SKYWORTH DIGITAL HOLDINGS LIMITED

（創維數碼控股有限公司*）

(incorporated in Bermuda with limited liability)

(Stock Code: 00751)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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.

Highlights of Results

The Group recorded the following results during the six months ended 30 September 2010 (the "Period"):

- Turnover increased by 11.3% from that of the same period previous year, reached HK$11,148 million (90.4% from mainland China market).
- Sales of TV products and digital set-top boxes accounted for 82.3% and 15.6% of the Group's total turnover, respectively.
- Gross profit achieved HK$1,971 million, decreased by 13.2%; and the gross profit margin was 17.7%, decreased by 5 percentage points compared with that for the same period last year.
- Unaudited profits before non-controlling interests for the Period was HK$413 million, decreased by 32.2% compared with that for the same period last year, but significantly higher than that of all other corresponding periods since the Group listed its shares in 2000.
- The Board has proposed an interim cash dividend of HK5 cents per share with an option to elect new shares in lieu of cash.

The Board of Skyworth Digital Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2010. These results have been reviewed by the Audit Committee and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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

	Notes	Six months ended 30 September **2010** *(unaudited)*	2009 *(unaudited)*
Turnover	3	**11,148**	10,013
Cost of sales		**(9,177)**	(7,741)
Gross profit		**1,971**	2,272
Other income		**174**	109
Other gains and losses		**64**	(5)
Selling and distribution expenses		**(1,320)**	(1,278)
General and administrative expenses		**(348)**	(322)
Finance costs		**(59)**	(34)
Share of results of jointly controlled entities		**15**	6
Profit before taxation		**497**	748
Income taxes	5	**(84)**	(139)
Profit for the period	6	**413**	609
Other comprehensive income			
Exchange differences arising on translation to the Group's presentation currency		**127**	2
Fair value (loss) gain on available-for-sale investments		**(1)**	3
Fair value gain on available-for-sale investments reclassified to profit or loss on disposal of the investments		**-**	(2)
Deferred tax arising on exchange differences on the Group's net investments in foreign operations		**(7)**	-
Other comprehensive income for the period		**119**	3
Total comprehensive income for the period		**532**	612
Profit for the period attributable to:			
Owners of the Company		**354**	573
Non-controlling interests		**59**	36
		413	609
Total comprehensive income for the period attributable to:			
Owners of the Company		**468**	576
Non-controlling interests		**64**	36
		532	612

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – CONTINUED
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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

	Note	Six months ended 30 September	
		2010	2009
		(unaudited)	*(unaudited)*
Earnings per share (expressed in HK cents)			
Basic	7	**13.96**	24.83
Diluted	7	**13.40**	24.02

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2010

Amounts expressed in HK$ million

	Notes	**As at 30 September 2010** ***(unaudited)***	As at 31 March 2010 *(audited)*
Non-current assets			
Property, plant and equipment		**1,478**	1,399
Investment properties		**116**	125
Prepaid lease payments on land use rights		**283**	230
Interests in jointly controlled entities		**183**	156
Interest in an associate		**-**	-
Other receivable		**93**	90
Available-for-sale investments		**47**	43
Prepayment		**8**	12
Deferred tax assets		**43**	35
		2,251	2,090
Current assets			
Inventories		**2,903**	3,298
Prepaid lease payments on land use rights		**6**	5
Trade and other receivables	9	**3,454**	2,276
Bills receivable	10	**8,337**	6,938
Derivative financial instruments		**-**	4
Amounts due from jointly controlled entities		**17**	13
Held for trading investments		**13**	13
Pledged bank deposits		**783**	2,394
Bank balances and cash		**2,150**	2,191
		17,663	17,132
Current liabilities			
Trade and other payables	11	**8,675**	5,189
Bills payable	12	**822**	586
Obligation arising from put options written to non-controlling interests		**106**	84
Derivative financial instruments		**20**	11
Provision for warranty		**45**	40
Amounts due to jointly controlled entities		**9**	1
Amounts due to minority shareholders of subsidiaries		**-**	14
Tax liabilities		**132**	178
Secured bank borrowings		**2,594**	6,721
Deferred income		**32**	40
		12,435	12,864
Net current assets		**5,228**	4,268
Total assets less current liabilities		**7,479**	6,358

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED
AT 30 SEPTEMBER 2010

Amounts expressed in HK$ million

	As at 30 September 2010 ***(unaudited)***	As at 31 March 2010 *(audited)*
Non-current liabilities		
Obligation arising from put options written to non-controlling interests	**171**	159
Provision for warranty	**39**	32
Secured bank borrowings	**582**	-
Deferred income	**276**	215
Deferred tax liabilities	**108**	98
	1,176	504
NET ASSETS	**6,303**	5,854
Capital and reserves		
Share capital	**257**	253
Share premium	**1,790**	1,665
Share option reserve	**94**	91
Investment revaluation reserve	**3**	4
Surplus account	**38**	38
Capital reserve	**277**	277
Exchange reserve	**626**	511
Accumulated profits	**3,085**	2,934
Equity attributable to owners of the Company	**6,170**	5,773
Non-controlling interests	**133**	81
	6,303	5,854

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 ("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 2010.

The Group's operations are seasonal, the turnover from September to January (the peak season for sales of consumer electronic products in the mainland China) is relatively higher than the turnover from 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 2010.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2010, except for those described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The application of the above new and revised HKFRSs has had no material impact on the condensed consolidated financial statements of the Group for the current and prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES - continued

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[5]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[2]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1 January 2011
[3] Effective for annual periods beginning on or after 1 July 2010
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's available-for-sale investments.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. TURNOVER

Turnover includes the aggregate consideration received or receivable for goods sold, taking into account the amount of goods returns, trade discounts and sales related taxes. Turnover also includes rental income from leasing of properties for the period. An analysis of the Group's turnover for the period is as follows:

	Six months ended 30 September	
	2010	2009
	(unaudited)	(unaudited)
	HK$ million	*HK$ million*
Sales of TV products	**9,175**	9,019
Sales of digital set-top boxes	**1,740**	821
Sales of LCD modules	**38**	77
Sales of other electronic products	**157**	65
Property rental income	**38**	31
	11,148	10,013

4. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision makers (i.e. the executive directors of the Company) for the purposes of resource allocation and performance assessment are as follows:

1. TV products (PRC market) - design, manufacture and sale of televisions in The People's Republic of China (the "PRC")
2. TV products (overseas market) - design, manufacture and sale of televisions in overseas market
3. Digital set-top boxes - design, manufacture and sale of digital set-top boxes
4. LCD modules - design, manufacture and sale of LCD modules
5. Other electronic products - design, manufacture and sale of other products mainly relate to electronics
6. Property holding - leasing of property in the PRC

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

For the six months ended 30 September 2010

	TV products (PRC market)	TV products (Overseas market)	Digital set-top boxes	LCD modules	Other electronic products	Property holding	Eliminations	Total
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Turnover								
External sales and rental income	8,660	515	1,740	38	157	38	-	11,148
Inter-segment sales and rental income	25	19	2	358	39	-	(443)	-
Segment revenue	8,685	534	1,742	396	196	38	(443)	11,148
Results								
Segment results	333	(8)	206	12	4	21	-	568
Interest income								28
Unallocated corporate expenses less income								(55)
Finance costs								(59)
Share of results of jointly controlled entities								15
Profit before taxation								497

4. SEGMENT INFORMATION - continued

For the six months ended 30 September 2009

	TV products (PRC market)	TV products (Overseas market)	Digital set-top boxes	LCD modules	Other electronic products	Property holding	Eliminations	Total
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Turnover								
External sales and rental income	8,374	645	821	65	77	31	-	10,013
Inter-segment sales and rental income	66	-	-	3	100	23	(192)	-
Segment revenue	8,440	645	821	68	177	54	(192)	10,013
Results								
Segment results	647	9	137	21	8	13	-	835
Interest income								22
Unallocated corporate expenses less income								(81)
Finance costs								(34)
Share of results of jointly controlled entities								6
Profit before taxation								748

Segment profit represents the profit earned by each segment without allocation of interest income, corporate expenses less income, finance costs and share of results of jointly controlled entities. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

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

5. INCOME TAXES

	Six months ended 30 September	
	2010	2009
	(unaudited)	(unaudited)
	HK$ million	*HK$ million*
The income taxes charge comprises:		
PRC income tax		
Current period	**85**	93
Overprovision in prior periods	**(3)**	-
	82	-
Deferred taxation		
Current period	**2**	46
	84	139

No provision for Hong Kong Profits Tax has been made as the relevant entities comprising the Group have no assessable profits derived from or arising in Hong Kong for both periods presented.

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.

5. INCOME TAXES - continued

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.

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui [2008] No. 1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to EIT pursuant to Articles 3 and 27 of the Enterprise Income Tax Law of the PRC and Article 91 of the Implementation Rules of Enterprise Income Tax Law of the PRC. Deferred tax expense of HK$6 million (2009: HK$7 million) in respect of the liability on the undistributed earnings of subsidiaries and jointly controlled entities has been recognised in profit or loss for the period.

6. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2010	2009
	(unaudited)	(unaudited)
	HK$ million	*HK$ million*
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**9,124**	7,676
Depreciation of:		
- property, plant and equipment	**126**	96
- investment properties	**3**	-
Dividend income from available-for-sale investments	**(14)**	(9)
Exchange losses	**30**	9
Fair value adjustment upon initial recognition of trade receivable from sale on instalment basis	**3**	7
Government grants	**(26)**	(11)
Impairment losses on trade receivables	**1**	10
Interest income:		
Interest income from bank deposits	**(23)**	(17)
Imputed interest income from		
- other receivable	**(3)**	(3)
- trade receivable from sale on instalment basis	**(2)**	(2)
	(28)	(22)
Release of prepaid lease payments on land use rights	**4**	2
Refund of value added tax	**(47)**	(31)
Rental income from leasing of properties less related outgoings of HK$25 million (2009: HK$18 million)	**(13)**	(13)
Staff costs, including directors' emoluments	**618**	699
Write-down of inventories	**28**	47

7 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attribute to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2010	2009
	(unaudited)	(unaudited)
	HK$ million	HK$ million
Earnings:		
Earnings for the purposes of basic and diluted earnings per share	**354**	573
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,535,465,532**	2,307,533,778
Effect of dilutive potential ordinary shares:		
- Share options outstanding	**107,147,257**	77,641,009
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,642,612,789**	2,385,174,787

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 market price per share.

8. DIVIDENDS

During the period, a dividend of HK8 cents per share totally amounting to HK$203 million (for the six months ended 30 September 2009: nil) was distributed to shareholders as the final dividend for the year ended 31 March 2010. Of such final dividend, an aggregate amount of HK$116 million (for the six months ended 30 September 2009: nil) was satisfied by way of scrip dividend by an allotment of new shares of the Company to be credited as fully paid.

The Board of Directors has resolved that an interim dividend of HK5 cents per share for the year ending 31 March 2011 to be paid to the shareholders of the Company whose names appear in the Register of Members on 23 December 2010 with an option to elect scrip dividend wholly or partly in lieu of cash dividend.

9. TRADE AND OTHER RECEIVABLES

Sales in the PRC are generally settled by payment on delivery or receipt of bills issued by banks with maturity dates ranging 30 to 180 days. Sales to certain retailers 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 with credit period of 30 to 60 days up to a specified amount which is determined on the basis of the sales volume of the respective offices.

9. TRADE AND OTHER RECEIVABLES - continued

For sales of digital set-top boxes, the credit terms normally ranges from 90 days to 270 days. Sales to certain customers in the PRC are on instalment basis for a period ranging from 2 years to 4.5 years.

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, net of allowance, presented based on the invoice date at the end of the reporting period:

	As at 30 September 2010 (unaudited)	As at 31 March 2010 (audited)
	HK$ million	*HK$ million*
Within 30 days	**1,627**	662
31 to 60 days	**276**	262
61 to 90 days	**111**	132
91 to 365 days	**608**	427
Over 365 days	**97**	101
Trade receivables	**2,719**	1,584
Purchase deposits paid to suppliers	**128**	104
Value-added-tax ("VAT") receivables	**213**	294
Deposits, prepayments and other receivables	**394**	294
	3,454	2,276

10. BILLS RECEIVABLE

The maturity dates of bills receivable at the end of the reporting period are analysed as follows:

	As at 30 September 2010 (unaudited)	As at 31 March 2010 (audited)
	HK$ million	*HK$ million*
Within 30 days	**459**	360
31 to 60 days	**341**	421
61 to 90 days	**472**	629
91 days or over	**2,646**	1,394
Bills endorsed to suppliers with recourse	**3,412**	706
Bills discounted with recourse	**1,007**	3,428
	8,337	6,938

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 is still exposed to credit risk on these receivables at the end of the reporting period. Accordingly, the liabilities associated with such bills, mainly borrowings and payables, are recognised in the condensed consolidated financial statements as well.

10. BILLS RECEIVABLE - continued

The maturity dates of bills endorsed to suppliers and bills discounted with recourse are less than six months within the end of the reporting period.

All bills receivables at the end of the reporting period are not yet due.

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the end of the reporting period:

	As at 30 September 2010 (unaudited) *HK$ million*	As at 31 March 2010 (audited) *HK$ million*
Within 30 days	**1,894**	963
31 to 60 days	**336**	456
61 to 90 days	**515**	719
91 days or over	**128**	202
Trade payables under endorsed bills	**3,412**	706
Trade payables	**6,285**	3,046
Accrued selling and distribution expenses	**604**	407
Accrued staff costs	**254**	573
Sales deposits received	**746**	499
VAT payable	**68**	32
Deposits in advance, accruals and other payables	**718**	632
	8,675	5,189

The maturity dates of trade payables under endorsed bills at the end of the reporting period are less than 6 months.

12. BILLS PAYABLE

The maturity dates of bills payable at the end of the reporting period are analysed as follows:

	As at 30 September 2010 (unaudited) *HK$ million*	As at 31 March 2010 (audited) *HK$ million*
Within 30 days	**255**	169
31 to 60 days	**223**	126
61 to 90 days	**140**	123
91 days or over	**204**	168
	822	586

13. PLEDGE OF ASSETS

At 30 September 2010 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$106 million (at 31 March 2010: HK$103 million) and HK$116 million (at 31 March 2010: HK$115 million) respectively; and

(b) bank deposits of HK$783 million (at 31 March 2010: HK$2,394 million).

In addition, there were other bills receivable endorsed to suppliers and discounted with recourse of HK$3,412 million (at 31 March 2010: HK$706 million) and HK$1,007 million (at 31 March 2010: HK$3,428 million) respectively as disclosed in note 10.

BUSINESS PERFORMANCE REVIEW

(1) Steady growth in turnover

The Group's turnover for the Period reached HK$11,148 million, representing an increase of 11.3% over the same period last year.

Growth in turnover during the Period was driven by the core businesses of the Group, namely: TV product and digital set-top box businesses. Benefiting from China government's "Swapping Old to New" policy, which had been increased to 28 provinces and municipals during the Period, the Group seized the opportunity to broaden the sales distribution channels from the first-tier cities to third and fourth-tier cities and rural areas. With the strategic advantages in variability of product features, leading industrial position and strategically advantages in marketing & promoting plans of the LED TVs stimulated an increase of 9.3% in flat-panel TV sales. However, the overall sales volume was reduced by 13.1% over the same period of previous year which was mainly due to the oversupply of upstream resources and price competition triggered by the foreign brands, narrowing down the overall turnover growth.

(2) Turnover analysis by geographical segments and product segments

(a) Mainland China market

During the Period, the mainland China market accounted for 90.4% of the Group's total turnover, recorded a 12.2% growth from HK$8,982 million for the same period last year to HK$10,079 million.

The Group's TV business in mainland China accounted for 86.0% of the total domestic turnover. The sales of digital set-top boxes and LCD modules accounted for 12.1% and 0.4%, respectively. Other business units including moulds, automobile electronics, other electronic products and rental properties attributed 1.5% of the total domestic turnover.

<u>*TV products*</u>

The Group focuses on high-end TV market, and recognizes market penetration as the most critical factor to succeed in mainland China. During the Period, the TV products in mainland China market grew by 3.4% and reached HK$8,660 million in sales, also the Group preceded its sales volume of LCD TV in mainland China market. Retrieving from the TV market survey performed by All View Consulting Co., Ltd. ("AVC"), Skyworth LCD TV (including CCFL and LED LCD TV) ranked first in terms of cumulative sales volume, representing 15.3% of total market share, and ranked second in all TV in terms of cumulative sales volume and amount, accounting for 14.0% and 12.7% of total market share, respectively for twelve consecutive months ended 30 September 2010. AVC is a subsidiary of the China Video Industry Association which performs quantitative TV researches with data covering 390 major cities and 4,300 retail terminals in the mainland China.

During the Period, in order to strengthen the market share in LED products, the Group launched a series of marketing strategies to stimulate the sales and to provoke the demand of LED products. The increase in LED sales offsetted the impact of the price drop in other products. During the period, over 2.82 million Flat Panel TV sets under Skyworth brand were sold in mainland China, of which 0.55 millions were LED TV, representing 18.8% of the Group's total sales volume in mainland China.

Other key factors contributing to the improvement of sales of TV products including:

- researching on energy-saving LCD TV to enhance Group image in corporate environmental responsibility. The Group already launched the CooCaa TV with LED backlight series to enhance the high end market line and to promote the market image. Some LED TV models had won the "Green Product Award" and the "Energy Saving Star".

- Skyworth had the most qualified TV products in terms of different models and LED TVs under the "Swapping Old to New" policy. Different models from 24 to 55 inches, prices from low to high ends to suit the different customers' needs. In addition, the Group had also produced other LED series to suit the rural areas markets to enhance the competitive edge.

Digital set-top boxes

The digital set-top box turnover in mainland China market recorded HK$1,224 million, representing a substantial growth of 176.9%, compared with HK$442 million recorded in the same period of previous year.

The State's strong push in promoting high-definition broadcastings stimulated the demand in digital TVs and set-top boxes in inner cities. The broadcasting of satellite programs helped the development of the related products and assisted the Group to enlarge its market share. Being the market leader, with the advance technology knowhow and the ability to lower the cost and to increase the efficiency of production, the Group would be able to taking advantage of the increasing overall demand of digital set-top boxes.

LCD modules

LCD modules turnover in mainland China decreased to HK$36 million, representing a decrease of 53.2% over the same period of previous year.

During the Period, the LCD modules focused on providing original equipment manufacturing ("OEM") services for both internal and external customers. At the meantime, the LCD modules business unit continues to explore different markets and expands the customer base progressively.

(b) Overseas market

The turnover generated from overseas markets accounted for HK$1,031 million, or 9.2% of the Group's total turnover for the Period. Compared with HK$1,000 million turnover recorded in the same period of previous year, representing a slight increase of 3.1%.

TV products

The turnover of overseas TV products for the Period was HK$511 million, or 49.6% of the total overseas turnover, slipping 17.2% from the same period last year. The sales volume of overseas declined 23.8% to 0.72 million sets, of which CRT TVs declined to 0.56 million sets, equivalent to 29.1% and flat panel TV increased by only 2.4%.

During the Period under review, cautious strategy was adopted due to the tardiness recovery in foreign economy and debt crisis in Europe, coupled with the transformation of the product structure and stagnated growth in flat-panel TVs, resulted in slowdown sales in overseas markets.

Digital set-top boxes

The sales amount of overseas digital set-top boxes for the Period increased by 35.8% to HK$516 million from the same period last year.

Benefitting from the flexibility product mix, the enhancement of the supply chains and the successful marketing strategies, the digital set-top box sales in America markets recorded strong growth with turnover recorded an increase of 345.2% if compared with the same period last year. Although the European market was under the shadow of the sovereignty debt crisis, with the well built customer relationship and the improvement of the product quality, the slowdown sales in European markets did not affect the Group's performance. During the Period, the overall sales in European market had recorded a steady growth of 5.5%. Apart from that, the digital set-top boxes would keep on exploring overseas markets and would further strengthen its relationship with its customers.

Geographical distribution

The strong growth of digital set-top boxes in America region forced the Group to fine tune the sales distribution network. During the Period, America, Europe and Asia were the Group's major overseas markets, with aggregation of 84% in overseas turnover. The geographical distribution of the turnover in percentage for overseas markets is illustrated as follows:

	Six months ended 30 September	
	2010	2009
	(%)	(%)
America	36	30
Europe	27	34
Asia (including Japan, Korea, Vietnam, etc.)	21	23
Middle East	5	5
Africa	7	6
Australia and New Zealand	4	2
	100	100

(3) Gross profit margin

For the Period, the overall gross profit margin of the Group dropped 5.0 percentage points to 17.7% in comparison to the same period last year.

The growth of LCD TV sales has gradually slowdown and over-optimistic forecast of the mainland China TV industry resulting in an abnormal high inventory level at the beginning of the year. During the Period, the major foreign and local TV brands in mainland China were undergoing a transitional period of shifting their product mix from CCFL LCD TV to LED LCD TV. In response to these phenomena, the major foreign and local TV brands were in a continuous process to clear their TV inventory (mainly CCFL LCD TV) and, simultaneously, to assist their customers to clear the TV inventory in the channel. This created abnormal pressure on the gross profit margin of the TV brands in the mainland China market.

However, TV division will accelerate the pace in promoting LED products to the countryside, put in more resources in research and development ("R&D") on new products as well as optimise product mix. All these would bring in sales growth in sales volume and improvement in gross profit margin in the second half year.

(4) Selling and distribution expenses

The Group's selling and distribution ("S&D") expenses consisted of brand promotion and marketing expenses, sales and marketing related salaries, maintenance and transportation expenses. During the Period, S&D expenses rose 3.3% or HK$42 million from the same period last year to HK$1,320 million. Contrastingly, the ratio of S&D expense to turnover reduced 1.0 percentage point from 12.8% to 11.8%.

During the Period, in line with the introduction of new products, the Group did not only increase the amount in advertising on large outdoor billboard, but also organized the technical presentations, image spokespersons, media advertisement and other activities to reinforce our brand influence. Therefore, the advertising expenses rose by 20.1% over the same period last year. In addition, the Group endeavored to continuously improve the reliability of product, constraining warranty and maintenance costs to enhance brand and Group's reputation to maximise stakeholder interests in the long run.

(5) General and administrative expenses

The Group's general and administrative ("G&A") expenses for the Period rose by HK$26 million or 8.1% from the same period last year to HK$348 million. The G&A expenses to turnover ratio for the Period have improved by 0.1 percentage points, down to 3.1%.

To cope with a series of policies launched by China government and to improve product quality and features, the Group had devoted more resources in R&D during the Period, caused an increase of HK$12 million or 23.5% in R&D costs. Other costs did not change materially, compared with the same period last year.

(6) Inventory control

The net carrying value of the Group's inventories reached HK$2,903 million as at the Period ended, representing a decrease of HK$395 million or 12.0% from the balance as at 31 March 2010 and an increase of HK$166 million or 6.1% from the balance as at 30 September 2009.

The market expectation of significant growth in LCD TV sales in mainland China at the beginning of this year, coupled with the effect of shortened TV product cycle caused the Group to realign adequate raw material reserves which led to high inventory level at the beginning of the year. However, with the slowdown growth of LCD TV in mainland China market, the increase in penetration of foreign brands into the mainland China market and the intensifying competition from resurgence of PRC brands, even though the Group had taken a series of measures, including price promotions to reduce inventory level and emphasized on effective inventory, logistics and supply-chain management, the inventory value was still at high level, and inventory turnover days were still longer than last year.

As at the Period ended, the inventory turnover days for raw materials and finished goods were 23 days and 36 days respectively; while as at 31 March 2010, the turnover days were 17 days and 27 days respectively.

In the second half year, the Group will emphasize risk managements on inventory and product cycle that cause potential externalities; also, sensitivity awareness to supplier markets, improving inventory cost observation and negotiation to reduce inventory level and speed up the inventory turnover days.

(7) Trade receivables and bills receivable

At 30 September 2010, the Group had a total of HK$11,056 million trade receivables and bills receivable. Comparing to the year ended at 31 March 2010, the two receivables increased by HKD$2,534 million, or 29.7%. Trade receivables increased by HK$1,135 million or 71.7% to HK$2,719 million, whilst bills receivable also increased by HK$1,399 million or 20.2% to HK$8,337 million. Such increase is coherent with the seasonal peak sales in September greeting for the October National Day in mainland China.

Comparing to the same period ended last year, trade receivables and bills receivable increased by HK$220 million and HK$3,280 million, respectively. The total receivables for the Period end increased by HK$3,500 million or 46.3%, which was higher than the growth in sales. Due to fierce competition in the TV market during the Period, the TV business unit needed to increase credit sales to match up the promotional activities and enhance its market share. With a flexible and reliable characteristics of bills receivable, the Group took this advantage to increase the proportion of bills receivable, not only accelerated the recovery of cash, but also avoided the risk of bad and doubtful debts.

(8) Trade payables and bills payable

At 30 September 2010, the Group's trade payables and bills payable amounted to HK$6,285 million and HK$822 million, respectively. As compared with that as at 31 March 2010, the amounts increased by HK$3,239 million and HK$236 million respectively.

Compared with the amounts as at 30 September 2009, the trade payables grew by HK$2,298 million; whilst the bills payable dropped by HK$250 million. During the Period, the payable balance increased primarily reflected the massive procurements by TV and digital set-top boxes divisions in order to meet the product demands in the peak season. As the increase in sales necessitated the needs to enhance trade payable settlements, the Group has undergone a series of settlement procedures and system optimisation, enhanced monitoring and controls by improving information system accuracy and payment timeliness to uplift the Group's overall credibility.

LIQUIDITY, FINANCIAL RESOURCES AND CASH FLOW MANAGEMENT

The Group maintained a strong financial position. The Group's net current assets as at the Period ended increased by HK$960 million or 22.5% from 31 March 2010. Bank balances and cash amounted to HK$2,150 million, representing a decrease of HK$41 million when compared with that at 31 March 2010, an increase of HK$351 million from the same period last year; whilst the pledged bank deposits amounted to HK$783 million at 30 September 2010, representing a decrease of HK$1,611 million and HK$1,288 million from that at 31 March 2010 and the same period of previous year, respectively. The significant decrease in pledged bank deposits at the Period end was mainly due to the cash deposits were released from the maturity of most engagements of foreign currency forward contracts with financial institutions as disclosed in note 17 of the interim financial report.

To maintain liquidity adequacy for operation continuity, the Group facilitated various means of trade finance from banks and certain suppliers. At the Period end, the balance of the discounted bills receivable with recourse amounted to HK$1,007 million, representing a decrease of HK$2,421 million or 70.6% when compared with that at 31 March 2010. Such discounted bills receivable with recourse would be released upon maturity.

The Group secured certain assets against its certain trade facilities and loans granted from various banks. Such secured assets included HK$783 million bank deposits, as well as certain prepaid lease payments on land use rights, leasehold land and properties in the mainland China and Hong Kong with net book value of HK$222 million (at 31 March 2010: HK$218 million) as at the Period end.

The Group adopted principle of prudence and committed to maintaining a healthy financial position. At the end of the Period, total bank loans amounted to HK$3,176 million which included discounted bills receivable with recourse and foreign currency forward contracts for HK$1,007 million and 644 million, respectively. Equity attributable to owners of the Company amounted to HK$6,170 million; debt to equity ratio was 24.7% which excluded portion of the bank loans arising from discounted bills receivable with recourse and foreign currency forward contracts. Other key financial ratios are included in Financial Highlights of the interim financial report.

TREASURY POLICY

Most of the Group's major investments and revenue stream situate in mainland China. The Group's assets and liabilities are mainly denominated in Renminbi, others included Hong Kong dollars and US dollars. The Group may require carrying out general trade financing to fulfill operation cash flow needs. In order to reduce the finance costs, the Group utilisation of currency-based and income-based financial management tools introduced by banks to offset the financing pressure. During the Period, the Group had recognised HK$76 million net foreign exchange gains due from US dollars loans associated with foreign currency forward contracts and general operation with reference to mild RMB fluctuations.

The management reviewed the fluctuation of foreign currency and interest rate from time to time to determine the need on hedging actions appropriating to both foreign currency and interest movements, and the optimistic view of anticipating RMB appreciation in the long run. During the Period, the Group entered into a two-year target redemption forward contract with a bank, of which the purpose is to management the Group's foreign currency exposure in relation to its payables arising from time to time denominated partly in US dollar. For details of the arrangements, please refer to note 17 of the interim financial report.

SIGNIFICANT INVESTMENTS AND ACQUISTITION

During the Period, an addition of HK$112 million in construction projects were under way, including certain new production line projects, the ongoing construction of logistic centres, and the new construction phases for Guangzhou and Shenzhen production plants. These projects are positive influential to the productivity and bottleneck breakthroughs, providing tactics to complete orders on time. The Group had spent approximately HK$67 million on machinery in production line setups and other equipments; and has planned to commit HK$197 million on plant, logistic centres and machinery procurement, aiming to cater for future business needs, productivity and logistic efficiency enhancements.

CONTINGENT LIABILITIES

The Group held no material contingent liabilities during the Period. The details of certain patent disputes are disclosed in note 26 to the condensed consolidated financial statements in the interim financial report.

HUMAN RESOURCES CAPITAL

At 30 September 2010, the Group had over 22,000 employees in China (Hong Kong and Macau inclusive), including sales personnel situated throughout 42 branches and 188 sales offices. The Group gives high emphasis on fundamental employee benefits, appraisal systems, long-term and short-term incentive scheme, in motivation and recognition of staffs with outstanding contributions and performance. The Group values and allocates substantial resources for staff development, focusing on pre-employment and on-job trainings, providing punctual commentaries on latest industry trends, policies and guidelines to improve the quality of human capital.

The Group's remuneration policy is based on individual competence and performance, as well as overall human resources market set. Such details, along with information on the duties and services performed by the Remuneration Committee and Nomination Committee are disclosed in the Corporate Governance Report section.

OUTLOOK

Looking forward, the business environment of the global TV industry remains full of opportunities and challenges. The intensified competition from PRC brands and foreign brands in mainland China market is anticipated. The Group will continue to take advantage of the market opportunities as promulgated by the China government’s implementation of the “Three Networks Convergence” project, the “Home Appliances to the Countryside” scheme, the “Swapping Old to New” scheme and “Promotion of Energy Efficient Appliances” policies. The Group will further promote LED LCD TV and increase the efforts in research and development capability on 3D products to meet consumers’ demand with an optimal product mix. In order to maintain its leadership in the TV market, the Group will pay close attention to technological innovation to improve the quality of network television, coupled with actively exploring overseas markets to increase overall scale as well as continuously adopting prudent financial strategies.

The China government will launch the “12th Five-Year Plan” to stimulate domestic demand, bringing new growth points to companies targeting mainland China markets. To ensure growing in line with the China government's long-term plans, the Group closely monitors and executes further developments with the same direction. In addition, the management has taken a series of measures during the Period, including formation of a LED LCD TV sales strategy, production line adjustment, supply chain enhancement, numerous operational restructuring, clearance of inventory of obsolete TV models, sales channels improvement, combined with which will enable the Group to enhance its operational efficiency and improve the profitability in the second half year.

Moreover, the China government announced that new energy efficiency standards would be implemented starting from 1 December 2010, which will create more opportunities for energy-saving and environmental friendly products including LED LCD TVs. The Group will take full advantageous R&D in green energy products to further strengthen its position and garner greater market share.

In view of negative growth in sales volume during the first half year and in order to be consistent with the Group’s usual strategy of maximising profitability whilst maintaining high market share in mainland China market, the Group revised annual targeted TV sales volume from 7.5 million sets to 7 million sets (including 2 million LED LCD TVs) in mainland China market, and a decrease of annual targeted TV sales volume in overseas market from 2 million sets to 1.3 million sets.

CORPORATE GOVERNANCE STANDARDS

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 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 2010 as described in the "Corporate Governance Report" of the Company's annual report 2009/10.

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 2009/10.

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, Mr. So Hon Cheung, Stephen (Chairman of Audit Committee), Mr. Li Weibin and Ms. Chan Wai Kay, Katherine, 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) reviewed and commented on the Company's corporate governance practices and the Group's systems of internal control;
(c) reviewed the financial reporting system to ensure the adequacy of resources, qualifications and experience of staff of accounting and financial reporting function of the Group;
(d) discussed on the Group's internal audit plan with the Risk Management Department; and
(e) discussed about audit progress and findings.

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 2010.

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

During the six months ended 30 September 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board of the Company has resolved to pay an interim dividend for the six months ended 30 September 2010 of HK5 cents (2009: HK8 cent) per ordinary share, totaling approximately HK$129 million (2009: HK$197 million) to the shareholders of the Company on or around 1 February 2011 whose names appear on the register of members of the Company at the close of business on 23 December 2010. Shareholders may elect to receive interim dividend in the form of new shares of the Company or cash or partly in shares and partly in cash.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 24 December 2010 to Friday, 31 December 2010, both dates inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend payable on or around 1 February 2011, 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, 23 December 2010.

PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All the financial and other related information required by paragraphs 46(1) to 46(9) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

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, 30 November 2010

As at the date of this announcement, 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, Mr. Yang Dongwen and Mr. Lu Rongchang as executive directors, and Mr. So Hon Cheung, Stephen, Mr. Li Weibin and Ms. Chan Wai Kay, Katherine as independent non-executive directors.

** For identification purpose only*