

# Skyworth

## Skyworth Digital Holdings Limited

(Incorporated in Bermuda with limited liability)

### Interim Report 2007/08

Stock Code : 751



## **CONTENTS**

Financial Highlights

**2**

Corporate Information

**3**

Operational and Financial Review

**4-11**

Condensed Consolidated Income Statement

**12**

Condensed Consolidated Balance Sheet

**13**

Condensed Consolidated Statement of Changes in Equity

**14**

Condensed Consolidated Cash Flow Statement

**15**

Notes to the Condensed Consolidated Financial Statements

**16-27**

Report on Review of Interim Financial Information

**28**

Corporate Governance and Other Information

**29-40**

### FINANCIAL HIGHLIGHTS

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

	Six months ended 30 September		Change
	2007 (unaudited)	2006 (unaudited)	
<b>OPERATING RESULTS</b>			
Turnover	5,841	5,617	+4.0%
Operating Profit (EBIT)	142	39	+264.1%
Profit attributable to equity holders of the Company	98	28	+250.0%
<b>FINANCIAL POSITION</b>			
Net cash from operating activities	402	16	+2,412.5%
Cash position*	1,801	590	+205.3%
Bank loans	1,508	252	+498.4%
Bank loans excluding the financial liabilities arising from discounted bills and foreign exchange arrangements	334	245	+36.3%
Equity attributable to equity holders of the Company	3,403	3,171	+7.3%
Working capital	2,170	2,257	-3.9%
Bills receivable	2,861	2,539	+12.7%
Bills discounted with recourse	259	7	+3,600.0%
Trade receivables	1,375	941	+46.1%
Inventories	1,912	2,430	-21.3%
<b>KEY RATIOS</b>			
Gross profit margin (%)	18.1%	16.3%	+1.8pp
Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin (%)	3.7%	1.8%	+1.9pp
Profit margin (%)	1.7%	0.5%	+1.2pp
Return on equity holders of the Company (ROE) (%)	5.8%	1.8%	+4.0pp
Debt to equity (%)**	44.3%	7.9%	+36.4pp
Debt to equity excluding portion of financial liabilities arising from discounted bills and foreign exchange arrangements (%)	9.8%	7.7%	+2.1pp
Net debt to equity	Net Cash	Net Cash	n/a
Current ratio (times)	1.4	1.5	-6.7%
Trade receivable turnover period (days)***	137	117	+17.1%
Trade receivable turnover period excluding portion arising from discounted bills receivable (days)***	133	114	+16.7%
Inventories turnover period (days)***	67	81	-17.3%
<b>DATA PER SHARE (HK CENTS)</b>			
Earnings per share – Basic	4.28	1.22	+250.8%
Earnings per share – Diluted	4.26	1.22	+249.2%
Dividend per share	0.5	0.5	0%
Book value per share	148.5	138.5	+7.2%
<b>SHARE INFORMATION AT FINANCIAL PERIOD END</b>			
Number of shares in issue (million)	2,291	2,289	+0.1%
Market capitalisation	2,589	2,060	+25.7%

\* Cash position refers to bank balances and cash, including pledged bank deposits of approximately HK\$970 million.

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

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

## CORPORATE INFORMATION

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### Board of Directors

#### **Executive Directors**

Mr. Zhang Xuebin (*Executive Chairman and 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

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

### Share Listing

The Company's shares are listed on

The Stock Exchange of Hong Kong Limited

Stock Code: 751

### Important Information for 2007/2008

#### **Results Announcement Date**

Interim results – 18 December 2007

#### **Dividend Per Share**

Interim dividend – HK0.5 cent

#### **Dividend Payment Date**

Interim dividend – 6 February 2008

#### **Closing Period of the Register of Members**

Interim – From 21 January 2008 to 25 January 2008, both dates inclusive

### Company Website

<http://www.skyworth.com>

## OPERATIONAL AND FINANCIAL REVIEW

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### Highlights of Results

The Group recorded the following results during the six months ended 30 September 2007 (the "Period"):

- Turnover reached HK\$5,841 million, an increase of 4.0%.
- Sales of TV products and digital set-top boxes accounted for 86.7% and 9.0% of the Group's total turnover respectively.
- Gross profit achieved HK\$1,059 million, representing 18.1% of turnover, increased by 1.8% compared with that for the same period last year.
- Profits for the period after and before gain on disposal of partial interest of a subsidiary were HK\$98 million and HK\$56 million, respectively. These represent significant increases of 250% and 100%, respectively, when compared with those in the prior period.
- The Board has declared an interim cash dividend of HK0.5 cent per share.

### Business Performance Review

#### **(1) Steady growth in turnover**

Turnover of the Group grew by 4%, reaching a record of HK\$5,841 million for the Period, compared with HK\$5,617 million for the same period last year.

The major force on the increase in turnover for the Period was attributable to the remarkable growth of turnover for the Group's PRC television ("TV") and set top box businesses. Due to the fast digital broadcasting momentum in the PRC, the Group's successful shifting of its TV sales mix from analogue to digital TVs (including high definition cathode ray tube ("CRT") and flat panel TVs) and the Group's continuous efforts in developing new application technology for new models of TVs, the Group's PRC TV business unit has achieved a more than satisfactory growth in sales. Thanks also to the PRC government's drive in pushing the digital broadcasting momentum in the PRC and taking advantage of the expected increase in demand of digital set-top boxes, the Group has managed to ride on the PRC market growth during the Period.

## **(2) Turnover analysis by geographical segments and product segments**

### *(a) Mainland China market*

The sales derived from the Mainland China market during the Period amounted to HK\$5,277 million, representing 90.3% of its total turnover. Compared with HK\$4,828 million sales in the same period last year, it represented a 9.3% growth.

With the continuous and effective-conscious marketing efforts putting forward to the emerging market segments in the Mainland China market, the digital set-top box was able to strive for a higher share in the product sales mix of the Group. During the Period, over 88.7% of the Group's sales in the mainland China market was derived from the sale of TV products, while the sales of digital set-top boxes represented 7.2% of its sales. The rest of the turnover in the Mainland China market was attributable to the sales of other products, including mobile phones, electrical appliances, LCD modules, moulds and audio-visual products.

#### TV products

The sale of TV products in the Mainland China market amounted to HK\$4,681 million for the Period, representing a significant increase of approximately 13.8% compared with that in the same period last year.

GFK Asia Pte. Ltd., a market research company, conducts regular research covering 100 major cities in the PRC, reported that for the period from January to September 2007, Skyworth's market share in terms of accumulated sales quantity and accumulated sales amount were 13.15% (ranked number 3) and 9.53% (ranked number 1), respectively. Skyworth's crucial market positioning in the high-end TV market was one of the key success factors for the Group in achieving a growth in turnover and market share during the Period.

It is expected that the analogue broadcasting will, in the next decade, be almost completely phased out and be replaced by digital broadcasting. The Group actively reacts to these enormous business opportunities for the high-end TV products, including high-definition CRT TVs, liquid crystal display ("LCD") TVs and plasma TVs. During the Period, about 1 million units of high-end TV products were sold, rose by 16.1% over the same period last year and accounted for 36.2% of the total sales volume of TV products in the mainland China market.

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

- the continuous expansion of product ranges (enhanced with useful and practical new functions) including 16:9, slim CRT TVs and CooCaa Multimedia TVs;
- the effective distribution of high-end TV products through large-scaled electrical and electronic chain stores in the PRC and improving mix of distribution channels, which enabled the Group to maintain its market shares in major cities whilst enjoying profits;

- the improved competitiveness resulting from the Group's remarkable after-sale services; and
- the successful repositioning of Skyworth's high definition and traditional CRT TVs through enhancement of brand promotion activities in the suburbs.

### Digital set-top boxes

The facts that the Group's dedicated team has provided unique technical solutions to its customers, together with the well recognised "Skyworth" brand in the mainland China market, contributed to the significant growth in its sales. During the Period, the sale of digital set-top boxes in the mainland China market reached HK\$379 million, representing a handsome growth of 27.7% compared with HK\$296 million recorded in the same period last year.

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

### Mobile phones

The Group has continuously carried out research and development for mobile phones since 2003 and had successfully launched "Skyworth" brand mobile phones in the last year. The new models developed by the strong technical and research team during the Period were equipped with variety of functions and smart features, including fingerprint security control, audio-visual tools, creative animation, and personal diary function. The turnover achieved during the Period for the mobile phone business unit amounted to HK\$146 million.

### (b) Overseas markets

Turnover for the overseas markets amounted to HK\$538 million and accounted for 9.2% of the total turnover for the Period. Compared with HK\$768 million turnover recorded in the same period last year, it represented a 29.9% decrease.

### TV products

Turnover of the TV products for the overseas markets were primarily derived from the OEM customers. The amount for the Period was HK\$382 million, accounted for 71% of the total overseas turnover, representing a 42.8% decrease compared with the same period last year.

The overseas business unit of the Group has been in restructuring since March 2007. The organization structure, marketing strategies and operational procedures of the business unit have been under revamp. The purpose of such restructuring is to transform the business unit into a first-rated OEM and ODM service provider acceptable to the international major TV brand names, and hence to improve the unit's performance. After restructuring, despite that the sales amount decreased, the selling price and gross profit margin improved during the Period.

### Digital set-top boxes

Turnover of the set-top boxes for the overseas markets was HK\$149 million during the Period, representing a 60.2% increase when compared with that in the same period last year. Such increase was due to the establishment of the Group's goodwill in the set-top box market for the past years and our continuous marketing effort in exploring the European market.

### Geographical distribution

The percentage of geographical distribution of turnover to the overseas markets is analyzed as below:

	<b>For the six months period ended 30 September 2007 (%)</b>	For the six months period ended 30 September 2006 (%)
Europe	<b>40</b>	37
Asia (including Japan, Korea, Vietnam, etc.)	<b>25</b>	24
America	<b>22</b>	18
Middle East	<b>7</b>	9
Africa	<b>5</b>	5
Australia and New Zealand	<b>1</b>	7
	<b>100</b>	100

Asia and Europe remained as the Group's major overseas markets, which in aggregate accounted for 65% of the total sales for the overseas markets. As the Group had strategically put more effort in the European region in the Period to explore the marketing mode and a specific LCD sales team was established for that purpose, therefore, sales to European region reported a significant improvement during the Period.

### **(3) Gross margin**

The overall gross margin of the Group for the Period was 18.1%. When compared with last year, it increased by 1.8 percentage points.

The introduction of foreign brands to the Mainland China market 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 Period, the costs of the high-ended products reduced by average of 20% compared with the same period last year. As a result, despite of the price competition, the sales volume of LCD-TV products in PRC market was doubled to 460,000 units compared with that of the same period last year. The gross margin of such high-ended products also improved from 19% to 22% that greatly helped the gross margin increased.



### **(4) Increase in 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 expenses. Over the Period, the expenses rose to HK\$797 million, representing an increase of 5% or HK\$38 million when compared to the same period last year. However, the S&D expenses to turnover only slightly increase 0.1% from 13.5% to 13.6%.

During the Period, the Group changed the promotion strategy in the mainland China market. The Group reduced the input of direct television and outdoor advertising that amounted HK\$21 million less than that of the same period last year.

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

### **(5) Increase in general and administration expenses**

When compared with the same period last year, the Group's general and administration ("G&A") expenses for the Period rose significantly by HK\$80 million or 49.7% to HK\$241 million. The G&A expenses to turnover for the Period increased from 2.9% to 4.1%.

During the Period, the Group made a provision of approximately HK\$27 million for the trade receivables of a business unit engaged in small appliance business in the PRC. The directors decided to close the business unit and consider that the recoverability of accounts receivable is doubtful. Accordingly, full provision has been made for all receivables of this business unit.

### **(6) Inventory control**

As at 30 September 2007, the carrying value of the Group's inventories reached HK\$1,912 million, representing an increase of HK\$339 million or 21.6% as compared with the balance as at 31 March 2007 and an decrease of HK\$518 million or 23.1% as compared with the balance as at 30 September 2006.

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; reminded vigilant against the risk of slow-moving and obsolete inventories.

Together with the inventory control, the Group undertook the following courses of actions 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 of the production lines. In turn, the Group worked out an inventory level which on one hand ensured smooth production, on the other hand minimized the risk of overstock.

- Set the status of inventory control as one of the 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 minimized 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 30 September 2007, the inventory turnover days (calculated with reference to the average inventory balances net of provision) for raw materials and finished goods were 23 days and 38 days, respectively; while as at 31 March 2007 the turnover days were 17 days and 35 days, respectively. The reason for the slight increase is in expectation of further increase in future sales after period end.

### **(7) Trade receivables and bills receivable**

At 30 September 2007, trade receivables and bills receivable of the Group amounted to HK\$1,375 million and HK\$2,861 million, respectively, and HK\$4,236 million in total. As compared with that at 31 March 2007, the amount of trade receivables was increased by HK\$726 million or 111.9%, whilst the amount of bills receivable was reduced by HK\$986 million or 25.6%. Trade receivables of the Group as at September each year is generally higher than that at March, as supported by the normal seasonal impact on higher sales achieved in September for the golden week in early October.

Compared with the amounts of trade receivables and bills receivable of the Group as at 30 September 2006, the amounts at 30 September 2007 showed an increase of HK\$434 million and HK\$322 million, respectively. The increase in total receivables of HK\$756 million or 21.7% was mainly owing to the overall increase in sales during the Period and the recent expansion of other business segments in which customers required longer credit terms.

### **(8) Trade payables and bills payable**

At 30 September 2007, trade payables and bills payable of the Group amounted to HK\$3,127 million and HK\$60 million, respectively. As compared with that at 30 September 2006, the amount of trade payable reduced by HK\$112 million or 3.5%, whereas the amount of bills payable grew by HK\$44 million. Compared with the amounts at 31 March 2007, the amounts of trade payable and bills payable were increased by HK\$190 million and HK\$28 million, respectively. Since the Group reported an increase in the inventory level during the Period and consequently, the corresponding increase was noted in the accounts payable balances.

## **LIQUIDITY, FINANCIAL RESOURCES AND CASH FLOW MANAGEMENT**

At 30 September 2007, the Group had bank balances and cash of HK\$831 million, representing an increase of HK\$5 million and HK\$346 million when compared with that at 31 March 2007 and at 30 September 2006, respectively; while the pledged bank deposits amounted to HK\$970 million at 30 September 2007, representing an significant increase of HK\$905 million and HK\$865 million from that at 31 March 2007 and 30 September 2006, respectively. The significant increase in the pledged bank deposits is the result of the financial arrangements with various established commercial banks in the PRC to maximize the foreign exchange gain by taking advantage of the market anticipation of the increase of value of Renminbi as disclosed in note 17 of the financial statements.

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

The balance of financial liabilities, mainly the discounted bills with recourse, amounted to HK\$259 million and HK\$610 million recorded at 30 September 2007 and at 31 March 2007, respectively. Such discounted bills receivable with recourse would be released upon maturity.

At 30 September 2007, the utilized trade facilities and the loans granted from various banks were secured by certain assets of the Group, including bank deposits of HK\$970 million, bills receivable of HK\$155 million, and certain of the Group's land and properties in the PRC and Hong Kong with net book value of HK\$170 million.

The gearing ratio of the Group, calculated with reference to the total bank borrowings of HK\$1,508 million and shareholders' fund of HK\$3,403 million, was 44.3% at 30 September 2007. Such gearing ratio reported a 36.4 percentage point increase from that at 31 March 2007. The increase is due to the financial arrangements as stated in the pledged bank deposits. Had the amount of financial liabilities arising from discounted bills and foreign exchange arrangements not been taken into account in the above calculation, the gearing ratio of the Group as at 30 September 2007 would have been merely 9.8%. In comparison with companies operated in the same industry, the Group maintained a healthy gearing position at 30 September 2007 if excluded the financial arrangements.

## **TREASURY POLICY**

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

Exchange rate movements revealed that Renminbi appreciated continuously during the Period. As most of the Group's transactions were denominated in Renminbi, the Group had recognized net foreign exchange gains of HK\$18 million during the Period.

Currently, the Group entered into some arrangements with various established commercial banks in PRC to maximize its foreign exchange gain by taking advantage of the market anticipation of the increase of value of Renminbi. The details of the arrangements are explained in note 17 of the financial statement.

### **SIGNIFICANT INVESTMENTS AND ACQUISITION**

During the Period, the Group paid HK\$34 million for the acquisition of four pieces of lands situated in the PRC for the construction of logistic centers and spent approximately HK\$88 million on acquisition of other property, plant and equipment.

### **CONTINGENT LIABILITIES**

The Group had no material contingent liabilities as at 30 September 2007.

### **HUMAN RESOURCES CAPITAL**

At 30 September 2007, the Group had over 16,800 employees in the Mainland China and Hong Kong, including salespersons spread throughout more than 211 sales points. To support the growth in business operations of the Group and the commencement in operation of the new production plant, the Group had recruited more employees during the Period. Management believes that this extensive and strong human resources capital fuels the successful expansion and development of Skyworth's branding and businesses.

Details of the remuneration policy of the directors and employees of the Group, and the duties and work performed by the Remuneration Committee and the Nomination Committee were disclosed in the "Corporate Governance Report" of the Company's annual report 2006/07.

### **OUTLOOK**

Management maintains their belief that most of the business units of the Group will be benefited from the increasing pace of sustainable growth of China economy, global digitalization, Beijing Olympic 2008 and World Expo, etc. It is expected that the continuous replacement of analogue TVs by digital TVs and the rapid increase of demand of digital set-top boxes will enable the Group to achieve turnover in an upward trend. Persistent efforts made by management in pursuing advanced application technology and contemporary industrial design with a view to deliver high quality products to valued customers will give the Group a competitive edge amid fierce competition in the electronic market. Opportunities are there for the Group to grab.

Realizing risks coexist with opportunities, management has committed additional resources to identify, control and monitor risks. Whilst the Group still has a healthy balance sheet in any industrial standards, the changes in our upstream and downstream businesses prolong our working capital cycle and thus give us noticeable pressure especially during peak season. Noting the increased credit tightening measures implemented in China, management no doubt is aware of the importance of liquidity for keeping our working capital cycle turning and taking advantage of good opportunities for investment.

Skyworth is entering into its 20th birthday in 2008. During its last 20 years, the Group has been successfully going through ups and downs of the industry and the economy. Management is confident that Skyworth will be celebrating a fruitful 20th birthday in 2008.

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2007

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

	Notes	Six months ended 30 September	
		2007 (unaudited)	2006 (unaudited)
Turnover	3	5,841	5,617
Cost of sales		(4,782)	(4,704)
Gross profit		1,059	913
Other income		87	48
Selling and distribution expenses		(797)	(759)
General and administrative expenses		(241)	(161)
Impairment loss recognised in respect of available-for-sale investments		(8)	(2)
Gain on disposal of partial interest of a subsidiary	5	42	–
Finance costs	6	(21)	(1)
Share of results of jointly controlled entities		7	3
Profit before taxation		128	41
Taxation	7	(30)	(13)
Profit for the period	8	98	28
Attributable to:			
Equity holders of the Company		98	28
Dividends			
Paid	9	–	–
Proposed	9	11	11
Earnings per share			
Basic (HK cents)	10	4.28	1.22
Diluted (HK cents)	10	4.26	1.22

### CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2007

Amount expressed in HK\$ million

	Notes	As at 30 September 2007 (unaudited)	As at 31 March 2007 (audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current Assets</b>			
Property, plant and equipment	11	1,130	1,123
Prepaid lease payments on land use rights		134	102
Interests in jointly controlled entities		50	42
Available-for-sale investments		37	32
Prepayment		33	–
Deferred tax assets		3	2
		<b>1,387</b>	1,301
<b>Current Assets</b>			
Inventories	12	1,912	1,573
Prepaid lease payments on land use rights		3	2
Trade and other receivables	13	1,737	1,034
Bills receivable	14	2,861	3,847
Amounts due from jointly controlled entities		23	11
Amounts due from minority shareholders		14	–
Pledged bank deposits		970	65
Bank balances and cash		831	826
		<b>8,351</b>	7,358
<b>Current Liabilities</b>			
Trade and other payables	15	4,555	4,212
Bills payable	16	60	32
Derivative financial instruments	17	1	–
Provision		42	42
Amount due to a jointly controlled entity		1	1
Tax liabilities		57	68
Secured bank borrowings	18	1,430	611
Deferred income		35	52
		<b>6,181</b>	5,018
<b>Net current assets</b>		<b>2,170</b>	2,340
<b>Total assets less current liabilities</b>		<b>3,557</b>	3,641
<b>Non-current Liabilities</b>			
Provision		22	19
Secured bank borrowings	18	78	323
Deferred income		39	28
Deferred tax liabilities		15	8
		<b>154</b>	378
<b>NET ASSETS</b>		<b>3,403</b>	3,263
<b>CAPITAL AND RESERVES</b>			
Share capital	19	229	229
Share premium		1,194	1,194
Share option reserve		67	59
Investment revaluation reserve		13	5
Surplus account		38	38
Capital reserve		84	76
Exchange reserve		219	165
Accumulated profits		1,559	1,497
Equity attributable to equity holders of the Company		<b>3,403</b>	3,263
Minority interests		–	–
<b>TOTAL EQUITY</b>		<b>3,403</b>	3,263

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

Amount expressed in HK\$ million

	Attributable to equity holders of the Company										
	Share capital (unaudited)	Share premium (unaudited)	Share option reserve (unaudited)	Investment revaluation reserve (unaudited)	Surplus account (unaudited)	Capital reserve (unaudited)	Exchange reserve (unaudited)	Accumulated profits (unaudited)	Total (unaudited)	Minority interest (unaudited)	Total (unaudited)
Balance at 1 April 2006	228	1,192	53	5	102	43	59	1,406	3,088	-	3,088
Surplus on revaluation of available-for-sale investments	-	-	-	1	-	-	-	-	1	-	1
Exchange differences on translation of operations denominated in foreign currencies	-	-	-	-	-	-	43	-	43	-	43
Income recognised directly in equity	-	-	-	1	-	-	43	-	44	-	44
Profit for the period	-	-	-	-	-	-	-	28	28	-	28
Total recognised profit for the period	-	-	-	1	-	-	43	28	72	-	72
Recognition of equity-settled share-based payments	-	-	8	-	-	-	-	-	8	-	8
Forfeiture of share options	-	-	(5)	-	-	-	-	5	-	-	-
Issue of shares under share option schemes	1	2	-	-	-	-	-	-	3	-	3
Balance at 30 September 2006	229	1,194	56	6	102	43	102	1,439	3,171	-	3,171
<b>Balance at 1 April 2007</b>	<b>229</b>	<b>1,194</b>	<b>59</b>	<b>5</b>	<b>38</b>	<b>76</b>	<b>165</b>	<b>1,497</b>	<b>3,263</b>	<b>-</b>	<b>3,263</b>
Surplus on revaluation of available-for-sale investments	-	-	-	8	-	-	-	-	8	-	8
Exchange differences on translation of operations denominated in foreign currencies	-	-	-	-	-	-	54	-	54	-	54
Income recognised directly in equity	-	-	-	8	-	-	54	-	62	-	62
Profit for the period	-	-	-	-	-	-	-	98	98	-	98
Total recognised profit for the period	-	-	-	8	-	-	54	98	160	-	160
Recognition of equity-settled share-based payments	-	-	8	-	-	-	-	-	8	-	8
Transfer to capital reserve	-	-	-	-	-	8	-	(8)	-	-	-
Dividend declared	-	-	-	-	-	-	-	(28)	(28)	-	(28)
Obligation arising from put option	-	-	-	-	-	-	-	-	-	(21)	(21)
Contribution from minority interest shareholders	-	-	-	-	-	-	-	-	-	21	21
Balance at 30 September 2007	229	1,194	67	13	38	84	219	1,559	3,403	-	3,403

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2007

Amount expressed in HK\$ million

	Six months ended 30 September	
	2007 (unaudited)	2006 (unaudited)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>402</b>	16
<b>INVESTING ACTIVITIES</b>		
Interest received	8	4
Purchase of property, plant and equipment	(88)	(189)
Proceeds on disposal of property, plant and equipment	–	1
Cash paid for the acquisition of prepaid lease payments	(31)	–
Proceeds on disposal of available-for-sale investments	–	2
Increase in pledged bank deposits	(905)	(67)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,016)</b>	(249)
<b>FINANCING ACTIVITIES</b>		
Interest paid	(21)	(5)
Contribution from minority interests shareholders	7	–
Issue of shares for cash	–	3
New bank loan raised	919	77
Repayment of mortgage loans	(1)	(1)
Funds arisen from discounted bills with recourse	259	7
Repayment of funds arisen from discounted bills with recourse upon maturity	(610)	(151)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>553</b>	(70)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(61)</b>	(303)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>826</b>	760
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>66</b>	28
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD,</b> represented by bank balances and cash	<b>831</b>	485



### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2007*

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#### 1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2007 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The preparation of condensed consolidated financial statements in conformity with Hong Kong Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amount of revenues and expenses during the reporting period. The estimates and assumptions are consistent with those as disclosed in the annual consolidated financial statements for the year ended 31 March 2007 except for the determination of the fair value of a subsidiary's shares disposed of to the Group's employees as disclosed in note 5. The determination of the fair value of the disposed equity instruments was estimated by reference to the price-earning ratio of subsequent disposal of the shares of the same subsidiary to independent third parties as disclosed in note 25. Included in the determination process, the directors also made the assessment on the fair value of certain put options written to its employees and independent third parties respectively by applying Black-Scholes option pricing model, of which the variables and assumptions used are based on the directors' best estimate.

The Group's operations are seasonal, the turnover from September to January - peak season for sales of electronic products, is relatively higher than the rest of the year. Results for interim periods are not necessarily indicative of the results for the entire financial year. This interim report should be read where relevant, in conjunction with the annual report of the Group for the year ended 31 March 2007.

#### 2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values. The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007 except for derivative financial instruments and the obligation arising from put option written to minority interests.

##### **Derivative financial instruments**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

##### **Obligation arising from put option written to minority interests**

Put option written to minority interests, which will be settled other than by exchange of fixed amount of cash for a fixed number of shares in a subsidiary is treated as derivative and is recognised at fair value upon initial recognition. Any changes of fair value in subsequent reporting dates are recognised to profit or loss.

The gross financial liability arising from the put option is recognised when contractual obligation to repurchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell back the shares to the Group. The financial liability is recognised and measured at present value of the estimated repurchase price with corresponding debit to minority interests.

In the current period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2007.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK (IFRIC) – INT 8	Scope of HKFRS 2 <sup>2</sup>
HK (IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK (IFRIC) – INT 10	Interim Financial Reporting and Impairment <sup>4</sup>
HK (IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 November 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 March 2007.

The adoption of these new HKFRSs had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK (IFRIC) – INT 12	Service Concession Arrangements <sup>2</sup>
HK (IFRIC) – INT 13	Customer Loyalty Programmes <sup>3</sup>
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2008.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008.

### 3. 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 period.

	<b>Six months ended 30 September</b>	
	<b>2007</b>	2006
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$ million</b>	HK\$ million
Sales of TV products	<b>5,063</b>	4,780
Sales of digital set-top boxes	<b>528</b>	389
Sales of mobile phones	<b>148</b>	345
Sales of other electronic products	<b>76</b>	82
Property rental income	<b>26</b>	21
	<b>5,841</b>	5,617

### 4. 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.

Segment information about these businesses is presented below.

	TV products (unaudited) HK\$ million	Digital set-top boxes (unaudited) HK\$ million	Mobile phones (unaudited) HK\$ million	Other electronic products (unaudited) HK\$ million	Property holding (unaudited) HK\$ million	Eliminations (unaudited) HK\$ million	Consolidated (unaudited) HK\$ million
<b>Six months ended 30 September 2007</b>							
<b>Turnover</b>							
External sales and rental income	5,063	528	148	76	26	–	5,841
Inter-segment sales and rental income	8	–	1	13	8	(30)	–
<b>Total</b>	<b>5,071</b>	<b>528</b>	<b>149</b>	<b>89</b>	<b>34</b>	<b>(30)</b>	<b>5,841</b>

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

<b>Results</b>							
Segment results	200	80	(62)	(73)	12		157
Interest income							8
Unallocated corporate income less expenses							(65)
Gain on disposal of partial interest of a subsidiary							42
Finance costs							(21)
Share of results of jointly controlled entities	–	–	–	7	–		7
<b>Profit before taxation</b>							<b>128</b>
<b>Taxation</b>							<b>(30)</b>
<b>Profit for the period</b>							<b>98</b>

# Skyworth

## Interim Report 2007/08

	TV products (unaudited) HK\$ million	Digital set-top boxes (unaudited) HK\$ million	Mobile phones (unaudited) HK\$ million	Other electronic products (unaudited) HK\$ million	Property holding (unaudited) HK\$ million	Eliminations (unaudited) HK\$ million	Consolidated (unaudited) HK\$ million
Six months ended 30 September 2006							
Turnover							
External sales and rental income	4,780	389	345	82	21	-	5,617
Inter-segment sales and rental income	6	-	-	51	-	(57)	-
<b>Total</b>	<b>4,786</b>	<b>389</b>	<b>345</b>	<b>133</b>	<b>21</b>	<b>(57)</b>	<b>5,617</b>

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

Results							
Segment results	18	51	27	(6)	12		102
Interest income							4
Unallocated corporate income less expenses							(67)
Finance costs							(1)
Share of results of jointly controlled entities	-	-	-	3	-		3
Profit before taxation							41
Taxation							(13)
Profit for the period							28

### Geographical segments

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

	Six months ended 30 September	
	2007 (unaudited) HK\$ million	2006 (unaudited) HK\$ million
The People's Republic of China ("PRC")	5,303	4,849
Asia region (Other than PRC)	137	181
Europe	221	287
Other regions	180	300
	<b>5,841</b>	<b>5,617</b>

### 5. GAIN ON DISPOSAL OF PARTIAL INTEREST OF A SUBSIDIARY

In September 2007, Shenzhen Chuangwei-RGB Electronics Co., Ltd. ("RGB"), a wholly-owned subsidiary of the Company, entered into sale and purchase agreements and related supplementary agreements with each of senior management and staff of Skyworth Digital Technology (Shenzhen) Company Limited ("SDT") (the "Employees"), a wholly-owned subsidiary of the Company, for disposal of, in aggregate, 12% of the equity interests in SDT to the Employees at cash consideration of HK\$21 million which approximate the carrying amount of equivalent portion of the net asset value.

As stipulated in the supplementary agreements entered into between RGB and the Employees, the Employees are obligated to pay back RGB at 3 times of the consideration paid for acquiring the shares of SDT if they cease their employment services to SDT within 5 years after September 2007. In addition, pursuant to the supplementary agreements, RGB is obligated to buy back the shares of SDT from the Employees at a consideration equal to the net asset value of the latest audited financial statements of SDT within 5 years after September 2007 and before the initial public offering of SDT shares (Put Option granted to Employees). Upon initial public offering of SDT shares, the Employees do not have to sell back their owned equity interests in SDT to RGB.

Based on directors' best estimate as explained in note 1, the fair value of 12% equity interests in SDT is HK\$63 million and the fair value of the Put Option is insignificant. As the disposal transaction was completed before the balance sheet date, the gain on disposal of 12% equity interests in SDT of HK\$42 million, representing excess of fair value over the carrying amount of the net assets of SDT, is recognised to condensed consolidated income statement during the period.

The shortfall of cash consideration below the fair value of SDT shares representing fair value of future services to be rendered by the Employees is charged to profit or loss on a straight-line basis over the contractual service period of five years and is recorded as prepayment.

In respect of the Put Option granted to the Employees, a financial liability of HK\$21 million for the present value of the estimated repurchased price has been recorded in trade and other payables with a corresponding debit to minority interests.

### 6. FINANCE COSTS

	<b>Six months ended 30 September</b>	
	<b>2007</b>	2006
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$ million</b>	HK\$ million
Interest on bank borrowings wholly repayable within five years	21	5
Less: Amount capitalised to construction in progress	–	(4)
	<b>21</b>	<b>1</b>

### 7. TAXATION

	<b>Six months ended 30 September</b>	
	<b>2007</b>	2006
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$ million</b>	HK\$ million
The charge comprises:		
PRC income tax		
Current period	25	8
Under provision for previous years	1	1
	<b>26</b>	<b>9</b>
Other PRC taxes		
Current period	4	4
	<b>30</b>	<b>13</b>

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

PRC income tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is the rate prevailing in the areas in which the Group operates.

Other PRC taxes are recognised based on management's best estimate of the weighted average annual tax rates expected for the full financial year. The estimated average annual tax rates used are the applicable rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretations and practices in respect thereof, on the intra-group technical and other services related fees charged to a subsidiary of the Company registered in the PRC.

Certain subsidiaries of the Group operating in the PRC are eligible for certain tax holidays and concessions and exempted from PRC income taxes for the period.

Pursuant to the PRC enterprise income tax law and its detailed implementation rules promulgated on 16 March 2007 and 11 December 2007 respective, for those subsidiaries without preferential tax rates, the new tax rate for domestic and foreign enterprises is unified at 25% and will be effective from 1 January 2008; and for those subsidiaries enjoying preferential tax rate of 15%, the new tax rate is increasing of 15% rate over 5 years to 25% as grandfathering provision. Deferred tax is recognised based on the tax rate that are expected to apply to the period when the asset is realised or the liability is settled.

### 8. PROFIT FOR THE PERIOD

	<b>Six months ended 30 September</b>	
	<b>2007</b>	2006
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$ million</b>	HK\$ million
Profit for the period has been arrived at after charging:		
Amortisation of prepaid lease payments on land use rights	1	1
Less: Amount capitalised to construction in progress	–	(1)
	<b>1</b>	–
Cost of inventories recognised as an expense	<b>4,729</b>	4,696
Depreciation of property, plant and equipment	<b>75</b>	60
Impairment loss on trade receivables*	<b>31</b>	–
Loss on disposal of property, plant and equipment	<b>5</b>	1
Staff costs, including directors' emoluments	<b>398</b>	308
Write-down of inventories*	<b>31</b>	–
and after crediting:		
Interest income	<b>8</b>	4
Net foreign exchange gains	<b>18</b>	12
Net realised gain on disposal of available-for-sale investments	–	1
Rental income from leasing of properties less related outgoings of HK\$22 million (2006: HK\$9 million)	<b>4</b>	12
Write-back for doubtful debts	<b>5</b>	7
Write-back of inventories	–	1

\* The amounts mainly represent the impairment loss on trade receivables and inventories of one of the other electronic product divisions. The management decided to cease the existing operation of this division during the period. The directors consider that the recoverability of accounts receivable is doubtful and the net realisable value of the remaining inventories is insignificant, full impairment has been made for all receivables and inventories of the division.

### 9. DIVIDENDS

The Company did not make any payments of dividend during the period (for the six months ended 30 September 2006: Nil).

Subsequent to 30 September 2007 and on 11 October 2007, a dividend of HK1.2 cents per share amounting to HK\$28 million was paid to shareholders as the final dividend for the year ended 31 March 2007.

The Board of Directors has resolved that an interim dividend of HK0.5 cent per share for the year ending 31 March 2008 to be paid to the shareholders of the Company whose names appear in the register of members on 18 January 2008.

### 10. 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:

	<b>Six months ended 30 September</b>	
	<b>2007</b> <b>(unaudited)</b> <b>HK\$ million</b>	2006 (unaudited) HK\$ million
Earnings for the purposes of basic and diluted earnings per share – profit for the period	<b>98</b>	28
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,289,790,391</b>	2,287,748,347
Effect of dilutive potential ordinary shares:		
Share options	<b>9,736,130</b>	10,297,477
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,299,526,521</b>	2,298,045,824

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.

### 11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred HK\$44 million (for the six months ended 30 September 2006: HK\$83 million) in construction in progress, mainly for the development of a factory plant situated on land in the PRC held under medium-term leases, and spent approximately HK\$44 million (for the six months ended 30 September 2006: HK\$111 million) on the acquisition of other property, plant and equipment for business operation and expansion.

### 12. INVENTORIES

	<b>As at</b> <b>30 September</b> <b>2007</b> <b>(unaudited)</b> <b>HK\$ million</b>	As at 31 March 2007 (audited) HK\$ million
Raw materials	<b>745</b>	432
Work in progress	<b>166</b>	174
Finished goods	<b>1,001</b>	967
	<b>1,912</b>	1,573

### 13. TRADE AND OTHER RECEIVABLES

Sales in the PRC are generally made by payment on delivery or against bills issued by banks with maturity dates ranging from 30 to 180 days. Sales to certain wholesalers in the PRC are settled within one to two months after sales. Certain district sales managers in the PRC are authorised to make credit sales for payment at 30 to 60 days up to a limited amount which is determined on the basis of the sales volume of the respective offices.

Export sales of the Group are mainly settled by letters of credit with credit term ranging from 30 to 90 days.

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

	<b>As at 30 September 2007 (unaudited) HK\$ million</b>	As at 31 March 2007 (audited) HK\$ million
Within 30 days	864	182
31 to 60 days	163	214
61 to 90 days	94	107
91 days or over	254	146
Trade receivables	<b>1,375</b>	649
Deposits, prepayments and other receivables	<b>362</b>	385
	<b>1,737</b>	1,034

### 14. BILLS RECEIVABLE

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

	<b>As at 30 September 2007 (unaudited) HK\$ million</b>	As at 31 March 2007 (audited) HK\$ million
Within 30 days	150	90
31 to 60 days	125	91
61 to 90 days	204	205
91 days or over	1,052	1,174
Bills endorsed to suppliers	1,071	1,677
Bills discounted with recourse	259	610
	<b>2,861</b>	3,847

The carrying values of bills endorsed to suppliers and bills discounted with recourse continue to be recognised as assets in the condensed 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 condensed 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.



### 15. TRADE AND OTHER PAYABLES

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

	<b>As at 30 September 2007 (unaudited) HK\$ million</b>	As at 31 March 2007 (audited) HK\$ million
Within 30 days	1,433	508
31 to 60 days	352	312
61 to 90 days	172	266
91 days or over	99	174
Trade payables under endorsed bills	1,071	1,677
Trade payables	3,127	2,937
Deposits in advance, accruals and other payables	1,407	1,275
Obligation arising from put option	21	–
	<b>4,555</b>	<b>4,212</b>

### 16. BILLS PAYABLE

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

	<b>As at 30 September 2007 (unaudited) HK\$ million</b>	As at 31 March 2007 (audited) HK\$ million
Within 30 days	11	15
31 to 60 days	1	8
61 to 90 days	–	8
91 days or over	48	1
	<b>60</b>	<b>32</b>

### 17. DERIVATIVE FINANCIAL INSTRUMENTS

During the period, the Group entered into arrangements with various established commercial banks in the PRC to maximize its foreign exchange gain by taking advantage of the market anticipation of the increase of value of Renminbi. Under such arrangements, the Group borrowed 6 months/one year US dollar loans from these banks for settlement of its US dollar payable to suppliers denominated in US dollar. At the same time, the Group (a) placed 6 months/one year fixed deposits (amounted to the Renminbi equivalent of the respective amounts of US dollar loans plus interests thereon) to the banks as security against the US dollar loans, and (b) entered into forward contracts with the banks to purchase US dollars (amounted to the US dollar loans plus interests thereon) by Renminbi at predetermined forward rates.

As a result of the above arrangements, the amounts of pledged bank deposits under current assets and secured bank loans under current liabilities, both of the Group as at 30 September 2007 were substantially higher than those as at the same date last year. Under these arrangements, the Group recorded pledged bank deposits for approximately HK\$914 million and secured bank loans for approximately HK\$915 million as at 30 September 2007, and interest income from pledged bank deposits of HK\$3 million, interest expenses of secured bank loans of HK\$5 million, exchange gain of the US dollar loans of HK\$4 million and loss in change in fair value of derivative financial instruments of HK\$1 million for the period.

### 18. SECURED BANK BORROWINGS

	<b>As at 30 September 2007 (unaudited) HK\$ million</b>	As at 31 March 2007 (audited) HK\$ million
Secured bank borrowings comprise the following:		
Mortgage loans	–	1
Other bank loans	<b>1,508</b>	933
	<b>1,508</b>	934
The bank borrowings are repayable as follows:		
Within one year or on demand	<b>1,430</b>	611
More than one year, but not exceeding two years	<b>78</b>	171
More than two years, but not exceeding five years	–	152
	<b>1,508</b>	934
Less: Amount due within one year or on demand included in current liabilities	<b>(1,430)</b>	(611)
Amount due after one year	<b>78</b>	323

### 19. SHARE CAPITAL

	<b>Number of shares</b>		<b>Share capital</b>	
	<b>1.4.2007 to 30.9.2007</b>	1.4.2006 to 31.3.2007	<b>1.4.2007 to 30.9.2007 (unaudited) HK\$ million</b>	1.4.2006 to 31.3.2007 (audited) HK\$ million
Ordinary shares of HK\$0.1 each:				
Authorised:				
At beginning and at end of the period/year	<b>10,000,000,000</b>	10,000,000,000	<b>1,000</b>	1,000
Issued and fully paid:				
At beginning of the period/year	<b>2,289,290,391</b>	2,284,684,391	<b>229</b>	228
Issue of shares under share option schemes	<b>1,500,000</b>	4,606,000	–	1
At end of the period/year	<b>2,290,790,391</b>	2,289,290,391	<b>229</b>	229

### 20. PLEDGE OF ASSETS

At 30 September 2007, the Group's bank borrowings were secured by the following:

- (a) charges over prepaid lease payments on land use rights and leasehold land and buildings with carrying value of HK\$56 million (31.3.2007: HK\$57 million) and HK\$114 million (31.3.2007: HK\$254 million) respectively;
- (b) bills receivable of HK\$155 million (31.3.2007: HK\$150 million); and
- (c) bank deposits of HK\$970 million (31.3.2007: HK\$65 million).

In addition, there were other bills receivable endorsed to suppliers and discounted with recourse of HK\$1,071 million (31.3.2007: HK\$1,677 million) and HK\$259 million (31.3.2007: HK\$610 million) respectively as disclosed in note 14.

### 21. CAPITAL COMMITMENTS

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

	<b>As at 30 September 2007 (unaudited) HK\$ million</b>	As at 31 March 2007 (audited) HK\$ million
Contracted but not provided, in respect of:		
Purchase of property, plant and equipment	<b>8</b>	8
Factory buildings under development	<b>103</b>	35
	<b>111</b>	43
Authorized but not contracted for, in respect of:		
Purchase of property, plant and equipment	–	–
Factory buildings under development	<b>421</b>	419
	<b>421</b>	419

### 22. CONTINGENT LIABILITIES

As at the balance sheet date, the Group did not have any significant contingent liabilities.

### 23. RELATED PARTY TRANSACTIONS

#### Transactions

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

	<b>Six months ended 30 September 2007 (unaudited) HK\$ million</b>	2006 (unaudited) HK\$ million
Sub-contracting charges paid	<b>1</b>	2
Sale of raw materials	<b>10</b>	4
Purchase of finished goods	<b>1</b>	2
Advertising and promotional expenses paid	<b>5</b>	9

#### Compensation of key management personnel

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

	<b>Six months ended 30 September 2007 (unaudited) HK\$ million</b>	2006 (unaudited) HK\$ million
Short-term benefits	<b>9</b>	9
Share-based payments	<b>8</b>	3

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.

### 24. SHARE-BASED PAYMENTS

#### Share options

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	As at September 2007		As at March 2007	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the period	193,022,000	1.571	233,838,000	1.491
Granted during the period	50,000,000	1.048	–	–
Exercised during the period	(1,500,000)	0.420	(4,606,000)	0.421
Cancelled during the period	–	–	(36,210,000)	1.200
Outstanding at the end of the period	<b>241,522,000</b>	<b>1.470</b>	193,022,000	1.571

In the current period, share options were granted on 11 May 2007. The fair value of the options determined at the date of grant using the Black-Scholes option pricing model was HK\$0.31.

Grant date share price	HK\$1.04
Exercise price	HK\$1.048
Expected life	5 years
Expected volatility	40%
Dividend yield	3.5%
Risk-free interest rate	4.063%

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The closing price of the Company's shares immediately before 11 May 2007, the date of grant of the options, was HK\$1.04.

The closing price of the Company's shares immediately before the date on which the options were exercised was HK\$1.15.

#### Sale of shares of subsidiary at consideration below fair value

Details of the share-based payments in respect of sale of SDT shares at consideration below fair value are set out in note 5.

### 25. SUBSEQUENT EVENT

On 20 November 2007, RGB entered into sale and purchase agreements with each of independent third parties, Mr. Li Pu, Mr. Ye Xiao Bin and 深圳市領優投資有限公司 (the "Purchasers"). Under the agreements, RGB has agreed to dispose of, in aggregate, 16% of the equity interests in SDT to the Purchasers at an aggregate consideration of approximately RMB118.0 million (equivalent to approximately HK\$121.7 million). In addition to the disposal, RGB also granted put options to the Purchasers that if the shares of SDT are not listed on any stock exchange within 28 months after 20 November 2007, the Purchasers can require RGB to buy back their shares at the original consideration paid plus 10% guaranteed annum dividends.

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

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**TO THE BOARD OF DIRECTORS OF SKYWORTH DIGITAL HOLDINGS LIMITED**

創維數碼控股有限公司

*(incorporated in Bermuda with limited liability)***Introduction**

We have reviewed the interim financial information set out on pages 12 to 27, which comprises the condensed consolidated balance sheet of Skyworth Digital Holdings Limited as of 30 September 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of Review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**DELOITTE TOUCHE TOHMATSU***Certified Public Accountants*

Hong Kong

18 December 2007

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### Interim Dividend

The board of directors (the "Board") of Skyworth Digital Holdings Limited (the "Company") has resolved to pay an interim dividend for the six months ended 30 September 2007 of HK0.5 cent (2006: HK0.5 cent) per ordinary share, totaling approximately HK\$11 million (2006: HK\$11 million) to the shareholders of the Company on or around 6 February 2008 whose names appear on the register of members of the Company at the close of business on 25 January 2008.

### Directors' Interest in Shares and Share Options

As at 30 September 2007, the interests of the directors and of their associates in the shares and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

As at 30 September 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 to the issued share capital of the Company
Lin Weiping	Beneficial owner	5,061,611	0.22%
	Held by trust	(Note a) 847,382,922	36.99%
	Held by spouse	(Note b) 51,405,612	2.24%
		(Note c) 903,850,145	39.45%
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 Weiping 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 Weiping is deemed to be interested in 51,405,612 ordinary 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 903,850,145 ordinary shares of the Company being the interests held by his spouse, Ms. Lin Wei Ping.

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

As at 30 September 2007, certain directors of the Company had personal interests in the share options granted under the Company's share option schemes as follows:

<b>Name of director</b>	<b>Capacity</b>	<b>Number of shares options held/underlying shares of the Company</b>
Zhang Xuebin	Beneficial owner	31,000,000
Yang Dongwen	Beneficial owner	25,000,000
Ding Kai	Beneficial owner	7,000,000
So Hon Cheung, Stephen	Beneficial owner	500,000
Li Weibin	Beneficial owner	500,000
Lin Wei Ping	Beneficial owner	2,000,000
Leung Chi Ching, Frederick	Beneficial owner	6,000,000

Save as disclosed above and the nominee shares in certain subsidiaries held in trust for the Group, none of the directors or chief executives, nor their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 30 September 2007, and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the six months ended 30 September 2007.

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

### **Substantial Shareholders**

As at 30 September 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held – Long positions</b>	<b>Percentage to the issued share capital of the Company</b>
Target Success Group Limited	Trustee ( <i>Note a</i> )	847,382,922	36.99%
HSBC International Trustee Limited	Trustee ( <i>Note b</i> )	866,141,413	37.81%

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 September 2007.

### Share Options

The Company adopted two share option schemes mainly for the purpose of providing incentives to directors and eligible employees. Particulars of the share option schemes, including the definition of Old Scheme and New Scheme, are detailed in the notes to the consolidated financial statements of the Company for the year ended 31 March 2007 as set out in the Company's annual report 2006/07.

The following tables showed the movements in the Company's share options granted to the directors and the employees and/or consultants under both the Old Scheme and the New Scheme during the period ended 30 September 2007:

#### Under Old Scheme

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of share options			
				Outstanding at 1 April 2007	Exercised during the period (Note a)	Cancelled during the period	Outstanding at 30 September 2007
<b>Employees/ Consultants:</b>							
25 November 2000	0.336	25 November 2000 to 24 November 2001	25 November 2001 to 27 March 2010	254,000	-	-	254,000
		25 November 2000 to 24 November 2002	25 November 2002 to 27 March 2010	346,000	-	-	346,000
		25 November 2000 to 24 November 2004	25 November 2004 to 27 March 2010	4,098,000	-	-	4,098,000
23 January 2002	0.420	23 January 2002 to 22 January 2005	23 January 2005 to 27 March 2010	1,500,000	(750,000)	-	750,000
		23 January 2002 to 22 January 2006	23 January 2006 to 27 March 2010	1,500,000	(750,000)	-	750,000
				<b>7,698,000</b>	<b>(1,500,000)</b>	<b>-</b>	<b>6,198,000</b>

*Note a:* The closing prices of the Company's shares immediately before the dates on which the share options were exercised during the six months ended 30 September 2007 was HK\$1.15.



### Share Options – continued

#### Under New Scheme

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of share options				
				Outstanding at 1 April 2007	Granted during the period (Note b)	Exercised during the period	Cancelled during the period	Outstanding at 30 September 2007
<b>Directors:</b>								
<b>Zhang Xuebin</b>								
5 October 2002	0.840	5 October 2002 to 4 October 2004	5 October 2004 to 28 August 2012	2,000,000	-	-	-	2,000,000
		5 October 2002 to 4 October 2005	5 October 2005 to 28 August 2012	2,000,000	-	-	-	2,000,000
		5 October 2002 to 4 October 2006	5 October 2006 to 28 August 2012	2,000,000	-	-	-	2,000,000
16 October 2003	1.660	16 October 2003 to 15 October 2004	16 October 2004 to 28 August 2012	1,500,000	-	-	-	1,500,000
		16 October 2003 to 15 October 2005	16 October 2005 to 28 August 2012	1,500,000	-	-	-	1,500,000
		16 October 2003 to 15 October 2006	16 October 2006 to 28 August 2012	2,000,000	-	-	-	2,000,000
		16 October 2003 to 15 October 2007	16 October 2007 to 28 August 2012	5,000,000	-	-	-	5,000,000
		16 October 2003 to 15 October 2008	16 October 2008 to 28 August 2012	5,000,000	-	-	-	5,000,000
11 May 2007	1.048	11 May 2007 to 10 May 2008	11 May 2008 to 28 August 2012	-	2,500,000	-	-	2,500,000
		11 May 2007 to 10 May 2009	11 May 2009 to 28 August 2012	-	2,500,000	-	-	2,500,000
		11 May 2007 to 10 May 2010	11 May 2010 to 28 August 2012	-	2,500,000	-	-	2,500,000
		11 May 2007 to 10 May 2011	11 May 2011 to 28 August 2012	-	2,500,000	-	-	2,500,000

### Share Options – continued

#### Under New Scheme – continued

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of share options				
				Outstanding at 1 April 2007	Granted during the period (Note b)	Exercised during the period	Cancelled during the period	Outstanding at 30 September 2007
<b>Directors – continued:</b>								
<b>Yang Dongwen</b>								
5 October 2002	0.840	5 October 2002 to 4 October 2005	5 October 2005 to 28 August 2012	2,000,000	-	-	-	2,000,000
		5 October 2002 to 4 October 2006	5 October 2006 to 28 August 2012	2,000,000	-	-	-	2,000,000
25 January 2006	1.136	25 January 2006 to 24 January 2007	25 January 2007 to 28 August 2012	3,750,000	-	-	-	3,750,000
		25 January 2006 to 24 January 2008	25 January 2008 to 28 August 2012	3,750,000	-	-	-	3,750,000
		25 January 2006 to 24 January 2009	25 January 2009 to 28 August 2012	3,750,000	-	-	-	3,750,000
		25 January 2006 to 24 January 2010	25 January 2010 to 28 August 2012	3,750,000	-	-	-	3,750,000
11 May 2007	1.048	11 May 2007 to 10 May 2008	11 May 2008 to 28 August 2012	-	1,500,000	-	-	1,500,000
		11 May 2007 to 10 May 2009	11 May 2009 to 28 August 2012	-	1,500,000	-	-	1,500,000
		11 May 2007 to 10 May 2010	11 May 2010 to 28 August 2012	-	1,500,000	-	-	1,500,000
		11 May 2007 to 10 May 2011	11 May 2011 to 28 August 2012	-	1,500,000	-	-	1,500,000
<b>Ding Kai</b>								
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

### Share Options – continued

#### Under New Scheme – continued

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of share options				
				Outstanding at 1 April 2007	Granted during the period (Note b)	Exercised during the period	Cancelled during the period	Outstanding at 30 September 2007
<b>Directors – continued:</b>								
11 May 2007	1.048	11 May 2007 to 10 May 2008	11 May 2008 to 28 August 2012	-	1,500,000	-	-	1,500,000
		11 May 2007 to 10 May 2009	11 May 2009 to 28 August 2012	-	1,500,000	-	-	1,500,000
		11 May 2007 to 10 May 2010	11 May 2010 to 28 August 2012	-	1,500,000	-	-	1,500,000
		11 May 2007 to 10 May 2011	11 May 2011 to 28 August 2012	-	1,500,000	-	-	1,500,000
<b>So Hon Cheung, Stephen</b>								
28 July 2004	2.275	N/A	28 July 2004 to 28 August 2012	500,000	-	-	-	500,000
<b>Lin Wei Ping</b>								
11 May 2007	1.048	11 May 2007 to 10 May 2008	11 May 2008 to 28 August 2012	-	500,000	-	-	500,000
		11 May 2007 to 10 May 2009	11 May 2009 to 28 August 2012	-	500,000	-	-	500,000
		11 May 2007 to 10 May 2010	11 May 2010 to 28 August 2012	-	500,000	-	-	500,000
		11 May 2007 to 10 May 2011	11 May 2011 to 28 August 2012	-	500,000	-	-	500,000
<b>Li Weibin</b>								
28 July 2004	2.275	N/A	28 July 2004 to 28 August 2012	500,000	-	-	-	500,000
<b>Leung Chi Ching, Frederick</b>								
11 May 2007	1.048	11 May 2007 to 10 May 2008	11 May 2008 to 28 August 2012	-	1,500,000	-	-	1,500,000
		11 May 2007 to 10 May 2009	11 May 2009 to 28 August 2012	-	1,500,000	-	-	1,500,000
		11 May 2007 to 10 May 2010	11 May 2010 to 28 August 2012	-	1,500,000	-	-	1,500,000
		11 May 2007 to 10 May 2011	11 May 2011 to 28 August 2012	-	1,500,000	-	-	1,500,000
				42,000,000	30,000,000	-	-	72,000,000

### Share Options – continued

#### Under New Scheme – continued

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of share options				
				Outstanding at 1 April 2007	Granted during the period (Note b)	Exercised during the period	Cancelled during the period	Outstanding at 30 September 2007
<b>Employees/Consultants:</b>								
5 October 2002	0.840	5 October 2002 to 4 October 2005	5 October 2005 to 28 August 2012	3,626,000	-	-	-	3,626,000
		5 October 2002 to 4 October 2006	5 October 2006 to 28 August 2012	3,626,000	-	-	-	3,626,000
28 March 2003	0.776	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
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	23,229,000	-	-	-	23,229,000
		16 October 2003 to 15 October 2005	16 October 2005 to 28 August 2012	24,365,000	-	-	-	24,365,000
		16 October 2003 to 15 October 2006	16 October 2006 to 28 August 2012	24,965,000	-	-	-	24,965,000
		16 October 2003 to 15 October 2007	16 October 2007 to 28 August 2012	28,565,000	-	-	-	28,565,000
		16 October 2003 to 15 October 2008	16 October 2008 to 28 August 2012	6,000,000	-	-	-	6,000,000

### Share Options – continued

#### Under New Scheme – continued

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

### Share Options – continued

#### Under New Scheme – continued

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of share options				
				Outstanding at 1 April 2007	Granted during the period (Note b)	Exercised during the period	Cancelled during the period	Outstanding at 30 September 2007
<b>Employees/Consultants – continued:</b>								
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
25 January 2006	1.136	25 January 2006 to 24 January 2007	25 January 2007 to 28 August 2012	125,000	-	-	-	125,000
		25 January 2006 to 24 January 2008	25 January 2008 to 28 August 2012	125,000	-	-	-	125,000
		25 January 2006 to 24 January 2009	25 January 2009 to 28 August 2012	125,000	-	-	-	125,000
		25 January 2006 to 24 January 2010	25 January 2010 to 28 August 2012	125,000	-	-	-	125,000
11 May 2007	1.048	11 May 2007 to 10 May 2008	11 May 2008 to 28 August 2012	-	5,000,000	-	-	5,000,000
		11 May 2007 to 10 May 2009	11 May 2009 to 28 August 2012	-	5,000,000	-	-	5,000,000
		11 May 2007 to 10 May 2010	11 May 2010 to 28 August 2012	-	5,000,000	-	-	5,000,000
		11 May 2007 to 10 May 2011	11 May 2011 to 28 August 2012	-	5,000,000	-	-	5,000,000
				143,324,000	20,000,000	-	-	163,324,000
				185,324,000	50,000,000	-	-	235,324,000

*Note b:* During the period ended 30 September 2007, 50,000,000 share options were granted to eligible persons as defined in the New Scheme. The closing share price of the Company's shares on 10 May 2007, the trading day preceding the date of grant of the share options were HK\$1.04. 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 period ended 30 September 2007.

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

During the six months ended 30 September 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **Model Code**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors of the Company, all directors confirmed through a confirmation that they had complied with the required standards set out in the Model Code and the code of conduct regarding securities transaction by directors adopted by the Company throughout the six months ended 30 September 2007.

## **Corporate Governance Standards**

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

During the period and up to the date of this report, the Company actively responded to the deviations with the Code that were existed within the Group during the year ended 31 March 2007 as described in the "Corporate Governance Report" of the Company's annual report 2006/07.

For more information about the corporate governance practices of the Company, please refer to the "Corporate Governance Report" contained in the Company's annual report 2006/07.

## **Board Committees**

As an integral part of good corporate governance and to assist the Board in execution of its duties, the Board is supported by four Board Committees, namely Executive Committee, Nomination Committee, Remuneration Committee and Audit Committee. Each of these committees oversees particular aspects of the Group's affairs under its defined scope of duties and terms of reference approved by the Board, the summary of which were disclosed in the "Corporate Governance Report" of the Company's annual report 2006/07. The full terms of reference of the Nomination Committee, Remuneration Committee and Audit Committee are available on the Company's website through the link [www.skyworth.com/investor](http://www.skyworth.com/investor).

## **Executive Committee**

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

## **Board Committees – continued**

### ***Nomination Committee and Remuneration Committee***

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

During the period and up to the date of this report, the Nomination Committee held meeting twice to review the composition of the Board and to review the terms of the service contracts of the directors of the Company. Also, the Remuneration Committee held meeting twice to review the compensation and incentive package for the senior management of the Group, to review the amount of bonus payable to senior management by the Group for performance incentive payments for the year ended 31 March 2007, and to discuss the work plan for the Remuneration Committee in this financial year.

### ***Audit Committee***

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

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

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

## **Risk Management**

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



## **Risk Management – continued**

### **Risk Management Department**

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

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

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

### **Closure of the Register of Members**

The register of members of the Company will be closed from Monday, 21 January 2008 to Friday, 25 January 2008, both dates inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend payable on or around 6 February 2008, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Hong Kong Registrars Limited, at Rooms 1712-16, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 18 January 2008.

### **Board of Directors**

As at the date of this report, the Board of the Company comprises Mr. Zhang Xuebin as executive Chairman of the Board and chief executive officer, Ms. Ding Kai, Mr. Leung Chi Ching, Frederick, Ms. Lin Wei Ping and Mr. Yang Dongwen as executive directors, and Mr. So Hon Cheung, Stephen, Mr. Li Weibin and Mr. Xie Zhengcai as independent non-executive directors.

On behalf of the Board

### **Zhang Xuebin**

*Executive Chairman and  
Chief Executive Officer*

18 December 2007