SKYWORTH DIGITAL HOLDINGS LIMITED

（創維數碼控股有限公司*）

(incorporated in Bermuda with limited liability)

(Stock Code: 0751)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2007

SKYWORTH DIGITAL HOLDINGS LIMITED is an investment holding company with subsidiaries principally engaged in the manufacture and sales of consumer electronic products and upstream accessories, and property holding.

The board of directors (the "Board") of Skyworth Digital Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2007 together with the comparative figures for the previous year in 2006.

CONSOLIDATED INCOME STATEMENT

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

	Notes	**2007**	2006
Turnover	*2*	**12,560**	10,699
Cost of sales		**(10,508)**	(8,694)
Gross profit		**2,052**	2,005
Other income		**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		**(19)**	(3)
Gain on disposal of subsidiaries		**-**	3
Share of results of jointly controlled entities		**8**	1
Profit before taxation		**147**	255
Income taxes	*4*	**(19)**	(39)
Profit for the year	*5*	**128**	216
Attributable to:			
Equity holders of the Company		**128**	216
Dividends			
Paid	*6*	**75**	147
Proposed	*6*	**28**	64
Earnings per share (expressed in HK cents)			
Basic	*7*	**5.59**	9.53
Diluted	*7*	**5.57**	9.38

CONSOLIDATED BALANCE SHEET
Amounts expressed in HK$ million

	Notes	**2007**	2006
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**1,123**	874
Prepaid lease payments on land use rights		**102**	92
Interests in jointly controlled entities		**42**	27
Available-for-sale investments		**32**	33
Deferred tax assets		**2**	-
		1,301	1,026
Current assets			
Inventories		**1,573**	1,747
Prepaid lease payments on land use rights		**2**	2
Trade and other receivables	*8*	**1,034**	781
Bills receivable	*9*	**3,847**	3,181
Tax recoverable		**-**	2
Amount due from a jointly controlled entity		**11**	12
Held-for-trading investments		**-**	24
Pledged bank deposits		**65**	38
Bank balances and cash		**826**	760
		7,358	6,547
Current liabilities			
Trade and other payables	*10*	**4,212**	3,962
Bills payable	*11*	**32**	8
Provision		**42**	48
Amounts due to jointly controlled entities		**1**	1
Tax liabilities		**68**	81
Secured bank borrowings		**611**	153
Deferred income		**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		**19**	25
Secured bank borrowings		**323**	164
Deferred income		**28**	21
Deferred tax liabilities		**8**	1
		378	211
NET ASSETS		**3,263**	3,088

	2007	2006
CAPITAL AND RESERVES		
Share capital	**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

Notes:

1. 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, 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.

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.

2. 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 *HK$ million*	2006 *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

3. SEGMENT INFORMATION

Business segments

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

TV products	- design, manufacture and sale of televisions ("TVs")
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 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.

	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	**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**

	TV products	Digital set-top boxes	Mobile phones	Other electronic products	Property holding	Eliminations	Consolidated
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*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	Digital set-top boxes	Mobile phones	Other electronic products	Property holding	Eliminations	Consolidated
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

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		

4. INCOME TAXES

	2007 *HK$ million*	2006 *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		
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.

5. PROFIT FOR THE YEAR

	2007 ***HK$ million***	2006 *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	**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

6. DIVIDENDS

(a) Dividends paid during the year

	2007 ***HK$ million***	2006 *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: HK 1 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.

7. 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.

8. 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

9. 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.

10. TRADE AND OTHER PAYABLES

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

	2007 ***HK$ million***	2006 *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

11. BILLS PAYABLE

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

	2007 ***HK$ million***	2006 *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

12. 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 9.

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

13. CAPITAL COMMITMENTS

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

	2007 *HK$ million*	2006 *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

14. 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.

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.

BUSINESS PERFORMANCE REVIEW

(1) 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 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 is 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.

(2) Turnover analysis by geographical segment and product segment

(a) 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.

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 in 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.

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.

(b) 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 R&D 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 over 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 a niche market in Australia and New Zealand, and Africa where turnover rose by more than 132.3% and 29.6% respectively.

(3) 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%.

(a) 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 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 27.2%. 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.

(b) 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, ie. 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.

(4) 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 the prior year's annual report.

(5) 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.

(6) 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 mobiles 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 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.

(7) 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, totaling 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 / 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.

(8) 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; 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.

Accounts payable and bills payable attributable to emerging business units – As at 31 March 2007, accounts payable 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 accounts payable 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.

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.

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

Up to the date of this announcement, 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.

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 volume for TVs in the mainland China and overseas markets are 6.5 million units and 2 million units, respectively. This represents a 5.4% decrease and 19.2% increase from the sales volume for TVs in the mainland China and overseas markets for the year ended 31 March 2007. Again, the Group expects an increase in turnover from the mainland China TV market as a result of the expected increase of sales of LCD TVs which commands a higher average selling price.

OUTLOOK

Our industry offers significant growth opportunities for Skyworth. Sustained demand from the customers and the global electronic markets are no doubt up surging. 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, the directors are confident that the Group has the right strategy and the right people to be able to benefit from the future growth opportunities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Recognising 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 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").

During the year ended 31 March 2007 and up to the date of this announcement, 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 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 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.

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 independent non-executive directors. The Chairman of the Audit Committee is Mr. So Hon Cheung, Stephen and the other members are Mr. Li Weibin and Mr. Xie Zhengcai.

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.

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 year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the year ended 31 March 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

FINAL DIVIDEND

The Board has proposed a final dividend for the year ended 31 March 2007 of HK1.2 cents per ordinary share (2006: HK2.8 cents), totalling approximately HK$28 million (2006: HK$64 million) to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 27 September 2007.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 21 September 2007 to Thursday, 27 September 2007, both dates inclusive, during which no transfer of shares will be registered. In order to qualify for the final dividend payable on or around 11 October 2007, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Branch Registrar in Hong Kong, Hong Kong Registrars Limited, at Rooms 1712-16 Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on Thursday, 20 September 2007.

APPRECIATION

On behalf of the Board, I would like to express our gratitude to our shareholders and business associates for their continuing support, and extend our sincere appreciation to all management and staff for their ongoing dedication, commitments and contributions throughout the year.

For and on behalf of the Board
Skyworth Digital Holdings Limited
Zhang Xuebin
Executive Chairman & CEO

Hong Kong, 24 July 2007

As at the date of this announcement, the Board of the Company comprises Mr. Zhang Xuebin as executive Chairman of the Board & 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.

* *for identification purposes only*