# Skyworth Digital Holdings Limited

(Incorporated in Bermuda with limited liability)

Annual Report 2006/07

Stock Code : 751

# CONTENTS



# FINANCIAL HIGHLIGHTS

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

| | **2007** | 2006 | Change |
|---|---|---|---|
| **OPERATING RESULTS** | | | |
| Turnover | **12,560** | 10,699 | +17.4% |
| Operating profit (EBIT) | **158** | 257 | -38.5% |
| Profit attributable to equity holders of the Company | **128** | 216 | -40.7% |
| **FINANCIAL POSITION** | | | |
| Net cash used in operating activities | **(162)** | (159) | +1.9% |
| Cash position* | **891** | 798 | +11.7% |
| Bank loans | **934** | 317 | +194.6% |
| Bank loans excluding the financial liabilities arising from discounted bills | **324** | 166 | +95.2% |
| Equity attributable to equity holders of the Company | **3,263** | 3,088 | +5.7% |
| Working capital | **2,340** | 2,273 | +2.9% |
| Bills receivable | **3,847** | 3,181 | +20.9% |
| Bills discounted with recourse | **610** | 151 | +304.0% |
| Trade receivables | **649** | 517 | +25.5% |
| Inventories | **1,573** | 1,747 | -10.0% |
| **KEY RATIOS** | | | |
| Gross profit margin (%) | **16.3%** | 18.7% | -2.4pp |
| Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin (%) | **2.3%** | 3.5% | -1.2pp |
| Profits margin (%) | **1.0%** | 2.0% | -1.0pp |
| Return on equity holders of the Company (ROE) (%) | **3.9%** | 7.0% | -3.1pp |
| Debt to equity (%)** | **28.6%** | 10.3% | +18.3pp |
| Debt to equity excluding portion of the financial liabilities arising from discounted bills (%)** | **9.9%** | 5.4% | +4.5pp |
| Net debt to equity | **Net Cash** | Net Cash | n/a |
| Current ratio (times) | **1.5** | 1.5 | – |
| Trade receivable turnover period (days)*** | **119** | 117 | +1.8% |
| Trade receivable turnover period excluding portion arising from discounted bills receivable (days)*** | **108** | 102 | +5.9% |
| Inventories turnover period (days)*** | **58** | 72 | -19.9% |
| **DATA PER SHARE (HK CENTS)** | | | |
| Earnings per share – Basic | **5.59** | 9.53 | -41.3% |
| Earnings per share – Diluted | **5.57** | 9.38 | -40.6% |
| Dividend per share | **1.7** | 3.8 | -55.3% |
| Book value per share | **142.6** | 135.1 | +5.5% |
| **SHARE INFORMATION AT FINANCIAL YEAR END** | | | |
| Number of shares in issue (million) | **2,289** | 2,285 | +0.2% |
| Market capitalisation | **2,129** | 2,902 | -26.6% |

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

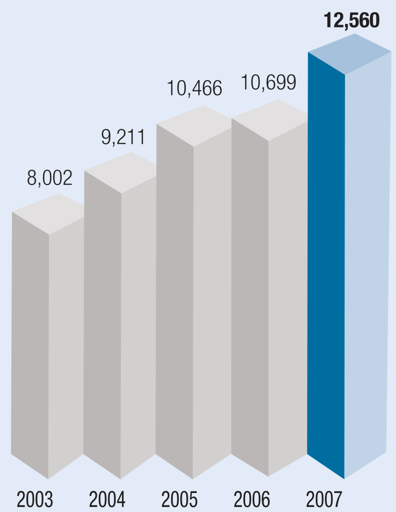
** Bank loans and financial liabilities arising from discounted bills/equity attributable to equity holders of the Company at year end

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

# FINANCIAL HIGHLIGHTS

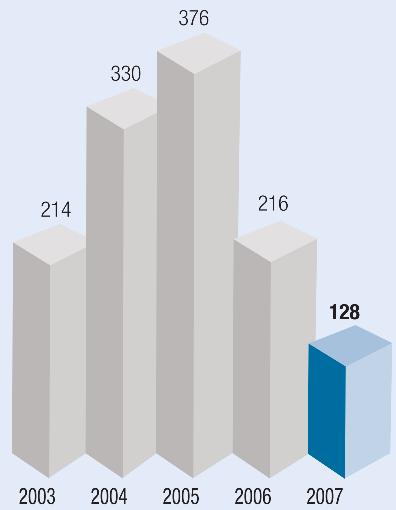
## Turnover

*(HK$ million)*



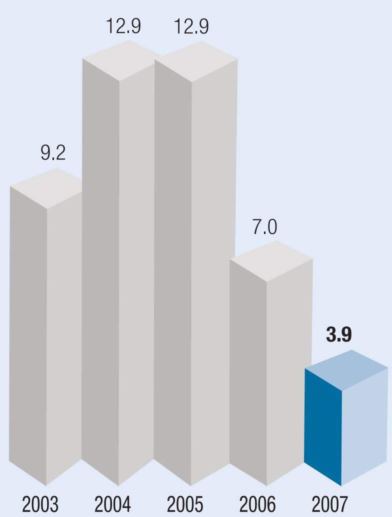

## Profits Attributable to Equity Holders of the Company

*(HK$ million)*



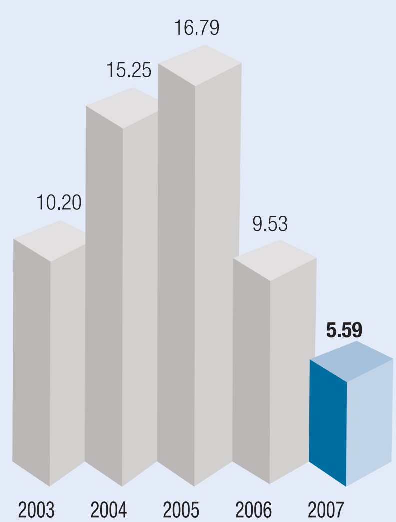

## Return on Equity Holders of the Company (ROE)

*(%)*




## Earnings Per Share - Basic

*(HK cents)*



# CORPORATE MILESTONES

## 03/04

- Started production and sales of LCD TVs and Plasma TVs
- Commenced construction of new factory located in Shiyan of Shenzhen
- Launched V12 Digital Engine — self-developed picture technologies for TV

## 02/03

- Completed construction of Skyworth Building of 60,000 square meters in Nanshan District of Shenzhen

## 01/02

- Completed reorganisation of corporate structure into six business units

## 00/01

- Listed on The Stock Exchange of Hong Kong Limited with market capitalisation of over HK$4 billion

# CORPORATE MILESTONES

## 06/07

- Skyworth was awarded "2006 Hong Kong Awards for Industries: Technological Achievement – Certificate of Merit"
- Skyworth firstly developed the model of mobile TV with national terrestrial standard in mainland China
- With 640,000 square meters, Phase One of Skyworth Science and Technology Park at Shiyan, Shenzhen opened and utilised
- Skyworth commenced the use of new corporate visual identity
- Skyworth successfully developed the first recordable LCD TV in mainland China, and launched in mainland China the first 3G-USB LCD TV, the application software of auto-adjustable backlight and stable panel technology in LCD TV

## 05/06

- Obtained PRC mobile handset license and launched **Skyworth brand mobile phones**
- Commenced construction of new factory located in Ruyi of Huhhot Inner Mongolia
- Launched Recordable TV – newly developed flat panel TV with functions to record TV programs by normal USB flash drives or portable hard disks

## 04/05

- Launched self-developed picture technologies for TV
  - Six Digital Colour
  - Magic Picture

# LETTER FROM EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

# LETTER FROM EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER


## SIGNIFICANT EVENTS FOR THE YEAR

- The sales of the Group's TV business had a strategic growth of slightly over HK$10 billion in the mainland China market
- Sales of set top box business increased significantly to nearly HK$733 million
- Net assets increased to approximately HK$3.3 billion
- Close down Optical Electronics business with a significant charge of HK$49 million
- As planned to increase the production flexibility, Shiyan and Huhhot production bases commenced production
- A new corporate visual identity was launched to cope with the effective branding strategy, Skyworth brand becomes even more well recognized and already have strong support within a short period
- Ranked 16 in top 100 enterprises of China's Electronics and Information Technology Industry in 2007

# LETTER FROM EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

**Dear Skyworth's shareholders, business partners, and supporters:**

In my first letter to shareholders, business partners and supporters as Executive Chairman, it is my pleasure to present such a good set of results despite the great challenges the Group has encountered in the past year. The year 2006/07 was an encouraging one for Skyworth and a tribute to the hard and effective work of our management team and all our staff.

This Reporting Year, against a backdrop of tougher economic conditions and intense competition, we continued to develop our business and have accomplished successes. The Group made remarkable progress in 2006/07 in positioning itself for success in the electronics industry that encounters unprecedented challenges and opportunities in the years to come. The challenges are multifaceted, and certainly require a disciplined and co-ordinated action on several fronts.

## BUSINESS PERFORMANCE

As referred to in my last year statement, Skyworth has a very focused and clear strategy of building the TV business units as well as incubating the related electronics chains, in particular the digital broadcasting solutions and mobile communication businesses. In 2006/07 both the set-top box and mobile communication business units made a noticeable progress and delivered a strong growth.

Skyworth once again reached a record high revenue of HK$12,560 million. A profit after taxation of HK$128 million for the Reporting Year included the close down of the Optical Electronics Division which incurred a significant charge of HK$49 million (the "Charge") as the board decision to invest the resources in the High-end TV market. Thanks to the strong Renminbi position, the net assets were increased to HK$3,263 million, up by 5.7% on the last year, principally combined the effects of the profit for the year and the increase in the exchange difference. Net assets per share rose by 5.9% to HK$1.43, or by 7.4% to HK$1.45 if the Charge is ignored.

The Board is recommending a final dividend of HK1.2 cents per share, together with the interim dividend of HK0.5 cent per share, making a total dividend of HK1.7 cents per share, representing a dividend payout ratio of 30.4%.

# LETTER FROM EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

## OPERATIONAL RESTRUCTURING

With the intense competition, the Group has undergone a series of operational restructuring to improve the operational efficiencies and well-prepare our team for the future challenges. The completed and continuous restructuring processes the Group puts forward including, but not limited to:

(i) the close down the optical electronics division in order to reallocate and better utilize the Group's resources to develop other lines of businesses;

(ii) the reduction of the small appliances scales to an efficient size of operation;

(iii) the restructure of the multimedia business unit's management team; and

(iv) the establishment of a flat panel TV division to manage the dynamic market changes in this industry.

## SALES NETWORK AND CUSTOMERS

Thanks to the extraordinary growth of sales network of the large scale electronics chain stores in the mainland China, the TV business was managed to capture this opportunity to serve the high-end TV segment by using the right channel to increase our market share. This is imperative to the Group as the promotion of the image in the high-end market and the maintenance of the market share will make a profound implication in formulating future marketing strategies for the high-end TV segment.

The obvious price we paid is the high distribution cost in the high-end TV segment, it always drives the Group in mind to explore other channels for distribution of the Group's products at a reasonable cost. Indeed, the Group is working hard in promoting certain experimental channels, all with direct sales favour; however, the practical benefits will not materialise within a short timeframe.

Our effort in exploring large overseas OEM customers shows good impact in our client's portfolio, together with the adjustment in our multimedia business unit management team and the building up of order level, the Group is confident in restoring this business unit performance.

The set-top boxes business unit has provided practical solutions to the mainland China digital broadcasting service providers. Our dedicated professional team has therefore been recognised as top tier service player in this industry. Over the year, our mobile phone business unit has provided fashionable and multimedia smart phones to the customers who also recognise the price-performance of our products.

## COMPETITION

We recognise that the competition from the local and foreign brands for various electronics markets is stiff. Our responses include:

(i) the building up our production flexibilities;

(ii) the strategic co-operation with the suppliers and customers;

(iii) the shortening of Procurement to Cash Cycle by increasing the logistic efficiencies in major processes;

(iv) the investment in research and development for creating innovative products to differentiate our products and suit for the customers' needs;

(v) the exercise of our budgetary process to monitor the corporate expenses; and

(vi) the continuous development of our talented team.


## HUMAN RESOURCES

### Talent program

The talent program identifies our staff in different stages and capacities for management potential, we are committed to enhance our training program to nurture those talents and our management team will also contribute to share their experience and management skills in a regular interval with them.

### Factory workers

We are also committed to train our factory workers by giving them more professional training to prepare for our customers' requirement in high quality products as well as make them understand they are part of the team. These programs obviously form part of our retention program to lessen the burden in the high attrition rate in the industry.

### Board of Directors

I believe the Board comprises a well balanced group of experienced directors, well equipped to bring relevant insight and understanding to the issues that matter to the Group and your investment as shareholders. Much more information about how we as a Board give leadership to the Group under "Corporate

# LETTER FROM EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Governance Report". My own approach, shared by my colleagues, very much emphasises the importance of people as well as appropriate process in governance matters.

In March 2007, the Board announced the retirement of Mr. Wang Dianfu from the office of Executive Chairman. We all highly appraised Mr. Wang's valuable contribution to the Group during his tenure, and we wish to express our heartfelt gratitude to him. Mr. Zhao Kejun, joined the Group in early 2005 as new management member, also retired during the year. We all also thank for his contribution to the Group in the past years. On behalf of the board, I wish them well.

## CORPORATE GOVERNANCE

Since late 2004, we have developed a series of processes to enrich our corporate governance process. The details of our corporate governance programs are set out in the section headed "Corporate Governance Report".

## BUSINESS DEVELOPMENT

**Investment opportunities**

By following our pre-set strategy, we intend to build on Skyworth's excellent platform with more investment in related businesses to create long term value and further improvements in operational performance.

**Logistical efficiencies**

In this year, we placed strong emphasis in our logistical efficiencies in order to respond to the dynamic changes in the marketplace. Accordingly, the set-up of the distribution centers and production bases near the market or suppliers continue to be our strategy to expedite our Procurement to Cash Cycle.

## CHALLENGES IN THE COMING YEARS

To sum up, we will spend most of the management energy in the years to come to handle the following key challenges:

- It is expected that the exponential increase in the demand of high-definition panel TVs will create a new model of competition in the industry;

- Substantial increase of demand in flat panels may adversely affect the stability of panel supply and thus have an adverse impact on the performance of TV manufacturers;


- The increasing channel costs also give the industry new momentum to explore innovative channels;

- Foreign brands' strategies again pose a strong implication and threat to our marketing strategy;

- The strong Renminbi certainly affects our export costs;

- The unification of tax systems in mainland China will create a higher tax rate;

- How to serve and secure the large OEM customers?

# LETTER FROM EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

- How to retain and develop talents?
- How to serve the set-top boxes industry which has a huge demand in tailor-made services?
- How to finance the new funding requirements for the expansion of the old and the creation of new businesses?

Your board has continuously evaluated the dynamic market changes and formulated as well as revised prevailing strategies to deal with these key challenges properly with a view to bringing good return to shareholders.

## OPPORTUNITIES

The World Expo will be held just 2 years after Beijing will host the 2008 Summer Olympics. Chance to promote the Skyworth brand to foreigners and to advance our international recognition are our priorities.

Urbanization effect becomes obvious. The latest figures released by the National Bureau of Statistics showing the increase of 6.92 million registered urban dwellers in 2006. China's urbanisation drive has resulted in the nation's cities growing to over 577 million. This left over 737 million people still living in rural areas. Our sales figures also matched with the statistics.

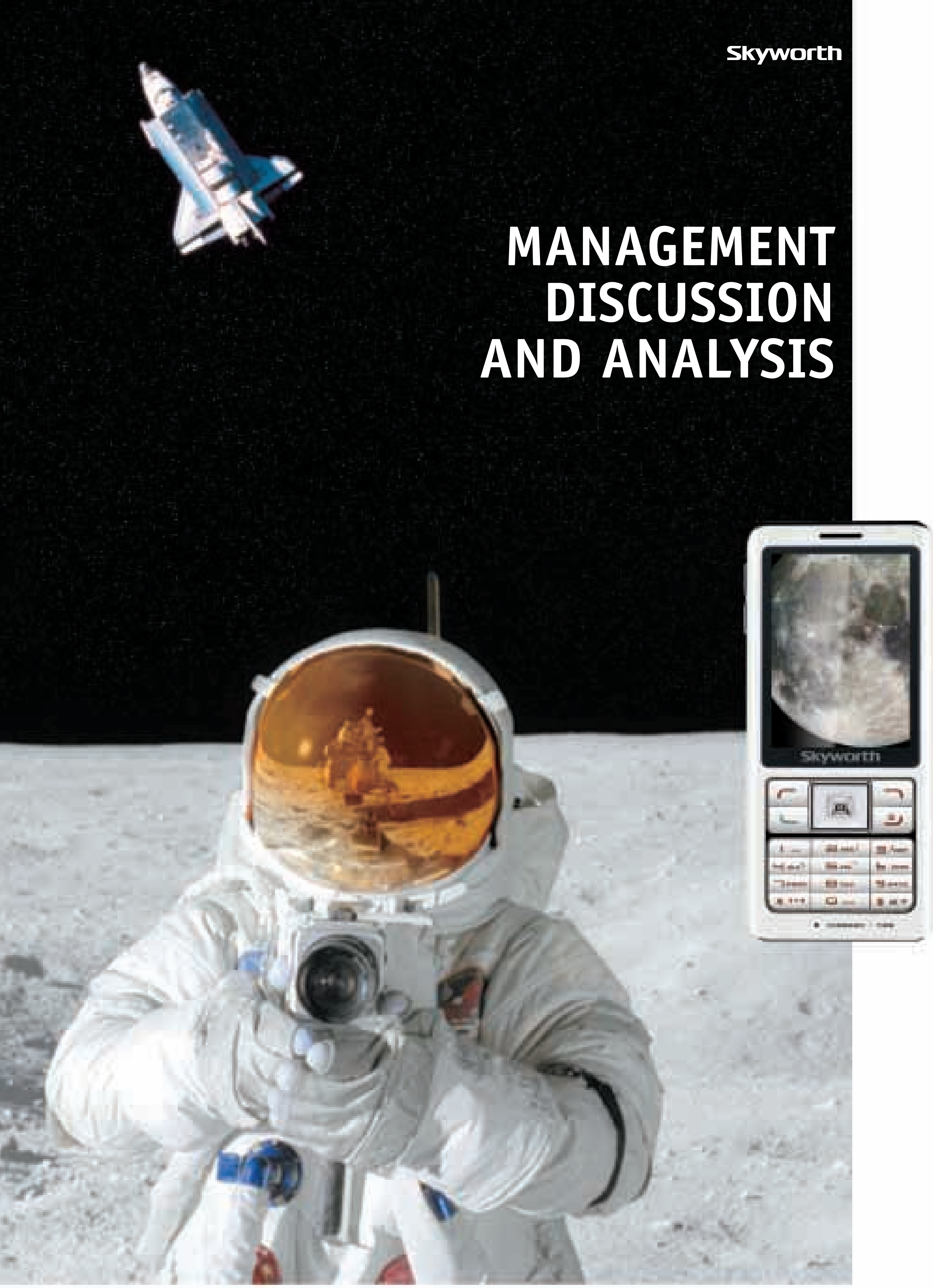
China bearing with the labels of the world factory and future global TV manufacturing centre have a dynamic implication to our industry.

Digitalisation and the combination of the 3C (computer, communication, and consumer electronics) products will certainly create huge market in different segments. All our business units will involve in designing fashionable and innovative products to fit in the markets.

## OUTLOOK

Our industry offers significant growth opportunities for Skyworth. Sustained demand from the customers and the global electronics markets are no doubt increasing. Therefore, such expansion is expected, however, to be based on the ability of the company to adapt to dynamic changes in the electronic markets like Skyworth, though the restructuring benefit may not fully reflect in the coming financial period, I am confident that we have the right strategy and the right people to be able to benefit from the future growth opportunities.

**Zhang Xuebin**
*Executive Chairman and*
*Chief Executive Officer*
24 July 2007



# MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS PERFORMANCE REVIEW

### High growth in turnover


The Group recorded a historical turnover of HK$12,560 million for the year ended 31 March 2007 (the "Reporting Year"), represented a staggering increase by HK$1,861 million or up by 17.4% on the previous 12 months.

The encouraging increase in turnover for the Reporting Year was mainly attributable to the Group's continuous expansion in the high-end television ("TV") market and the result from the investment in other growing business opportunities within the electronic industry.

Thanks to the PRC Government's commitment in promoting the digital broadcasting platform in the mainland China and taking advantage of the expected increase in demand of digital set-top boxes, the Group managed to capture the mainland China market growth in digital TVs and set-top boxes during the Reporting Year.

It is evidenced that the Group was in the process of transforming the strategy, as set out in the prior 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 during the Reporting Year. The Group has successfully implemented its plan to further develop into the high-end TV market. The market demand in the high-end TV products that carried an average unit price which was higher than the traditional TVs using cathode ray tubes ("CRT TVs") was moving upward during the Reporting Year.

### Turnover analysis by geographical segment and product segment

***Mainland China market***

For the Reporting Year, sales derived from the mainland China market amounted to HK$11,298 million, which was equivalent to 90.0% of the Group's total turnover, and represented a rise of 22.5% on the last year.

During the Reporting Year, the Group lessened its dependence on TV products which, however, still remained predominantly the core business of the Group. During the year, the sale of TV products still accounted for 89.2% of the total turnover in the mainland China.

With the continuous and effective-conscious marketing efforts, the set-top box and mobile phone businesses were able to strive for a higher share in the product mix of the Group. During the year, the sales of set-top boxes and mobile phones accounted for 5.0% and 4.3%, respectively, of the total sales of the Group. The remaining 1.5% was contributed from LCD modules and other related accessories.

# MANAGEMENT DISCUSSION AND ANALYSIS

*TV products*

The sale of TV products in the mainland China amounted to HK$10,073 million for the Reporting Year represented a 15.6% increase when compared with the last year.

From other perspectives, GFK Asia Pte. Ltd., a market research company which conducts regular researches covering 100 major cities in the mainland China reported that in March 2007, Skyworth was ranked Number Two in terms of the overall sales amount; and its market share in terms of sales quantity and sales amount were 13.3% and 9.8% (last year were 11.8% and 9.1%) respectively. Furthermore, Skyworth was ranked Number One in terms of sales amount in certain major cities in the provinces of Guangdong, Hebei and Jiangsu. Skyworth's strategic market positioning in the high-end TV market was one of the key success factors for the Group in achieving a steady growth in turnover and market share during the year.

Looking forward, 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 the launch of high-definition CRT TVs, liquid crystal display TVs and plasma TVs in different sizes to cope with consumers' diverse preferences.

During the Reporting Year, the Group sold slightly over 2.25 million units of high-end products accounted for 33.4% of the total sales volume of TV products in the mainland China; when compared with the prior year, represented a significant rise by 46.9%.

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

- the continuing increase of value-added functions in our TV products, such as recordable software, 3G USB, etc;
- the World Cup 2006 stimulus;
- the tremendous increase in number of large-scale chain stores;
- the improved competitiveness resulting from the Group's remarkable after-sale services; and
- the successful repositioning of Skyworth's CRT TVs through enhancement of brand promotion activities in the suburbs.

*Set-top boxes*

The facts that the Group's dedicated team has provided unique and customised technical solutions to its customers from 2004 onwards; and the popularity of the quality "Skyworth" digital set-top boxes has gained pace, contributed to the significant growth in sales.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

Over the year, the sale of digital set-top boxes in the mainland China reached HK$562 million, represented more than a two-fold increase when compared with HK$187 million recorded in prior year.

*Mobile phones*

The Group has been continuously carrying out research and development on mobile phones since 2003, and successfully launched "Skyworth" brand mobile phones in last year. With the establishment of the strong technical and research team, the Group developed and launched certain new and well received "Skyworth" models in the Reporting Year. The designs of these new models were fashionable and attractive. Each of the new models was well equipped with variety of functions and smart features, including fingerprint security control, audio-visual tools, creative animation, and personal diary function, etc. The success in technical development, together with the significant turnover of HK$481 million achieved during the year, justified Skyworth's further advancement to the mobile phone market in the mainland China.

***Overseas markets***

The Group's turnover for the overseas markets amounted to HK$1,222 million and accounted for 9.7% of the total turnover for the Reporting Year.

*TV products*

The sales of TV products which amounted to HK$1,042 million for the Reporting Year were primarily derived from OEM customers. It accounted for 85.3% of the total overseas turnover. During the year, the Group had operations in Hungary and Slovakia.

The overseas TV business unit of the Group has been in the process of restructuring since last year. The organisation structure, marketing strategies and operational procedures of the business unit have been under a major revamp. The purpose of such restructuring is to transform the business unit into a first-rated OEM and ODM service provider acceptable to international major TV brand names, and hence to improve the unit's performance.

Despite that a gradual improvement is evident, the turnover of the overseas TV business unit's turnover shrank by 13.2%, whilst its gross profit margin edged up by 0.9% over the Reporting Year.

*Set-top boxes*

Turnover of set-top boxes in the overseas markets was HK$171 million for the Reporting Year, accounted for 14.0% of the total overseas turnover. The advancement in overseas markets proved challenging. Home-grown rivals in the overseas markets gained competitive edge in the form of stronger research & development teams, and better understanding of the domestic requirements. In addition, patents, environmental issues especially in Europe, increased our costs and in turn dampened our competitiveness. In spite of the challenges, the Group decided not to gain sales at the expense of profit margin. Consequently, turnover of set-top boxes slipped by 5.5%, while gross profit margin rose by 3.5%.

*Geographical distribution*

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

| | **For the year ended 31 March 2007 (%)** | For the year ended 31 March 2006 (%) |
|---|---|---|
| Asia (including Japan, Korea, Vietnam, etc.) | **25** | 36 |
| Europe | **35** | 30 |
| America | **18** | 18 |
| Middle East | **10** | 10 |
| Australia and New Zealand | **6** | 2 |
| Africa | **6** | 4 |
| | **100** | 100 |

Asia and Europe remained as the Group's major overseas markets which in aggregate accounted for 60% of the total overseas turnover. Owing to fierce competition, markets in Asia, America and Middle East all recorded lower turnover compared with last year. Turnover continued to strive in Europe, thanks to the sub-contracting arrangement in Hungary and Slovakia. The Group managed to identify niche markets in Australia and New Zealand, and Africa where turnover rose by more than 132.3% and 29.6% respectively.

**Gross margin**

The overall gross margin of the Group for the Reporting Year was 16.3%, when compared with last year, it edged down by 2.4%.

***Mainland China market***

The introduction of foreign brands to the mainland China intensified the competition within the electronic products market. Apart from offering high quality products, the Group had to be price competitive so as to keep customers interested.

During the year, the gross profit margin of the high-end TV products in the mainland China slipped by an average of 3.8%. As mentioned in the prior 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. As planned, the Group's overall sales incentive payments to these distributors were increased to promote sales of high-end TV products during the year. As a result, the gross margin fell.

Nevertheless, the sales volume of high-end products including high definition CRT TVs which had an average gross profit margin of 24.9% and LCD TVs which had an average gross profit margin of 18.9% increased by over 730

# MANAGEMENT DISCUSSION AND ANALYSIS

thousand units to over 2.2 million units. In this sense, the reduction in the gross profit margin of the high-end TV products can be justified.

Similarly, set-top boxes in the mainland China were confronted with increasing competition, and the gross profit margin fell by 17% to 22.2%. During the Reporting Year, the Group had to incur extra costs in forms of, for instance enhanced functionality and after sales services. Having conducted a thorough analysis, the management concluded a price adjustment would inevitably lower the margin, but the anticipated influx of sales triggered by the lower price would more than outweigh the downfall mentioned above. Consequently, turnover derived from digital set-top boxes in the mainland China rose more than two-fold over the year. The decision of the management was well justified.

***Overseas markets***

The Group has analysed past performance and come to a conclusion that our market shares, in particular in Asian markets, dampened profitability. With an intention to tackle the losses in and to rectify the strategies adopted for the overseas markets, the management ran through a series of analyses, and concluded the Group would be better off if it started to focus in profitability measures e.g. gross profit margin, which are more align with shareholders' interest, i.e. to maximise shareholders' wealth. During the year, the Group executed several courses of action which adversely affected the overall sales. Nonetheless, two main components included in the overseas turnover, TV products and digital set-top boxes saw their gross profit margins raised by 0.9% and 3.5% respectively.

**Selling and distribution expenses**

The Group's selling and distribution ("S&D") expenses were primarily brand promotion and marketing expenses, salaries of the sales and marketing personnel, and transportation costs. Over the Reporting Year, the expenses rose to HK$1,610 million from HK$1,598 million, represented a slight increase of 0.8% or HK$12 million when compared to the prior year. However, the S&D expenses to turnover ratio reduced, from 14.9% for the prior year to 12.8% for the Reporting Year. The share of emerging business units accounted for 7.7% of the total S&D expenses for the year.

During the year, the Group put in some HK$507 million on the brand promotion and marketing activities in the mainland China and overseas. The effect on the 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 TV programmes and the extra support from the additional promotional staff recruited, have proved rewarding. It was evidenced by the staggering growth of the Group's turnover of approximately 17.4% or HK$1,861 million year on year. Furthermore, it is noted that the Group's mainland China TV

business, which incurred most of the S&D expenses, had its turnover increased by 15.6% during the year. Also, the S&D expenses to turnover ratio shrank by 2.1% which was directly attributable to the management's continuous efforts to lower such ratio as promised in prior year's annual report.

**General and administration expenses**

When compared with the prior year, the Group's general and administration ("G&A") expenses for the Reporting Year rose significantly by HK$125 million or 46.3% to HK$395 million. The G&A expenses to turnover for this year increased from 2.5% for the prior year to 3.1%. The share of emerging business units accounted for 17.8% of the total G&A expenses for the year.

Along with skilled labour, designers and engineers were needed to keep the Group technological competitive; and middle to top management had to be hired to facilitate the smooth and efficient running of the plants and to manage certain fast growing business units of the Group, such as the set-top box business unit. The sizzling economic growth in the mainland China aggravated the manpower shortage issue, particularly within the Pearl River Delta Region. The management acknowledges human capital plays an important role in sustaining the Group's success. Given the circumstances, during the Year, the Group engaged in a salary reform which aimed to attract the skilled and experienced from the human capital market, as well as to retain the existing best talents. Although the reform has added pressure to the Group's G&A expenses, the management is convinced the investment was absolutely worth it.

The growth signal of the G&A expenses is noteworthy, notwithstanding that the expenses were all well spent for the benefits of the Group, the management is implementing stricter controls through administrative measures with the objective to lower such expenses.

**Inventory control**

In comparison with the balance at the end of the prior year, the net carrying value of the Group's inventories reduced by 10.0% or HK$174 million, to HK$1,573 million as at 31 March 2007.

The Group has been aware of the importance of product diversification, and been cautiously exploring the kinds of products which can develop on its expertise in consumer digital/electronic devices. Over the years, the Group has successfully fostered products including mobile phones, digital set-top boxes, audio-visual products, electronic appliances and other non-TV products which as at 31 March 2007 accounted for a total 16.6% (2006: 11.6%) of the net carrying value of the Group's inventories.

Despite the increase in sales transactions partly through the expansion of product varieties, the Group strictly adhered to stringent inventory control over logistics, supply-chain management; remained vigilant against the risk of slow-moving and obsolete inventories.

Together with the inventory control, the Group undertook the following courses of action which aimed to ensure the flexibility of working capital:

- Devise detailed production plan – Through experience and inter-departmental discussion, the management gathered comprehensive information on market demand, supply of raw materials, status

# MANAGEMENT DISCUSSION AND ANALYSIS

of the production lines. In turn, the Group worked out an inventory level which on one hand ensured smooth production, on the other hand minimised the risk of overstock.

- Set the status of inventory as Key Performance Indicators ("KPI") – Among other things, the Group appraised the senior management of the business units by referring to the inventory turnover days, the incidence of raw material shortage, and the provision for inventory. The above measures align the interests of the business units' management with those of the Group as a whole.

- Integrate scattered logistics centers – The Group reviewed the locations of the logistics centers spread all over the provinces, cities and counties; kept only those situated in the best spots; with reference to sales data, and reduced the goods supply to those shops which did not provide decent results. These actions not only minimised the risk of slow-moving and obsolete inventory, but also ensured the smooth supply of goods to those shops which provided satisfactory selling results.

As at 31 March 2007, the inventory turnover days (calculated with reference to the average inventory balances net of provision) for raw materials and finished goods were 17 days and 35 days, respectively; while as at 31 March 2006, the turnover days were 20 days and 46 days, respectively. The reasons for the fall in turnover days are fully accounted for by the above summary.

**Trade receivables and bills receivable**

As at 31 March 2007, trade receivables and bills receivable of the Group amounted to HK$649 million and HK$3,847 million respectively, totalling HK$4,496 million. When compared with the balances as at 31 March 2006, trade receivables rose by HK$132 million or 25.5%, whilst bills receivable climbed by HK$666 million or 20.9%. The amount of trade receivables and bills receivable was primarily attributable to TV products which accounted for 88%, and set top boxes which accounted for 10%.

The surge in the balance of trade receivables related to TV business unit was mainly driven by the increase in sales during the year. However, the respective turnover days were shortened for the reasons below:

- Set the amount of settlement as KPI: In the prior year, the bonuses of sales personnel were based on the amount of sales; during the Reporting Year, the Group changed the basics of bonus computation and set the net amount of settlement as KPI which aligns the interests of sales personnel with those of the Group as a whole.

- Improve relationships with large-scale electronic chain stores, straighten out the procedures of settlement: Having traded with the chain stores for a number of years, the Group became familiar with their working practices, and thus could avoid payment delays due to inappropriate documentation or missing the customers' settlement cut-off date etc.

Set-top box business unit had higher trade receivables balance than a year earlier. The rising demand for the products drove up the amount of sales, and correspondingly the amount of trade receivables. It must be pointed out that the increase in sales of set-top boxes was not commensurate with the increase in the respective trade receivables, because the customers were usually cable operators under the State / Province / City –owned broadcasters who command higher bargaining power and demand for longer credit period.

Bills receivable, in particular bills discounted with recourse, attributable to both TV products and digital set-top boxes went up substantially during the Reporting Year. The facts that the suppliers of flat panels offered shorter credit period or asked for cash on delivery; and turnover days for accounts payable and bills payable related to set-top boxes were much shorter than that for accounts receivable and bills receivable, both of which put an enormous stain on the Group's working capital funding. Bills discounted with recourse were one of the options best available for the Group then to relieve the pressure on cash flows.

**Trade payables and bills payable**

As at 31 March 2007, trade payables and bills payable of the Group had a combined total of HK$2,969 million, represented a rise in HK$223 million or 8.1% when compared with the balance as at 31 March 2006. The main reasons for the increase are outlined below:

Product mix tilted towards flat panels – The Group stayed focus upon high-end products, the main components of which, for example flat panels, costs substantially higher than cathode ray tubes TVs; and better materials were used to produce set-top boxes. As a result, the premier raw materials / major components purchased during the year, drove up the amount of trade payables.

Trade payables and bills payable attributable to emerging business units – As at 31 March 2007, trade payables and bills payable related to non-TV products accounted for approximately 11.1% of the total; while they were accounted for around 9.2% in prior year.

Turnover days of trade payables and bills payable as at 31 March 2007 were quickened because the Group was subject to shorter credit terms offered by primarily the suppliers of flat panels.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2007, the Group had bank balances and cash of HK$826 million, represented a increase of HK$66 million or 8.7% when compared with that as at 31 March 2006, while pledged bank deposits amounted to HK$65 million as at 31 March 2007 against HK$38 million as at 31 March 2006.

# MANAGEMENT DISCUSSION AND ANALYSIS

As mentioned in the above sections, the Group had procured more raw materials during the Reporting Year 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 Reporting Year, the net cash outflow of operating activities amounted to HK$162 million. The operating cash flows were mainly financed by the internal generated funds of the Group and also the trade facilities obtained from banks and certain suppliers.

The balances of the financial liabilities, mainly the discounted bills with recourse, amounted to HK$610 million and HK$151 million recorded at 31 March 2007 and at 31 March 2006, respectively. Such discounted bills receivable with recourse would be released upon maturity. Apart from the trade facilities obtained, during the Year, the Group drawdown additional loan of HK$152 million from banks for the development of the new production plant in Shiyan of Shenzhen.

As at 31 March 2007, the Group has utilised certain trade facilities granted from various banks. The trade facilities were secured by certain assets of the Group, including bank deposits of HK$65 million, bills receivable of HK$150 million, and certain of the Group's land and buildings with carrying value of HK$311 million.

As at 31 March 2007, the gearing ratio of the Group was 28.6%. The ratio is calculated with reference to the total bank borrowings of HK$934 million and shareholders' fund of HK$3,263 million. It is noted that the total bank borrowings of HK$934 million include bills discounted with recourse amounted to HK$610 million. Had the amount of bills discounted with recourse not been taken into account in the above calculation, the gearing ratio of the Group as at 31 March 2007 would have been merely 9.9%. In comparison with companies operated in the same industry, the Group maintained a healthy gearing position during the year.

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

## TREASURY POLICY AND CASH FLOW MANAGEMENT

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

Renminbi appreciated against other currencies continuously during the Reporting Year. As most of the Group's transactions were denominated in Renminbi, the Group had recognised net foreign exchange gains of HK$17 million during the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

Currently, the Group does not engage in any instrument to hedge against the foreign exchange risk or risk relating to the uncertainty of interest rate development. In view of the current and expected fluctuation in Renminbi, the management monitors the foreign currency movement and interest rate movement 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

During the year, the Group had invested HK$162 million in the construction of two new production plants located in Shiyan of Shenzhen, funded partly by bank loans, and in Ruyi of Huhhot, funded wholly by internal resources. The production plant in Shiyan commenced its operation in late July 2006 while the production plant in Ruyi commenced its operation in October 2006.

In order to minimise the group's logistic cost and improve the logistic efficiency of the supply chain as well as profit margin of products, the Group entered into three agreements under which district logistic centers are set up in Shuangliu of Chengdu, Yichun of Jiangxi and Lishui of Nanjing. The Group will invest in these logistic centers with a sum of HK$419 million in the near future. These logistic centers will maintain the Group's competitiveness and strength our market position.

In addition to the above capital investments, during the Year, the Group had also spent approximately HK$182 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 31 March 2007. The details of certain patent disputes are disclosed in the note 40 to the consolidated financial statements in the annual report.

## HUMAN RESOURCES CAPITAL

As at 31 March 2007, the Group had over 15,600 employees in the mainland China and Hong Kong, including sales personnel spread throughout more than 227 sales points. The extensive and strong human resources capital fuel 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 during the year are disclosed in the Corporate Governance Report of the annual report of the Company.

## TARGET SALES VOLUME OF TVs

For the year ending 31 March 2008, the Group's target sales volumes for TVs in the mainland China and overseas markets are 6.5 million units and 2 million units, respectively. In this respect, when compared with the figures for the year ended 31 March 2007, the sales volume in the mainland China market will reduce, while the sales volume in the overseas market will grow. It must be pointed out that the popularity of the higher-margin LCD TV in the mainland China is on the rise, and the Group which positions itself as high-end TV manufacturer expects to reap the benefits despite of the reduction in volume.

# CORPORATE GOVERNANCE REPORT

# CORPORATE GOVERNANCE REPORT

Recognising the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Skyworth Digital Holdings Limited (the "Company") is committed to maintain a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practice on corporate governance, and to comply to the extent practicable, with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

## COMPLIANCE WITH THE CODE

During the year ended 31 March 2007 and up to the date of this report, the Company has complied with the code provisions in the Code, except for one major deviation described below.

**Code provision A.2.1**

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer of an issuer should be separate and should not be performed by the same individual.

The Company has complied with code provision A.2.1 throughout the year ended 31 March 2007 with Mr. Wang Dianfu ("Mr. Wang") as Executive Chairman and Mr. Zhang Xuebin ("Mr. Zhang") as Chief Executive Officer. However, with effect from 1 April 2007, Mr. Wang resigned as the Executive Chairman and an executive director of the Company and Mr. Zhang was elected by the board of directors of the Company (the "Board") to replace Mr. Wang as the Executive Chairman.

Following the appointment as Executive Chairman, Mr. Zhang is not only responsible for overseeing the business operations of the Company and its subsidiaries (the "Group") and implementing the business strategies and policies as determined by the Board from time to time, he is also responsible for the management of the Board, and the formulation of corporate strategy and future direction of the Group.

After evaluation of the current situation of the Group and taking into account of the experience and past performance of Mr. Zhang, the Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Zhang to hold both positions as the Executive Chairman and the Chief Executive Officer of the Company as it helps to maintain the continuity of the policies and the stability of the operations of the Group. Further, the Board considers that such change would not impair the balance of power and authority within the Board.

# CORPORATE GOVERNANCE REPORT

## KEY CORPORATE GOVERNANCE PRINCIPLES

**Board of Directors**

The Board is responsible for the leadership and control of, and promoting the success of the Group. This is achieved by the setting up of corporate and strategic objectives and policies, and the monitoring and evaluations of operating activities and financial performance of the Group.

***Board composition***

As at the date of this report, the Board consists of eight members. Among them, five are executive directors ("EDs") and three are independent non-executive directors ("INEDs"). The biographical details of the directors of the Company ("Directors"), including their respective interests in the Company and their respective relationships with other Directors and senior management of the Group, are set out on pages 45 to 53 of this annual report.

***Executive directors:***

All of the EDs possess the qualification and experiences in their respective areas of responsibility and many of them have been worked for the Group for many years. Under the leadership of the Executive Chairman, the EDs are able to maintain the success of the Group's business.

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

All of the three INEDs are experienced professionals with different expertise in accounting, legal and electronic technology. Their mix of skills and experience, and their independent view on matters of the Group provide constructive comments and suggestions to the Board, contributing to the proper functioning of the Board and safeguarding the interests of the shareholders in general and the Company as a whole.

The Board has received from each of the INEDs a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and is satisfied of their independence up to the date of this report and in accordance with the Listing Rules.

***Appointment, re-election and removal of Directors***

A person may be appointed as a member of the Board at any time either by the shareholders in a general meeting or by the Board upon recommendation of the Nomination Committee of the Company. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board of Directors** *(continued)*

***Appointment, re-election and removal of Directors*** *(continued)*

According to the bye-laws of the Company as amended from time to time and the Code, all Directors are subject to retirement by rotation once every three years and no less than provided that one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting.

***Access for supporting***

The Directors may have access to the advice and services of the company secretary of the Company ("Company Secretary") with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. In addition, the Directors may, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Appropriate insurance cover has been arranged in respect of legal action arising from the business of the Group against the Directors.

***Board and Executive meetings***

The Board had held a total of seven meetings during the year ended 31 March 2007, four of which were regular meetings held at quarterly intervals. Of these, two meetings were held mainly for approving the 2005/06 final results and the 2006/07 interim results of the Company; the other five meetings were held to consider new investment opportunities and to review the strategic business directions, operating and financial performances, and other significant matters of the Group. Mr. Leung Chi Ching, Frederick, who is an ED and also acted in the capacities as the Chief Financial Officer and the Company Secretary, attended all of the board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial management.

Sufficient notices to board meetings are given to all Directors prior to the meetings for the purpose of providing all Directors with sufficient time to reschedule their business for the meetings, if necessary, and to propose matters to be included in the agenda for the meetings. An agenda and related documents are dispatched to all Directors at least three days before each of the meetings to ensure that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting. When Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Executive Chairman prior to the meeting.

# CORPORATE GOVERNANCE REPORT

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board of Directors** *(continued)*

***Board and Executive meetings*** *(continued)*

Management of the Company has, from time to time, supplied to the Board relevant information, as well as reports relating to operational and financial performance of the Group, enabling the Directors to make informed decisions. Members of the management who are responsible for the preparation of the documents for discussion at the board meetings are usually invited to present the relevant documents and to take any questions or address queries that the directors may have on the documents. This enables the Board to perform a comprehensive and informed evaluation as part of the Board's decision making processes.

The proceedings of the Board at its meetings are conducted by the Executive Chairman who is responsible to ensure that sufficient time is allocated for discussion and consideration of each item on the agenda and that equal opportunities are given to the directors to speak and express their views and share their concerns. Minutes of the board meetings are recorded in sufficient detail about the matters considered by the Board and the decisions reached, including any concerns raised by the directors. The minutes are kept by the Company Secretary or another personnel appointed by the Board at the meeting. Subsequently, the minutes are circulated to the Directors and are open for inspection by the Directors.

Apart from the board meetings, the EDs also held ad hoc meetings to discuss affairs of the Group, mainly on operations and business issues, investment and performance evaluation, and management personnel appraisal, for subsequent reporting to the Board. During the year ended 31 March 2007, the EDs held six meetings, which were held and organised in a manner accepted by each of the EDs.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board of Directors** *(continued)*

***Board and Executive meetings*** *(continued)*

The attendance of individual members at board meetings and executive directors' meeting held during the year ended 31 March 2007 are set out as follow:

| | Board meetings | | Executive directors' meetings | |
|---|---|---|---|---|
| **Name of director** | **Number of meetings attended/held** | **Attendance rate** | **Number of meetings attended/held** | **Attendance rate** |
| **Executive Directors:** | | | | |
| Mr. Wang Dianfu *(Note 1)* | 7/7 | 100% | 6/6 | 100% |
| Mr. Zhang Xuebin *(Note 2)* | 7/7 | 100% | 5/6 | 83% |
| Ms. Ding Kai | 7/7 | 100% | 5/6 | 83% |
| Mr. Leung Chi Ching, Frederick | 7/7 | 100% | 6/6 | 100% |
| Ms. Lin Wei Ping | 7/7 | 100% | 6/6 | 100% |
| Mr. Yang Dongwen | 7/7 | 100% | 6/6 | 100% |
| **Non-executive Director:** | | | | |
| Mr. Wong Wang Sang, Stephen *(Note 3)* | 2/5 | 40% | N/A | N/A |
| **Independent non-executive Directors:** | | | | |
| Mr. So Hon Cheung, Stephen | 6/7 | 86% | N/A | N/A |
| Mr. Li Weibin | 7/7 | 100% | N/A | N/A |
| Mr. Xie Zhengcai | 6/7 | 86% | N/A | N/A |

*Notes:*

(1) Mr. Wang Dianfu resigned as Executive Chairman and an executive director of the Company effective on 1 April 2007.

(2) Mr. Zhang Xuebin was elected by the Board to replace Mr. Wang Dianfu as Executive Chairman of the Company effective on 1 April 2007.

(3) Mr. Wong Wang Sang, Stephen resigned as non-executive director of the Company on 9 August 2006. His attendance records for meetings shown above represented his attendance records up to 9 August 2006.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board of Directors** *(continued)*

***Securities transactions of Directors***

The Company has adopted a code of conduct regarding securities transactions by Directors ("Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company, the Company received confirmation from all of the Directors that they had complied with the Code of Conduct throughout the year ended 31 March 2007.

**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 terms of reference of the four committees can be found on the Company's website through the link www.skyworth.com/investor. All of these committees are provided with sufficient resources to discharge their duties.

***Executive Committee***

An executive committee was established by the Board on 5 February 2005 (the "Executive Committee") with written terms of reference adopted on the same date. The Executive Committee currently comprises 13 members, including all EDs of the Company.

The Executive Committee has been delegated with powers from the Board to deal with matters of the Group. The authority and major duties of the Executive Committee are summarised as follows:

- to establish strategic planning and financial budgets for Board approval;
- to monitor daily business operations, including sales, productions, brand and product promotion and human resources capital, within the Group;
- to review and approve management reports;
- to evaluate investments opportunities for Board approval; and
- to monitor fund flows and evaluate cash management policies within the Group.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board Committees** *(continued)*

***Executive Committee*** *(continued)*

The Executive Committee held monthly meetings during the year ended 31 March 2007 to review, discuss and evaluate the monthly business performance and other business and operational matters of each major subsidiary within the Group.

***Nomination Committee***

A nomination committee was set up under the auspices of the Board on 5 February 2005 (the "Nomination Committee") with written terms of reference adopted on 19 August 2005. The Nomination Committee currently comprises four members. The Chairman of the Nomination Committee is Mr. So Hon Cheung, Stephen and the other members are Mr. Li Weibin, Mr. Xie Zhengcai and Mr. Leung Chi Ching, Frederick. Except for Mr. Leung Chi Ching, Frederick is an ED, the remaining three members are all INEDs.

The terms of reference of the Nomination Committee are as follows:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

- to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

- to assess the independence of independent non-executive directors; and

- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors, in particular, the Chairman and the Chief Executive Officer.

In considering the new appointment of Directors, the Nomination Committee make reference to certain criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibilities effectively, etc.

The Nomination Committee held two meetings during the year ended 31 March 2007. The meetings were held to review the composition of the Board and to review the terms of the service contracts of the Directors.

# CORPORATE GOVERNANCE REPORT

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board Committees** *(continued)*

***Nomination Committee*** *(continued)*

The attendance of individual members at Nomination Committee's meeting held during the year ended 31 March 2007 is set out as follow:

| Name of Director | Number of meetings attended/held | Attendance rate |
|---|---|---|
| **Independent non-executive Directors:** | | |
| Mr. So Hon Cheung, Stephen *(Chairman)* | 2/2 | 100% |
| Mr. Li Weibin | 2/2 | 100% |
| Mr. Xie Zhengcai | 2/2 | 100% |
| **Executive Director:** | | |
| Mr. Leung Chi Ching, Frederick | 2/2 | 100% |

***Remuneration Committee***

A remuneration committee was set up under the auspices of the Board on 5 February 2005 (the "Remuneration Committee") with written terms of reference adopted on 19 August 2005. The Remuneration Committee currently comprises four members. The Chairman of the Remuneration Committee is Mr. So Hon Cheung, Stephen and the other members are Mr. Li Weibin, Mr. Xie Zhengcai and Mr. Leung Chi Ching, Frederick. Except for Mr. Leung Chi Ching, Frederick is an ED, the remaining three members are all INEDs.

The terms of reference of the Remuneration Committee are summarised as follows:

(1) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(2) to have the delegated responsibility to determine the specific remuneration packages of all EDs and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of INEDs. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board Committees** *(continued)*

***Remuneration Committee*** *(continued)*

(3) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(4) to review and approve the compensation payable to EDs and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(5) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(6) to ensure that no Director or any of his associates is involved in deciding his own remuneration and that, as regards the remuneration of an INED who is a member of the Remuneration Committee, his remuneration should be determined by the other members of the Remuneration Committee.

The Remuneration Committee held two meetings during the year ended 31 March 2007. The meetings were held to review the compensation and incentives package for the senior management of the Group, to review the amount of bonus payable to EDs and 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.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board Committees** *(continued)*

***Remuneration Committee*** *(continued)*

The attendance of individual members at Remuneration Committee's meeting held during the year ended 31 March 2007 is set out as follow:

| Name of Director | Number of meetings attended/held | Attendance rate |
|---|---|---|
| **Independent non-executive Directors:** | | |
| Mr. So Hon Cheung, Stephen *(Chairman)* | 2/2 | 100% |
| Mr. Li Weibin | 2/2 | 100% |
| Mr. Xie Zhengcai | 2/2 | 100% |
| **Executive Director:** | | |
| Mr. Leung Chi Ching, Frederick | 2/2 | 100% |

*Remuneration policy of the Group*

The remuneration policy of the Group is designed to ensure remuneration offered to the Directors or employees is appropriate for the corresponding duties performed, sufficiently compensated for the effort and time dedicated to the affairs of the Group, and competitive and effective in attracting, retaining and motivating employees. The key components of the Company's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme and share options granted under the share option schemes of the Company. Details of the share option schemes of the Company are set out in note 34 to the consolidated financial statements.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience and performance of the Directors. They include incentive bonus primarily based on the results of the Group and share options granted under the share option schemes of the Company. The Remuneration Committee performs review on the emoluments of the Directors from time to time. No Director, or any of his associates and executive, is involved in deciding his own emoluments.

Employees' remuneration packages are determined with reference to the responsibilities, qualifications and experience of individuals. The packages are reviewed annually and as required from time to time. The Group also continuously spends resources in training, retention and recruitment programs, and encouraging staff for self development and improvements. The Group uses the "key performance indicators", a methodical system, to monitor and evaluate the performance of managerial staff, aiming to achieve continuous improvements and correction of deficiencies by establishing a measurable benchmark.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board Committees** *(continued)*

***Remuneration Committee*** *(continued)*

*Remuneration policy of the Group (continued)*

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

The remuneration of the individual directors and the 5 highest paid individuals are set out in notes 12 and 13 to the consolidated financial statements.

***Audit Committee***

The audit committee was established by the Board since the initial listing of the Company's shares on Stock Exchange on 6 April 2000 (the "Audit Committee"). The Audit Committee comprises three INEDs. The Chairman of the Audit Committee is Mr. So Hon Cheung, Stephen and the other members are Mr. Li Weibin and Mr. Xie Zhengcai.

The Audit Committee has its written terms of reference adopted since its establishment and it was subsequently revised to comply with the Code. The terms of reference of the Audit Committee are available on the Company's website through the link: www.skyworth.com/investor.

The major duties of the Audit Committee are summarised as follows:

- to serve as a focal point for communication between Directors, the external auditors and the Head of Risk Management;

- to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and the effectiveness of the Group's internal control system; and

- to review the appointment of external auditors on an annual basis as well as to ensure continuing auditors' independence.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board Committees** *(continued)*

***Audit Committee*** *(continued)*

During the year ended 31 March 2007, the Audit Committee held three meetings, most of which are held with the Chief Financial Officer and the external auditors. The work performed by the Audit Committee during the year includes the following:

- reviewed the accounting principles and practices adopted by the Group and other financial reporting matters;
- reviewed and commented on the annual report and interim report (including the consolidated financial statements contained therein) of the Company;
- discussed with the external auditors on significant findings from their audit or review of the Group's financial statements and related issues;
- discussed on the Company's corporate governance practices;
- discussed on the Group's internal audit plan with the Risk Management Department;
- discussed the effectiveness of the systems of internal controls throughout the Group, including financial and operational controls; and
- consider and make recommendation to the Board on the engagement of external auditors and the estimated audit fee for the year ended 31 March 2007.

The attendance of individual members at Audit Committee's meeting held during the year ended 31 March 2007 is set out as follow:

| Name of Director | Number of meetings attended/held | Attendance rate |
|---|---|---|
| **Independent non-executive Directors:** | | |
| Mr. So Hon Cheung, Stephen *(Chairman)* | 3/3 | 100% |
| Mr. Li Weibin | 3/3 | 100% |
| Mr. Xie Zhengcai | 3/3 | 100% |

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Board Committees** *(continued)*

***Independent Committee***

On 8 December 2004, an independent committee ("Independent Committee") comprising Mr. Cheong Ying Chew, Henry and Mr. Ip Shing Hing was constituted, with Mr. Heng Kwoo Seng joining as an additional member on 9 December 2004, as a separate independent body from the Board. 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 details of its terms of reference were disclosed in the "Corporate Governance Report" contained in the Company's annual report 2005/06.

As disclosed by the Company in its announcement dated 17 August 2006, the Independent Committee was satisfied that the business and operations of the Group had not been materially and adversely affected since the incident occurred on 30 November 2004, and, after considering the overall results and conclusions of the final report issued by an international accounting firm (the "International Accounting Firm") on its financial monitoring and review on internal control system of the Group, was of the view that their duties under the terms of reference for their engagement had been duly discharged. Accordingly, the Independent Committee's terms of appointment came to an end on 1 August 2006.

**Accountability and Audit**

The Board is accountable to the shareholders through proper financial reporting, regular internal control review and annual audit. These are the most efficient way in assessing the effectiveness of the Board in managing the business and affairs of the Group.

***Financial reporting***

The Directors are responsible for overseeing the preparation of the annual consolidated financial statements which give a true and fair view of the state of affairs and of the results and cash flow of the Group for the year. In preparing the consolidated financial statements for the year ended 31 March 2007, the Directors have:

- approved the adoption of the applicable Hong Kong Financial Reporting Standards;
- selected suitable accounting policies and applied them consistently throughout the period covered by the consolidated financial statements;
- made judgements and estimates that are prudent and reasonable, and ensure the consolidated financial statements are prepared on a going concern basis; and

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Accountability and Audit** *(continued)*

***Financial reporting*** *(continued)*

- ensured that the consolidated financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

The Board recognises that high quality corporate reporting is important in enhancing the relationship between the Company and its stakeholders. The Board aims at presenting a balanced, clear and comprehensible vision of the performance, position and prospects of the Group in all corporate communications.

***Internal controls***

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The system includes a defined management structure with specified limits of authority, to:

- achieve business objectives and safeguard assets against unauthorised use or disposition;

- ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and

- ensure compliance with the relevant legislation and regulations.

The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operational systems, and to ensure achievement of the Group's objectives.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Accountability and Audit** *(continued)*

***Internal controls*** *(continued)*

*Internal control framework*

The internal control framework that the Board established in maintaining effective internal controls within the Group is as follows:

(1) Distinct organisational structure

To allow delegation of authority as well as to enhance accountability, a distinct organisational structure exists which details lines of authority and control responsibilities in each business unit of the Group. Division/Department heads are involved in preparing the strategic plan and the operation plan based on the corporate strategies and annual operational and financial targets determined by the Board. Both the strategic plan and the annual operating plan laid down the foundation for the preparation of the annual budgets, which identify and prioritize business opportunities with reference to the resources allocation.

During the year ended 31 March 2007, the Group has implemented a series of corporate reorganisation programmes in order to achieve a unit chain of command and improve the operation flow. With the continuous focus on the unit chain of command, the Group anticipates to attain better controls and effectively monitor the management, operational and financial processes.

(2) Comprehensive management reporting

A comprehensive management reporting system is in place providing financial and operational performance measurement indicators to the management and relevant financial information for reporting and disclosure purposes. Variances between actual performances and targets are prepared, analysed and explained, and appropriate actions are taken, if necessary, to rectify the deficiencies noted. This helps the management of the Company to monitor the business operations and enables the Board to formulate a strategic plan in a timely and prudent manner.

(3) Regular risk assessment

Systems and procedures are set up to identify, measure, manage and control risks including but not limited to operational risk, accounting risk, interest rate risk and compliance risk that may have an impact on the business of the Group. The Risk Management Department evaluates whether the Group's risk management is in line with the established strategies, policies and procedures of the Company.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Accountability and Audit** *(continued)*

***Internal controls*** *(continued)*

*Internal control framework (continued)*

(4) Regulated cash/treasury management

The Group maintains a sound system and a clear authority limits to ensure daily cash/treasury operations meet the relevant policies and rules established by the Group.

(5) Regular reviews by Risk Management Department and Internal Audit Department

The Risk Management Department was established by the Company in December 2005. The key function of the Risk Management Department is to provide an independent appraisal function to examine and evaluate operations, the system of internal control and risk management as a service to the Company and its subsidiaries. The Risk Management Department assists all levels of administrations in the achievement of the organisational goals and objectives by striving to provide a positive impact on:

- efficiency and effectiveness of operating functions;
- reliability of financial reporting;
- status of implementation and effectiveness of the internal control policies and procedures; and
- compliance with applicable laws and regulations.

The Risk Management Department also has a role to assist the Board and the Audit Committee to ensure that the Company maintains a sound system of internal controls by:

- reviewing all aspects of the Group's activities and internal controls with unrestricted right of access;
- conducting comprehensive audits of the practices and procedures of the Group;
- conducting comprehensive audits of income and expenditure, internal controls of all business units of the Group;
- conducting comprehensive audits of cash and operational management for various sales offices on a rotation basis with the support by the Internal Audit Department; and
- conducting special reviews and investigations of areas of concern identified by the Board or the management.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Accountability and Audit** *(continued)*

***Internal controls*** *(continued)*

*Internal control framework (continued)*

(5) Regular reviews by Risk Management Department and Internal Audit Department *(continued)*

The Head of Risk Management has unrestricted direct access to the Audit Committee and reports directly to the Board and the Audit Committee. The Head of Risk Management is invited to attend the Audit Committee meetings and has the right to bring appropriate matters identified during the course of the risk assessment and the internal audits to the attention of the Audit Committee. This reporting structure allows the Risk Management Department to maintain its independence and to have free access to all members of the Board.

During the year and up to the date of this report, the work performed by the Risk Management Department includes:

- reviewed and evaluated the operational flow, in particular on the efficiency of supply chain management and production planning, of the TV business unit for China market, the largest revenue contributor of the Group;
- reviewed and evaluated the operational flow of the mobile phone business unit,
- reviewed and evaluated the stock take procedures, stock storage conditions and stock management of the Group; and
- follow up the improvement progress of information technology system raised by external auditors.

The Internal Audit Department was established since 1996 mainly for examining and evaluating the operations and compliance status of the sales offices in the mainland China TV business unit, which is the largest cash flow and revenue contributor of the Group. Besides, it also carry out special audits when senior employees leaving their positions either due to resignations or job rotations within the group. Currently, the Internal Audit Department has over 30 staff, most of them continuously travel all over mainland China to perform their internal audit work on the sales offices.

During the year ended 31 March 2007, the Internal Audit Department issued 70 reports to the Board and senior management on its regular reviews of operations and compliance audits of the sales offices. In addition, it issued 115 reports on senior employees leaving their positions.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Accountability and Audit** *(continued)*

***Internal controls*** *(continued)*

*Internal control framework (continued)*

Internal audit plan

In March 2006, the Company, with the agreement of the Audit Committee, engaged the International Accounting Firm to perform an assessment of the governance processes of the Company and to perform an internal control review to identify and assess the critical risks that are reportable to the Company, and develop a three-year internal audit plan for separate evaluation on the mechanism of managing the risks identified. The work performed by the International Accounting Firm was completed and the corporate governance review report and risk assessment report and the three-year internal audit plan prepared by the firm were issued to the Company in December 2006.

The three-year internal audit plan (the "IA Plan") was developed with reference to the significance and the likelihood of the risk identified. The Risk Management Department is committed to carry out internal audits in accordance with the IA Plan, with alternation to the plan as and when appropriate. During the year, the Head of Risk Management Department had presented the IA Plan to the Board and the Audit Committee for approval and adoption.

Internal control review

During the year, the Board, through the work performed by the Risk Management Department, conducted a review on the system of internal controls in accordance with the IA Plan, which covers material controls, including financial, operational and compliance controls and risk management functions. The results of the review indicated that the system of internal controls of the Group is effective notwithstanding that there were some improvement opportunities identified. The Board would consider and evaluate those improvement opportunities identified by the Risk Management Department and make corresponding changes to the current system as and when appropriate. The Board would continue to review and improve the internal control system in fulfillment of business objective.

***External auditors***

The Group's external auditors are Deloitte Touche Tohmatsu. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. Up to the date of this report, the Audit Committee has considered and approved the engagement of Deloitte Touche Tohmatsu as auditors of the Group for the year ended 31 March 2007 and the corresponding audit fees estimation.

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Accountability and Audit** *(continued)*

***External auditors*** *(continued)*

The remuneration paid or payable by the Group to Deloitte Touche Tohmatsu in respect of their audit and other non-audit services for the year ended 31 March 2007 were as follows:

| Nature of services | For the year ended 31 March<br>**2007**<br>**Amounts**<br>***HK$'000*** | <br>2006<br>Amounts<br>*HK$'000* |
|---|---|---|
| Audit service (including review of financial statements) | **7,331** | 8,787 |
| Tax related service | **94** | 195 |
| Total | **7,425** | 8,982 |

**Corporate Communication with Stakeholders**

The Company has in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its stakeholders, including, inter alia, the general public, analysts, and the institutional and individual shareholders. The main features of the system are that:

- the Company maintains a website on which comprehensive information about the Group, including corporate structure, management profile, products and services provided, financial reports, public announcements and news of the Group, are disclosed;
- the Company establishes and maintains different communication channels with its stakeholders through the publication of annual and interim reports and press releases. To promote effective communication, the shareholders can obtain corporate communication electronically via the Company's corporate website www.skyworth.com;
- annual general meetings of the Company provide a useful forum for the shareholders to exchange views with the Board. The Chairman of the Board as well as chairmen of the Audit, Nomination and Remuneration Committees, or in their absence, members of the committees will be available to answer questions which may be raised by the shareholders;
- separate resolutions are proposed at general meetings for each substantial issue, including the election of individual Directors;

## KEY CORPORATE GOVERNANCE PRINCIPLES *(continued)*

**Corporate Communication with Stakeholders** *(continued)*

- details of the poll voting procedures and the rights of shareholders to demand a poll are included in a circular to the shareholders dispatched 21 days prior to the date of the relevant general meeting. The circular also includes relevant details of proposed resolutions;

- the poll results are published on the website of Stock Exchange www.hkex.com.hk and on the Company's corporate website www.skyworth.com; and

- the Company publishes its own newspaper and magazine, which report up-to-date corporate strategy and business development of the Group, on a regular basis for internal circulation.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Zhang Xuebin Ms. Ding Kai Mr. Leung Chi Ching, Frederick Ms. Lin Wei Ping

## EXECUTIVE DIRECTORS

**Mr. Zhang Xuebin**, aged 44, is an executive Director and the Chief Executive Officer of the Company, and has been elected by the Board to replace Mr. Wang Dianfu as the Executive Chairman with effect from 1 April 2007. He is also the director of certain subsidiaries of the Company. Mr. Zhang joined the Group in March 2001. He is responsible for overseeing the business operations of the Group and implementing the strategies and policies as determined by the Board from time to time. After his appointment as the Executive Chairman, Mr. Zhang is also responsible for the management of the Board, and the formulation of corporate strategy and future directions of the Group. Mr. Zhang graduated from Zhongnan University of Economics and Law in the PRC with a Bachelor degree in Accountancy and a Master degree in Economics. Mr. Zhang had worked for Hainan Coconut Palm Group Company Limited from March 1991 to February 2001 and was appointed as its General Manager in August 1997.

Save and except for the relationship with the Group, Mr. Zhang does not have any relationship with any director, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 March 2007, Mr. Zhang has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of interests set out on pages 61 to 64 of this annual report.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES


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

**Ms. Ding Kai**, aged 72, is an executive Director of the Company and the director of certain subsidiaries of the Company, and the President of 深圳市創維群欣安防科技有限公司 ("群欣安防"), a jointly controlled entity of the Group. Ms. Ding joined the Group in 1988. She has over 40 years of experience in operations management in electronics companies and was qualified as a Senior Economist in the PRC. She is currently responsible for the daily strategic management of 群欣安防.

Ms. Ding is the mother of Mr. Hu Zhaohui, the senior management of the Group. Save and except for the relationship mentioned above, Ms. Ding does not have any relationship with any director, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 March 2007, Ms. Ding has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of interests set out on pages 61 to 64 of this annual report.

**Mr. Leung Chi Ching, Frederick**, aged 49, is an executive Director and the Company Secretary of the Company. Mr. Leung joined the Group as Director of Finance on 20 December 2004 and has been re-designated as the Chief Financial Officer of the Company with effect from 8 January 2007. He is also a director and/or the company secretary of certain subsidiaries of the Company. Mr. Leung is mainly responsible for overseeing the finance functions, corporate governance matters and investor relationship management of the Group.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants and the Hong Kong Securities Institute. Mr. Leung has over 20 years' experience in corporate finance, banking and accounting.

Save and except for the relationship with the Group, Mr. Leung does not have any relationship with any director, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 March 2007, Mr. Leung has no interest in the shares of the Company within the meaning of Part XV of the SFO.

**Ms. Lin Wei Ping**, aged 49, joined the Group in 1993 and is an executive Director of the Company and the director of certain subsidiaries of the Company. She is currently the Vice President and the director of Skyworth Digital Group Limited, in-charge of the administration and human capital management of the Group. Prior to that, Ms. Lin was the Deputy Manager of the purchasing department and the Administration Manager in Hong Kong, primarily responsible for material purchasing from overseas market for the Group and administration and human capital management for certain companies within the Group. Ms. Lin graduated from South China University of Technology in the PRC with a Bachelor degree in Electronic Engineering. Before joining the Group, Ms. Lin had worked in the Ministry of Information Industry in the PRC as a research engineer.

Ms. Lin is a spouse of Mr. Wong Wang Sang, Stephen, who is a former non-executive director of the Company.

Save and except for the relationship mentioned above, Ms. Lin does not have any other relationships with any other director, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 March 2007, Ms. Lin has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of interests set out on pages 61 to 64 of this annual report.

**Mr. Yang Dongwen**, aged 42, is an executive Director and the director of certain subsidiaries of the Company. He is currently the President of Shenzhen Chuangwei-RGB Electronics Co., Ltd. and the television business unit of the Group, responsible for managing the research, manufacture and sales of the Group's television products in the PRC. Mr. Yang is also the Vice President and the director of Skyworth Digital Group Limited. Mr. Yang joined the Group in May 1988 as the Financial Controller of the headquarters in the PRC and from August 2000 to August 2003, he was the General Manager of the sales headquarters of the Group in the PRC and the Vice President of the Group. Mr. Yang left the Group in August 2003 for 2 years working for Oriental Yeyang Textile Co., Ltd. as President. He rejoined the Group in September 2005. Mr. Yang graduated from Zhongnan University of Economics and Laws in the PRC with a Bachelor degree in Economics and graduated from Nankai University in the PRC with a Master Degree in Law. He served as the director of the accountancy department and the associate professor of the School of Economics

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

in Hainan University in the PRC in his early years. He was later the director of the Hainan Zhongda Certified Public Accountants firm.

Save and except for the relationship with the Group, Mr. Yang does not have any relationship with any director, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 March 2007, Mr. Yang has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of interests set out on pages 61 to 64 of this annual report.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. So Hon Cheung, Stephen**, aged 51, is an independent non-executive Director of the Company, and the Chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. So is a practicing accountant and is a director of the accounting firm T.M. Ho, So & Leung CPA Limited and CCIF CPA Limited. Mr. So holds a Bachelor degree of Commerce from the University of British Columbia, Canada. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Canadian Institute of Chartered Accountants, a member of the Chartered Institute of Management Accountants and a member of the Society of Certified Management Accountants of Canada. He is a visiting professor of various universities and colleges in Beijing, Liaoning, Sichuan, Xinjiang, Qinghai and Guangdong in the PRC. Mr. So has extensive experience in the commercial sector of manufacturing, wholesale and trading in various companies in Hong Kong and Canada.

At present, Mr. So is also an independent non-executive director of several companies listed on The Stock Exchange of Hong Kong Limited, including Pine Technology Holdings Limited and Hang Ten Group Holdings Limited. Mr. So is a fellow member of the Hong Kong Institute of Directors.

Save and except for the relationship with the Company, Mr. So does not have any relationship with any director, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 March 2007, Mr. So has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of interests set out on pages 61 to 64 of this annual report.

**Mr. Li Weibin**, aged 46, is an independent non-executive Director of the Company, and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Li is a practicing solicitor in Hong Kong and is the founder and senior partner of Li & Partners, a firm of solicitors in Hong Kong. He graduated from the China University of Political Science and Law in Beijing, the postgraduate school of the Chinese Academy of Social Sciences in Beijing and the University of Hong Kong with a Bachelor degree in Law, a Master Degree in Law and a Bachelor degree in Common Law respectively. Mr. Li is also admitted to practice law in the PRC, England and Wales and New York, the USA. Mr. Li is a China-appointed attesting officer, a Visiting Professor in the China University of Political Science and Law and has worked in the legal field for 22 years.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

Save and except for the relationship with the Company, Mr. Li does not have any relationship with any director, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 March 2007, Mr. Li has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of interests set out on pages 61 to 64 of this annual report.

**Mr. Xie Zhengcai**, aged 44, is an independent non-executive Director of the Company, and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Xie graduated from Nanjing Normal University with a Bachelor degree in Science in 1983 and the Institute of Electronics of the Chinese Academy of Sciences with a Master degree in Industrial Studies in 1986. Mr. Xie had engaged in the research and development of flat display and optoelectronic technology. Mr. Xie was qualified as a senior engineer in the Ministry of Electronics Industry in 1997. Mr. Xie currently works in Shenzhen University and engages in the research of optoelectronics. Mr. Xie is a senior engineer of the Institute of Optoelectronics. He has won various laurels at the Ministry of Electronics Industry and in Jiangsu Province in the PRC.

Save and except for the relationship with the Company, Mr. Xie does not have any relationship with any director, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 March 2007, Mr. Xie has no interest in the shares of the Company within the meaning of Part XV of the SFO.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

## SENIOR MANAGEMENT

### Mr. Cheng Kin Chung

Aged 45, joined the Group in 2004 and is the Chief Information & Investment Officer of the Company and also the director of certain subsidiaries of the Company. Mr. Cheng graduated from The Hong Kong Polytechnic University with a Master degree in Professional Accounting. Prior to joining the Group, Mr. Cheng was a partner in an international accounting firm and also a business development director of the corporate finance arm of the same accounting firm. He had been in the professional firms for over 17 years.

### Mr. Liu Tangzhi

Aged 44, joined the Group in 1998 and is the General Manager of Skyworth China Sales Region and also the director of certain subsidiaries of the Company. Mr. Liu graduated from the Zhongnan University of Economics and Law in Wuhan with a Bachelor degree in Economics, and graduated from Macao University of Science and Technology with a Master degree in Business Administration.

### Mr. Lu Rongchang

Aged 61, joined the Group in May 2006 and is the Chief Technical Officer of the Company, the Head of the Skyworth R&D Institute and the General Manager of the R&D Department of Shenzhen Chuangwei-RGB Electronic Co., Ltd. He is also the director of certain subsidiaries of the Company. Mr. Lu graduated from the Nanjing Institute of Technologies (now is called Southeast University) and is major in Automation Control. Prior to joining the Group, he had over 13 years working experience as General Manager and Chief Engineer for companies in television and communications industry, including Panda Electronics Group. Mr. Lu has achieved many national and provincial honors.

### Mr. Shi Chi

Aged 36, joined the Group in 2000 and is the President of 創維數字技術(深圳)有限公司 and also the director of certain subsidiaries of the Company. Mr. Shi graduated from Huazhong University of Science & Technology with a Doctorate degree in Communication and Electronic System. He has been in charge of designing several high-end digital televisions and has published over 20 articles in various professional and science journals.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

## Mr. Le Yesheng

Aged 47, joined the Group in April 2003 and is the President of 創維移動通信技術(深圳)有限公司 and also the director of certain subsidiaries of the Company. Mr. Le is a senior engineer and was graduated from the Radio Engineering Department of Hebei University of Technology in 1982 and completed EMBA courses in Beijing University in 2001. Mr. Le pursues his career in product development, manufacturing management and operations management in large communication and electronics companies. He won various laurels of the Ministry of Mechanics and Electronics Industry in the PRC.

## Mr. Kuang Yubin

Aged 40, joined the Group in February 2007 as the President of Skyworth Overseas Development Limited and 創維多媒體(深圳)有限公司. Currently, he is also the director of certain subsidiaries of the Company. Mr. Kuang graduated from Sun Yat-Sen University in Guangzhou, major in Business Management. Prior to joining the Group, he had over 15 years working experience as General Manager of TV Business, President and other management positions for companies in the television industry, including Konka Group Co., Ltd. and AKAI Electric (China) Co., Ltd, and had assisted those companies in attaining outstanding results.

## Mr. Yu Kon Hoe

Aged 40, joined the Group in 2000 and is the director of Skyworth Overseas Development Limited and also the director of certain subsidiaries of the Company. Mr. Yu has extensive experience in the sales and marketing of consumer electronic products for overseas market. Prior to joining the Group, he had worked for Kong Wah Electronic Limited for 14 years.

## Mr. Zheng Gang

Aged 38, joined the Group in 1999 and is the President of 創維應用電子(深圳)有限公司 and also the director of certain subsidiaries of the Company. Mr. Zheng graduated from the Mechanical Engineering of Jilin University of Technology. He had been in the television industry for over ten years.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

## Mr. Hu Zhaohui

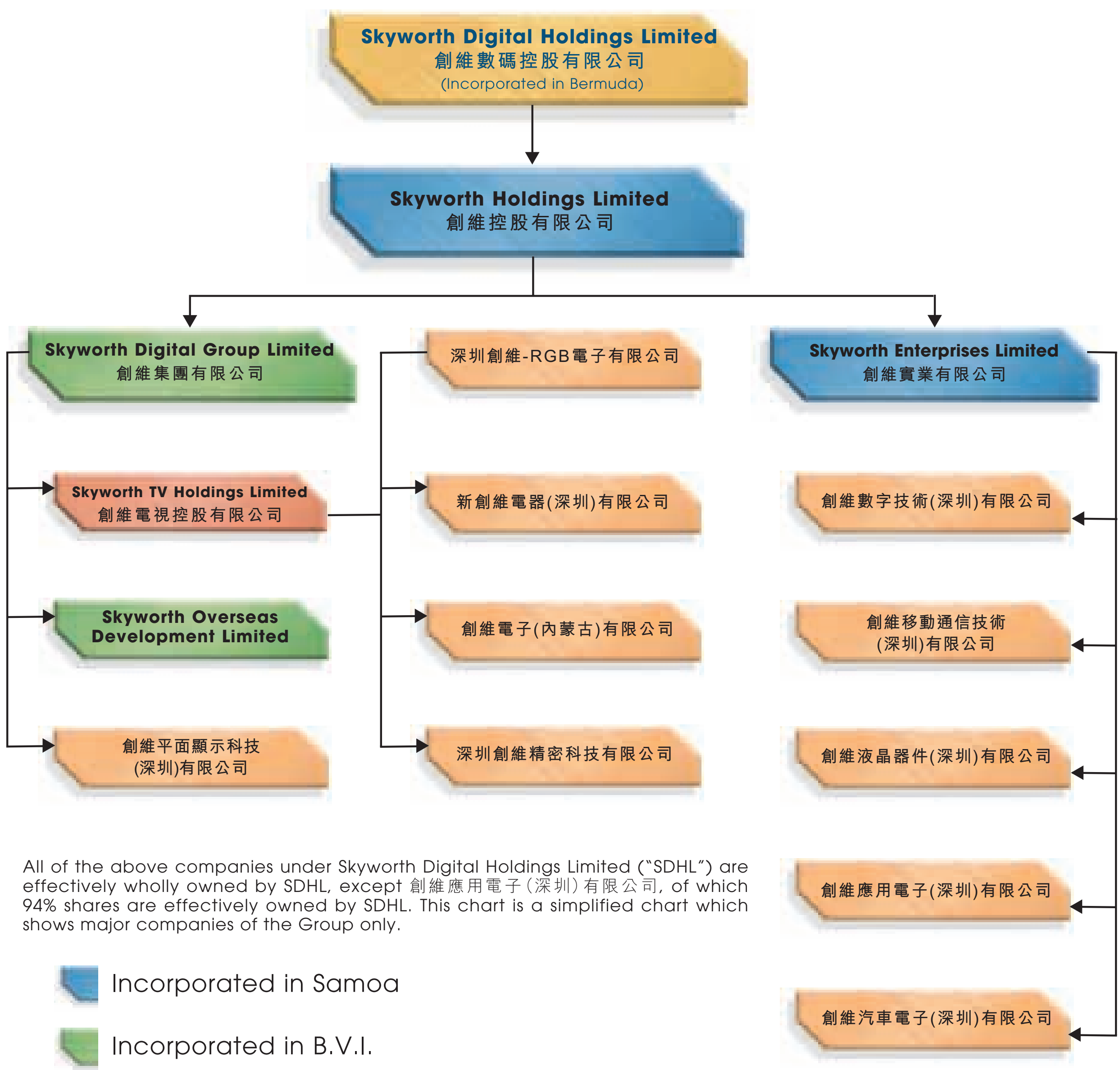
Aged 37, joined the Group in January 2006 and is the General Manager of 深圳創維群欣安防科技有限公司 and also the director of certain subsidiaries of the Company. Mr. Hu graduated from Xian University with a Bachelor degree in Electronic Science and Technology and graduated from Toyo University in Japan with a Master degree in Economics. Prior to joining the Group, he had worked for China Southern Fund Management Co., Ltd. and Shenzhen SEG Hitachi Color Display Devices Co., Ltd. Mr. Hu is the son of Ms. Ding Kai, the executive Director of the Company.

## Mr. Huang Ligui

Aged 30, joined the Group in July 1999 and acts as the Assistant to the President of Shenzhen Chuangwei-RGB Electronic Co., Ltd. and the Head of the supply chain management department, and also the director of certain subsidiaries of the Company. Mr. Huang graduated from the Jilin University of Technology with a Bachelor degree in Electronic Engineering in June 1997 and graduated from Huazhong University of Science and Technology with a Master degree in Electronic Information System in 2005. Mr. Huang pursues his career in manufacturing management and operations management. He won various laurels of the Labor Model of National Information Industry System.

# CORPORATE STRUCTURE

## SIMPLIFIED CORPORATE STRUCTURE DIAGRAM




All of the above companies under Skyworth Digital Holdings Limited ("SDHL") are effectively wholly owned by SDHL, except 創維應用電子（深圳）有限公司, of which 94% shares are effectively owned by SDHL. This chart is a simplified chart which shows major companies of the Group only.

- Incorporated in Samoa
- Incorporated in B.V.I.
- Incorporated in H.K.
- Incorporated in P.R.C.

# INVESTOR RELATIONS

## SHARE FLUCTUATION

It was the first full fiscal year after trading resumption of the Company's shares on 11 January, 2006. The share went up to the highest of $1.48 in February and down to the lowest of $0.63 in June 2006. Although the share price was fairly stable in the second half of the year, the shares were traded at a discount of the book value per share which was HK$1.43 as of 31 March 2007.


## PUT OUR NAME ON THE RADAR SCREEN OF INVESTORS

Except for the earnings loss in 2000/01 during serve China CRT TV competition, it was another tough year in handling investor relations especially entering another industry race of LCD TV. During the year, we have to maintain analyst interests in the Company as well as the industry, to deliver company value and get investor focus back on our Group's long-term vision. We always get the right information to the right people in the right way.

## TAKE SENIOR MANAGEMENT ALONG ROADSHOW TO STRENGTHEN CONFIDENCE

The board of directors clearly understands our market positioning, challenges and opportunities, and the key investors' concerns. We took a proactive role to identify key concerns and carry out value-added activities, e.g. improvement in corporate governance, for our valuable investors. We acknowledge the feedback from stakeholders, and relentlessly strive for greater transparency. During the year, we started to publicise the year-to-day TV sales volume on a monthly basis, established investor relations website which contains all publicly available information, etc.

## PRO-ACTIVE INVESTOR RELATIONS

We will enhance the interaction and keep value unlocked between Skyworth and the investors. Facing the challenge with more buy side analyst increase while sell side analysts decrease in recent years, we have been incorporating our own database of stakeholders for over 4 years as well as strengthening the relationship with the IR support team of various investment banks or regional brokerage houses to minimize the influence on our target audiences.

**Long term investor relationship is to go forward putting shareholders' benefits first!**

# INVESTOR RELATIONS

## INVESTOR RELATION ACTIVITIES

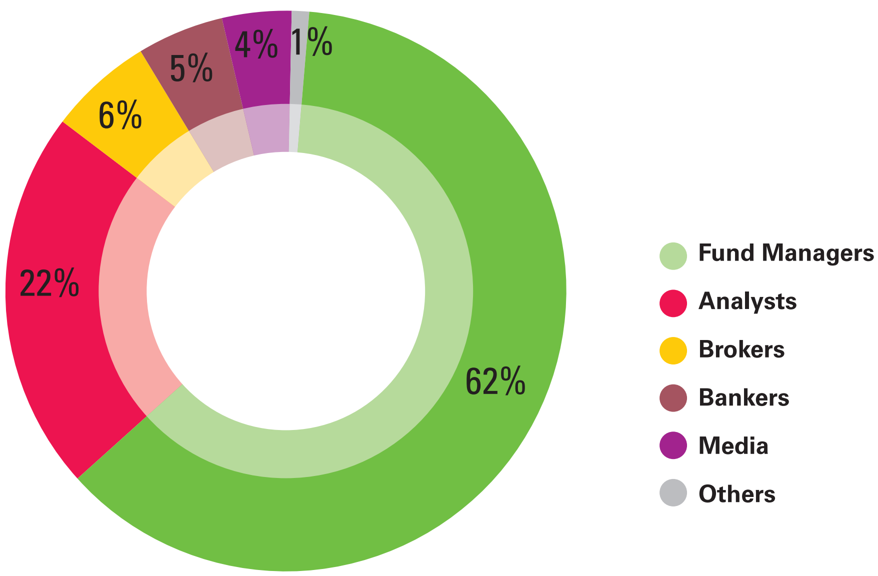
Investor Relation Calendar: April 2006 – March 2007

| Time | Events |
|---|---|
| **April 2006** | 2006/07 New Product Show held at Shenzhen – Investors and Analysts Tour |
| **May 2006** | Presentation at Deutsche Bank's Global Access Conference 2006 targeting China institutional investors in Shenzhen |
| **July 2006** | 2005/06 Annual Results Announcement<br>• *Press Conference*<br>• *Analysts Presentation and webcasting*<br>• *Post-result roadshow in Hong Kong organised by Daiwa Securities SMBC Hong Kong Limited* |
| **August 2006** | Post-result roadshow in Singapore organised by Daiwa Securities SMBC Hong Kong Limited |
| **October 2006** | Post-result roadshow in Tokyo organised by Daiwa Securities SMBC Hong Kong Limited<br><br>Presentation in BNP Paribas's 13th China Conference – China Industrial Revolution in Chongqing |
| **December 2006** | Participate in Hong Kong and Taiwan Conference & Awards 2006 in Hong Kong organised by IR Magazine<br><br>2006/07 Interim Results Announcement<br>• *Press Conference*<br>• *Analysts Presentation and webcasting*<br>• *Post-result roadshow in Hong Kong organised by CLSA Limited* |
| **January 2007** | Presentation in Deutsche Bank's Access China Conference in Beijing |
| **March 2007** | Investor luncheon organised by CIMB-GK Securities |

# INVESTOR RELATIONS

In 2006/07, we met 384 investors and stakeholders including 62% fund managers, 22% analysts, 6% brokers, 5% bankers, 4% media and 1% others.

**Stakeholders' meeting in 2006/07**
**(Breakdown by number of investors)**



# DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited consolidated financial statements of Skyworth Digital Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group") for the year ended 31 March 2007.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries and jointly controlled entities are the manufacture and sales of consumer electronic products and upstream accessories, and property holding, details of which are set out in notes 44 and 18 to the consolidated financial statements, respectively.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 69 of the annual report.

An interim dividend of HK0.5 cent (2006: HK1 cent) per share amounting to HK$11 million was paid to the shareholders on 7 February 2007. The directors now recommend the payment of a final dividend of HK1.2 cents (2006: HK2.8 cents) per share to the shareholders on the register of members of the Company on 27 September 2007, estimated to be HK$28 million, and the retention of the remaining profit in reserves.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 145 and 146 of the annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was less than 30% of the Group's total turnover. The aggregate purchase attributable to the Group's five largest suppliers accounted for 39% of the Group's total purchase and the purchase attributable to the Group's largest supplier was 20% of the total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five large suppliers or customers.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group further incurred approximately HK$162 million on the development and expansion of the new production plants located at Shiyan of Shenzhen, Guangdong Province and Ruyi of Huhhot, Inner Mongolia, the People's Republic of China (the "PRC").

The Group acquired additional plant and machinery at a cost of approximately HK$123 million for the expansion of existing and setting up new production facilities. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL

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

## SHARE PREMIUM AND RESERVES

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

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 March 2007 amounted to approximately HK$986 million (2006: HK$1,001 million).

## DONATIONS

During the year, the Group made cash charitable donations amounting to approximately HK$3 million.

# DIRECTORS' REPORT

## DIRECTORS

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

**Executive directors:**

| | |
|---|---|
| Zhang Xuebin *(Executive Chairman & Chief Executive Officer)* | (appointed as Executive Chairman on 1 April 2007) |
| Ding Kai | |
| Leung Chi Ching, Frederick | |
| Lin Wei Ping | |
| Yang Dongwen | |
| Wang Dianfu | (resigned on 1 April 2007) |

**Non-executive director:**

| | |
|---|---|
| Wong Wang Sang, Stephen | (resigned on 9 August 2006) |

**Independent non-executive directors:**

So Hon Cheung, Stephen
Li Weibin
Xie Zhengcai

In accordance with Clauses 86 and 87 of the Company's bye-laws, Mr. Leung Chi Ching, Frederick, Mr. Li Weibin and Mr. So Hon Cheung, Stephen will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other directors continue in office.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management of the Company are set out in pages 45 to 53 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

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

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

## EMOLUMENT POLICY

The emoluments of the directors of the Company are reviewed by the Remuneration Committee of the Company from time to time, with reference to the qualifications, responsibilities, experience and performance of the individual directors, and the operating results of the Group. Details of the policy are set out in the "Corporate Governance Report" on pages 34 and 35.

## RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 41 to the consolidated financial statements.

## DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 March 2007, the interests of the directors and of their associates in the shares, share options and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

As at 31 March 2007, certain directors of the Company had long positions in the shares of the Company as follows:

| Name of director | Capacity | | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Lin Wei Ping | Beneficial owner | | 3,061,611 | 0.13% |
| | Held by trust | *(Note a)* | 847,382,922 | 37.02% |
| | Held by spouse | *(Note b)* | 51,405,612 | 2.25% |
| | | *(Note c)* | 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, all of the units in which are owned by the Skysource Trust. Ms. Lin Wei Ping and her children are the discretionary beneficiaries of the Skysource Trust. Accordingly, Ms. Lin Wei Ping is deemed to be interested in 847,382,922 ordinary shares of the Company.

*Note b:* Ms. Lin Wei Ping is deemed to be interested in 51,405,612 shares of the Company being the interests held beneficially by her spouse, Mr. Wong Wang Sang, Stephen.

*Note c:* Mr. Wong Wang Sang, Stephen is deemed to be interested in 901,850,145 shares of the Company being the interests held by his spouse, Ms. Lin Wei Ping.

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

### (b) Share options of the Company

(i) Particulars of the share option schemes of the Company (including certain defined terms used below) are set out in note 34 to the consolidated financial statements.

(ii) As at 31 March 2007, certain directors of the Company had interests in the share options granted under the Company's share option schemes as follows:

| Name of director | Capacity | Number of share options held/underlying shares of the Company |
|---|---|---|
| Zhang Xuebin | Beneficial owner | 21,000,000 |
| Yang Dongwen | Beneficial owner | 19,000,000 |
| Ding Kai | Beneficial owner | 1,000,000 |
| So Hon Cheung, Stephen | Beneficial owner | 500,000 |
| Li Weibin | Beneficial owner | 500,000 |
| | | 42,000,000 |

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

*Under Old Scheme:*

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of director | Date of grant | Exercise price HK$ | Exercisable period | Outstanding at 1 April 2006 | Granted during the year | Exercised during the year *(note)* | Cancelled during the year | Outstanding at 31 March 2007 |
| Zhang Xuebin | 2 April 2001 | 0.292 | 2 April 2005 to 27 March 2010 | 500,000 | – | (500,000) | – | – |
| | 23 January 2002 | 0.420 | 23 January 2005 to 27 March 2010 | 750,000 | – | (750,000) | – | – |
| | | | 23 January 2006 to 27 March 2010 | 750,000 | – | (750,000) | – | – |

*note:* The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the year ended 31 March 2007 was HK$1.15.

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

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

*Under New Scheme:*

| Name of director | Date of grant | Exercise price HK$ | Exercisable period | Number of share options: Outstanding at 1 April 2006 | Granted during the year | Exercised during the year | Cancelled during the year | Outstanding at 31 March 2007 |
|---|---|---|---|---|---|---|---|---|
| Zhang Xuebin | 5 October 2002 | 0.840 | 5 October 2004 to 28 August 2012 | 2,000,000 | – | – | – | 2,000,000 |
| | | | 5 October 2005 to 28 August 2012 | 2,000,000 | – | – | – | 2,000,000 |
| | | | 5 October 2006 to 28 August 2012 | 2,000,000 | – | – | – | 2,000,000 |
| | 16 October 2003 | 1.660 | 16 October 2004 to 28 August 2012 | 1,500,000 | – | – | – | 1,500,000 |
| | | | 16 October 2005 to 28 August 2012 | 1,500,000 | – | – | – | 1,500,000 |
| | | | 16 October 2006 to 28 August 2012 | 2,000,000 | – | – | – | 2,000,000 |
| | | | 16 October 2007 to 28 August 2012 | 5,000,000 | – | – | – | 5,000,000 |
| | | | 16 October 2008 to 28 August 2012 | 5,000,000 | – | – | – | 5,000,000 |
| Ding Kai | 11 October 2004 | 2.225 | 11 October 2005 to 28 August 2012 | 250,000 | – | – | – | 250,000 |
| | | | 11 October 2006 to 28 August 2012 | 250,000 | – | – | – | 250,000 |
| | | | 11 October 2007 to 28 August 2012 | 250,000 | – | – | – | 250,000 |
| | | | 11 October 2008 to 28 August 2012 | 250,000 | – | – | – | 250,000 |

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

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

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of director | Date of grant | Exercise price *HK$* | Exercisable period | Outstanding at 1 April 2006 | Granted during the year | Exercised during the year | Cancelled during the year | Outstanding at 31 March 2007 |
| Yang Dongwen | 5 October 2002 | 0.840 | 5 October 2005 to 28 August 2012 | 2,000,000 | – | – | – | 2,000,000 |
| | | | 5 October 2006 to 28 August 2012 | 2,000,000 | – | – | – | 2,000,000 |
| | 25 January 2006 | 1.136 | 25 January 2007 to 28 August 2012 | 3,750,000 | – | – | – | 3,750,000 |
| | | | 25 January 2008 to 28 August 2012 | 3,750,000 | – | – | – | 3,750,000 |
| | | | 25 January 2009 to 28 August 2012 | 3,750,000 | – | – | – | 3,750,000 |
| | | | 25 January 2010 to 28 August 2012 | 3,750,000 | – | – | – | 3,750,000 |
| So Hon Cheung, Stephen | 28 July 2004 | 2.275 | 28 July 2004 to 28 August 2012 | 500,000 | – | – | – | 500,000 |
| Li Weibin | 28 July 2004 | 2.275 | 28 July 2004 to 28 August 2012 | 500,000 | – | – | – | 500,000 |

(iv) The particulars of share options granted to the eligible persons (including directors and employees) and the movement during the year are set out in note 34 to the consolidated financial statements.

Save as disclosed above, none of the directors or chief executives, nor their associates, had any interests or short positions in any shares, share options or underlying shares 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, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 March 2007.

## DIRECTORS' RIGHTS TO SUBSCRIBE SHARES OR DEBENTURES

Other than the interests in share options of the Company disclosed above, and in the share option schemes disclosed in note 34 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives, or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debenture of the Company or any other body corporate, and none of them had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the year ended 31 March 2007.

## DIRECTORS' INTERESTS IN CONTRACTS

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

## MANAGEMENT CONTRACTS

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

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

| Name of shareholder | Capacity | | Number of issued ordinary shares held – long positions | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Target Success Group Limited | Trustee | *(Note a)* | 847,382,922 | 37.02% |
| HSBC International Trustee Limited | Trustee | *(Note b)* | 866,141,413 | 37.83% |
| Wong Wang Sang, Stephen | Beneficial owner | | 51,405,612 | 2.25% |
| | Held by spouse | *(Note c)* | 850,444,533 | 37.15% |
| | | | 901,850,145 | 39.40% |

*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 held by HSBC International Trustee Limited in its capacity as trustee of the Skysource Trust.

*Note b:* HSBC International Trustee Limited is deemed to be interested in 847,382,922 ordinary shares of the Company as it is the trustee of the Skysource Trust. HSBC International Trustee Limited held the remaining 18,758,491 ordinary shares of the Company in its capacity as the trustee of other trusts.

*Note c:* Mr. Wong Wang Sang, Stephen is deemed to be interested in 850,444,533 shares of the Company being the interests held by his spouse, Ms. Lin Wei Ping.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS *(continued)*

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions held by any other person in the shares or share options or underlying shares of the Company as at 31 March 2007.

## PRE-EMPTIVE RIGHTS

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

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

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

## PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has complied with the public float requirement of the Listing Rules throughout the year ended 31 March 2007.

## SUBSEQUENT EVENT

There was no significant event occurred after the balance sheet date of the Group.

## AUDITORS

The consolidated financial statements of the Group for the year ended 31 March 2007 have been audited by Messrs. Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Zhang Xuebin**
*Executive Chairman and*
*Chief Executive Officer*
24 July 2007

# INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Skyworth Digital Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 69 to 144, which comprise the consolidated balance sheet as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITY *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
24 July 2007

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 March 2007*
Amounts expressed in HK$ million (except for earnings per share data)

| | *Notes* | **2007** | 2006 |
|---|---|---|---|
| Turnover | *6* | **12,560** | 10,699 |
| Cost of sales | | **(10,508)** | (8,694) |
| Gross profit | | **2,052** | 2,005 |
| Other income | *8* | **114** | 120 |
| Selling and distribution expenses | | **(1,610)** | (1,598) |
| General and administrative expenses | | **(395)** | (270) |
| Impairment loss recognised in respect of available-for-sale investments | | **(3)** | (3) |
| Finance costs | *9* | **(19)** | (3) |
| Gain on disposal of subsidiaries | | **–** | 3 |
| Share of results of jointly controlled entities | | **8** | 1 |
| Profit before taxation | | **147** | 255 |
| Income taxes | *10* | **(19)** | (39) |
| Profit for the year | *11* | **128** | 216 |
| Attributable to: | | | |
| Equity holders of the Company | | **128** | 216 |
| Dividends | | | |
| Paid | *14* | **75** | 147 |
| Proposed | *14* | **28** | 64 |
| Earnings per share (expressed in HK cents) | | | |
| Basic | *15* | **5.59** | 9.53 |
| Diluted | *15* | **5.57** | 9.38 |

# CONSOLIDATED BALANCE SHEET

*At 31 March 2007*
Amounts expressed in HK$ million

| | Notes | 2007 | 2006 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **1,123** | 874 |
| Prepaid lease payments on land use rights | 17 | **102** | 92 |
| Interests in jointly controlled entities | 18 | **42** | 27 |
| Available-for-sale investments | 19 | **32** | 33 |
| Deferred tax assets | 20 | **2** | – |
| | | **1,301** | 1,026 |
| **Current assets** | | | |
| Inventories | 21 | **1,573** | 1,747 |
| Prepaid lease payments on land use rights | 17 | **2** | 2 |
| Trade and other receivables | 22 | **1,034** | 781 |
| Bills receivable | 23 | **3,847** | 3,181 |
| Tax recoverable | | **–** | 2 |
| Amount due from a jointly controlled entity | 24 | **11** | 12 |
| Held-for-trading investments | 25 | **–** | 24 |
| Pledged bank deposits | | **65** | 38 |
| Bank balances and cash | 26 | **826** | 760 |
| | | **7,358** | 6,547 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **4,212** | 3,962 |
| Bills payable | 28 | **32** | 8 |
| Provision | 29 | **42** | 48 |
| Amounts due to jointly controlled entities | 30 | **1** | 1 |
| Tax liabilities | | **68** | 81 |
| Secured bank borrowings | 31 | **611** | 153 |
| Deferred income | 32 | **52** | 21 |
| | | **5,018** | 4,274 |
| **Net current assets** | | **2,340** | 2,273 |
| **Total assets less current liabilities** | | **3,641** | 3,299 |
| **Non-current liabilities** | | | |
| Provision | 29 | **19** | 25 |
| Secured bank borrowings | 31 | **323** | 164 |
| Deferred income | 32 | **28** | 21 |
| Deferred tax liabilities | 20 | **8** | 1 |
| | | **378** | 211 |
| **NET ASSETS** | | **3,263** | 3,088 |

# CONSOLIDATED BALANCE SHEET

*At 31 March 2007*
Amounts expressed in HK$ million

| | *Note* | **2007** | 2006 |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | *33* | **229** | 228 |
| Share premium | | **1,194** | 1,192 |
| Share option reserve | | **59** | 53 |
| Investment revaluation reserve | | **5** | 5 |
| Surplus account | | **38** | 102 |
| Capital reserve | | **76** | 43 |
| Exchange reserve | | **165** | 59 |
| Accumulated profits | | **1,497** | 1,406 |
| | | **3,263** | 3,088 |

The consolidated financial statements on pages 69 to 144 were approved and authorised for issue by the Board of Directors on 24 July 2007 and are signed on its behalf by:

| | |
|---|---|
| **Zhang Xuebin** | **Leung Chi Ching, Frederick** |
| *Director* | *Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 March 2007*
Amounts expressed in HK$ million

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Share option reserve | Investment revaluation reserve | Surplus account *(note a)* | Capital reserve *(note b)* | Exchange reserve | Accumulated profits | Total |
| 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 | – | – | – | – | – | – | 58 | – | 58 |
| Income recognised directly in equity | – | – | – | 1 | – | – | 58 | – | 59 |
| Profit for the year | – | – | – | – | – | – | – | 216 | 216 |
| Total recognised profit for the year | – | – | – | 1 | – | – | 58 | 216 | 275 |
| Recognition of equity-settled share based payments | – | – | 28 | – | – | – | – | – | 28 |
| Forfeiture of share options | – | – | (4) | – | – | – | – | 4 | – |
| Transfer to capital reserve | – | – | – | – | – | 36 | – | (36) | – |
| Issue of shares under share option schemes | 2 | 6 | – | – | – | – | – | – | 8 |
| Dividends paid *(Note 14)* | – | – | – | – | – | – | – | (147) | (147) |
| Balance at 31 March 2006 | 228 | 1,192 | 53 | 5 | 102 | 43 | 59 | 1,406 | 3,088 |
| Exchange differences on translation of operations denominated in foreign currencies | – | – | – | – | – | – | 106 | – | 106 |
| Income recognised directly in equity | – | – | – | – | – | – | 106 | – | 106 |
| Profit for the year | – | – | – | – | – | – | – | 128 | 128 |
| Total recognised profit for the year | – | – | – | – | – | – | 106 | 128 | 234 |
| Recognition of equity-settled share based payments | – | – | 13 | – | – | – | – | – | 13 |
| Forfeiture of share options | – | – | (7) | – | – | – | – | 7 | – |
| Transfer to capital reserve | – | – | – | – | – | 33 | – | (33) | – |
| Issue of shares under share option schemes | 1 | 2 | – | – | – | – | – | – | 3 |
| Dividends paid *(Note 14)* | – | – | – | – | (64) | – | – | (11) | (75) |
| Balance at 31 March 2007 | 229 | 1,194 | 59 | 5 | 38 | 76 | 165 | 1,497 | 3,263 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 March 2007*
Amounts expressed in HK$ million

*Notes:*

(a) Surplus account as at 31 March 2006 represented the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and other reserve accounts of Skyworth Digital Group Limited, the subsidiary which was acquired by the Company pursuant to the group reorganisation carried out in 2000 ("Group Reorganisation"). During the year, the payment of final dividend of HK$64 million for the year ended 31 March 2006 was made from the surplus account which was approved by the shareholders in the annual general meeting of the Company held on 28 September 2006.

(b) Capital reserve as at 31 March 2007 represented The People's Republic of China (the "PRC") statutory reserves of HK$76 million (2006: HK$43 million). Pursuant to the relevant PRC regulations and the Articles of Association of the PRC subsidiaries of the Group, each of the PRC subsidiaries is required to transfer not less than 10% of its profits after tax to statutory reserve (capital reserve) as reserve funds until the aggregated amount has reached 50% of its registered capital.

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 March 2007*
Amounts expressed in HK$ million

| | **2007** | 2006 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **147** | 255 |
| Adjustments for: | | |
| Finance costs | **19** | 3 |
| Dividend income | **(2)** | – |
| Interest income | **(9)** | (10) |
| Share-based payment expenses | **13** | 28 |
| Depreciation and amortisation of property, plant and equipment | **135** | 120 |
| Amortisation of prepaid lease payments on land use rights | **1** | 1 |
| Change in fair value of held-for-trading investments | **–** | (7) |
| (Reversal of) provision for warranty | **(15)** | 28 |
| Loss on disposal of property, plant and equipment | **6** | 1 |
| Impairment loss recognised in respect of available-for-sale investments | **3** | 3 |
| Gain on disposal of subsidiaries | **–** | (3) |
| Share of results of jointly controlled entities | **(8)** | (1) |
| Operating cash flows before movements in working capital | **290** | 418 |
| Decrease (increase) in inventories | **174** | (68) |
| Increase in trade and other receivables | **(253)** | (227) |
| Increase in bills receivable | **(666)** | (353) |
| Decrease in amount due from a jointly controlled entity | **1** | 7 |
| Decrease in held-for-trading investments | **24** | 4 |
| Increase in trade and other payables | **250** | 1,078 |
| Increase (decrease) in bills payable | **24** | (973) |
| Decrease in amounts due to jointly controlled entities | **–** | (1) |
| Increase in deferred income | **31** | 11 |
| Cash used in operations | **(125)** | (104) |
| Hong Kong Profits Tax refunded | **3** | – |
| PRC income tax paid | **(34)** | (25) |
| Other PRC taxes paid | **(6)** | (39) |
| Other PRC taxes refunded | **–** | 9 |
| NET CASH USED IN OPERATING ACTIVITIES | **(162)** | (159) |

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 March 2007*
Amounts expressed in HK$ million

| | *Note* | **2007** | 2006 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Dividend received | | **2** | – |
| Interest received | | **9** | 10 |
| Purchase of property, plant and equipment | | **(335)** | (418) |
| Proceeds on disposal of property, plant and equipment | | **2** | 1 |
| Disposal of subsidiaries | *36* | **–** | 11 |
| Cash investment in jointly controlled entities | | **(9)** | (15) |
| Purchase of available-for-sale investments | | **(1)** | (11) |
| Purchase of held-for-trading investments | | **–** | (1) |
| (Increase) decrease in pledged bank deposits | | **(27)** | 1,017 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | **(359)** | 594 |
| FINANCING ACTIVITIES | | | |
| Interest paid | | **(28)** | (8) |
| Dividends paid | | **(75)** | (147) |
| Issue of shares for cash | | **3** | 8 |
| Repayment of mortgage loans | | **(2)** | (1) |
| New bank loans | | **152** | 163 |
| Funds arisen from discounted bills with recourse | | **814** | 357 |
| Repayment of funds arisen from discounted bills with recourse upon maturity | | **(375)** | (971) |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | | **489** | (599) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(32)** | (164) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **760** | 885 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **98** | 39 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | | **826** | 760 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities of the Group are the manufacture and sales of consumer electronic products and upstream accessories, and property holding. Details of the principal activities of the principal subsidiaries and jointly controlled entities are set out in notes 44 and 18 respectively.

The addresses of the registered office and the principal place of business of the Company are disclosed in the corporate information of the annual report.

Items included in the financial statements of each of the entities of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Renminbi. The consolidated financial statements are presented in Hong Kong dollars to facilitate analysis of financial information.

## 2. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of these new HKFRSs has had no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

## 2. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The Group has not early applied the following new standards, amendment or interpretations that have been issued but not yet effective. The directors of the Company are in the process of assessing the potential impact and so far concluded that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosure[1] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKFRS 7 | Financial instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2[3] |
| HK(IFRIC) – INT 9 | Reassessment of embedded derivatives[4] |
| HK(IFRIC) – INT 10 | Interim Financial Reporting and Impairment[5] |
| HK(IFRIC) – INT 11 | HKFRS 2 – Group and Treasury Share Transactions[6] |
| HK(IFRIC) – INT 12 | Service Concession Arrangements[7] |

[1] Effective annual periods beginning on or after 1 January 2007.
[2] Effective annual periods beginning on or after 1 January 2009.
[3] Effective annual periods beginning on or after 1 May 2006.
[4] Effective annual periods beginning on or after 1 June 2006.
[5] Effective annual periods beginning on or after 1 November 2006.
[6] Effective annual periods beginning on or after 1 March 2007.
[7] Effective annual periods beginning on or after 1 January 2008.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinances. The principal accounting policies adopted are as follows:

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant inter-group transactions, balances, income and expenses are eliminated on consolidation.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed to ultimate customers.

Service income is recognised when services are provided.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Revenue recognition** *(continued)*

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Property, plant and equipment**

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and amortisation, and accumulated impairment losses.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of the terms of the leases or 50 years |
| Plant and machinery | 20% – 50% |
| Furniture, equipment and motor vehicles | 20% – 50% |

Construction in progress is stated at cost which includes all development expenditure and the direct costs including borrowing costs capitalised attributable to such projects less impairment losses. Construction in progress is not depreciated until the completion of construction. Cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the items) is included in the consolidated income statement in the year in which the item is derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Prepaid lease payments on land use rights**

The land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified as prepaid lease payments on land use rights under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

**Interests in jointly controlled entities**

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interests in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interests in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Impairment** *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

**Financial instrument**

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into one of the three categories, including held-for-trading investments, available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Held-for-trading investments*

At each balance sheet date subsequent to initial recognition, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instrument** *(continued)*

***Financial assets*** *(continued)*

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories of financial assets. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investment are reversed in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are reversed in subsequent periods.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade, bills and other receivables, amount due from a jointly controlled entity, pledged bank deposits, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instrument** *(continued)*

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Financial liabilities*

Financial liabilities, including trade, bills and other payables, amounts due to jointly controlled entities and secured bank borrowings, are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

**Leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

***The Group as lessee***

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Foreign currencies** *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss, in the period in which the foreign operation is disposed of.

**Taxation**

Income taxes represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes consolidated income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in jointly controlled entities except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Taxation** *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Retirement benefit schemes contributions**

Payments to the Group's defined contribution retirement benefit plans, including state-managed retirement schemes and mandatory provident fund schemes are charged as expenses when employees have rendered service entitling them to the contributions.

**Equity-settled share-based payment transactions**

For share options granted to the directors and employees of the Group, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share option reserve).

At the balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The consolidated financial statements are prepared in accordance with HKFRSs as described in note 3. In connection with the preparation of the Group's consolidated financial statements, the management has made assumptions and estimates about future events, and applied judgements that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosure. Based on historical experience, current trends and other factors, the management makes assumptions and best estimates which are relevant at the time when the consolidated financial statements are prepared. Management believes that the following assumptions and accounting estimates are the most critical to aid in fully understanding and evaluating the results of the Group.

**Allowance for inventories**

Inventories are stated at the lower of cost and net realisable value. At 31 March 2007, allowance of HK$211 million (2006: HK$243 million) is made to write down the cost of inventories to their net realisable values. The amount of allowance contains uncertainties because the assessment of net realisable values of inventories requires management to make assumptions and to apply judgement regarding forecast consumer demand, the promotional environment, inventory aging, subsequent sales information and technological obsolescence. There is no reason to believe that there will be a material change in the future estimates or assumptions which are used in the assessment of net realisable values of inventories. However, if estimates regarding consumer demand are inaccurate and changes in technology affect demand for certain products in an unforeseen manner, allowance for inventories may increase or decrease accordingly.

**Impairment of trade receivables**

Impairment loss of trade receivables is made when there is objective evidence that the recoverability of trade receivables due from customers becomes doubtful. At 31 March 2007, impairment loss of HK$72 million (2006: HK$70 million) is made on trade receivables. The impairment loss calculations contain uncertainties because management is required to make assumptions and to apply judgement regarding historical settlement experience, debt aging, financial status of customers and general economic conditions. There is no reason to believe that there will be a material change in the future estimates or assumptions which are used in the calculations of impairment loss of trade receivables. However, when the actual outcome or expectation in future is different from the original estimates, the carrying value of trade receivables and impairment loss may change.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

**Provision for warranty**

Being an industry practice, the Group provides product warranty ranging from one to three years to its customers depending on product type, under which faulty products are repaired or replaced. At 31 March 2007, provision for warranty of HK$61 million (2006: HK$73 million) is made for the products sold up to 31 March 2007. The amount of the provision for the warranty contains uncertainties because it requires management to make assumptions and to apply judgement regarding past defective rate of products sold. As the Group continues to develop new technologies and upgrade its product quality, it is possible that the past defective rate of products is not a good indicator of future claims by customers in respect of past sales. Any increase or decrease in the actual claims will affect profit or loss in future years.

## 5. FINANCIAL INSTRUMENTS

### (a) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, borrowings, bank balances, pledged bank deposits, trade and other receivables, bills receivable, trade and other payables and bills payable. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*Currency risk*

The Group's sales in the PRC represents over 90% of the Group's total turnover. All of these sales are conducted in Renminbi. The Group needs to convert revenue in Renminbi into foreign currencies from time to time in order to meet its ongoing obligations and payment of dividends. Although Renminbi is not a freely convertible currency, the Group did not experience any difficulties in such conversion.

The Group's borrowings are predominantly denominated in Renminbi. The Group generally endeavors to naturally hedge the foreign currency assets of the overseas subsidiaries by having the subsidiaries to arrange borrowings in their local currencies, whenever appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 5. FINANCIAL INSTRUMENTS *(continued)*

### (a) Financial risk management objectives and policies *(continued)*

***Market risk*** *(continued)*

*Interest rate risk*

The Group has exposures to cash flow interest rate risk as its borrowings are subject to floating interest rates. Currently, the Group does not have an interest rate hedging policy. However, the management monitors closely the interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

***Credit risk***

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts, including to secure a third party guarantee. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The bank balances are placed in a number of counterparties, most of which are licensed banks with high credit ratings. As such, the credit risk on liquid funds is limited.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

***Liquidity risk***

The objective of the Group is to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings. In addition, banking facilities have been put in place for general funding purposes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 5. FINANCIAL INSTRUMENTS *(continued)*

### (b) Fair value

The fair value of the financial assets and financial liabilities are determined as follows:

– the fair value of listed equity investments with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

– the fair value of trade and other receivables, bills receivable, trade and other payables, bills payable, amounts due from/to jointly controlled entities and bank deposits are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs; and

– the fair value of secured bank borrowings is determined based on discounted cash flow analysis using the applicable yield curve for the duration of the borrowings.

The directors consider that the carrying values of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their corresponding fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 6. TURNOVER

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Sales of TV products | **11,115** | 9,916 |
| Sales of digital set-top boxes | **733** | 368 |
| Sales of mobile phones | **481** | 161 |
| Sales of other electronic products | **191** | 215 |
| Property rental income | **40** | 39 |
| | **12,560** | 10,699 |

## 7. SEGMENT INFORMATION

**Business segments**

For management purposes, the Group's operations can be categorised as follows:

| | | |
|---|---|---|
| TV products | – | design, manufacture and sale of televisions |
| Digital set-top boxes | – | design, manufacture and sale of digital set-top boxes |
| Mobile phones | – | design, manufacture and sale of mobile phones |
| Other electronic products | – | design, manufacture and sale of other products mainly relate to electronics |
| Property holding | – | leasing of property |

These operations are the basis on which the Group reports its primary segment information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 7. SEGMENT INFORMATION *(continued)*

### Business segments *(continued)*

Segment information about these businesses is presented below.

| | TV products HK$ million | Digital set-top boxes HK$ million | Mobile phones HK$ million | Other electronic products HK$ million | Property holding HK$ million | Eliminations HK$ million | Consolidated HK$ million |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 March 2007** | | | | | | | |
| **Turnover** | | | | | | | |
| External sales and rental income | 11,115 | 733 | 481 | 191 | 40 | – | 12,560 |
| Inter-segment sales and rental income | 15 | 2 | 1 | 101 | 7 | (126) | – |
| Total | 11,130 | 735 | 482 | 292 | 47 | (126) | 12,560 |
| Inter-segment sales and rental are charged at prevailing market rates. | | | | | | | |
| **Results** | | | | | | | |
| Segment results | 181 | 95 | 15 | (51) | 24 | | 264 |
| Interest income | | | | | | | 9 |
| Unallocated corporate income less expenses | | | | | | | (115) |
| Finance costs | | | | | | | (19) |
| Share of results of jointly controlled entities | – | – | – | 8 | – | | 8 |
| Profit before taxation | | | | | | | 147 |
| Income taxes | | | | | | | (19) |
| Profit for the year | | | | | | | 128 |
| **As at 31 March 2007** | | | | | | | |
| **Assets** | | | | | | | |
| Segment assets | 6,105 | 594 | 167 | 148 | 678 | | 7,692 |
| Interests in jointly controlled entities | – | 5 | – | 37 | – | | 42 |
| Unallocated corporate assets | | | | | | | 925 |
| Total consolidated assets | | | | | | | 8,659 |
| **Liabilities** | | | | | | | |
| Segment liabilities | 3,945 | 143 | 143 | 75 | 80 | | 4,386 |
| Unallocated corporate liabilities | | | | | | | 1,010 |
| Total consolidated liabilities | | | | | | | 5,396 |
| **Other information for the year ended 31 March 2007** | | | | | | | |
| Capital expenditure | 235 | 5 | 5 | 3 | 103 | | 351 |
| Amortisation of prepaid lease payments on land use rights | 1 | – | – | – | – | | 1 |
| Depreciation and amortisation of property, plant and equipment | 104 | 1 | 1 | 7 | 22 | | 135 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 7. SEGMENT INFORMATION *(continued)*

### Business segments *(continued)*

| | TV products HK$ million | Digital set-top boxes HK$ million | Mobile phones HK$ million | Other electronic products HK$ million | Property holding HK$ million | Eliminations HK$ million | Consolidated HK$ million |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 March 2006** | | | | | | | |
| **Turnover** | | | | | | | |
| External sales and rental income | 9,916 | 368 | 161 | 215 | 39 | – | 10,699 |
| Inter-segment sales and rental income | 42 | 1 | – | 124 | 6 | (173) | – |
| Total | 9,958 | 369 | 161 | 339 | 45 | (173) | 10,699 |

Inter-segment sales and rental are charged at prevailing market rates.

| | TV products HK$ million | Digital set-top boxes HK$ million | Mobile phones HK$ million | Other electronic products HK$ million | Property holding HK$ million | Eliminations HK$ million | Consolidated HK$ million |
|---|---|---|---|---|---|---|---|
| **Results** | | | | | | | |
| Segment results | 401 | 24 | 2 | (89) | 26 | | 364 |
| Interest income | | | | | | | 10 |
| Unallocated corporate income less expenses | | | | | | | (120) |
| Finance costs | | | | | | | (3) |
| Gain on disposal of subsidiaries | 3 | – | – | – | – | | 3 |
| Share of results of jointly controlled entities | – | – | – | 1 | – | | 1 |
| Profit before taxation | | | | | | | 255 |
| Income taxes | | | | | | | (39) |
| Profit for the year | | | | | | | 216 |
| **As at 31 March 2006** | | | | | | | |
| **Assets** | | | | | | | |
| Segment assets | 5,651 | 212 | 88 | 158 | 580 | | 6,689 |
| Interests in jointly controlled entities | – | – | – | 27 | – | | 27 |
| Unallocated corporate assets | | | | | | | 857 |
| Total consolidated assets | | | | | | | 7,573 |
| **Liabilities** | | | | | | | |
| Segment liabilities | 3,654 | 117 | 126 | 83 | 106 | | 4,086 |
| Unallocated corporate liabilities | | | | | | | 399 |
| Total consolidated liabilities | | | | | | | 4,485 |
| **Other information for the year ended 31 March 2006** | | | | | | | |
| Capital expenditure | 114 | 2 | 1 | 22 | 305 | | 444 |
| Amortisation of prepaid lease payments on land use rights | 1 | – | – | – | – | | 1 |
| Depreciation and amortisation of property, plant and equipment | 110 | 1 | – | 2 | 7 | | 120 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 7. SEGMENT INFORMATION *(continued)*

**Geographical segments**

The following is an analysis of the Group's turnover by the geographical market:

| | 2007 | 2006 |
|---|---|---|
| | HK$ million | HK$ million |
| PRC | 11,338 | 9,265 |
| Asia region (Other than PRC) | 307 | 512 |
| Europe | 423 | 434 |
| Other regions | 492 | 488 |
| | 12,560 | 10,699 |

The following is an analysis of the Group's carrying amount of total assets, additions to property, plant and equipment and prepaid lease payments on land use rights by the geographical market:

| | Carrying amount of total assets | | Additions to property, plant and equipment, and prepaid lease payments on land use rights | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | HK$ million | HK$ million | HK$ million | HK$ million |
| PRC | 7,446 | 6,133 | 340 | 431 |
| Asia region (Other than PRC) | 72 | 198 | 3 | 5 |
| Europe | 75 | 172 | 4 | 3 |
| Other regions | 99 | 186 | 4 | 5 |
| Total segment assets | 7,692 | 6,689 | 351 | 444 |
| Interests in jointly controlled entities | 42 | 27 | | |
| Unallocated corporate assets | 925 | 857 | | |
| Total consolidated assets | 8,659 | 7,573 | | |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 8. OTHER INCOME

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Other income comprises: | | |
| Change in fair value of held-for-trading investments | **–** | 7 |
| Dividend income | **2** | – |
| Interest income | **9** | 10 |
| Net foreign exchange gain | **17** | 20 |
| Refund of value added tax | **21** | 19 |
| Others | **65** | 64 |
| | **114** | 120 |

## 9. FINANCE COSTS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Interest on bank borrowings wholly repayable within five years | **28** | 8 |
| Less: Amount capitalised to construction in progress | **(9)** | (5) |
| | **19** | 3 |

Borrowing costs capitalised during the year arose on the general borrowing pool and were calculated by applying an average capitalisation rate of 5.5% (2006: 5.2%) per annum to expenditure on qualifying assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 10. INCOME TAXES

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| The charge comprises: | | |
| PRC income tax | | |
| Current year | **22** | 36 |
| Overprovision for previous years | **(8)** | – |
| | **14** | 36 |
| Other PRC taxes | | |
| Current year | **8** | 8 |
| Overprovision for previous years | **–** | (1) |
| | **8** | 7 |
| Deferred taxation *(note 20)* | | |
| Current year | **(3)** | (4) |
| | **19** | 39 |

No provision for Hong Kong Profits Tax has been made as the relevant entities incurred tax losses for both years.

PRC income tax is calculated at the rate prevailing in the PRC. The statutory rate of income tax is 33% (2006: 33%). Pursuant to relevant laws and regulations in the PRC, the Group's major subsidiaries are qualified as productive foreign investment enterprises established in cities within special economic zones and are entitled to PRC income tax at concessionary rate of 15%.

Other PRC taxes are calculated at the applicable rates of tax prevailing in the areas in which the Group's entities operate, 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 were eligible for certain tax holidays and concessions and were exempted from PRC income taxes for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 10. INCOME TAXES *(continued)*

The income taxes for the year can be reconciled to the profit before taxation as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Profit before taxation | **147** | 255 |
| Tax charge at the applicable rate of 15% | **22** | 38 |
| Tax effect of share of results of jointly controlled entities | **(1)** | – |
| Tax effect of expenses not deductible for tax purpose | **43** | 43 |
| Tax effect of income not taxable for tax purpose | **(28)** | (22) |
| Overprovision in respect of prior years | **(8)** | (1) |
| Tax effect of tax losses not recognised | **61** | 28 |
| Utilisation of tax losses previously not recognised | **(1)** | (16) |
| Effect of tax exemptions granted by the PRC tax authorities | **(60)** | (31) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **–** | (2) |
| Others | **(9)** | 2 |
| Income taxes for the year | **19** | 39 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 11. PROFIT FOR THE YEAR

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Profit for the year has been arrived at after charging: | | |
| Amortisation of prepaid lease payments | | |
| on land use rights | **2** | 2 |
| Less: Amount capitalised to construction in progress | **(1)** | (1) |
| | **1** | 1 |
| Auditors' remuneration: | | |
| Current year | **7** | 8 |
| Underprovision for prior years | **–** | 1 |
| Cost of inventories recognised as an expense (2006: | | |
| including write down of inventories of HK$68 million) | **10,489** | 8,678 |
| Depreciation and amortisation of property, | | |
| plant and equipment | **135** | 120 |
| Loss on disposal of property, plant and equipment | **6** | 1 |
| Operating lease rentals in respect of land and buildings | **60** | 62 |
| Impairment losses on trade receivables | **6** | 7 |
| Share of income taxes of jointly controlled entities | | |
| (included in the share of results of jointly | | |
| controlled entities) | **1** | – |
| Staff costs: | | |
| Directors' emoluments *(note 12)* | **23** | 20 |
| Research and development related staff costs | **50** | 51 |
| Others | **652** | 521 |
| and after crediting: | | |
| Rental income from leasing of properties less | | |
| related outgoings of HK$19 million | | |
| (2006: HK$16 million) | **21** | 23 |

## 12. DIRECTORS' EMOLUMENTS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Directors' fees | **3** | 1 |
| Other emoluments | | |
| Basic salaries and allowances | **6** | 12 |
| Retirement benefits scheme contributions | **1** | 1 |
| Performance related incentive payments *(Note)* | **9** | 4 |
| Share-based payments | **4** | 2 |
| | **23** | 20 |

*Note:* The performance related incentive payments are determined based on the results of the Group and/or the performance of the directors.

No director waived any emoluments during each of the two years ended 31 March 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 12. DIRECTORS' EMOLUMENTS *(continued)*

The emoluments paid or payable to each of the directors of the Company for the year ended 31 March 2007, calculated with reference to their employment as directors of the Company, are set out below:

| | Directors' fees | Basic salaries and allowances | Retirement benefits scheme contributions | Performance related incentive payments | Share-based payments | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors:** | | | | | | |
| Zhang Xuebin | – | 1,161 | 5 | 5,665 | 1,200 | 8,031 |
| Ding Kai | – | 575 | – | – | 134 | 709 |
| Leung Chi Ching, Frederick | – | 1,400 | 12 | 1,100 | – | 2,512 |
| Lin Wei Ping | – | 840 | 36 | – | – | 876 |
| Yang Dongwen | – | 1,182 | 5 | 996 | 2,354 | 4,537 |
| Wang Dianfu | – | 1,622 | – | 1,400 | – | 3,022 |
| | – | 6,780 | 58 | 9,161 | 3,688 | 19,687 |
| **Non-executive director:** | | | | | | |
| Wong Wang Sang, Stephen | 1,808 | – | 86 | – | – | 1,894 |
| | 1,808 | – | 86 | – | – | 1,894 |
| **Independent non-executive directors:** | | | | | | |
| So Hon Cheung, Stephen | 480 | – | – | – | – | 480 |
| Li Weibin | 480 | – | – | – | – | 480 |
| Xie Zhengcai | 177 | – | – | – | – | 177 |
| | 1,137 | – | – | – | – | 1,137 |
| Total directors' emoluments | 2,945 | 6,780 | 144 | 9,161 | 3,688 | 22,718 |

During the year, Mr. Zhang Xuebin had exercised certain share options of the Company and the deemed benefits arising from the exercise of those share options are HK$1,644,000. Deemed benefits arising from exercise of share options of the Company are calculated as the difference between the market price of the Company's share at the date of exercise of share options and the exercise price of share options.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2006: three) were directors of the Company, whose emoluments are included in note 12 above. The emoluments of all of the five individuals with the highest emoluments in the Group for each of the two years ended 31 March 2007 were as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Basic salaries, allowances and benefits in kind | **8** | 15 |
| Retirement benefit scheme contributions | **1** | 1 |
| Performance related incentive payments *(Note)* | **9** | 5 |
| Share-based payments | **6** | 2 |
| | **24** | 23 |

*Note:* The performance related incentive payments are determined based on the results of the Group and/or the performance of the individuals.

The above employees' emoluments were within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2007** | 2006 |
| HK$2,000,001 to HK$2,500,000 | **–** | 2 |
| HK$2,500,001 to HK$3,000,000 | **1** | – |
| HK$3,000,001 to HK$3,500,000 | **1** | – |
| HK$4,000,001 to HK$4,500,000 | **–** | 1 |
| HK$4,500,001 to HK$5,000,000 | **1** | – |
| HK$5,000,001 to HK$5,500,000 | **1** | – |
| HK$6,000,001 to HK$6,500,000 | **–** | 1 |
| HK$7,500,001 to HK$8,000,000 | **–** | 1 |
| HK$8,000,001 to HK$8,500,000 | **1** | – |

Save as disclosed in notes 12 and 13 above, no emoluments were paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office during each of the two years ended 31 March 2007.

## 14. DIVIDENDS

### (a) Dividends paid during the year

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Interim dividend paid for the year ended 31 March 2005: HK2.2 cents per share | **–** | 50 |
| Final dividend paid for the year ended 31 March 2006: HK2.8 cents (2005: HK3.3 cents) per share | **64** | 74 |
| Interim dividend paid for the year ended 31 March 2007: HK0.5 cent (2006: HK1 cent) per share | **11** | 23 |
| | **75** | 147 |

### (b) Dividends attributable to the year

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Interim dividend declared and paid of HK0.5 cent (2006: HK1 cent) per share | **11** | 23 |
| Final dividend proposed after the balance sheet date of HK1.2 cents (2006: HK2.8 cents) per share | **28** | 64 |
| | **39** | 87 |

The proposed final dividend of HK1.2 cents per share is declared on 24 July 2007. As the final dividend is declared after the balance sheet date, such dividend is not recognised as a liability as at 31 March 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 15. 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:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Earnings for the purposes of basic and diluted earnings per share – profit for the year | **128** | 216 |

| | **Number of shares** | |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,288,459,909** | 2,265,419,125 |
| Effect of dilutive potential ordinary shares: Share options | **7,614,799** | 37,315,720 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **2,296,074,708** | 2,302,734,845 |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$ million | Construction in progress HK$ million | Plant and machinery HK$ million | Furniture, equipment and motor vehicles HK$ million | Total HK$ million |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 1 April 2005 | 369 | 78 | 488 | 117 | 1,052 |
| Exchange realignment | 12 | 5 | 14 | 4 | 35 |
| Additions | – | 329 | 57 | 37 | 423 |
| Amortisation of prepaid lease payments capitalised | – | 1 | – | – | 1 |
| Disposals of subsidiaries | – | (42) | – | – | (42) |
| Disposals | – | – | (2) | (6) | (8) |
| At 31 March 2006 | 381 | 371 | 557 | 152 | 1,461 |
| Exchange realignment | 31 | 8 | 28 | 8 | 75 |
| Additions | 6 | 162 | 123 | 53 | 344 |
| Amortisation of prepaid lease payments capitalised | – | 1 | – | – | 1 |
| Reclassification | 473 | (523) | 50 | – | – |
| Disposals | – | – | (11) | (16) | (27) |
| At 31 March 2007 | 891 | 19 | 747 | 197 | 1,854 |
| **DEPRECIATION AND AMORTISATION** | | | | | |
| At 1 April 2005 | 60 | – | 349 | 49 | 458 |
| Exchange realignment | 2 | – | 11 | 2 | 15 |
| Provided for the year | 16 | – | 70 | 34 | 120 |
| Eliminated on disposals | – | – | (1) | (5) | (6) |
| At 31 March 2006 | 78 | – | 429 | 80 | 587 |
| Exchange realignment | 4 | – | 20 | 4 | 28 |
| Provided for the year | 30 | – | 67 | 38 | 135 |
| Eliminated on disposals | – | – | (8) | (11) | (19) |
| At 31 March 2007 | 112 | – | 508 | 111 | 731 |
| **CARRYING VALUES** | | | | | |
| At 31 March 2007 | 779 | 19 | 239 | 86 | 1,123 |
| At 31 March 2006 | 303 | 371 | 128 | 72 | 874 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Included in leasehold land and building of the Group are certain properties with carrying value of approximately HK$116 million (2006: HK$125 million) held under operating leases to earn rentals during the year. These properties do not qualify as investment properties as more than insignificant portions of the entire properties are held for use by the Group in the production or supply of goods or services or for administrative purposes and these portions could not be sold separately.

The carrying values of leasehold land and buildings and construction in progress shown above comprises:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Leasehold land and buildings: | | |
| In the PRC held under | | |
| – long term leases | **26** | 22 |
| – medium-term leases | **45** | 6 |
| | **71** | 28 |
| In Hong Kong held under long term leases | **31** | 31 |
| | **102** | 59 |
| Buildings: | | |
| In the PRC held under medium-term leases | **677** | 244 |
| Construction in progress: | | |
| In the PRC held under medium-term leases | **19** | 371 |
| | **798** | 674 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 17. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Carrying amount at 1 April | **94** | 72 |
| Additions | **7** | 21 |
| Amortised during the year | **(2)** | (2) |
| Exchange realignment | **5** | 3 |
| Carrying amount at 31 March | **104** | 94 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **102** | 92 |
| Current assets | **2** | 2 |
| | **104** | 94 |

The Group's prepaid lease payments on land use rights represents the land situated in the PRC and held under medium-term leases.

## 18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Cost of unlisted investments | **69** | 60 |
| Share of post-acquisition losses and reserve, net of dividends received | **(27)** | (33) |
| | **42** | 27 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 18. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The following lists the jointly controlled entities of the Group as at 31 March 2007 which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

| Name of entity | Form of business structure | Place of registration and operation | Paid up registered capital | Effective interest held by the Group | Principal business |
|---|---|---|---|---|---|
| 深圳市創維群欣安防科技有限公司 | Equity joint venture | PRC | RMB10,000,000 | 50% | Manufacture and sales of monitor system |
| 深圳大雁科技實業有限公司 | Equity joint venture | PRC | RMB30,000,000 | 50% | Manufacture and sales of electronic components |

The summarised financial information in respect of the Group's jointly controlled entities is as follows:

**Share of assets and liabilities attributable to the Group**

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Non-current assets | **17** | 47 |
| Current assets | **71** | 47 |
| Current liabilities | **(46)** | (65) |
| Non-current liabilities | **–** | (2) |
| | **42** | 27 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 18. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

**Share of results attributable to the Group**

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Total revenue | **75** | 46 |
| Total expenses | **(67)** | (45) |
| | **8** | 1 |

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amount of unrecognised share of those jointly controlled entities, both for the year and cumulatively, are as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Unrecognised share of losses of jointly controlled entities for the year | **13** | 10 |
| Accumulated unrecognised share of losses of jointly controlled entites | **23** | 10 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 19. AVAILABLE-FOR-SALE INVESTMENTS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Unlisted equity securities, at cost | | |
| – in the PRC | **21** | 19 |
| – in overseas | **16** | 16 |
| Less: Impairment loss recognised | **(11)** | (8) |
| | **26** | 27 |
| Listed equity securities | | |
| – in Hong Kong, at fair values | **6** | 6 |
| | **32** | 33 |

The equity securities unlisted in the PRC and overseas are not stated at fair value but at cost less any impairment loss because they do not have a quoted market price in an active market and the fair value cannot be reliably measured.

The directors conducted a review of the Group's available-for-sale investments during the year and determined that the recoverable amounts of certain investments in unlisted equity securities in the PRC based on discounted future cash flows were less than their corresponding carrying amounts. Accordingly, further impairment loss of HK$3 million (2005: HK$3 million) has been recognised to consolidated income statement in respect of these investments during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 20. DEFERRED TAXATION

The followings are the major deferred tax balances recognised and movements thereon during the current and prior years:

**Deferred tax liabilities:**

| | Accelerated tax depreciation *HK$ million* | Tax losses *HK$ million* | Others *HK$ million* | Total *HK$ million* |
|---|---|---|---|---|
| At 1 April 2005 | 6 | (1) | – | 5 |
| Credit to consolidated income statement for the year | (4) | – | – | (4) |
| At 31 March 2006 | 2 | (1) | – | 1 |
| Credit to consolidated income statement for the year | – | (1) | – | (1) |
| Charge to equity for the year | – | – | 8 | 8 |
| At 31 March 2007 | 2 | (2) | 8 | 8 |

**Deferred tax assets:**

| | Provisions *HK$ million* |
|---|---|
| At 1 April 2005 and 31 March 2006 | – |
| Credit to consolidated income statement for the year | 2 |
| At 31 March 2007 | 2 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 20. DEFERRED TAXATION *(continued)*

At the balance sheet date, the Group has unutilised tax losses of HK$812 million (2006: HK$392 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$9 million (2006: HK$3 million) of such losses. No deferred tax asset has been recognised in respect of the remaining unutilised tax losses of HK$803 million (2006: HK$389 million) due to the unpredictability of future profit streams. Unrecognised tax losses will expire as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Unrecognised tax losses will expire in: | | |
| 2006 | **–** | 2 |
| 2007 | **1** | 1 |
| 2008 | **25** | 24 |
| 2009 | **22** | 21 |
| 2010 | **106** | 101 |
| 2011 | **322** | – |
| Carried forward indefinitely | **327** | 240 |
| | **803** | 389 |

## 21. INVENTORIES

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Raw materials | **432** | 496 |
| Work in progress | **174** | 188 |
| Finished goods | **967** | 1,063 |
| | **1,573** | 1,747 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 22. 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.

In view of the aforementioned and that the Group's trade receivables related to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Within 30 days | **182** | 243 |
| 31 to 60 days | **214** | 89 |
| 61 to 90 days | **107** | 95 |
| 91 days or over | **146** | 90 |
| Trade receivables | **649** | 517 |
| Deposits, prepayments and other receivables | **385** | 264 |
| | **1,034** | 781 |

## 23. BILLS RECEIVABLE

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Within 30 days | **90** | 141 |
| 31 to 60 days | **91** | 125 |
| 61 to 90 days | **205** | 183 |
| 91 days or over | **1,174** | 781 |
| Bills endorsed to suppliers | **1,677** | 1,800 |
| Bills discounted with recourse | **610** | 151 |
| | **3,847** | 3,181 |

The carrying values of bills endorsed to suppliers and bills discounted with recourse continue to be recognised as assets in the consolidated financial statements as the Group still exposes to credit risk on these receivables as at balance sheet date. Accordingly, the associated liabilities, mainly borrowings and payables, are not derecognised in the consolidated financial statements as well.

The maturity dates of bills endorsed to suppliers and bills discounted with recourse are less than six months at the balance sheet date.

## 24. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

## 25. HELD-FOR-TRADING INVESTMENTS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Unit trust funds unlisted in overseas | **–** | 24 |

During the year, the Group has disposed of all the unit trust funds unlisted in overseas.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 26. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, which carry interest at variable market rates ranging from 0.72% to 3% (2006: 0.25% to 3%).

## 27. TRADE AND OTHER PAYABLES

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Within 30 days | **508** | 436 |
| 31 to 60 days | **312** | 198 |
| 61 to 90 days | **266** | 197 |
| 91 days or over | **174** | 107 |
| Trade payables under endorsed bills | **1,677** | 1,800 |
| Trade payables | **2,937** | 2,738 |
| Deposits in advance, accruals and other payables | **1,275** | 1,224 |
| | **4,212** | 3,962 |

## 28. BILLS PAYABLE

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Within 30 days | **15** | 2 |
| 31 to 60 days | **8** | 6 |
| 61 to 90 days | **8** | – |
| 91 days or over | **1** | – |
| | **32** | 8 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 29. PROVISION

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Balance at 1 April | **73** | 43 |
| Adjustment arising from use of revised defective rates | **(17)** | 28 |
| Additional provision in respect of current year's sales | **61** | 82 |
| Unused amounts reversed | **(6)** | (14) |
| Utilised | **(53)** | (68) |
| Exchange adjustments | **3** | 2 |
| Balance at 31 March | **61** | 73 |
| Analysed for reporting purposes as: | | |
| Current liabilities | **42** | 48 |
| Non-current liabilities | **19** | 25 |
| | **61** | 73 |

The Group provides product warranty ranging from one to three years to its customers depending on the product type, under which faulty products are repaired or replaced. The estimate of the provision for the warranty is based on sales volumes and past experience of the level of repairs and returns. The estimation is reviewed on an ongoing basis and revised by reference to the current defective rate of products sold.

## 30. AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES

The amounts due to jointly controlled entities are unsecured, interest free and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 31. SECURED BANK BORROWINGS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Secured bank borrowings comprise the following: | | |
| Mortgage loans | **1** | 3 |
| Other bank loans | **933** | 314 |
| | **934** | 317 |
| The bank borrowings are repayable as follows: | | |
| Within one year or on demand | **611** | 153 |
| More than one year, but not exceeding two years | **171** | 1 |
| More than two years, but not exceeding five years | **152** | 163 |
| | **934** | 317 |
| Less: Amount due within one year or on demand included in current liabilities | **(611)** | (153) |
| Amount due after one year | **323** | 164 |

The bank borrowings carry at variable market interest rates ranging from 2.9% to 7.25% (2006: 3% to 7.25%) per annum and reprice every year.

The receipts and payments of all above secured bank borrowings are denominated in the functional currencies of the relevant group entities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 32. DEFERRED INCOME

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Deferred income | **80** | 42 |
| Less: Amount to be recognised as income within one year included in current liabilities | **(52)** | (21) |
| Amount to be recognised as income after one year | **28** | 21 |

Deferred income represents government grants provided by the relevant PRC government authorities for the purposes of financing the development of new products or the construction of production plant. The amounts are recognised as income to match with related expenses or on systematic basis over the useful lives of the relevant assets. The policy has resulted in a credit to income in the current year of HK$9 million (2006: HK$2 million).

## 33. SHARE CAPITAL

| | **Number of shares** | **Share capital** |
|---|---|---|
| | | *HK$ million* |
| Ordinary shares of HK$0.1 each: | | |
| **Authorised** | | |
| At 1 April 2005, 31 March 2006 and 31 March 2007 | 10,000,000,000 | 1,000 |
| **Issued and fully paid** | | |
| At 1 April 2005 | 2,262,572,391 | 226 |
| Issue of shares under share option schemes | 22,112,000 | 2 |
| At 31 March 2006 | 2,284,684,391 | 228 |
| Issue of shares under share option schemes | 4,606,000 | 1 |
| At 31 March 2007 | 2,289,290,391 | 229 |

Details of the exercise of share options during the two years ended 31 March 2007 are set out in note 34.

## 34. SHARE OPTIONS

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

(i) Pursuant to a resolution passed on 27 March 2000, the Company adopted a share option scheme under which the directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries and associates, to subscribe for shares in the Company (the "Old Scheme").

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

Under the Old Scheme, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares of the Company on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares of the Company, whichever is the higher.

With effect from 1 September 2001, in accordance with the amended Chapter 17 of the Listing Rules, the exercise price of any share options granted by the Company must be at least the higher of the closing price of the shares of the Company on the date of grant, and the average closing prices of the shares of the Company for the five business days immediately preceding the date of grant. Unless the grants of share options under the Old Scheme complies with the amended rules in the Listing Rules governing share option schemes, no further option can be granted under the Old Scheme from 1 September 2001. Nevertheless, options previously granted under the Old Scheme will continue to be exercisable in accordance with the Old Scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

(ii) Pursuant to a special resolution passed on 28 August 2002, the Company adopted a new share option scheme under which the directors of the Company may grant options to eligible person, including any directors, whether executive or non-executive (including any independent non-executive directors), and any employee, whether full time or part time, of any member of the Group (the "New Scheme").

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

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

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

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

The total number of shares available for grant under the share option schemes of the Company is approximately 178,900,000 representing approximately 7.81% of the issued share capital of the Company as at the date of this report.

## 34. SHARE OPTIONS *(continued)*

**2007**

The following table shows the movements in the Company's share options granted under the Old Scheme during the year ended 31 March 2007:

| Date of grant | Exercise price HK$ | Vesting period | Exercisable period | Outstanding at 1 April 2006 | Exercised during the year (note b) | Cancelled during the year | Outstanding at 31 March 2007 |
|---|---|---|---|---|---|---|---|
| 25 November 2000 | 0.336 | 25 November 2000 to 24 November 2001 | 25 November 2001 to 27 March 2010 | 284,000 | (12,000) | (18,000) | 254,000 |
| | | 25 November 2000 to 24 November 2002 | 25 November 2002 to 27 March 2010 | 406,000 | (16,000) | (44,000) | 346,000 |
| | | 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 | (1,996,000) | (6,282,000) | 4,098,000 |
| 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 | 3,000,000 | (750,000) | (750,000) | 1,500,000 |
| | | 23 January 2002 to 22 January 2006 | 23 January 2006 to 27 March 2010 | 3,000,000 | (750,000) | (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) | – |
| | | | | 20,704,000 | (4,062,000) | (8,944,000) | 7,698,000 |

*Notes:*

(a) No share option was granted under the Old Scheme during the year ended 31 March 2007.

(b) The weighted average closing prices of the Company's shares immediately before the dates of which the share options were exercised during the year ended 31 March 2007 was HK$0.94.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

During the year ended 31 March 2003, the Old Scheme of the Company was replaced by the New Scheme pursuant to a special resolution passed on 28 August 2002. The following table shows the movements in the Company's share options granted under the New Scheme during the year ended 31 March 2007:

| Date of grant | Exercise price | Vesting period | Exercisable period | Outstanding at 1 April 2006 | Exercised during the year | Cancelled during the year | Outstanding at 31 March 2007 |
|---|---|---|---|---|---|---|---|
| | *HK$* | | | | *(note c)* | | |
| 5 October 2002 | 0.840 | 5 October 2002 to 4 October 2004 | 5 October 2004 to 28 August 2012 | 2,100,000 | – | (100,000) | 2,000,000 |
| | | 5 October 2002 to 4 October 2005 | 5 October 2005 to 28 August 2012 | 9,826,000 | – | (2,200,000) | 7,626,000 |
| | | 5 October 2002 to 4 October 2006 | 5 October 2006 to 28 August 2012 | 9,826,000 | – | (2,200,000) | 7,626,000 |
| 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 |
| 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

| Date of grant | Exercise price | Vesting period | Exercisable period | Outstanding at 1 April 2006 | Exercised during the year | Cancelled during the year | Outstanding at 31 March 2007 |
|---|---|---|---|---|---|---|---|
| | *HK$* | | | | *(note c)* | | |
| 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 | 28,210,000 | – | (3,481,000) | 24,729,000 |
| | | 16 October 2003 to 15 October 2005 | 16 October 2005 to 28 August 2012 | 29,960,000 | – | (4,095,000) | 25,865,000 |
| | | 16 October 2003 to 15 October 2006 | 16 October 2006 to 28 August 2012 | 33,060,000 | – | (6,095,000) | 26,965,000 |
| | | 16 October 2003 to 15 October 2007 | 16 October 2007 to 28 August 2012 | 39,660,000 | – | (6,095,000) | 33,565,000 |
| | | 16 October 2003 to 15 October 2008 | 16 October 2008 to 28 August 2012 | 11,000,000 | – | – | 11,000,000 |
| 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

| Date of grant | Exercise price HK$ | Vesting period | Exercisable period | Outstanding at 1 April 2006 | Exercised during the year (note c) | Cancelled during the year | Outstanding at 31 March 2007 |
|---|---|---|---|---|---|---|---|
| 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 | N/A | 28 July 2004 to 28 August 2012 | 1,000,000 | – | – | 1,000,000 |
| | | 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

| Date of grant | Exercise price HK$ | Vesting period | Exercisable period | Outstanding at 1 April 2006 | Exercised during the year *(note c)* | Cancelled during the year | Outstanding at 31 March 2007 |
|---|---|---|---|---|---|---|---|
| 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 |
| 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 |
| 25 January 2006 | 1.136 | 25 January 2006 to 24 January 2007 | 25 January 2007 to 28 August 2012 | 4,875,000 | – | (1,000,000) | 3,875,000 |
| | | 25 January 2006 to 24 January 2008 | 25 January 2008 to 28 August 2012 | 4,875,000 | – | (1,000,000) | 3,875,000 |
| | | 25 January 2006 to 24 January 2009 | 25 January 2009 to 28 August 2012 | 4,875,000 | – | (1,000,000) | 3,875,000 |
| | | 25 January 2006 to 24 January 2010 | 25 January 2010 to 28 August 2012 | 3,875,000 | – | – | 3,875,000 |
| | | | | 213,134,000 | (544,000) | (27,266,000) | 185,324,000 |

*Notes:*

(c) The weighted average closing prices of the Company's shares immediately before the dates of which the share options were exercised during the year ended 31 March 2007 was HK$1.01.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

### 2006

The following table shows the movements in the Company's share options granted under the Old Scheme during the year ended 31 March 2006:

| Date of grant | Exercise price | Vesting period | Exercisable period | Outstanding at 1 April 2005 | Reclassified during the year | Exercised during the year | Cancelled during the year | Outstanding at 31 March 2006 |
|---|---|---|---|---|---|---|---|---|
| | *HK$* | | | | *(note b)* | *(note c)* | | |
| 25 November 2000 | 0.336 | 25 November 2000 to 24 November 2001 | 25 November 2001 to 27 March 2010 | 430,000 | 34,000 | – | (180,000) | 284,000 |
| | | 25 November 2000 to 24 November 2002 | 25 November 2002 to 27 March 2010 | 540,000 | (82,000) | – | (52,000) | 406,000 |
| | | 25 November 2000 to 24 November 2003 | 25 November 2003 to 27 March 2010 | 36,000 | 2,000 | – | – | 38,000 |
| | | 25 November 2000 to 24 November 2004 | 25 November 2004 to 27 March 2010 | 29,685,000 | 46,000 | (17,353,000) | (2,000) | 12,376,000 |
| 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 | 3,750,000 | – | (750,000) | – | 3,000,000 |
| | | 23 January 2002 to 22 January 2006 | 23 January 2006 to 27 March 2010 | 3,750,000 | – | (750,000) | – | 3,000,000 |
| 25 March 2002 | 0.520 | 25 March 2002 to 24 March 2005 | 25 March 2005 to 27 March 2010 | 868,000 | – | (668,000) | (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 |
| | | | | 40,559,000 | – | (19,521,000) | (334,000) | 20,704,000 |

*Notes:*

(a) No share option was granted under the Old Scheme during the year ended 31 March 2006.

(b) During the year ended 31 March 2006, the exercisable period of certain share options granted had been restated.

(c) The weighted average closing prices of the Company's shares immediately before the dates of which the share options were exercised during the year ended 31 March 2006 was HK$1.28. The Company's shares were suspended from 30 November 2004 to 10 January 2006 (the "Suspension Period"). The closing share price of the Company's share immediately before the dates on which share options were exercised during the Suspension Period is deemed as HK$1.09, the closing share price of the Company's share on the day of resumption of trading of the shares of the Company on 11 January 2006.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

The following table shows the movements in the Company's share options granted under the New Scheme during the year ended 31 March 2006:

| Date of grant | Exercise price<br>*HK$* | Vesting period | Exercisable period | Outstanding at 1 April 2005 | Granted during the year<br>*(note d)* | Exercised during the year<br>*(note e)* | Cancelled during the year | Outstanding at 31 March 2006 |
|---|---|---|---|---|---|---|---|---|
| 5 October 2002 | 0.840 | 5 October 2002 to 4 October 2004 | 5 October 2004 to 28 August 2012 | 4,100,000 | – | (2,000,000) | – | 2,100,000 |
| | | 5 October 2002 to 4 October 2005 | 5 October 2005 to 28 August 2012 | 11,900,000 | – | (75,000) | (1,999,000) | 9,826,000 |
| | | 5 October 2002 to 4 October 2006 | 5 October 2006 to 28 August 2012 | 11,900,000 | – | – | (2,074,000) | 9,826,000 |
| 14 February 2003 | 0.874 | 14 February 2003 to 13 February 2005 | 14 February 2005 to 28 August 2012 | 366,000 | – | (266,000) | – | 100,000 |
| | | 14 February 2003 to 13 February 2006 | 14 February 2006 to 28 August 2012 | 368,000 | – | – | – | 368,000 |
| 18 March 2003 | 0.800 | 18 March 2003 to 17 March 2005 | 18 March 2005 to 28 August 2012 | 250,000 | – | (250,000) | – | – |
| | | 18 March 2003 to 17 March 2006 | 18 March 2006 to 28 August 2012 | 250,000 | – | – | (250,000) | – |
| | | 18 March 2003 to 17 March 2007 | 18 March 2007 to 28 August 2012 | 250,000 | – | – | (250,000) | – |
| 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 |
| 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

| Date of grant | Exercise price HK$ | Vesting period | Exercisable period | Outstanding at 1 April 2005 | Granted during the year (note d) | Exercised during the year (note e) | Cancelled during the year | Outstanding at 31 March 2006 |
|---|---|---|---|---|---|---|---|---|
| 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 | 29,747,000 | – | – | (1,537,000) | 28,210,000 |
| | | 16 October 2003 to 15 October 2005 | 16 October 2005 to 28 August 2012 | 32,330,000 | – | – | (2,370,000) | 29,960,000 |
| | | 16 October 2003 to 15 October 2006 | 16 October 2006 to 28 August 2012 | 35,430,000 | – | – | (2,370,000) | 33,060,000 |
| | | 16 October 2003 to 15 October 2007 | 16 October 2007 to 28 August 2012 | 42,030,000 | – | – | (2,370,000) | 39,660,000 |
| | | 16 October 2003 to 15 October 2008 | 16 October 2008 to 28 August 2012 | 11,000,000 | – | – | – | 11,000,000 |
| 26 February 2004 | 2.575 | 26 February 2004 to 25 February 2005 | 26 February 2005 to 28 August 2012 | 2,600,000 | – | – | (2,500,000) | 100,000 |
| | | 26 February 2004 to 25 February 2006 | 26 February 2006 to 28 August 2012 | 2,600,000 | – | – | (2,500,000) | 100,000 |
| | | 26 February 2004 to 25 February 2007 | 26 February 2007 to 28 August 2012 | 2,600,000 | – | – | (2,500,000) | 100,000 |
| | | 26 February 2004 to 25 February 2008 | 26 February 2008 to 28 August 2012 | 2,600,000 | – | – | (2,500,000) | 100,000 |
| 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

| Date of grant | Exercise price HK$ | Vesting period | Exercisable period | Outstanding at 1 April 2005 | Granted during the year *(note d)* | Exercised during the year *(note e)* | Cancelled during the year | Outstanding at 31 March 2006 |
|---|---|---|---|---|---|---|---|---|
| 28 July 2004 | 2.275 | N/A | 28 July 2004 to 28 August 2012 | 1,000,000 | – | – | – | 1,000,000 |
| | | 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 | 80,000 | – | – | (50,000) | 30,000 |
| | | 30 September 2004 to 29 September 2006 | 30 September 2006 to 28 August 2012 | 80,000 | – | – | (50,000) | 30,000 |
| | | 30 September 2004 to 29 September 2007 | 30 September 2007 to 28 August 2012 | 80,000 | – | – | (50,000) | 30,000 |
| | | 30 September 2004 to 29 September 2008 | 30 September 2008 to 28 August 2012 | 80,000 | – | – | (50,000) | 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 34. SHARE OPTIONS *(continued)*

| Date of grant | Exercise price HK$ | Vesting period | Exercisable period | Outstanding at 1 April 2005 | Granted during the year *(note d)* | Exercised during the year *(note e)* | Cancelled during the year | Outstanding at 31 March 2006 |
|---|---|---|---|---|---|---|---|---|
| 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 |
| 25 January 2006 | 1.136 | 25 January 2006 to 24 January 2007 | 25 January 2007 to 28 August 2012 | – | 4,875,000 | – | – | 4,875,000 |
| | | 25 January 2006 to 24 January 2008 | 25 January 2008 to 28 August 2012 | – | 4,875,000 | – | – | 4,875,000 |
| | | 25 January 2006 to 24 January 2009 | 25 January 2009 to 28 August 2012 | – | 4,875,000 | – | – | 4,875,000 |
| | | 25 January 2006 to 24 January 2010 | 25 January 2010 to 28 August 2012 | – | 3,875,000 | – | – | 3,875,000 |
| | | | | 220,645,000 | 18,500,000 | (2,591,000) | (23,420,000) | 213,134,000 |

*Notes:*

(d) During the year ended 31 March 2006, 18,500,000 share options were granted to eligible persons as defined in the New Scheme. The closing share price of the Company's shares on 24 January 2006, the trading day preceding the date of grant of the share options were HK$1.11. Other than the options stated above, no options had been granted by the Company to the other participants pursuant to the New Scheme during the year ended 31 March 2006.

(e) The weighted average closing prices of the Company's shares immediately before the dates of which the share options were exercised during the year ended 31 March 2006 was HK$1.20. The Company's shares were suspended from 30 November 2004 to 10 January 2006 (the "Suspension Period"). The closing share price of the Company's share immediately before the dates on which share options were exercised during the Suspension Period is deemed as HK$1.09, the closing share price of the Company's share on the day of resumption of trading of the shares of the Company on 11 January 2006.

At the balance sheet date, outstanding share options of 42,000,000 (2006: 44,000,000) above are held by the directors of the Company. Details of the share options held by the directors are disclosed in the section headed "Directors' interests in shares and share options" of the report of the directors.

## 35. SHARE-BASED PAYMENTS

The particulars of the share option schemes of the Company, and the details of and the movements in share options during the two years ended 31 March 2007 are disclosed in note 34, a summary of which is presented below:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price** | Number of share options | Weighted average exercise price |
| | | ***HK$*** | | *HK$* |
| Outstanding at the beginning of the year | **233,838,000** | **1.491** | 261,204,000 | 1.459 |
| Granted during the year | **–** | **–** | 18,500,000 | 1.136 |
| Exercised during the year | **(4,606,000)** | **0.421** | (22,112,000) | 0.406 |
| Cancelled during the year | **(36,210,000)** | **1.200** | (23,754,000) | 1.873 |
| Outstanding at the end of the year | **193,022,000** | **1.571** | 233,838,000 | 1.491 |
| Exercisable at the end of the year | **122,657,000** | | 99,532,500 | |

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.95 (2006: HK$1.33). The share options outstanding as at 31 March 2007 have a weighted average remaining contractual life of 5.4 years (2006: 6.3 years) and the exercise prices of which range from HK$0.292 to HK$2.740 (2006: HK$0.292 to HK$2.740).

The fair values of share options granted by the Company were determined by using Black-Scholes Model. During the year, no share options were granted by the Company; accordingly, no fair value calculation was made. The details of the variables used for calculating fair value of the share options granted during the year ended 31 March 2006 are summarised as follows:

| | |
|---|---|
| Date of grant of the share options: | 25 January 2006 |
| Expected life of the share options: | 5 years |
| Risk-free interest rate: | 3.96% |
| Expected volatility of share prices: | 40% |
| Expected dividend yield: | 3.5% |

## 35. SHARE-BASED PAYMENTS *(continued)*

*Notes:*

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

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

(c) The expected volatility of share prices applied to the Black-Scholes Model is derived with reference to the annualised average standard deviation of the daily closing share prices of the Company since 7 April 2000 (the date of initial share dealing of the Company in the Stock Exchange) to the dates of grant and management's expectation on the future movements in share prices.

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

The fair value of share options granted on 25 January 2006, determined using the Black-Scholes Model with the above variables, is HK$0.33 per share option. The weighted average fair value of share options granted during the year was nil (2006: HK$0.33).

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

The Company has applied HKFRS 2 "Share-based Payment" to account for its share options. An amount of share-based payment expenses of HK$13 million (2006: HK$28 million) has been recognised in the current year.

## 36. DISPOSAL OF SUBSIDIARIES

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Net assets disposed of: | | |
| Property, plant and equipment | – | 42 |
| Other receivables | – | 2 |
| Other payables | – | (36) |
| Net assets disposed of | – | 8 |
| Gain on disposal of subsidiaries | – | 3 |
| Total consideration | – | 11 |
| Satisfied by and cash inflow arising on disposal: | | |
| Cash consideration | – | 11 |

The subsidiaries disposed of during the year ended 31 March 2006 had no significant impact on the results and cash flows of the Group for that year.

## 37. PLEDGE OF ASSETS

At 31 March 2007, the Group's bank borrowings were secured by the followings:

(a) charges over prepaid lease payments on land use rights and leasehold land and buildings with carrying value of HK$57 million (2006: HK$ 17 million) and HK$254 million (2006: HK$137 million) respectively;

(b) bills receivable of HK$150 million (2006: HK$405 million); and

(c) bank deposits of HK$65 million (2006: HK$38 million).

In addition, there were other bills receivable endorsed to suppliers and discounted with recourse of HK$1,677 million (2006: HK$1,800 million) and HK$610 million (2006: HK$151 million) respectively as disclosed in note 23.

The pledged bank deposits carry annual variable interest ranging from 0.72% to 3.1% (2006: 1.2% to 2.7%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 38. OPERATING LEASE ARRANGEMENTS

**The Group as lessee**

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases in respect of land and building which fall due as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Within one year | **19** | 17 |
| In the second to fifth year inclusive | **39** | 21 |
| Over five years | **2** | 5 |
| | **60** | 43 |

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for terms ranging from one to five years and rentals are fixed over the term of the relevant leases.

**The Group as lessor**

During the year, the Group earned rental income of HK$40 million (2006: HK$39 million) from the lease of the Group's properties. The leased properties have committed tenants for terms ranging from one to five years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Within one year | **33** | 39 |
| In the second to fifth year inclusive | **11** | 16 |
| | **44** | 55 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 39. CAPITAL COMMITMENTS

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Contracted but not provided for, in respect of: | | |
| Purchase of property, plant and equipment | **8** | 7 |
| Factory buildings under development | **35** | 89 |
| | **43** | 96 |
| Authorised but not contracted for, in respect of: | | |
| Purchase of property, plant and equipment | **–** | 101 |
| Factory buildings under development | **419** | 162 |
| | **419** | 263 |

## 40. 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 consolidated financial statements of the Group.

## 41. RETIREMENT BENEFITS SCHEMES

The employees of the Company's Hong Kong subsidiaries participate in either a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") or a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Certain employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme remained with the ORSO Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 41. RETIREMENT BENEFITS SCHEMES *(continued)*

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employees' basic salary. The pension costs charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The aggregate retirement benefits scheme contributions and pension costs for the Group's employees, net of forfeited contributions, which have been dealt with in the consolidated income statement, are as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Retirement benefit scheme contributions in Hong Kong | **1** | 1 |
| Pension costs in the PRC | **15** | 9 |
| Total retirement benefit scheme contributions | **16** | 10 |

At 31 March 2007, there were no forfeited contributions available to offset future employers' contributions to the schemes.

## 42. RELATED PARTY TRANSACTIONS

**Trading transactions**

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Sub-contracting charges paid | **5** | 4 |
| Sales of raw materials | **9** | 5 |
| Purchase of equipment | **1** | – |
| Purchase of raw materials | **5** | 3 |
| Advertising and promotional expenses paid | **33** | 29 |

**Compensation of key management personnel**

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Short-term benefits | **30** | 28 |
| Post-employment benefits | **1** | 1 |
| Share-based payments | **7** | 5 |
| | **38** | 34 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 43. 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 Mr. Wong Wang Sang, Stephen ("Mr. Stephen Wong") (the Company's former non-executive Chairman of the Board) 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 year, 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, 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. Stephen Wong 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 Wei Ping (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 43. OTHER MATTERS *(continued)*

**3. Agreed-upon procedures report issued by an international accounting firm**

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 an international accounting firm to perform certain agreed-upon procedures to independently verify the findings of the Company on the allegations contained in the Extracts. The international accounting firm 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 consolidated financial statements of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following lists the subsidiaries of the Company as at 31 March 2007 which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/paid up registered capital | Effective interest held by the Company | Principal activities |
|---|---|---|---|---|
| | | | % *(note a)* | |
| Skyworth Holdings Limited 創維控股有限公司 | Samoa | Ordinary shares US$1 | 100 | Investment holding |
| Skyworth Enterprises Limited 創維實業有限公司 | Samoa | Ordinary shares US$1 | 100 | Investment holding |
| Skyworth Digital Group Limited 創維集團有限公司 | The British Virgin Islands | Ordinary shares HK$893 Preference shares HK$990 | 100 | Investment holding |
| Skyworth TV Holdings Limited 創維電視控股有限公司 | Hong Kong | Ordinary shares HK$30,600,000 Non-voting deferred shares HK$2,500,000 *(note b)* | 100 | Procurement of raw materials and investment holding |
| 深圳創維 — RGB電子有限公司 Shenzhen Chuangwei – RGB Electronics Co., Ltd. | PRC *(note c)* | Registered capital RMB200,000,000 | 100 | Manufacture and sale of consumer electronic products |
| 新創維電器(深圳)有限公司 Skyworth Electrical Appliances (Shenzhen) Co., Ltd. | PRC *(note d)* | Registered capital US$21,180,000 | 100 | Manufacture of consumer electronic products and property holding |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/paid up registered capital | Effective interest held by the Company % *(note a)* | Principal activities |
|---|---|---|---|---|
| 創維電子(內蒙古)有限公司 Skyworth Electronics (Inner Mongolia) Co., Ltd. | PRC *(note c)* | Registered capital US$10,000,000 | 100 | Manufacture and sale of consumer electronic products |
| 創維平面顯示科技(深圳)有限公司 | PRC *(note d)* | Registered capital US$12,000,000 | 100 | Manufacture of consumer electronic products and property holding |
| 深圳創維精密科技有限公司 | PRC *(note c)* | Registered capital RMB10,000,000 | 100 | Design, manufacture and sale of moulds and related products |
| 創維網絡通訊(深圳)有限公司 | PRC *(note d)* | Registered capital HK$50,000,000 | 100 | Investment holding |
| Skyworth Macao Commercial Offshore Company Limited 創維澳門離岸商業服務有限公司 | Macau | Ordinary shares MOP$100,000 | 100 | Research and development |
| Skyworth Multimedia International Limited 創維多媒體國際有限公司 | Hong Kong | Ordinary shares HK$10,000 | 100 | Manufacture and sale of consumer electronic products |
| Skyworth Overseas Development Limited 創維海外發展有限公司 | Hong Kong | Ordinary shares HK$10,000 | 100 | Manufacture and sale of consumer electronic products |
| 創維多媒體(深圳)有限公司 | PRC *(note d)* | Registered capital US$3,500,000 | 100 | Manufacture and sale of consumer electronic products |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/paid up registered capital | Effective interest held by the Company<br>%<br>*(note a)* | Principal activities |
|---|---|---|---|---|
| Skyworth Sales (Hong Kong) Co., Limited<br>創維集團香港銷售有限公司 | Hong Kong | Ordinary shares HK$2 | 100 | Trading of consumer electronic products |
| Skyworth Electronics, Inc. | The United States of America | Ordinary share US$100,000 | 100 | Trading of consumer electronic products |
| 創維數字技術(深圳)有限公司 | PRC *(note d)* | Registered capital US$1,500,000 | 100 | Manufacture and sale of consumer electronic products and research and products development |
| 創維移動通信技術(深圳)有限公司 | PRC *(note c)* | Registered capital US$1,500,000 | 100 | Trading of mobile communication related products and research and product development |
| 創維應用電子(深圳)有限公司 | PRC *(note d)* | Registered capital US$1,200,000 | 94 | Trading of consumer electronic products |
| 創維汽車電子(深圳)有限公司 | PRC *(note d)* | Registered capital HK$4,700,000 | 100 | Manufacture and sale of automobile electronic products |
| 創維液晶器件(深圳)有限公司 | PRC *(note d)* | Registered capital HK$10,830,000 | 100 | Manufacture and sale of consumer electronic products and research and products development |

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/paid up registered capital | Effective interest held by the Company | Principal activities |
|---|---|---|---|---|
| | | | % *(note a)* | |
| Skyworth Intellectual Property Holdings Limited | The British Virgin Islands | Ordinary share US$1 | 100 | Intellectual property holding |
| Winform Inc. | The British Virgin Islands/ Hong Kong | Ordinary share US$1 | 100 | Property holding |
| Skyworth Moulds Industrial Company Limited | The British Virgin Islands | Ordinary shares US$10 | 100 | Investment holding |

*Notes:*

(a) The Company directly holds the entire interest in Skyworth Holdings Limited. The interests of all other companies are indirectly held by the Company.

(b) The non-voting deferred shares carry practically no rights to dividends nor receive notice of nor to attend or vote at any general meeting of the relevant company nor to participate in any distribution on winding up.

(c) The subsidiaries are sino-foreign equity joint ventures registered in the PRC.

(d) The subsidiaries are wholly foreign owned enterprises registered in the PRC.

東莞市創維電器發展有限公司 ("東莞創維"), a limited company established in the PRC, is principally engaged in the trading of consumer electronic products supplied by the Group. The Company does not, directly or indirectly, own any of the registered capital of 東莞創維. However, since both the business activities and decision making of 東莞創維 are managed and determined by the Group and the Group retains the majority of the residual or ownership risks or the assets related to 東莞創維 in order to obtain benefits from the activities of 東莞創維, in the opinion of the directors, 東莞創維 is considered as a special purpose entity of the Group. Accordingly, 東莞創維 was consolidated in the consolidated financial statements of the Group for each of the two years ended 31 March 2007.

None of the subsidiaries had any debt securities outstanding at 31 March 2007 or at any time during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2007*

## 45. SUMMARISED BALANCE SHEET OF THE COMPANY

| | **2007** | 2006 |
|---|---|---|
| | ***HK$ million*** | *HK$ million* |
| Investments in subsidiaries | **1,178** | 1,184 |
| Amounts due from subsidiaries | **1,290** | 1,293 |
| Other current assets | **1** | 1 |
| Other current liabilities | **(1)** | (4) |
| | **2,468** | 2,474 |
| Share capital | **229** | 228 |
| Share premium | **1,194** | 1,192 |
| Reserves | **1,045** | 1,054 |
| | **2,468** | 2,474 |

# FINANCIAL SUMMARY

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | ***HK$ million*** | *HK$ million* | *HK$ million* (restated) | *HK$ million* (restated) | *HK$ million* (restated) |
| Turnover | **12,560** | 10,699 | 10,466 | 9,211 | 8,002 |
| Cost of sales | **(10,508)** | (8,694) | (8,881) | (7,717) | (6,776) |
| Gross profit | **2,052** | 2,005 | 1,585 | 1,494 | 1,226 |
| Other income | **114** | 120 | 76 | 38 | 30 |
| Reversal of provision against value added tax | **–** | – | 161 | – | – |
| Reversal of provision against the patent rights litigation | **–** | – | 33 | – | – |
| Selling and distribution expenses | **(1,610)** | (1,598) | (1,183) | (903) | (775) |
| General and administrative expenses | **(395)** | (270) | (381) | (225) | (197) |
| Release of negative goodwill | **–** | – | – | – | 4 |
| Allowance for loan to a jointly controlled entity | **–** | – | – | (3) | – |
| Impairment loss recognised in respect of available-for-sale investments | **(3)** | (3) | (3) | (2) | (3) |
| Finance costs | **(19)** | (3) | (22) | (1) | (1) |
| Indemnity of Hong Kong Profits Tax in respect of previous years | **–** | – | – | – | 47 |
| Gain on disposal of subsidiaries | **–** | 3 | – | – | – |
| Write off of interest in an associate | **–** | – | (10) | – | – |
| Share of results of jointly controlled entities | **8** | 1 | (11) | (11) | (7) |
| Profit before taxation | **147** | 255 | 245 | 387 | 324 |
| Income taxes (expenses) credit | **(19)** | (39) | 130 | (47) | (105) |
| Profit for the year | **128** | 216 | 375 | 340 | 219 |
| Attributable to: | | | | | |
| Equity holders of the Company | **128** | 216 | 376 | 330 | 214 |
| Minority interests | **–** | – | (1) | 10 | 5 |
| | **128** | 216 | 375 | 340 | 219 |

# FINANCIAL SUMMARY

## ASSETS AND LIABILITIES

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | ***HK$ million*** | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* |
| | | | (restated) | (restated) | (restated) |
| Total consolidated assets | **8,659** | 7,573 | 7,745 | 5,520 | 4,786 |
| Total consolidated liabilities | **(5,396)** | (4,485) | (4,821) | (2,945) | (2,467) |
| Minority interests | **–** | – | – | (8) | (8) |
| Equity attributable to equity holders of the Company | **3,263** | 3,088 | 2,924 | 2,567 | 2,311 |

# FINANCIAL REVIEW

*For the year ended 31 March*
Amounts expressed in HK$ million (except for share data)

| | **2007** | 2006 | 2005 (restated) | 2004 (restated) | 2003 |
|---|---|---|---|---|---|
| **OPERATING RESULTS** | | | | | |
| Turnover | **12,560** | 10,699 | 10,466 | 9,211 | 8,002 |
| Operating profit (EBIT) | **158** | 257 | 288 | 399 | 285 |
| Profit attributable to equity holders of the Company | **128** | 216 | 376 | 330 | 214 |
| **DATA PER SHARE (HK CENTS)** | | | | | |
| Earnings per share – basic | **5.59** | 9.53 | 16.79 | 15.3 | 10.2 |
| Dividend per share | **1.7** | 3.8 | 5.5 | 7.5 | 5.0 |
| **KEY STATISTICS** | | | | | |
| Equity attributable to equity holders of the Company | **3,263** | 3,088 | 2,924 | 2,567 | 2,311 |
| Working capital | **2,340** | 2,273 | 2,224 | 1,872 | 1,765 |
| Cash position* | **891** | 798 | 1,940 | 445 | 714 |
| Bank loans excluding the financial liabilities arising from discounted bills | **324** | 166 | 4 | 7 | 7 |
| Bills receivable | **3,847** | 3,181 | 2,828 | 2,366 | 1,584 |
| Trade receivables | **649** | 517 | 357 | 248 | 190 |
| Inventories | **1,573** | 1,747 | 1,679 | 1,336 | 1,205 |
| Capital expenditure** | **351** | 444 | 136 | 250 | 177 |
| Depreciation and amortisation | **136** | 121 | 110 | 99 | 78 |
| **KEY RATIOS** | | | | | |
| Return on equity holders of the Company (ROE) (%) | **3.9** | 7.0 | 12.9 | 12.9 | 9.2 |
| Return on total assets (ROA) (%) | **1.5** | 2.9 | 4.8 | 6.0 | 4.5 |
| Debt to equity excluding the financial liabilities arising from discounted bills (%) | **9.9** | 5.4 | 0.1 | 0.3 | 0.3 |
| Net debt to equity | **Net Cash** | Net Cash | Net Cash | Net Cash | Net Cash |
| Current ratio (times) | **1.5** | 1.5 | 1.5 | 1.6 | 1.7 |
| Trade receivable turnover period excluding portion arising from discounted bills receivable (days)*** | **108** | 102 | 88 | 87 | 67 |
| Inventories turnover period (days)*** | **58** | 72 | 62 | 60 | 55 |
| Gross profit margin (%) | **16.3** | 18.7 | 15.1 | 16.3 | 15.3 |
| Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin (%) | **2.3** | 3.5 | 3.8 | 5.5 | 4.5 |
| Earnings before interest and taxation (EBIT) margin (%) | **1.3** | 2.4 | 2.6 | 4.3 | 3.6 |
| Profits margin (%) | **1.0** | 2.0 | 3.6 | 3.6 | 2.7 |

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

** Capital expenditure represented the additions to property, plant and equipment and prepaid lease payments on land use rights

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

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors**

Mr. Zhang Xuebin *(Executive Chairman & Chief Executive Officer)*
Ms. Ding Kai
Mr. Leung Chi Ching, Frederick
Ms. Lin Wei Ping
Mr. Yang Dongwen

**Independent Non-executive Directors**

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

## MEMBERS OF COMMITTEES

**Audit Committee**

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

**Executive Committee**

Mr. Zhang Xuebin *(Chairman)*
Ms. Ding Kai
Mr. Hu Zhaohui
Mr. Kuang Yubin
Mr. Le Yesheng
Mr. Leung Chi Ching, Frederick
Ms. Lin Wei Ping
Mr. Liu Tangzhi
Mr. Lu Rongchang
Mr. Shi Chi
Mr. Yang Dongwen
Mr. Yu Kon Hoe
Mr. Zheng Gang

**Remuneration Committee**

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

**Nomination Committee**

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

## QUALIFIED ACCOUNTANT AND 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
Hang Seng Bank Limited
Industrial and Commercial Bank of China
Standard Chartered Bank (Hong Kong) Limited
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

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## COMPANY WEBSITE

http://www.skyworth.com