced its operation in late July 2006 while the production plant in Ruyi has commenced its operation in October 2006.

In addition to the above capital investments, during the Period, the Group had also spent approximately HK\$111 million on the acquisition of other property, plant and equipment for business operation and expansion.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 September 2006. The details of certain patent disputes are disclosed in the notes to the condensed consolidated financial statements in the interim report.

Human Resources Capital

At 30 September 2006, the Group had over 16,200 employees in the mainland China and Hong Kong, including salespersons spread throughout more than 211 sales points. To support the growth in business operations of the Group and the commencement in operation of the new production plant, the Group had recruited more employees during the Period. Management believes that this extensive and strong human resources capital fuels the successful expansion and development of Skyworth's branding and businesses.

Details of the remuneration policy of the directors and employees of the Group, and the duties and work performed by the Remuneration Committee and the Nomination Committee were disclosed in the "Corporate Governance Report" of the Company's annual report 2005/06.

Outlook

The management believes that the global digitalisation and the Beijing Olympic 2008 will bring good prospects to most of the business units of the Group in the coming years through the replacement of analogue TVs, increasing demand of the digital set-top boxes, and using mobile devices to enjoy the entertainment programmes. The continuous price reduction in the LCD panel would bring challenges and also opportunities to most of the Group's major business units, especially the TV business unit.

The management has committed to designing new business models for production, logistics and distribution, market channels and cash flow management with the objectives of shortening the operating cycle; further improving the operating and marketing strategies to expand the overseas markets; carrying out research activities for launching more innovative products; and searching for more investments in more promising business units for diversification the Group's product profile. All these strategic measures will create tremendous challenges to the management but will bring higher incentives to the Group.

During the Period, the fierce competition and the uneasy adjustments on corporate strategies placed exceptional strains on everyone in Skyworth. Skyworth came through the Period in good order is a tribute to the professionalism, commitment and sheer resilience of all concerned.

With the external market opportunities, the adjustments on the corporate strategies to match with the opportunities, and the strong and committed management team, the management remains confident of achieving another successful year in 2006/07.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

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

| | Notes | Six months ended 30 September | |
|--|-------|-------------------------------|-----------------------------------|
| | | 2006 (unaudited) | 2005 (restated) (unaudited) |
| Turnover | 4 | 5,617 | 4,644 |
| Cost of sales | | (4,704) | (3,858) |
| Gross profit | | 913 | 786 |
| Other income | | 48 | 43 |
| Selling and distribution expenses | | (759) | (690) |
| General and administrative expenses | | (161) | (118) |
| Impairment loss recognised in respect of available-for-sale investments | | (2) | (3) |
| Finance costs | | (1) | (1) |
| Gain on disposal of subsidiaries | | – | 3 |
| Share of results of jointly controlled entities | | 3 | (3) |
| Profit before taxation | 6 | 41 | 17 |
| Taxation | 7 | (13) | (8) |
| Profit for the period | | 28 | 9 |
| Attributable to: | | | |
| Equity holders of the Company | | 28 | 9 |
| Dividends | | | |
| Paid | 8 | – | 50 |
| Proposed | 8 | 11 | 23 |
| Earnings per share | | | |
| Basic (HK cents) | 9 | 1.22 | 0.40 |
| Diluted (HK cents) | 9 | 1.22 | 0.39 |

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2006

Amounts expressed in HK\$ million

| | Notes | As at 30 September 2006 (unaudited) | As at 31 March 2006 (audited) |
|--|-------|--|--|
| ASSETS AND LIABILITIES | | | |
| Non-current Assets | | | |
| Property, plant and equipment | 10 | 1,023 | 874 |
| Prepaid lease payments on land use rights | | 94 | 92 |
| Interests in jointly controlled entities | | 31 | 27 |
| Available-for-sale investments | | 32 | 33 |
| | | 1,180 | 1,026 |
| Current Assets | | | |
| Inventories | 11 | 2,430 | 1,747 |
| Prepaid lease payments on land use rights | | 2 | 2 |
| Trade and other receivables | 12 | 1,339 | 781 |
| Bills receivable | 13 | 2,539 | 3,181 |
| Tax recoverable | | – | 2 |
| Amount due from a jointly controlled entity | | 14 | 12 |
| Held-for-trading investments | | – | 24 |
| Pledged bank deposits | 19 | 105 | 38 |
| Bank balances and cash | | 485 | 760 |
| | | 6,914 | 6,547 |
| Current Liabilities | | | |
| Trade and other payables | 14 | 4,429 | 3,962 |
| Bills payable | 15 | 16 | 8 |
| Provision | | 89 | 73 |
| Amount due to a jointly controlled entity | | 2 | 1 |
| Tax liabilities | | 77 | 81 |
| Secured bank borrowings | 16 | 8 | 153 |
| Deferred income | | 36 | 21 |
| | | 4,657 | 4,299 |
| Net current assets | | 2,257 | 2,248 |
| Total assets less current liabilities | | 3,437 | 3,274 |
| Non-current Liabilities | | | |
| Secured bank borrowings | 16 | 244 | 164 |
| Deferred income | | 21 | 21 |
| Deferred taxation | | 1 | 1 |
| | | 266 | 186 |
| NET ASSETS | | 3,171 | 3,088 |
| CAPITAL AND RESERVES | | | |
| Share capital | 17 | 229 | 228 |
| Share premium | | 1,194 | 1,192 |
| Share option reserve | | 56 | 53 |
| Investment revaluation reserve | | 6 | 5 |
| Surplus account | | 102 | 102 |
| Capital reserve | | 43 | 43 |
| Exchange reserve | | 102 | 59 |
| Accumulated profits | | 1,439 | 1,406 |
| TOTAL EQUITY | | 3,171 | 3,088 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

Amounts expressed in HK\$ million

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---------------|----------------------|--------------------------------|-----------------|-----------------|-----------------------------|--------------------------------|--------------|
| | Share capital | Share premium | Share option reserve | Investment revaluation reserve | Surplus account | Capital reserve | Exchange reserve (restated) | Accumulated profits (restated) | Total |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Balance at 1 April 2005 | 226 | 1,186 | 29 | 4 | 102 | 7 | 1 | 1,369 | 2,924 |
| Surplus on revaluation of available-for-sale investments | - | - | - | 1 | - | - | - | - | 1 |
| Exchange differences on translation of operations denominated in foreign currencies | - | - | - | - | - | - | 45 | - | 45 |
| Income recognised directly in equity | - | - | - | 1 | - | - | 45 | - | 46 |
| Profit for the period | - | - | - | - | - | - | - | 9 | 9 |
| Total recognised profit for the period | - | - | - | 1 | - | - | 45 | 9 | 55 |
| Recognition of equity-settled share based payments | - | - | 11 | - | - | - | - | - | 11 |
| Dividends paid (Note 8) | - | - | - | - | - | - | - | (50) | (50) |
| Balance at 30 September 2005 | 226 | 1,186 | 40 | 5 | 102 | 7 | 46 | 1,328 | 2,940 |
| Balance at 1 April 2006 | 228 | 1,192 | 53 | 5 | 102 | 43 | 59 | 1,406 | 3,088 |
| Surplus on revaluation of available-for-sale investments | - | - | - | 1 | - | - | - | - | 1 |
| Exchange differences on translation of operations denominated in foreign currencies | - | - | - | - | - | - | 43 | - | 43 |
| Income recognised directly in equity | - | - | - | 1 | - | - | 43 | - | 44 |
| Profit for the period | - | - | - | - | - | - | - | 28 | 28 |
| Total recognised profit for the period | - | - | - | 1 | - | - | 43 | 28 | 72 |
| Recognition of equity-settled share based payments | - | - | 8 | - | - | - | - | - | 8 |
| Forfeiture of share options | - | - | (5) | - | - | - | - | 5 | - |
| Issue of shares under share option schemes | 1 | 2 | - | - | - | - | - | - | 3 |
| Balance at 30 September 2006 | 229 | 1,194 | 56 | 6 | 102 | 43 | 102 | 1,439 | 3,171 |

2005 figures have been restated in accordance with HKAS 21 (Amendment) "Net Investment in a Foreign Operation". For the details of such restatement, please refer to note 3 to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

Amounts expressed in HK\$ million

| | Note | Six months ended 30 September | |
|--|------|-------------------------------|-----------------------------------|
| | | 2006 (unaudited) | 2005 (restated) (unaudited) |
| NET CASH USED IN OPERATING ACTIVITIES | | (8) | (117) |
| INVESTING ACTIVITIES | | | |
| Interest received | | 4 | 7 |
| Purchase of property, plant and equipment | | (189) | (164) |
| Proceeds on disposal of property, plant and equipment | | 1 | – |
| Disposal of subsidiaries | 18 | – | 11 |
| Cash paid for the acquisition of available-for-sale investments | | – | (4) |
| Cash paid for the acquisition of held-for-trading investments | | – | (1) |
| Proceeds on disposal of available-for-sale investments | | 2 | – |
| Proceeds on disposal of held-for-trading investments | | 24 | – |
| (Increase) decrease in pledged bank deposits | | (67) | 945 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | (225) | 794 |
| FINANCING ACTIVITIES | | | |
| Interest paid | | (5) | (2) |
| Dividends paid | | – | (50) |
| Issue of shares for cash | | 3 | – |
| New bank loan raised | | 77 | 105 |
| Repayment of mortgage loans | | (1) | – |
| Funds arisen from discounted bills with recourse | | 7 | 112 |
| Repayment of funds arisen from discounted bills with recourse upon maturity | | (151) | (853) |
| NET CASH USED IN FINANCING ACTIVITIES | | (70) | (688) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (303) | (11) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | | 760 | 885 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | 28 | 30 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | | 485 | 904 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash | | 485 | 904 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2006

1. BASIS OF PREPARATION

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

The preparation of condensed consolidated financial statements in conformity with the Hong Kong Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Group's operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire financial year. This interim report should be read where relevant, in conjunction with the annual report of the Group for the year ended 31 March 2006.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated 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 consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2006.

The HKICPA has issued a number of new standards, amendments and interpretations ("new HKFRSs") that are effective for accounting periods beginning on or after the respective dates indicated below.

New HKFRS which was early adopted by the Group for the financial year ended 31 March 2006:

| | |
|---------------------|--|
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation ¹ |
|---------------------|--|

New HKFRSs which are applied, for the first time, by the Group in the current interim period:

| | |
|-----------------------------------|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures ¹ |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions ¹ |
| HKAS 39 (Amendment) | The Fair Value Option ¹ |
| HKAS 39 & HKFRS 4 (Amendments) | Financial Guarantee Contracts ¹ |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources ¹ |
| HK (IFRIC) – INT 4 | Determining whether an Arrangement contains a Lease ¹ |
| HK (IFRIC) – INT 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ¹ |
| HK (IFRIC) – INT 6 | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment ² |
| HK (IFRIC) – INT 7 | Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ³ |

New HKFRSs which are not yet effective:

| | |
|---------------------|---|
| HKAS 1 (Amendment) | Capital Disclosures ⁴ |
| HKFRS 7 | Financial Instruments: Disclosures ⁴ |
| HK (IFRIC) – INT 8 | Scope of HKFRS 2 ⁵ |
| HK (IFRIC) – INT 9 | Reassessment of Embedded Derivatives ⁶ |
| HK (IFRIC) – INT 10 | Interim Financial Reporting and Impairment ⁷ |

¹ Effective annual periods beginning on or after 1 January 2006.

² Effective annual periods beginning on or after 1 December 2005.

³ Effective annual periods beginning on or after 1 March 2006.

⁴ Effective annual periods beginning on or after 1 January 2007.

⁵ Effective annual periods beginning on or after 1 May 2006.

⁶ Effective annual periods beginning on or after 1 June 2006.

⁷ Effective annual periods beginning on or after 1 November 2006.

For those new HKFRSs which are applied, for the first time, by the Group in the current interim period, the adoption had no material effect on the Group's results and financial position for the current or prior accounting period; and for those new HKFRSs which are not yet effective, the directors of the Company are still in the position to reasonably estimate the impact that may arise from the application.

3. RESTATEMENT OF COMPARATIVE FIGURES

Following the early adoption of HKAS 21 (Amendment) "Net Investment in a Foreign Operation" in the preparation of the annual consolidated financial statements for the year ended 31 March 2006, the Group has restated its interim results for the six months ended 30 September 2005. The Group's profit for the last interim period decreased by HK\$34 million (restated from HK\$43 million to HK\$9 million); the Group's exchange reserve as at 30 September 2005 increased by HK\$34 million (restated from HK\$12 million to HK\$46 million); basic earnings per share decreased by HK1.50 cents (restated from HK1.90 cents to HK0.40 cents) and diluted earnings per share decreased by HK1.48 cents (restated from HK1.87 cents to HK0.39 cents).

4. TURNOVER

Turnover represents the aggregate value of goods sold after goods returns, trade discounts and related turnover taxes, and rental income from leasing of properties for the period.

| | Six months ended 30 September | |
|------------------------|--------------------------------------|--------------|
| | 2006 | 2005 |
| | (unaudited) | (unaudited) |
| | HK\$ million | HK\$ million |
| Sales of goods | 5,596 | 4,625 |
| Property rental income | 21 | 19 |
| | 5,617 | 4,644 |

5. SEGMENT INFORMATION

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 2006 (unaudited)

| | PRC HK\$ million | Asia (Other than PRC) HK\$ million | Europe HK\$ million | Other regions HK\$ million | Consolidated HK\$ million |
|--|---------------------|---|------------------------|----------------------------------|------------------------------|
| Turnover | | | | | |
| External sales and rental income | 4,849 | 181 | 287 | 300 | 5,617 |
| Result | | | | | |
| Segment results | 90 | (9) | (18) | (14) | 49 |
| Interest income | | | | | 4 |
| Unallocated corporate income less expenses | | | | | (14) |
| Finance costs | | | | | (1) |
| Share of results of jointly controlled entities | 3 | – | – | – | 3 |
| Profit before taxation | | | | | 41 |
| Taxation | | | | | (13) |
| Profit for the period | | | | | 28 |

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

| | PRC HK\$ million | Asia (Other than PRC) HK\$ million | Europe HK\$ million | Other regions HK\$ million | Consolidated HK\$ million |
|--|---------------------|---|------------------------|----------------------------------|------------------------------|
| Turnover | | | | | |
| External sales and rental income | 4,017 | 243 | 154 | 230 | 4,644 |
| Result | | | | | |
| Segment results | 42 | (15) | (4) | (7) | 16 |
| 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 | | | | | 17 |
| Taxation | | | | | (8) |
| Profit for the period | | | | | 9 |

6. PROFIT BEFORE TAXATION

| | Six months ended 30 September 2006 | 2005 (restated) |
|---|---|--------------------|
| | (unaudited) | (unaudited) |
| | HK\$ million | HK\$ million |
| Profit before taxation has been arrived at after charging (crediting): | | |
| Amortisation of prepaid lease payments on land use rights | 1 | 1 |
| Less: Amount capitalised to construction in progress | (1) | (1) |
| | – | – |
| Change in fair value of held-for-trading investments | – | (4) |
| Depreciation of property, plant and equipment | 60 | 59 |
| Loss on disposal of property, plant and equipment | 1 | 1 |
| Interest income | (4) | (7) |
| Interest on bank borrowings wholly repayable within five years less amount capitalised of HK\$4 million (for the six months ended 30 September 2005: HK\$1 million) | 1 | 1 |
| Net foreign exchange gains | (12) | (10) |
| Net realised gain on disposal of available-for-sale investments | (1) | – |
| (Write-back) allowance for doubtful debts | (7) | 5 |
| Write-down of inventories | – | 44 |

7. TAXATION

| | Six months ended 30 September 2006 | 2005 |
|---|---|--------------|
| | (unaudited) | (unaudited) |
| | HK\$ million | HK\$ million |
| The charge comprises: | | |
| PRC income tax | | |
| Current period | 8 | 2 |
| Under (over) provision for previous years | 1 | (1) |
| | 9 | 1 |
| Other PRC taxes | | |
| Current period | 4 | 8 |
| Overprovision for previous years | – | (1) |
| | 4 | 7 |
| | 13 | 8 |

No provision for Hong Kong Profits Tax has been made as the relevant entities incurred a tax loss for both periods.

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

The Company did not make any payments of dividend during the period. During the six months ended 30 September 2005, the Company paid HK\$50 million in respect of the interim dividend of HK\$2.2 cents per share for the year ended 31 March 2005.

Subsequent to 30 September 2006 and on 11 October 2006, a dividend of HK2.8 cents per share amounting to HK\$64 million was paid to shareholders as the final dividend for the year ended 31 March 2006.

The board of directors (the "Board") has resolved that an interim dividend of HK0.5 cents per share for the year ending 31 March 2007 to be paid to the shareholders of the Company whose names appear in the register of members on 26 January 2007.

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 September 2006 | 2005 (restated) (unaudited) |
|---|---|-----------------------------------|
| | (unaudited) HK\$ million | (unaudited) HK\$ million |
| Earnings for the purposes of basic and diluted earnings per share – profit for the period | 28 | 9 |
| | Number of shares | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 2,287,748,347 | 2,262,607,699 |
| Effect of dilutive potential ordinary shares: Share options | 10,297,477 | 41,582,280 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 2,298,045,824 | 2,304,189,979 |

The basic and diluted earnings per share for the six months ended 30 September 2005 have been restated for the effects of changes in the accounting policies described in note 3.

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\$83 million (for the six months ended 30 September 2005: HK\$106 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\$111 million (for the six months ended 30 September 2005: HK\$60 million) on the acquisition of other property, plant and equipment for business operation and expansion.

11. INVENTORIES

| | As at 30 September 2006 | As at 31 March 2006 |
|------------------|--|---------------------------|
| | (unaudited) HK\$ million | (audited) HK\$ million |
| Raw materials | 999 | 496 |
| Work in progress | 196 | 188 |
| Finished goods | 1,235 | 1,063 |
| | 2,430 | 1,747 |

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:

| | As at 30 September 2006 (unaudited) HK\$ million | As at 31 March 2006 (audited) HK\$ million |
|---|---|--|
| Within 30 days | 652 | 243 |
| 31 to 60 days | 82 | 89 |
| 61 to 90 days | 42 | 95 |
| 91 days or over | 165 | 90 |
| Trade receivables | 941 | 517 |
| Deposits, prepayments and other receivables | 398 | 264 |
| | 1,339 | 781 |

13. BILLS RECEIVABLE

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

| | As at 30 September 2006 (unaudited) HK\$ million | As at 31 March 2006 (audited) HK\$ million |
|--------------------------------|---|--|
| Within 30 days | 165 | 141 |
| 31 to 60 days | 114 | 125 |
| 61 to 90 days | 70 | 183 |
| 91 days or over | 760 | 781 |
| Bills endorsed to suppliers | 1,423 | 1,800 |
| Bills discounted with recourse | 7 | 151 |
| | 2,539 | 3,181 |

14. TRADE AND OTHER PAYABLES

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

| | As at 30 September 2006 (unaudited) HK\$ million | As at 31 March 2006 (audited) HK\$ million |
|--|---|--|
| Within 30 days | 1,168 | 436 |
| 31 to 60 days | 446 | 198 |
| 61 to 90 days | 122 | 197 |
| 91 days or over | 80 | 107 |
| Trade payables under endorsed bills | 1,423 | 1,800 |
| Trade payables | 3,239 | 2,738 |
| Deposits in advance, accruals and other payables | 1,190 | 1,224 |
| | 4,429 | 3,962 |

15. BILLS PAYABLE

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

| | As at 30 September 2006 (unaudited) HK\$ million | As at 31 March 2006 (audited) HK\$ million |
|-----------------|---|--|
| Within 30 days | 4 | 2 |
| 31 to 60 days | 7 | 6 |
| 91 days or over | 5 | – |
| | 16 | 8 |

16. SECURED BANK BORROWINGS

| | As at 30 September 2006 (unaudited) HK\$ million | As at 31 March 2006 (audited) HK\$ million |
|--|---|--|
|--|---|--|

Secured bank borrowings comprise the following:

| | | |
|------------------|------------|------------|
| Mortgage loans | 2 | 3 |
| Other bank loans | 250 | 314 |
| | 252 | 317 |

The bank borrowings are repayable as follows:

| | | |
|--|------------|--------------|
| Within one year or on demand | 8 | 153 |
| More than one year, but not exceeding two years | 1 | 1 |
| More than two years, but not exceeding five years | 243 | 163 |
| | 252 | 317 |
| Less: Amount due within one year or on demand included in current liabilities | (8) | (153) |
| Amount due after one year | 244 | 164 |

17. SHARE CAPITAL

| | Number of shares | | Share capital | |
|--|-----------------------------|-----------------------------|--|--|
| | 1.4.2006 to 30.9.2006 | 1.4.2005 to 31.3.2006 | 1.4.2006 to 30.9.2006 (unaudited) HK\$ million | 1.4.2005 to 31.3.2006 (audited) 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 | 2,284,684,391 | 2,262,572,391 | 228 | 226 |
| Issue of shares under share option schemes | 4,320,000 | 22,112,000 | 1 | 2 |
| At end of the period/year | 2,289,004,391 | 2,284,684,391 | 229 | 228 |

18. DISPOSAL OF SUBSIDIARIES

| | Six months ended 30 September | |
|--------------------------------------|--------------------------------------|--------------|
| | 2006 | 2005 |
| | (unaudited) | (unaudited) |
| | HK\$ million | 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 of subsidiaries | – | 3 |
| Total consideration | – | 11 |
| Net cash inflow arising on disposal: | | |
| Cash consideration | – | 11 |

The subsidiaries disposed of during the six months ended 30 September 2005 have no significant impact on the results and cash flows of the Group for that period.

19. PLEDGE OF ASSETS

At 30 September 2006, the Group's bank borrowings were secured by the following:

- (a) charges over prepaid lease payments on land use rights and leasehold land and buildings with carrying value of HK\$73 million (31.3.2006: HK\$17 million) and HK\$260 million (31.3.2006: HK\$137 million) respectively;
- (b) bills receivable of HK\$358 million (31.3.2006: HK\$405 million); and
- (c) bank deposits of HK\$105 million (31.3.2006: HK\$38 million).

In addition, there were other bills receivable endorsed to suppliers and discounted with recourse of HK\$1,423 million (31.3.2006: HK\$1,800 million) and HK\$7 million (31.3.2006: HK\$151 million) respectively as disclosed in note 13.

20. CAPITAL COMMITMENTS

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

| | As at | As at |
|---|---------------------|--------------|
| | 30 September | 31 March |
| | 2006 | 2006 |
| | (unaudited) | (audited) |
| | HK\$ million | HK\$ million |
| Contracted for but not provided, in respect of: | | |
| Purchase of property, plant and equipment | 24 | 7 |
| Factory buildings under development | 32 | 89 |
| | 56 | 96 |
| Authorised but not contracted for, in respect of: | | |
| Purchase of property, plant and equipment | – | 101 |
| Factory buildings under development | – | 162 |
| | – | 263 |

21. CONTINGENT LIABILITIES

Up to the date of this report, there are individual patent disputes which arise from time to time in the ordinary course of the business of the Group. The Group is in the course of processing these matters. While it is in an early stage of those disputes, the directors of the Company are of the view that these patent disputes will not have a material adverse impact on the condensed consolidated financial statements of the Group.

22. RELATED PARTY TRANSACTIONS

Transactions

During the interim period, the Group has the following transactions with jointly controlled entities:

| | Six months ended 30 September | |
|---|--|-------------------------------------|
| | 2006 (unaudited) HK\$ million | 2005 (unaudited) HK\$ million |
| Sub-contracting charges paid | 2 | 1 |
| Sales of raw materials | 4 | 1 |
| Purchase of finished goods | 2 | – |
| Advertising and promotional expenses paid | 9 | 12 |

Compensation of Key Management Personnel

The remuneration of directors and other members of key management during the period was as follows:

| | Six months ended 30 September | |
|----------------------|--|-------------------------------------|
| | 2006 (unaudited) HK\$ million | 2005 (unaudited) HK\$ million |
| Short-term benefits | 9 | 9 |
| Share-based payments | 3 | 2 |

The remuneration of directors and key management is reviewed by the remuneration committee having regard to the performance of individuals and market trends.

23. OTHER MATTERS

Reference is made to the background to the incident which occurred on 30 November 2004, the related charges, the allegation indicated by the Independent Commission Against Corruption (the "ICAC") that the company chairman might have secured the corrupt assistance of a former accountant of a certified public accountant firm in falsifying accounting records to assist the listing of the Company with the Stock Exchange (the "Allegation") and the subsequent measures taken by the Company in response to the incident, which are disclosed in the Company's annual report for the year ended 31 March 2006.

During the six months ended 30 September 2006 and up to the date of this report, the Company obtained the following new information and documents which are considered to be relevant for the consideration of the impact of the Allegation on the Company, certain details of which had been disclosed in the Company's announcement dated 9 November 2006:

1. Return of seized documents to the Group

On 29 September 2006, the ICAC returned to the Group all documents previously seized from the Company other than those which the ICAC considered to be related to the pending appeal proceedings of Mr. Wong Wang Sang, Stephen ("Mr. Stephen Wong"), the former non-executive Chairman of the Board, and Mr. Wong Pui Sing, a former executive director of the Company.

2. Letters issued by the ICAC to certain individuals and the Company's legal advisors

The Company was provided by each of Ms. Lin Weiping (an executive director of the Company and the spouse of Mr. Stephen Wong), Mr. So Hon Cheung, Stephen (an independent non-executive director of the Company), Messrs. Cheng Kin Chung and Ng Kam Fai (both former executive directors of the Company), and Mr. Liang Hsien Tse (the former company secretary and financial controller of the Company) with a copy of letter from the ICAC issued in September 2006 informing each of them, respectively, that following a review of the investigation report by the ICAC Operations Review Committee, the ICAC would not be pursuing their investigation against them.

On 9 November 2006, the ICAC also issued a letter to the Company's legal advisors confirming that no further investigation will be pursued against the above individuals and Ms. Ding Kai (an executive director of the Company), certain other former directors of the Company and another individual.

3. Agreed-upon procedures report issued by Grant Thornton

The Company received from the Stock Exchange on 13 July 2005 the extracts which contained specific allegations that certain previous financial information of the Group during the period 1999 to 2001 had either been improperly compiled and/or inaccurate or misleading (the "Extracts"). In light of the Extracts, the management of the Company had reviewed the books and records of the Group during the relevant periods, performed independent searches on public records of the alleged entities and interviewed the relevant personnel mentioned in the Extracts. The findings of the Company revealed that the specific allegations contained in the Extracts are unsubstantiated. The Company had also engaged Grant Thornton to perform certain agreed-upon procedures to independently verify the findings of the Company on the allegations contained in the Extracts. Grant Thornton completed the agreed-upon procedures and issued a report (the "AUP Report") to the Company on 13 April 2006. The management of the Company has not identified any matters reported in the AUP Report which are contradictory to the findings of the Company on the allegations contained in the Extracts.

Based on the information mentioned above, the disinterested members of the Board (including the disinterested independent non-executive directors) are satisfied that no further work is required to be performed by the Group on:

- (a) the allegations contained in the Extracts that certain previous financial information of the Group during 1999 to 2001 have either been improperly compiled and/or inaccurate or misleading; and
- (b) the Allegation referred to in the ICAC's press releases that accounting records might have been falsified to assist the listing of the Company.

Taking into account the conclusion from the disinterested members of the Board and in light of the latest development of the ICAC investigations as described above, the Board is of the view that the Allegation is unsubstantiated and concluded that the Allegation does not have any financial impact on the condensed consolidated financial statements of the Group.

INDEPENDENT INTERIM REVIEW REPORT



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 13 to 26.

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 the 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. A review consists principally of making enquiries of 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.

Review Conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2006.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

20 December 2006

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2006 of HK0.5 cents (2005: HK1 cent) per ordinary share, totaling approximately HK\$11 million (2005: HK\$23 million) to the shareholders of the Company on or around 7 February 2007 whose names appear on the register of members of the Company at the close of business on 26 January 2007.

Directors' Interest in Shares and Share Options

As at 30 September 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 30 September 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 to the issued share capital of the Company |
|------------------------|----------------------------------|---------------------------------------|---|
| Lin Weiping | Beneficial owner | 3,061,611 | 0.13% |
| | Held by trust (<i>Note a</i>) | 847,382,922 | 37.02% |
| | Held by spouse (<i>Note b</i>) | 51,405,612 | 2.25% |
| | | 901,850,145 | 39.40% |
| Ding Kai | Beneficial owner | 11,000,000 | 0.48% |
| Yang Dongwen | Beneficial owner | 4,876,000 | 0.21% |
| Zhang Xuebin | Beneficial owner | 2,800,600 | 0.12% |
| So Hon Cheung, Stephen | Beneficial owner | 100,000 | 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 is deemed to be interested in 847,382,922 ordinary shares of the Company as her children and herself are the discretionary beneficiaries of the Skysource Unit Trust.

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

(b) Share options of the Company

As at 30 September 2006, 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 | 21,000,000 | 21,000,000 |
| 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 |

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 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 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 six months ended 30 September 2006.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and 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 during the period.

Substantial Shareholders

As at 30 September 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 to the issued share capital of the Company |
|------------------------------------|---------------------------|--|---|
| Target Success Group Limited | Trustee (<i>Note a</i>) | 847,382,922 | 37.02% |
| HSBC International Trustee Limited | Trustee (<i>Note b</i>) | 866,141,413 | 37.84% |

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 share of the Company in its capacity as the trustee of other trusts.

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 2006.

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, including the definition of Old Scheme and New Scheme, were detailed in the notes to the consolidated financial statements of the Company for the year ended 31 March 2006 as set out in the Company's annual report 2005/06.

The following tables showed the movements in the Company's share options granted to the directors and the employees and/or consultants under both the Old Scheme and the New Scheme during the six months ended 30 September 2006:

Under Old Scheme

| Date of grant | Exercise price HK\$ | Vesting period | Exercisable period | Number of share options | | | |
|-------------------------------|------------------------|---|--------------------------------------|--------------------------------|--|--------------------------------|--|
| | | | | Outstanding at 1 April 2006 | Exercised during the period (Note a) | Cancelled during the period | Outstanding at 30 September 2006 |
| Director: | | | | | | | |
| Zhang Xuebin | | | | | | | |
| 2 April 2001 | 0.292 | 2 April 2001 to 1 April 2005 | 2 April 2005 to 27 March 2010 | 500,000 | (500,000) | - | - |
| 23 January 2002 | 0.420 | 23 January 2002 to 22 January 2005 | 23 January 2005 to 27 March 2010 | 750,000 | (750,000) | - | - |
| | | 23 January 2002 to 22 January 2006 | 23 January 2006 to 27 March 2010 | 750,000 | (750,000) | - | - |
| | | | | 2,000,000 | (2,000,000) | - | - |
| Employees/Consultants: | | | | | | | |
| 25 November 2000 | 0.336 | 25 November 2000 to 24 November 2001 | 25 November 2001 to 27 March 2010 | 284,000 | (8,000) | (6,000) | 270,000 |
| | | 25 November 2000 to 24 November 2002 | 25 November 2002 to 27 March 2010 | 406,000 | (10,000) | (32,000) | 364,000 |
| | | 25 November 2000 to 24 November 2003 | 25 November 2003 to 27 March 2010 | 38,000 | - | - | 38,000 |
| | | 25 November 2000 to 24 November 2004 | 25 November 2004 to 27 March 2010 | 12,376,000 | (1,758,000) | (6,250,000) | 4,368,000 |
| 23 January 2002 | 0.420 | 23 January 2002 to 22 January 2005 | 23 January 2005 to 27 March 2010 | 2,250,000 | - | (750,000) | 1,500,000 |
| | | 23 January 2002 to 22 January 2006 | 23 January 2006 to 27 March 2010 | 2,250,000 | - | (750,000) | 1,500,000 |
| 25 March 2002 | 0.520 | 25 March 2002 to 24 March 2005 | 25 March 2005 to 27 March 2010 | 100,000 | - | (100,000) | - |
| 8 August 2002 | 0.750 | 8 August 2002 to 7 August 2005 | 8 August 2005 to 27 March 2010 | 500,000 | - | (500,000) | - |
| | | 8 August 2002 to 7 August 2006 | 8 August 2006 to 27 March 2010 | 500,000 | - | (500,000) | - |
| | | | | 18,704,000 | (1,776,000) | (8,888,000) | 8,040,000 |
| | | | | 20,704,000 | (3,776,000) | (8,888,000) | 8,040,000 |

Note a: The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised during the six months ended 30 September 2006 was HK\$0.94.

Under New Scheme

| Date of grant | Exercise price HK\$ | Vesting period | Exercisable period | Number of share options | | | |
|---------------------|------------------------|---------------------------------------|--------------------------------------|--------------------------------|--|--------------------------------|--|
| | | | | Outstanding at 1 April 2006 | Exercised during the period (Note b) | Cancelled during the period | Outstanding at 30 September 2006 |
| Directors: | | | | | | | |
| Zhang Xuebin | | | | | | | |
| 5 October 2002 | 0.840 | 5 October 2002 to 4 October 2004 | 5 October 2004 to 28 August 2012 | 2,000,000 | - | - | 2,000,000 |
| | | 5 October 2002 to 4 October 2005 | 5 October 2005 to 28 August 2012 | 2,000,000 | - | - | 2,000,000 |
| | | 5 October 2002 to 4 October 2006 | 5 October 2006 to 28 August 2012 | 2,000,000 | - | - | 2,000,000 |
| 16 October 2003 | 1.660 | 16 October 2003 to 15 October 2004 | 16 October 2004 to 28 August 2012 | 1,500,000 | - | - | 1,500,000 |
| | | 16 October 2003 to 15 October 2005 | 16 October 2005 to 28 August 2012 | 1,500,000 | - | - | 1,500,000 |
| | | 16 October 2003 to 15 October 2006 | 16 October 2006 to 28 August 2012 | 2,000,000 | - | - | 2,000,000 |
| | | 16 October 2003 to 15 October 2007 | 16 October 2007 to 28 August 2012 | 5,000,000 | - | - | 5,000,000 |
| | | 16 October 2003 to 15 October 2008 | 16 October 2008 to 28 August 2012 | 5,000,000 | - | - | 5,000,000 |
| Yang Dongwen | | | | | | | |
| 5 October 2002 | 0.840 | 5 October 2002 to 4 October 2005 | 5 October 2005 to 28 August 2012 | 2,000,000 | - | - | 2,000,000 |
| | | 5 October 2002 to 4 October 2006 | 5 October 2006 to 28 August 2012 | 2,000,000 | - | - | 2,000,000 |
| 25 January 2006 | 1.136 | 25 January 2006 to 24 January 2007 | 25 January 2007 to 28 August 2012 | 3,750,000 | - | - | 3,750,000 |
| | | 25 January 2006 to 24 January 2008 | 25 January 2008 to 28 August 2012 | 3,750,000 | - | - | 3,750,000 |
| | | 25 January 2006 to 24 January 2009 | 25 January 2009 to 28 August 2012 | 3,750,000 | - | - | 3,750,000 |
| | | 25 January 2006 to 24 January 2010 | 25 January 2010 to 28 August 2012 | 3,750,000 | - | - | 3,750,000 |

| Date of grant | Exercise price HK\$ | Vesting period | Exercisable period | Number of share options | | | |
|------------------------------------|------------------------|---|---------------------------------------|--------------------------------|--|--------------------------------|--|
| | | | | Outstanding at 1 April 2006 | Exercised during the period (Note b) | Cancelled during the period | Outstanding at 30 September 2006 |
| Directors: | | | | | | | |
| Ding Kai | | | | | | | |
| 11 October 2004 | 2.225 | 11 October 2004 to 10 October 2005 | 11 October 2005 to 28 August 2012 | 250,000 | - | - | 250,000 |
| | | 11 October 2004 to 10 October 2006 | 11 October 2006 to 28 August 2012 | 250,000 | - | - | 250,000 |
| | | 11 October 2004 to 10 October 2007 | 11 October 2007 to 28 August 2012 | 250,000 | - | - | 250,000 |
| | | 11 October 2004 to 10 October 2008 | 11 October 2008 to 28 August 2012 | 250,000 | - | - | 250,000 |
| So Hon Cheung, Stephen | | | | | | | |
| 28 July 2004 | 2.275 | N/A | 28 July 2004 to 28 August 2012 | 500,000 | - | - | 500,000 |
| Li Weibin | | | | | | | |
| 28 July 2004 | 2.275 | N/A | 28 July 2004 to 28 August 2012 | 500,000 | - | - | 500,000 |
| | | | | 42,000,000 | - | - | 42,000,000 |
| Employees/ Consultants: | | | | | | | |
| 5 October 2002 | 0.840 | 5 October 2002 to 4 October 2004 | 5 October 2004 to 28 August 2012 | 100,000 | - | - | 100,000 |
| | | 5 October 2002 to 4 October 2005 | 5 October 2005 to 28 August 2012 | 5,826,000 | - | (2,000,000) | 3,826,000 |
| | | 5 October 2002 to 4 October 2006 | 5 October 2006 to 28 August 2012 | 5,826,000 | - | (2,000,000) | 3,826,000 |
| 14 February 2003 | 0.874 | 14 February 2003 to 13 February 2005 | 14 February 2005 to 28 August 2012 | 100,000 | (100,000) | - | - |
| | | 14 February 2003 to 13 February 2006 | 14 February 2006 to 28 August 2012 | 368,000 | (368,000) | - | - |
| 28 March 2003 | 0.776 | 28 March 2003 to 27 March 2005 | 28 March 2005 to 28 August 2012 | 76,000 | (76,000) | - | - |
| | | 28 March 2003 to 27 March 2006 | 28 March 2006 to 28 August 2012 | 76,000 | - | - | 76,000 |
| | | 28 March 2003 to 27 March 2007 | 28 March 2007 to 28 August 2012 | 72,000 | - | - | 72,000 |

| Date of grant | Exercise price HK\$ | Vesting period | Exercisable period | Number of share options | | | |
|------------------------------------|------------------------|---|---------------------------------------|--------------------------------|--|--------------------------------|--|
| | | | | Outstanding at 1 April 2006 | Exercised during the period (Note b) | Cancelled during the period | Outstanding at 30 September 2006 |
| Employees/ Consultants: | | | | | | | |
| 9 June 2003 | 0.752 | 9 June 2003 to 8 June 2005 | 9 June 2005 to 28 August 2012 | 500,000 | - | - | 500,000 |
| | | 9 June 2003 to 8 June 2006 | 9 June 2006 to 28 August 2012 | 500,000 | - | - | 500,000 |
| | | 9 June 2003 to 8 June 2007 | 9 June 2007 to 28 August 2012 | 500,000 | - | - | 500,000 |
| 27 June 2003 | 0.742 | 27 June 2003 to 26 June 2005 | 27 June 2005 to 28 August 2012 | 250,000 | - | - | 250,000 |
| | | 27 June 2003 to 26 June 2006 | 27 June 2006 to 28 August 2012 | 250,000 | - | - | 250,000 |
| | | 27 June 2003 to 26 June 2007 | 27 June 2007 to 28 August 2012 | 250,000 | - | - | 250,000 |
| 16 October 2003 | 1.660 | 16 October 2003 to 15 October 2004 | 16 October 2004 to 28 August 2012 | 26,710,000 | - | (2,790,000) | 23,920,000 |
| | | 16 October 2003 to 15 October 2005 | 16 October 2005 to 28 August 2012 | 28,460,000 | - | (3,155,000) | 25,305,000 |
| | | 16 October 2003 to 15 October 2006 | 16 October 2006 to 28 August 2012 | 31,060,000 | - | (5,155,000) | 25,905,000 |
| | | 16 October 2003 to 15 October 2007 | 16 October 2007 to 28 August 2012 | 34,660,000 | - | (5,155,000) | 29,505,000 |
| | | 16 October 2003 to 15 October 2008 | 16 October 2008 to 28 August 2012 | 6,000,000 | - | - | 6,000,000 |
| 26 February 2004 | 2.575 | 26 February 2004 to 25 February 2005 | 26 February 2005 to 28 August 2012 | 100,000 | - | - | 100,000 |
| | | 26 February 2004 to 25 February 2006 | 26 February 2006 to 28 August 2012 | 100,000 | - | - | 100,000 |
| | | 26 February 2004 to 25 February 2007 | 26 February 2007 to 28 August 2012 | 100,000 | - | - | 100,000 |
| | | 26 February 2004 to 25 February 2008 | 26 February 2008 to 28 August 2012 | 100,000 | - | - | 100,000 |

| Date of grant | Exercise price HK\$ | Vesting period | Exercisable period | Number of share options | | | |
|------------------------------------|------------------------|---|--|--------------------------------|--|--------------------------------|--|
| | | | | Outstanding at 1 April 2006 | Exercised during the period (Note b) | Cancelled during the period | Outstanding at 30 September 2006 |
| Employees/ Consultants: | | | | | | | |
| 16 April 2004 | 2.740 | 16 April 2004 to 15 April 2005 | 16 April 2005 to 28 August 2012 | 132,500 | - | - | 132,500 |
| | | 16 April 2004 to 15 April 2006 | 16 April 2006 to 28 August 2012 | 132,500 | - | - | 132,500 |
| | | 16 April 2004 to 15 April 2007 | 16 April 2007 to 28 August 2012 | 132,500 | - | - | 132,500 |
| | | 16 April 2004 to 15 April 2008 | 16 April 2008 to 28 August 2012 | 132,500 | - | - | 132,500 |
| 28 July 2004 | 2.275 | 28 July 2004 to 27 July 2005 | 28 July 2005 to 28 August 2012 | 5,000,000 | - | - | 5,000,000 |
| | | 28 July 2004 to 27 July 2006 | 28 July 2006 to 28 August 2012 | 5,000,000 | - | - | 5,000,000 |
| | | 28 July 2004 to 27 July 2007 | 28 July 2007 to 28 August 2012 | 5,000,000 | - | - | 5,000,000 |
| | | 28 July 2004 to 27 July 2008 | 28 July 2008 to 28 August 2012 | 5,000,000 | - | - | 5,000,000 |
| 30 September 2004 | 2.175 | 30 September 2004 to 29 September 2005 | 30 September 2005 to 28 August 2012 | 30,000 | - | - | 30,000 |
| | | 30 September 2004 to 29 September 2006 | 30 September 2006 to 28 August 2012 | 30,000 | - | - | 30,000 |
| | | 30 September 2004 to 29 September 2007 | 30 September 2007 to 28 August 2012 | 30,000 | - | - | 30,000 |
| | | 30 September 2004 to 29 September 2008 | 30 September 2008 to 28 August 2012 | 30,000 | - | - | 30,000 |
| 5 October 2004 | 2.200 | 5 October 2004 to 4 October 2005 | 5 October 2005 to 28 August 2012 | 1,250,000 | - | - | 1,250,000 |
| | | 5 October 2004 to 4 October 2006 | 5 October 2006 to 28 August 2012 | 1,250,000 | - | - | 1,250,000 |
| | | 5 October 2004 to 4 October 2007 | 5 October 2007 to 28 August 2012 | 1,250,000 | - | - | 1,250,000 |
| | | 5 October 2004 to 4 October 2008 | 5 October 2008 to 28 August 2012 | 1,250,000 | - | - | 1,250,000 |

| Date of grant | Exercise price HK\$ | Vesting period | Exercisable period | Number of share options | | | |
|------------------------------------|------------------------|---------------------------------------|--------------------------------------|--------------------------------|--|--------------------------------|--|
| | | | | Outstanding at 1 April 2006 | Exercised during the period (Note b) | Cancelled during the period | Outstanding at 30 September 2006 |
| Employees/ Consultants: | | | | | | | |
| 25 January 2006 | 1.136 | 25 January 2006 to 24 January 2007 | 25 January 2007 to 28 August 2012 | 1,125,000 | - | - | 1,125,000 |
| | | 25 January 2006 to 24 January 2008 | 25 January 2008 to 28 August 2012 | 1,125,000 | - | - | 1,125,000 |
| | | 25 January 2006 to 24 January 2009 | 25 January 2009 to 28 August 2012 | 1,125,000 | - | - | 1,125,000 |
| | | 25 January 2006 to 24 January 2010 | 25 January 2010 to 28 August 2012 | 125,000 | - | - | 125,000 |
| | | | | 171,134,000 | (544,000) | (20,255,000) | 150,335,000 |
| | | | | 213,134,000 | (544,000) | (20,255,000) | 192,335,000 |

Note b: The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised during the six months ended 30 September 2006 was HK\$1.01.

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

During the six months ended 30 September 2006, 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 of the Company, all directors confirmed through a confirmation that they had complied with the required standards set out in the Model Code and the code of conduct regarding securities transaction by directors adopted by the Company throughout the six months ended 30 September 2006.

Corporate Governance Standards

The Company is committed to maintain a high standard of corporate governance in the interests of its shareholders. The Company devotes to the best practice on corporate governance, and to comply to the extent practicable, with the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Code").

During the period and up to the date of this report, the Company actively responded to the deviations with the Code that were existed within the Group during the year ended 31 March 2006 as described in the "Corporate Governance Report" of the Company's annual report 2005/06.

In respect of the deviation with Code provision A.4.2, the Board proposed a special resolution to amend the bye-laws of the Company in the annual general meeting of the Company held on 28 September 2006. The approval of such amendments by the shareholders resulted in compliance with the Code provision that every director will be subject to retirement by rotation at least once every three years.

Apart from the above, in order for the Company to comply with Code provision C.2 which became effective for the accounting period commencing on 1 January 2005, the Risk Management Department of the Company, with the assistance of Grant Thornton, developed a three-year internal audit plan during the period to establish a structured approach to review and assess the effectiveness of the systems of internal control of the Group. Such three-year internal audit plan covered material controls within the Group, including financial, operational and compliance controls and risk management functions, and was approved by both the Audit Committee and the Board. During the period, the Risk Management Department has commenced certain internal control review procedures.

For more information about the corporate governance practices of the Company, please refer to the "Corporate Governance Report" contained in the Company's annual report 2005/06.

Board Committees

As an integral part of good corporate governance and to assist the Board in execution of its duties, the Board is supported by four Board Committees, namely Executive Committee, Nomination Committee, Remuneration Committee and Audit Committee. Each of these committees oversees particular aspects of the Group's affairs under its defined scope of duties and terms of reference approved by the Board, the summary of which were disclosed in the "Corporate Governance Report" of the Company's annual report 2005/06. The full terms of reference of the Nomination Committee, Remuneration Committee and Audit Committee are available on the Company's website through the link www.skyworth.com/investor.

Executive Committee

An Executive Committee was established by the Board on 5 February 2005. The Executive Committee currently comprises fourteen members, including all executive directors of the Company. During the period and up to the date of this report, the Executive Committee had held monthly meetings to review and evaluate the monthly business performance of each major subsidiary within the Group, and discussed other business and operational matters.

Nomination Committee and Remuneration Committee

The Nomination Committee and Remuneration Committee were both set up under the auspices of the Board on 5 February 2005. Each of the Nomination Committee and Remuneration Committee currently comprises four members, including Mr. So Hon Cheung, Stephen as Chairman and Mr. Li Weibin, Mr. Xie Zhengcai and Mr. Leung Chi Ching, Frederick as members. Except that Mr. Leung Chi Ching, Frederick is an executive director of the Company, the other three members are all independent non-executive directors of the Company.

During the period and up to the date of this report, the Nomination Committee held meeting twice to review the composition of the Board and to review the terms of the service contracts of the directors of the Company. Also, the Remuneration Committee held meeting twice to review the compensation and incentive package for the senior management of the Group, to review the amount of bonus payable to senior management by the Group for performance incentive payments for the year ended 31 March 2006, and to discuss the work plan for the Remuneration Committee in this financial year.

Audit Committee

The Audit Committee was established by the Board since the initial listing of the Company's shares on the Stock Exchange on 6 April 2000. The Audit Committee comprises three members, including Mr. So Hon Cheung, Stephen as Chairman, Mr. Li Weibin and Mr. Xie Zhengcai as members, all of whom are independent non-executive directors of the Company.

During the period and up to the date of this report, the Audit Committee held three meetings and performed the following duties:

- (a) reviewed and commented on the Company's draft annual and interim financial reports;
- (b) commented on the Company's corporate governance practices and the Group's systems of internal control;
- (c) discussed on the Group's internal audit plan with the Risk Management Department; and
- (d) met with the external auditors.

Risk Management

The Board acknowledges that risk management is one of the key controls to monitor the effectiveness of financial reporting and internal control systems within the Group. To enhance better corporate governance in these aspects, independent units from the Board, namely Risk Management Department and Independent Committee, were established.

Risk Management Department

Risk Management Department was established at the end of 2005 with its major duty to provide an independent appraisal function to examine and evaluate operations, the systems of internal control and risk management as a service to the Company and its subsidiaries. The Risk Management Department assists all levels of administration in the achievement of the organizational 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.

The Head of Risk Management Department has unrestricted direct access to the Audit Committee and reports directly to the Board and the Audit Committee. During the period and up to the date of this report, the Head of Risk Management attended two meetings with the Board and three meetings with the Audit Committee to report the progress and findings of the works performed so far and to discuss the internal audit plan of the Group.

Independent Committee

On 8 December 2004, an Independent Committee comprising Mr. Cheong Ying Chew, Henry and Mr. Ip Shing Hing was constituted, with Mr. Heng Kwo Seng joined as an additional member on 9 December 2004, as a separate independent body from the Board of the Company. The Independent Committee was delegated with duties and power to deal with matters relating to, among others, risk management, corporate governance and safeguard and control of the assets of the Group.

The Company 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. On 24 April 2006, Grant Thornton issued the financial monitoring report to the Board and the Independent Committee.

Having considered the overall results and conclusions of the financial monitoring report issued by Grant Thornton, the Independent Committee was satisfied that the business and operations of the Group have not been materially and adversely affected since the incident occurred on 30 November 2004, and was of the view that their duties under the terms of reference for their engagement as disclosed in the announcement of the Company dated 22 December 2004 had been duly discharged. Accordingly, the Independent Committee's term of appointment came to an end on 1 August 2006.

Closure of the Register of Members

The register of members of the Company will be closed from Monday, 22 January 2007 to Friday, 26 January 2007, 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 2007, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Hong Kong Registrars Limited, at Rooms 1712-16 Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 19 January 2007.

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, Mr. Leung Chi Ching, Frederick, Ms. Lin Weiping and Mr. Yang Dongwen as executive directors, and Mr. So Hon Cheung, Stephen, Mr. Li Weibin and Mr. Xie Zhengcai as independent non-executive directors.

For and on behalf of the Board



Wang Dianfu
Executive Chairman

20 December 2006