SKYWORTH

SKYWORTH GROUP LIMITED

創維集團有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 00751)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

SKYWORTH GROUP LIMITED (the "Company", together with its subsidiaries referred to as the "Group") is an investment holdings company with subsidiaries principally engaged in manufacturing and selling consumer electronic products and upstream accessories, property development and property holding.

Highlights of Results

The Group recorded the following results for the Current Period:

- Revenue amounted to RMB17,230 million (71.1% of which was recorded from sales in the mainland China market). The revenue of the Previous Interim Period was RMB18,722 million.
- Sales of TV products and digital set-top boxes and LCD modules accounted for 55.5% and 21.1% of the Group's total revenue, respectively.
- Gross profit achieved RMB3,387 million, while the gross profit margin was 19.7%. The gross profit margin of the Previous Interim Period was 18.0%.
- Unaudited profit before and after non-controlling interests for the Current Period were RMB348 million and RMB181 million respectively, as compared to RMB271 million and RMB187 million over the Previous Interim Period, respectively.
- Taking into account the Company's profitability and capital required for future development, the Board does not recommend the payment of interim dividend for the Current Period (Previous Interim Period: Nil).

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce the unaudited interim results of the Company of the Group for the six months period from 1 January to 30 June 2019 (the "**six months ended 30 June 2019**" or "**Current Period**"). The interim results have been reviewed by the audit committee of the Company (the "**Audit Committee**") and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

The Group has resolved on 4 July 2018 to change the financial year end date of the Company from 31 March to 31 December. This is the first interim results announcement after changing the year end date, the financial period covered by the interim results announcement presented therefore covers the six months ended 30 June 2019, while relevant comparative figures cover the six months period from 1 April to 30 September 2018 (the "**six months ended 30 September 2018**" or "**Previous Interim Period**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2019

Amounts expressed in millions of Renminbi except for earnings per share data

	NOTES	Six months period from 1 January to 30 June 2019 (unaudited)	Six months period from 1 April to 30 September 2018 (unaudited)
Revenue			
Contracts with customers		17,007	18,393
Rental		195	179
Interest		28	150
Total revenue	3	17,230	18,722
Cost of sales		(13,843)	(15,346)
Gross profit		3,387	3,376
Other income		549	347
Other gains and losses		98	(34)
Impairment loss recognised in respect of financial assets		(85)	(55)
Selling and distribution expenses		(1,838)	(1,775)
General and administrative expenses		(1,326)	(1,304)
Finance costs		(223)	(202)
Share of results of associates		-	5
Profit before taxation		562	358
Income tax expense	5	(214)	(87)
Profit for the period	6	348	271
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(19)	(62)
Items that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income ("FVTOCI")		(277)	(244)
Income tax relating to item that will not be reclassified subsequently		42	36
Other comprehensive expense for the period		(254)	(270)
Total comprehensive income for the period		94	1

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

Amounts expressed in millions of Renminbi except for earnings per share data

	NOTES	Six months period from 1 January to 30 June 2019 (unaudited)	Six months period from 1 April to 30 September 2018 (unaudited)
Profit for the period attributable to:			
Owners of the Company		181	187
Non-controlling interests		167	84
		348	271
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(64)	(76)
Non-controlling interests		158	77
		94	1
Earnings per share (expressed in Renminbi cents)			
Basic	8	5.96	6.17
Diluted	8	5.90	6.17

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019

Amounts expressed in millions of Renminbi

	NOTES	As at 30 June 2019 (unaudited)	As at 31 December 2018 (audited)
Non-current Assets			
Property, plant and equipment		6,708	6,571
Right-of-use assets		2,466	-
Deposits paid for purchase of property, plant and equipment		94	109
Deposits for acquisition of leasehold land		1,052	251
Investment properties		3	4
Prepaid lease payments on land use rights		-	2,331
Goodwill		405	384
Intangible assets		92	92
Interests in associates		81	79
Interests in joint ventures		21	22
Equity instruments at fair value through profit and loss ("FVTPL")		551	463
Equity instruments at FVTOCI		1,217	1,494
Loan receivables	9	638	41
Deferred tax assets		498	555
		13,826	12,396
Current Assets			
Inventories		5,617	6,031
Stock of properties		947	866
Prepaid lease payments on land use rights		-	50
Investments in debt securities		209	158
Financial assets at FVTPL		49	37
Trade receivables	10	13,840	16,416
Other receivables, deposits and prepayments		2,552	2,545
Loan receivables	9	1,857	2,730
Finance lease receivables		128	128
Prepaid tax		68	31
Pledged bank deposits		139	123
Restricted bank deposits		322	335
Bank balances and cash		4,265	3,314
		29,993	32,764

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019

Amounts expressed in millions of Renminbi

	NOTES	As at 30 June 2019 (unaudited)	As at 31 December 2018 (audited)
Current Liabilities			
Trade and other payables	11(a)	8,352	10,456
Bills payables	12	5,693	6,182
Derivative financial instruments		6	3
Lease liabilities		43	-
Contract liabilities		1,703	1,443
Provision for warranty		168	143
Amount due to a non-controlling shareholder of a subsidiary		50	50
Tax liabilities		104	117
Borrowings		5,537	5,590
Deferred income		146	144
		21,802	24,128
Net Current Assets		8,191	8,636
Total Assets less Current Liabilities		22,017	21,032
Non-current Liabilities			
Other financial liabilities	11(b)	179	173
Lease liabilities		65	-
Provision for warranty		64	80
Borrowings		869	734
Derivative financial instruments		140	-
Convertible bonds		901	-
Corporate bonds		1,990	1,990
Deferred income		389	522
Deferred tax liabilities		142	178
		4,739	3,677
NET ASSETS		17,278	17,355
Capital and Reserves			
Share capital		308	308
Reserves		14,959	15,162
Equity attributable to owners of the Company		15,267	15,470
Non-controlling interests		2,011	1,885
		17,278	17,355

NOTES:

1. BASIS OF PREPARATION

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

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and, disclosure of contingent liabilities at the end of the reporting period and the reported amount of revenue and expenses during the reporting period.

The Group's operations are seasonal, the revenue from September to January (the peak season for sales of consumer electronic products in the mainland China) is relatively higher than the revenue 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 nine months ended 31 December 2018.

Pursuant to a special resolution passed by the shareholders at the annual general meeting of the Company held on 31 May 2019, the English name of the Company was changed from "Skyworth Digital Holdings Limited" to "Skyworth Group Limited" and the Chinese name "創維集團有限公司" was adopted as a secondary name of the Company. The change of name and adoption of secondary name were made both effective from 11 June 2019.

Change of financial year end date and presentation currency

Starting from the annual consolidated financial statements for the nine-month period ended 31 December 2018, (A) the financial year end date of the Company was changed from 31 March to 31 December to align with the financial year end date of the Company's principal operating subsidiaries established in the People's Republic of China (the "PRC") for which their accounts are statutorily required to be prepared with a financial year end date of 31 December; and (B) the presentation currency for the consolidated financial statements of the Group was changed from Hong Kong Dollar ("HK$") to Renminbi ("RMB") because (i) most of the Group's transactions are denominated and settled in RMB; and (ii) the change in the presentation currency will also reduce the impact of any fluctuations in the exchange rate of HK$ against RMB, which is unrelated to the operations of the Group and is beyond its control, on the consolidated financial statements of the Group. Accordingly, the condensed consolidated financial statements for the current period covers the six-month period from 1 January 2019 to 30 June 2019. The corresponding comparative amounts shown covers the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes covers the six-month period from 1 April 2018 to 30 September 2018 which has been retranslated to RMB using average rate of HK$ to RMB for the same period may therefore not be comparable with amounts shown for the current period.

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.

Other than (i) the adoption of accounting policies on convertible bonds as described below; and (ii) changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and an interpretation, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months period ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the nine months ended 31 December 2018.

Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible bonds using the effective interest method.

Application of new and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases*

The Group has applied HKFRS 16 *Leases* ("HKFRS 16") for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases*, and the related interpretations.

2.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight- line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases* - continued

2.1 Key changes in accounting policies resulting from application of HKFRS 16 - continued

As a lessee - continued

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases* - continued

2.1 Key changes in accounting policies resulting from application of HKFRS 16 - continued

As a lessee - continued

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases* - continued

2.1 Key changes in accounting policies resulting from application of HKFRS 16 - continued

As a lessee - continued

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions

The Group acts as a buyer-lessor

For a transfer of asset that does not satisfy the requirements of HKFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred asset and recognises a loan receivable equal to the transfer proceeds within the scope of HKFRS 9.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases* - continued

2.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases* - continued

2.2 Transition and summary of effects arising from initial application of HKFRS 16 - continued

As a lessee - continued

On transition, as at 1 January 2019, the Group has recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities of RMB122 million by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities is ranging from 4.75% to 5.00%.

	1 January 2019 RMB million
Operating lease commitments as at 31 December 2018	165
Lease liabilities discounted at relevant incremental borrowing rates	146
Less: Recognition exemption - short-term leases	(24)
Lease liabilities as at 1 January 2019	122
Analysed as:	
Current	52
Non-current	70
	122

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases* - continued

2.2 Transition and summary of effects arising from initial application of HKFRS 16 - continued

As a lessee - continued

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	1 January 2019 RMB million
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	122
Reclassified from prepaid lease payments on land use rights	2,381
	2,503
By class:	
Leasehold lands	2,381
Land and buildings	122
	2,503

Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments on land use rights as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB50 million and RMB2,331 million respectively were reclassified to right-of-use assets.

Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets at transition. No adjustment has been made to refundable rental deposits paid and right-of-use assets since the discounting effect is not significant.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases* - continued

2.2 Transition and summary of effects arising from initial application of HKFRS 16 - continued

As a lessee - continued

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB million (audited)	Adjustments RMB million	Carrying amounts under HKFRS 16 at 1 January 2019 RMB million (restated)
Non-current Assets			
Right-of-use assets	-	2,503	2,503
Prepaid lease payments on land use rights	2,331	(2,331)	-
Current Asset			
Prepaid lease payments on land use rights	50	(50)	-
Current Liability			
Lease liabilities	-	52	52
Non-current Liability			
Lease liabilities	-	70	70

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases* - continued

2.2 Transition and summary of effects arising from initial application of HKFRS 16 - continued

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets at transition. No adjustment has been made to refundable rental deposits received and advance lease payments since the discounting effect is not significant.

Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

Sales and leaseback transactions

The Group acts as a buyer-lessor

In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group as a buyer-lessor does not recognise the transferred asset if such transfer does not satisfy the requirements of HKFRS 15 as a sale. During the period, several sales and leaseback transactions in which the relevant seller-lessees have an obligation or a right to repurchase the relevant assets were accounted as financing arrangements under HKFRS 9.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

Impacts and changes in accounting policies of application on HKFRS 16 *Leases* - continued

2.2 Transition and summary of effects arising from initial application of HKFRS 16 - continued

Sales and leaseback transactions - continued

The following tables summarise the impacts on the Group's condensed consolidated statement of financial position as at 30 June 2019 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported RMB million	Adjustments RMB million	Amounts without application of HKFRS 16 RMB million
Non-current Assets			
Loan receivables	638	(605)	33
Finance lease receivables	-	605	605
Current Assets			
Loan receivables	1,857	(35)	1,822
Finance lease receivables	128	35	164

The transition to HKFRS 16 has no material impact on accumulated profits at 1 January 2019 and financial statements disclosure during the current interim period.

3. REVENUE

Disaggregation of revenue from contracts with customers, rental and interest

For the six months ended 30 June 2019 (unaudited)

	TV products (PRC market) RMB million	TV products (Overseas market) RMB million	Digital set-top boxes and LCD modules RMB million	White appliances RMB million	Property holding RMB million	Others RMB million	Total RMB million
Type of goods							
Manufacture and sales of TV products	6,639	2,926	-	-	-	-	9,565
Manufacture and sales of digital set-top boxes	-	-	3,038	-	-	-	3,038
Manufacture and sales of LCD modules	-	-	602	-	-	-	602
Manufacture and sales of white appliances	-	-	-	1,682	-	-	1,682
Sales of properties	-	-	-	-	-	30	30
Others (Note (1))	-	-	-	-	21	2,069	2,090
Contracts with customers (Note (2))	6,639	2,926	3,640	1,682	21	2,099	17,007
Rental	-	-	-	-	195	-	195
Interest (Note (3))	-	-	-	-	-	28	28
Segment revenue	6,639	2,926	3,640	1,682	216	2,127	17,230

For the six months ended 30 September 2018 (unaudited)

	TV products (PRC market) RMB million	TV products (Overseas market) RMB million	Digital set-top boxes and LCD modules RMB million	White appliances RMB million	Property holding RMB million	Others RMB million	Total RMB million
Type of goods							
Manufacture and sales of TV products	7,119	3,697	-	-	-	-	10,816
Manufacture and sales of digital set-top boxes	-	-	3,026	-	-	-	3,026
Manufacture and sales of LCD modules	-	-	380	-	-	-	380
Manufacture and sales of white appliances	-	-	-	1,332	-	-	1,332
Sales of properties	-	-	-	-	-	629	629
Others (Note (1))	-	-	-	-	-	2,210	2,210
Contracts with customers (Note (2))	7,119	3,697	3,406	1,332	-	2,839	18,393
Rental	-	-	-	-	179	-	179
Interest (Note (3))	-	-	-	-	-	150	150
Segment revenue	7,119	3,697	3,406	1,332	179	2,989	18,722

Notes:

(1) Others represents manufacture and sales of lighting products, security system, air conditioning and other electronic products, etc., trading of other products and provision of property management services.

(2) Other than provision of property management service under property holding which is recognise over time, the revenue from sales of goods and services are recognised at a point in time under HKFRS 15.

(3) Interest represents interest income from loan receivables amounted to RMB28 million (for the six months period ended 30 September 2018: loan receivables of RMB130 million and finance lease receivables of RMB20 million), under group entities in which the loan financing is a principal activity.

4. SEGMENT INFORMATION

The Group's operating and reportable segments under HKFRS 8 *Operating Segments* are as follows:

1. TV products (PRC market) - manufacture and sale of televisions for the PRC market (excluding Hong Kong Special Administrative Region and Macau Special Administrative Region)
2. TV products (overseas market) - manufacture and sale of televisions for the overseas market (including Hong Kong Special Administrative Region and Macau Special Administrative Region)
3. Digital set-top boxes and LCD modules - manufacture and sale of digital set-top boxes and LCD modules
4. White appliances - manufacture and sale of white appliances, including refrigerators, washing machines, etc.
5. Property holding - leasing of property and provision of property management services

Although "White appliances" segment and "Property holding" segment do not meet any of the quantitative thresholds for determining reportable segments, they are separately disclosed as the management believes that information regarding these two segments would be useful to the users of the condensed consolidated financial statements.

In addition to the above reportable segments, the Group has other operating segments mainly include manufacture and sale of lighting products, security system, air conditioning and other electronic products, etc., sales of properties, loan financing and trading of other products. These operating segments individually do not meet any of the quantitative thresholds for determining reportable segments. Accordingly, these operating segments are grouped as "Others" segment.

Segment information about these businesses is presented below.

The following is an analysis of the Group's revenue and results by reportable segments:

For the six months ended 30 June 2019 (unaudited)

	TV products (PRC market) RMB million	TV products (Overseas market) RMB million	Digital set-top boxes and LCD modules RMB million	White appliances RMB million	Property holding RMB million	Others RMB million	Eliminations RMB million	Total RMB million
Revenue								
Segment revenue from external customers	6,639	2,926	3,640	1,682	216	2,127	-	17,230
Inter-segment revenue	39	1	10	25	96	1,744	(1,915)	-
Total segment revenue	6,678	2,927	3,650	1,707	312	3,871	(1,915)	17,230
Results								
Segment results (Note)	(45)	25	304	66	85	273	-	708
Interest income								96
Unallocated corporate expenses less income								(19)
Finance costs								(223)
Condensed consolidated profit before taxation of the Group								562

4. SEGMENT INFORMATION - continued

For the six months ended 30 September 2018 (unaudited)

	TV products (PRC market) RMB million	TV products (Overseas market) RMB million	Digital set-top boxes and LCD modules RMB million	White appliances RMB million	Property holding RMB million	Others RMB million	Eliminations RMB million	Total RMB million
Revenue								
Segment revenue from external customers	7,119	3,697	3,406	1,332	179	2,989	-	18,722
Inter-segment revenue	81	1	11	61	91	1,664	(1,909)	-
Total segment revenue	7,200	3,698	3,417	1,393	270	4,653	(1,909)	18,722
Results								
Segment results (Note)	(89)	122	139	41	92	326	-	631
Interest income								61
Unallocated corporate expenses less income								(137)
Finance costs								(202)
Share of results of associates								5
Condensed consolidated profit before taxation of the Group								358

Note: No intra-segment transactions have been included in measuring the segment results.

Segment results represent the profit earned by (loss from) each segment without allocation of interest income, corporate expenses less income, finance costs and share of results of associates. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

5. INCOME TAX EXPENSE

	Six months period from 1 January to 30 June 2019 RMB million (unaudited)	Six months period from 1 April to 30 September 2018 RMB million (unaudited)
The charge (credit) comprises:		
PRC income tax		
Current period	148	210
Taxation arising in other jurisdictions		
Current period	-	1
Overprovision in prior periods	(4)	(3)
	(4)	(2)
	144	208
Deferred taxation	70	(121)
	214	87

5. INCOME TAX EXPENSE - continued

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods. For those PRC subsidiaries approved as High and New Technology Enterprise by the relevant government authorities, they are subject to a preferential rate of 15%.

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use right and all property development expenditures.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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 by the PRC entity shall be subject to Enterprise Income Tax pursuant to Articles 3 and 27 of the EIT Law of the PRC and Article 91 of the Implementation Rules of EIT Law of the PRC.

According to Guoshuifa [2008] No. 116 "Notice of the State Administration of Taxation on Issuing the Administrative Measures for the Pre-tax Deduction of Enterprise Research and Development Expenses (for Trial Implementation)", Caishui [2013] No. 70 "Circular of the Ministry of Finance and the State Administration of Taxation issues related to super deductions for research and development expenses", certain PRC subsidiaries are also entitled to an additional 50% tax deduction on eligible research costs incurred by them during both periods. In August 2018, a new notice with the name of Caishui [2018] No. 99 "Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses" was released, according to which certain PRC subsidiaries are entitled to an additional 75% tax deduction on eligible research costs incurred by them for both periods.

6. PROFIT FOR THE PERIOD

	Six months period from 1 January to 30 June 2019 RMB million (unaudited)	Six months period from 1 April to 30 September 2018 RMB million (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense including write-down of inventories of RMB79 million (for the six months ended 30 September 2018: RMB47 million)	13,742	14,814
Cost of stock of properties recognised as an expense	23	472
Depreciation of property, plant and equipment	352	319
Less: capitalised as cost of inventories	(105)	(96)
	247	223
Depreciation of right-of-use assets	51	-
Dividend income from unlisted investments	(13)	(1)
Government grants		
- related to assets	(115)	-
- related to expense items	(124)	(7)
	(239)	(7)
Interest income included in revenue		
- loan receivables	(28)	(130)
- finance lease receivables	-	(20)
	(28)	(150)
Interest income included in other income		
- bank deposits	(39)	(27)
- loan receivables	(57)	(34)
	(96)	(61)
Release of prepaid lease payments on land use rights	-	34
Rental income from leasing of properties less related outgoings of RMB78 million (for the six months ended 30 September 2018: RMB60 million)	(138)	(119)
Research costs recognised as an expense		
- included in general and administrative expense	908	831
Staff costs, including directors' emoluments	1,893	1,815
Less: capitalised as cost of inventories	(457)	(468)
	1,436	1,347
Value-added-tax ("VAT") refund	(130)	(56)

7. DIVIDENDS

	Six months period from 1 January to 30 June 2019 RMB million (unaudited)	Six months period from 1 April to 30 September 2018 RMB million (unaudited)
Dividends recognised as distribution during the period:		
2019 Final dividend - HK6.0 cents (for the six months period ended 30 September 2018: 2018 Final dividend - HK9.0 cents) per share	160	241

The final dividend for the nine months period from 1 April 2018 to 31 December 2018 of HK6.0 cents per share, amounting to RMB160 million in total, was recognised as distribution upon approval by the shareholders in the Company's annual general meeting held on 31 May 2019.

The board of directors has resolved not to recommend an interim dividend in respect of the six months ended 30 June 2019 to the shareholders of the Company (for the six months ended 30 September 2018: nil).

8. EARNINGS PER SHARE

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

	Six months period from 1 January to 30 June 2019 RMB million (unaudited)	Six months period from 1 April to 30 September 2018 RMB million (unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share:	181	187
Effect of dilutive potential ordinary shares arising from restricted share incentive scheme of Skyworth Digital Co., Ltd. ("Skyworth Digital"), an indirect non-wholly owned subsidiary of the Company established in PRC whose shares are listed on the Shenzhen Stock Exchange	(2)	-
Profit for the period attributable to owners of the Company for the purpose of diluted earnings per share	179	187
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,034,439,736	3,031,669,215
Effect of dilutive potential ordinary shares in respect of share awards outstanding	985,818	790,520
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,035,425,554	3,032,459,735

The computation of diluted earnings per share does not assume the exercise of all Company's outstanding share options and the conversion of Skyworth Digital's outstanding convertible bonds as the exercise prices of the share options are higher than the average market price per share for the six months periods ended 30 June 2019 and 30 September 2018 and the exercise of convertible bonds results in an increase in earnings per share.

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the Company under a share award scheme trust.

9. LOAN RECEIVABLES

	As at 30 June 2019 RMB million (unaudited)	As at 31 December 2018 RMB million (audited)
Fixed-rate loan receivables		
Secured	1,603	2,048
Unsecured	892	723
	2,495	2,771
Analysed for reporting purpose as		
Non-current assets	638	41
Current assets	1,857	2,730
	2,495	2,771

Included in the carrying amount of loan receivables as at 30 June 2019 is allowance for credit losses of RMB310 million (as at 31 December 2018: RMB275 million).

Included in the loan receivables as at 30 June 2019 amounted to RMB430 million (net of allowance for credit losses of RMB70 million) (as at 31 December 2018: RMB688 million (net of allowance for credit losses of RMB112 million)) is loan advanced to a company for which the Group has 20% equity interests. The directors of the Company considered that the Group does not have significant influence over that investee company because the Group does not have the power to participate in the financial and operating policy decision of that investee company, accordingly, such investment is classified as "equity instruments at FVTOCI".

Included in the Group's loan receivables balance with aggregate carrying amount of RMB961 million (as at 31 December 2018: RMB1,691 million) are secured by borrowers' charge over equity instruments, trade receivables, properties, land use right and plant and machineries.

Included in the carrying amount of loan receivables as at 30 June 2019 is an amount of approximately RMB259 million (as at 31 December 2018: nil) due from a related party controlled by a substantial shareholder of the Company which is secured, interest bearing at 8% per annum and repayable in installments up to 25 April 2022.

9. LOAN RECEIVABLES - continued

Included in the carrying amounts of loan receivables of approximately RMB383 million (as at 31 December 2018: nil) are secured by guarantee of a substantial shareholder of the Company in respect of amounts owed by third parties to the Group, interest-bearing at 8% per annum and repayable in installments up to respective final maturity dates ranging from 28 March 2022 to 27 June 2022.

The exposure of the Group's fixed-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

	As at 30 June 2019 RMB million (unaudited)	As at 31 December 2018 RMB million (audited)
Fixed-rate loan receivables:		
Within one year	1,857	2,730
In more than one year but not more than two years	243	27
In more than two years but not more than five years	395	14
	2,495	2,771

The ranges of effective interest rates (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

	As at 30 June 2019 (unaudited)	As at 31 December 2018 (audited)
Effective interest rate:		
Fixed-rate loan receivables	4.35% - 12.00%	4.50% - 12.00%

10. TRADE RECEIVABLES

	As at 30 June 2019 RMB million (unaudited)	As at 31 December 2018 RMB million (audited)
Trade receivables		
- goods and services	9,213	9,719
- lease receivables	76	52
	9,289	9,771
Less: allowance for credit losses	(326)	(297)
	8,963	9,474
Bills receivables	4,877	6,942
	13,840	16,416

As at 30 June 2019, trade receivables from contracts with customers amounted to RMB9,213 million (as at 31 December 2018: RMB9,719 million).

The following is an aged analysis of trade receivables, net of allowance for credit loss, presented based on the invoice date at the end of the reporting period:

	As at 30 June 2019 RMB million (unaudited)	As at 31 December 2018 RMB million (audited)
Within 30 days	3,336	4,610
31 to 60 days	1,440	1,795
61 to 90 days	932	824
91 to 365 days	2,562	1,707
Over 365 days	693	538
Trade receivables	8,963	9,474
Bills receivables	4,877	6,942
	13,840	16,416

10. TRADE RECEIVABLES - continued

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

	As at 30 June 2019 RMB million (unaudited)	As at 31 December 2018 RMB million (audited)
Within 30 days	785	916
31 to 60 days	740	817
61 to 90 days	989	1,434
91 days or over	1,763	3,275
Bills discounted to banks with recourse	600	500
	4,877	6,942

The carrying values of above bills discounted to banks with recourse continue to be recognised as assets in the condensed consolidated financial statements as the Group has not transferred substantially the risks and rewards of ownership of the bills receivables taking into account the credit rating of the issuers of the bills. Accordingly, the liabilities associated with such bills, mainly borrowings, are not derecognised in the condensed consolidated financial statements as well.

The maturity dates of bills discounted with recourse are less than six months from 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 AND OTHER FINANCIAL LIABILITIES

(a) Trade and other payables

The following is an aged analysis of trade payables based on invoice date at the end of the reporting period, and other payables:

	As at 30 June 2019 RMB million (unaudited)	As at 31 December 2018 RMB million (audited)
Within 30 days	2,381	4,237
31 to 60 days	1,236	1,343
61 to 90 days	568	656
91 days or over	469	399
Trade payables	4,654	6,635
Accruals and other payables	1,301	1,125
Accrued staff costs	536	592
Accrued selling and distribution expenses	130	151
Amounts received for restricted share incentive scheme of a subsidiary	152	168
Customer deposits (Note 1)	11	25
Interest payables on corporate bonds	91	36
Interest payables on convertible bonds	1	-
Other deposits received	427	545
Payables for purchase of property, plant and equipment	55	59
Refund liabilities (Note 2)	848	999
Rental deposits received	73	66
VAT payable	73	55
	8,352	10,456

11. TRADE AND OTHER PAYABLES AND OTHER FINANCIAL LIABILITIES - continued

(a) Trade and other payables - continued

Notes:

1. The customer deposits bear interest at 0.35% per annum (as at 31 December 2018: 0.35% per annum) which are repayable on demand.

   As at 30 June 2019, RMB3 million (as at 31 December 2018: RMB10 million) of the customer deposits is placed by the associate, 北京新七天電子商務技術股份有限公司, which bear interest at 0.35% per annum (as at 31 December 2018: 0.35% per annum) and is repayable on demand.

2. The refund liabilities are arisen from outstanding rebates in relation to the goods sold to certain customers.

(b) Other financial liabilities

Movement in other financial liabilities is as follows:

	Six months ended 30 June 2019 RMB million (unaudited)	Nine months ended 31 December 2018 RMB million (audited)
At the beginning of the period	173	163
Imputed interest expenses for the period	6	10
At the end of the period	179	173

During the year ended 31 March 2017, Shenzhen Chuangwei-RGB Electronics Co., Ltd. ("RGB"), an indirect-wholly owned subsidiary of the Company, entered into an agreement with 北京愛奇藝科技有限公司 ("iQIYI"), a third party not connected to the Group, for a RMB150 million capital injection. Pursuant to the agreement, Shenzhen Coocaa Network Technology Company Limited (深圳市酷開網絡科技有限公司) ("Shenzhen Coocaa"), an indirect non-wholly owned subsidiary of the Company, received the first capital injection of RMB100 million from iQIYI on 2 December 2016. During the year ended 31 March 2018, Shenzhen Coocaa received the second capital injection of RMB50 million from iQIYI.

Based on the terms of the agreement, RGB and iQIYI agreed that if the shares of Shenzhen Coocaa are not listed on any stock exchange within 60 months after 2 December 2016, and the market value of Shenzhen Coocaa is less than RMB3 billion before listing, iQIYI can require RGB to transfer its investments in Shenzhen Coocaa to equivalent value of investments in Skyworth Digital, or require RGB to buy back its investments in Shenzhen Coocaa at the original consideration paid plus interest of 8% per annum at the end of 60 months. As the Group cannot unconditionally avoid the delivery of cash or other financial assets to fulfil the contractual obligations, the capital injection received is recognised as a financial liability. Imputed interest expenses of RMB6 million (for the six months period ended 30 September 2018: RMB6 million) has been recognised in respect of this financial liability during the six months ended 30 June 2019.

12. BILLS PAYABLES

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

	As at 30 June 2019 RMB million (unaudited)	As at 31 December 2018 RMB million (audited)
Within 30 days	1,101	979
31 to 60 days	981	885
61 to 90 days	1,057	864
91 days or over	2,554	3,454
	5,693	6,182

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

13. PLEDGE OF ASSETS

As at 30 June 2019, the Group's borrowings were secured by the following:

(a) legal charges over right-of-use assets (as at 31 December 2018: prepaid lease payments on land use rights), leasehold land and properties with carrying values of RMB16 million (as at 31 December 2018: prepaid lease payments on land use rights of RMB17 million) and RMB214 million (as at 31 December 2018: RMB225 million) respectively;

(b) pledged bank deposits of RMB139 million (as at 31 December 2018: RMB123 million);

(c) trade receivable of RMB15 million (as at 31 December 2018: RMB25 million); and

(d) bills receivables of RMB600 million (as at 31 December 2018: RMB500 million).

In addition, the Group's corporate bonds are secured by the equity interest of a subsidiary.

14. ACQUISITION OF A SUBSIDIARY AND DISPOSAL OF A SUBSIDIARY

(a) Acquisition of 深圳神彩物流有限公司 ("神彩物流")

On 22 February 2019, a sales and purchase agreement was entered into between (i) Skyworth Group Co., Ltd. ("SGCL"), a subsidiary of the Company, and (ii) China Electronics Corporation (the "Seller"), in relation to the acquisition of equity interest in 神彩物流 by SGCL from the Seller.

Pursuant to the sales and purchase agreement, SGCL acquired 100% equity interest in 神彩物流.

On 1 March 2019, all the conditions precedent under the sales and purchase agreement have been fulfilled. 神彩物流 becomes an indirect wholly-owned subsidiary of the Company thereafter.

The total consideration for the acquisition is RMB38 million, which is satisfied in cash.

神彩物流 is principally engaged in the business of provision of logistics services. Acquisition of 神彩物流 is to accelerate the strategic layout and improve the logistics performance of the Group in the PRC.

Acquisition-related costs relating the above acquisition are excluded from the cost of acquisition and have been recognised as an expense in the profit or loss.

The net assets acquired in the transaction (determined on provisional basis) were as follows:

	RMB million (unaudited)
Non-current Asset	
Property, plant and equipment	18
Current Assets	
Inventories	38
Trade receivables	43
Other receivables, deposits and prepayments	20
Bank balances and cash	52
Current Liabilities	
Trade and other payables	(88)
Bank borrowings	(60)
Non-current Liability	
Deferred tax liabilities	(1)
	22

14. ACQUISITION OF A SUBSIDIARY AND DISPOSAL OF A SUBSIDIARY - continued

(a) Acquisition of 深圳神彩物流有限公司 ("神彩物流") - continued

The trade receivables acquired with a fair value of RMB43 million at the date of acquisition had gross contractual amounts of RMB43 million. The best estimate at acquisition date of contractual cash flows not expected to be collected amounted to RMB43 million.

The initial accounting for the assets and liabilities acquired in the above business combination with net fair value of RMB22 million have been determined professional valuations conducted by independent valuer not connected to the Group.

The goodwill arising on the acquisition is as follows:

	RMB million
Consideration	38
Less: Net assets acquired	(22)
Goodwill arising on acquisition	16

Goodwill arose in the acquisition of 神彩物流 because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of 神彩物流. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for the identifiable intangible assets.

Net cash inflow arising on acquisition is as follows:

	RMB million
Cash consideration paid	(38)
Less: bank balances and cash acquired	52
Net cash inflow for the period	14

Included in the profit for the six months ended 30 June 2019 is RMB5 million attributable to 神彩物流. Revenue for the six months ended 30 June 2019 includes RMB152 million is attributable to 神彩物流.

Had the acquisition been completed on 1 January 2019, total group revenue for the six months ended 30 June 2019 would have been RMB17,273 million, and profit for the six months six months ended 30 June 2019 would have been RMB345 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

14. ACQUISITION OF A SUBSIDIARY AND DISPOSAL OF A SUBSIDIARY - continued

(b) Disposal of 遂寧錦華紡織有限公司 ("Suining")

On 11 June 2018, the Group disposed 94% equity interest in a non-wholly owned subsidiary, Suining, which engaged in spinning, weaving, manufacture and sales of textiles at a consideration of RMB30 million.

The assets and liabilities over which control was lost at the date of disposal are as follow:

	RMB million
Property, plant and equipment	62
Prepaid lease payments on land use rights	74
Equity investments at FVTPL	1
Inventories	23
Trade receivables	46
Bank balances and cash	16
Trade and other payables	(31)
Borrowings	(160)
Deferred income	(8)
	23

The loss on disposal of a subsidiary arising on the disposal is as follows:

	RMB million
Consideration	30
Less: Net assets disposed of	(23)
Less: Derecognised goodwill	(39)
Add: Non-controlling interests	2
Loss on disposal of Suining	(30)

Net cash inflow arising on disposal is as follows:

	RMB million
Cash consideration received	30
Less: bank balances and cash disposed	(16)
Net cash inflow for the period	14

BUSINESS PERFORMANCE REVIEW

During the Current Period, the consolidated revenue of the Group was RMB17,230 million (for the six months ended 30 September 2018 ("Previous Interim Period"): RMB18,722 million). The profit after tax of the Group of the Current Period was RMB348 million (Previous Interim Period: RMB271 million). The gross profit margin was 19.7% (Previous Year: 18.0%).

Note A

To facilitate a better understanding of the Group's operating results in the Current Period, the Group also presents, on a voluntary basis, the unaudited financial results for the six months period from 1 January to 30 June 2018 (the "Same Period of Previous Year") for comparison.

The unaudited financial results for the six months period ended 30 June 2019 and those for the six months ended 30 June 2018 are as follows:

	1 January to 30 June 2019 (Unaudited)	1 January to 30 June 2018 (Unaudited)	**1 January to 30 June 2019 vs 1 January to 30 June 2018**
	RMB million	RMB million	**Increase/ (decrease)**
Revenue	**17,230**	17,351	**(0.7%)**
Gross profit	**3,387**	2,996	**13.1%**
Gross profit margin	**19.7%**	17.3%	**2.4p.p.**
Selling and distribution expenses	**(1,838)**	(1,665)	**10.4%**
General and administrative expenses	**(1,326)**	(1,216)	**9.0%**
Profit before taxation	**562**	385	**46.0%**
Income tax expense	**(214)**	(96)	**122.9%**
Profit for the period	**348**	289	**20.4%**

Revenue

For the six months ended 31 December 2019, the Group's overall revenue amounted to RMB17,230 million (six months ended 30 September 2018: RMB18,722 million), compared with an overall revenue of RMB17,351 million for the Same Period of Previous Year.

During the Current Period, as the fierce competition in both the domestic and overseas markets continued to soften, the Group adhered to its development philosophy of being a "technological leader" and developing "health-focused technologies", it therefore focused on consumer experience and the improvement of product competitiveness. The Group made structural adjustments in relation to its TV products and customer base, fully leveraging on its advantages as an early mover amid the trend of accelerated penetration of OLED TV. By introducing products of greater value for money, the Group managed to further increase its market share. While revenue from its TV business decreased as a result of overall lower prices in the TV product market, the Group however, recorded fast growth in revenue from its internet-based content. Meanwhile, its digital set-top boxes and white appliances businesses both delivered growth. As a result, the Group's overall revenue remained stable on a year-on-year basis at RMB17,230 million, representing a mild decrease of 0.7% as compared with the Same Period of Previous Year. Despite an industry market that kept shrinking in scale, the Group still managed to strengthen its integrated management covering R&D, production and sales, which in turn, led to enhanced overall operating efficiency and improved product profitability. For the Current Period, the Group's gross profit margin grew by 2.4 percentage points from the Same Period of Previous Year to 19.7%.

For the six months period ended 30 June 2019 and those from 1 January to 30 June 2018, the Group's sales volume of TV by products and markets are as follows:

	1 January to 30 June 2019	**1 January to 30 June 2018**	**January to June 2019 vs January to June 2018**
	Unit ('000)	*Unit ('000)*	***Increase/(Decrease)***
PRC Market	**4,076**	**3,657**	**11.5%**
Including:			
– 4K TV	***2,247***	***1,888***	***19.0%***
– Non-4K TV	***1,829***	***1,769***	***3.4%***
Overseas Markets	**3,373**	**3,075**	**9.7%**
Total TV sales volume	**7,449**	**6,732**	**10.7%**

For the six months ended 30 June 2019, the Group's user population of Skyworth Smart TV in the mainland China market is as below:

— Accumulated activated users for internet TV: 38,719,934

— Weekly active users for Smart TV: 18,417,555

— Daily active users for Smart TV: 13,846,936

(a) Business Review by Geographical Segments

The Group's operations have been expanded worldwide, including mainland China and other regions in Asia, Africa, Europe and America, with mainland China being the primary market.

Mainland China Market

For the six months ended 30 June 2019, revenue from the mainland China market amounted to approximately RMB12,257 million (six months ended 30 September 2018: RMB13,419 million), representing an increase of RMB274 million or 2.3% compared with the Same Period of Previous Year.

During the Current Period, the Group's multimedia business, smart systems technology business and smart appliances business each accounted for 57.9% (from 1 January to 30 June 2018: 62.2%), 24.4% (from 1 January to 30 June 2018: 21.3%) and 13.1% (from 1 January to 30 June 2018: 10.4%) of its revenue from the mainland China market, while modern services business and other operations attributed the remaining 4.5% (from 1 January to 30 June 2018: 6.1%).

Overseas Markets

For the six months ended 30 June 2019, revenue from overseas markets amounted to RMB4,973 million (six months ended 30 September 2018: RMB5,303 million), equivalent to 28.9% of the Group's overall revenue, representing a decrease of RMB395 million or 7.4% compared with RMB5,368 million recorded in the Same Period of Previous Year. In pursuit of greater stability, the Group's OEM operation in overseas markets adjusted its customer and order structure, resulting in a significant decrease in revenue overseas during the Current Period.

Geographical distribution of revenue in overseas markets

The Group's main overseas markets are Asia, Middle East and Africa. The geographical distribution of the revenue in proportion for overseas markets is illustrated as follows:

	Six months period ended 30 June		Six months period ended 30 September 2018
	2019	2018	
	(%)	(%)	(%)
Asia (excluding Middle East)	51	47	53
Middle East	17	14	15
Africa	11	15	15
Europe	16	11	11
America	4	12	6
Oceania	1	1	0
	100	100	100

For revenue analysis by business sectors concerning the mainland China market and overseas markets, please refer to the section headed "Business Review by Business Sectors".

(b) Business Review by Business Sectors

The Group has announced its overall strategic direction for upgrading through reformation for the next five years (also known as the "1334 Strategy"), covering four key business sectors, including: 1. Multimedia Business, 2. Smart Systems Technology Business, 3. Smart Appliances Business, and 4. Modern Services Business.

Multimedia business

The Group's multimedia business covers, among others, TV, content-based development and operation.

For the six months ended 30 June 2019, the Group's TV products recorded a revenue of RMB6,639 million in the mainland China market (six months ended 30 September 2018: RMB7,119 million), representing a decrease of RMB191 million or 2.8% compared with RMB6,830 million recorded in the Same Period of Previous Year.

During the Current Period, the Group effectively addressed image issues through double image calibration based on the AI algorithm of "chameleon" – its self-developed AI professional image processing chip. Meanwhile, the Group also used PQ processors and AI algorithm to improve image quality in a number of dimensions, allowing the delivery of clearer and more vivid images. Equipped with CSO Pro, Skyworth 65W80 OLED TV has an acoustic surface for delivering sound, creating an extraordinary viewing experience with surround sound effects of greater accuracy. By leveraging Skyworth's Swaiot+TrensAI technologies, the Group also aims to lead a new era of big-screen AIoT, signified by the successful establishment of an entire big-screen AIoT ecosystem, which covers three elements, namely ecology, interaction and terminal. This open ecosystem, built with Swaiot+TrensAI technologies, will facilitate the interconnection among products from different brands and the integration of various home appliances into a smart ecosystem. Meanwhile, as the first mainland-based manufacturer to successfully achieve mass production of OLED screens, Skyworth has developed and launched 7 new models of OLED TV featuring industry-leading technologies as of the date of this announcement, enabling the Group's TV business to secure a leading position in mainland China's OLED market. According to the statistics from All View Cloud (AVC) on OLED market retail volume from January to June 2019, Skyworth ranked first among domestic brands with a market share of 35.3%.

For the six months ended 30 June 2019, as the Group continued to focus on promoting large-sized 4K TV, the monthly sales volume of 4K smart TV increased by 19.0% year on year, this contributed to a year-on-year increase of 11.5% in our average monthly sales volume; meanwhile, the monthly sales volume of non-4K TV in the mainland China market also grew by 3.4% year on year. However, in order to cope with fierce competition in the marketplace, the Group adjusted the unit rates of its TV products in the mainland China market. As a result, for the six months ended 30 June 2019, revenue from the Group's TV products in the mainland China market recorded a mild decrease from the Same Period of Previous Year.

For the six months ended 30 June 2019, revenue recorded for the Group's TV products in overseas markets amounted to RMB2,926 million (six months ended 30 September 2018: RMB3,697 million), representing a decrease of RMB924 million or 24.0% compared with RMB3,850 million recorded in the Same Period of Previous Year.

During the Current Period, the US-China trade war continued to cast uncertainties over global economy. Operations became more challenging for existing customers, as exports of emerging markets, such as Brazil, Argentina and Turkey, remained sluggish due to sustained weakening of exchange rates. In order to ensure stability and continuity of our operations, the Group adopted relatively conservative sales strategies. As a strategic decision, the Group cancelled projects of low profit margin, leading to a decline in revenue from its OEM business.

Through the model of Original Design Manufacturer and the establishment of overseas sales office, the Group managed to gain increasing popularity and visibility in overseas markets. However, due to the late formation of its business layout, subdued market activities and limited sales channels, as well as growing pessimistic sentiment over economic prospects in Europe, our European business had to reduce its operation scale to manage risks and accelerate inventory turnover.

For the six months ended 30 June 2019, the Group saw a significant growth of RMB106 million or 39.3% in revenue from its internet-based content and advertisements, which increased to RMB376 million (six months ended 30 September 2018: RMB251 million) from RMB270 million in Same Period of Previous Year. As of 30 June 2019, Skyworth had over 38 million activated users for its smart TV in the Chinese market, and had attracted over 13 million daily active users. Our industrial deployment strategy of "hardware + content" is well received by internet-based enterprises: Beijing iQIYI Science & Technology Co., Ltd.* (北京愛奇藝科技有限公司), an affiliate of Tencent Holdings Limited and an affiliate of Baidu Holdings Limited* (百度控股有限公司) have all successively invested in Shenzhen Coocaa Network Technology Company Limited* (深圳市酷開網絡科技有限公司) (an indirect non-wholly owned subsidiary of the Company). We are confident that building on the joint efforts of these giants in the internet industry, our smart-home and smart-city businesses will be growing at an even faster pace.

Smart systems technology business

Smart systems technology business covers, among others, digital access systems, automotive electronic systems, smart office & conference systems, and smart security systems.

For the six months ended 30 June 2019, revenue recorded for digital set-top boxes and LCD modules in the mainland China market amounted to RMB2,660 million (six months ended 30 September 2018: RMB2,271 million), representing an increase of RMB377 million or 16.5% from RMB2,283 million recorded in the Same Period of Previous Year.

During the Current Period, the Group took an active part in building scenarios for smart home application, involving, among others, smart home devices, the Internet of Things and security construction. It also devoted more resources to developing broadcasting and TV products, such as 4K ultra high definition smart boxes, PON, Cable Modem, ONU, and household gateways. Not only did we further increase our market share and coverage in the centralised procurement market of China Telecom; Skyworth has also become a key supplier of smart gateways for China Unicom, a qualified supplier of smart gateway products for China Mobile, and a strategic partner of the China Mobile Group Digital Home Alliance. In addition, the Group actively focused on research and development, it launched a wide range of differentiated products during the Current Period, including, among others, Skyworth Xiaodu AI Box, Penguin Aurora Projector, Skyworth Xiaopai Series Projector and smart boxes, through which it continued to enhance its influence and competitiveness in the industry.

For the six months ended 30 June 2019, revenue recorded for digital set-top boxes and LCD modules in overseas markets amounted to RMB980 million (six months ended 30 September 2018: RMB1,135 million), representing a slight decrease of RMB41 million or 4.0% from RMB1,021 million recorded in the Same Period of Previous Year.

During the Current Period, the Group's digital set-top boxes business recorded large volume of sales in overseas markets, including Africa, India, Southeast Asia, Europe and Latin America. Having maintained its position in the markets of Asia, Africa and Latin America with a stable market share, the business further enhanced its delivery capability to meet the demand of pre-sales plans and projects of major operators in the world. However, revenue recorded for digital set-top boxes in overseas markets declined due to decreased shipment in African markets. This was partly offset by a significant increase in shipment from our Indian market, as the Group actively explored other markets to cope with market changes.

Smart appliances business

Smart appliances business covers, among others, smart air conditioners, smart refrigerators, smart washers and smart kitchen appliances.

For the six months ended 30 June 2019, revenue recorded for smart appliance products in the mainland China market amounted to RMB1,599 million (six months ended 30 September 2018: RMB1,469 million), representing an increase of RMB190 million or 13.5% compared with RMB1,409 million recorded in the Same Period of Previous Year. Revenue from overseas markets amounted to RMB662 million (six months ended 30 September 2018: RMB402 million), representing an increase of RMB268 million or 68.0% compared with RMB394 million recorded in the Same Period of Previous Year.

During the Current Period, Skyworth was fully committed to improving the performance of its smart appliances business through the synergy between products and sales channels. Following the product-driven approach, Skyworth upgraded its products towards high-end finishes, smart capabilities and refined services; and with the channel-driven approach, not only did Skyworth deliver a comprehensive upgrade that covered marketing, branding, operation scale and values, it also continued to improve its sales-channel layout, thereby achieving omni-channel coverage in large chain stores, e-commerce platforms and brick-and-mortar stores. Revenue of smart appliance products increased as a result.

As the home appliance industry evolves towards the development of products featuring smart functions and high-end finishes, product performance and structural upgrade have become the main priority as the sector moves forward. Concentrating additional resources on the delivery of "health benefits", "energy efficiency" and "smart functions" through enhanced product research and development, Skyworth aims to embed technological innovation and smart technology into its products. During 2018, the Group launched an i-DD voice-commanded washing machine with dual-cleaning function. Equipped with the 3rd generation of AI voice system, not only can this model deliver doubled cleaning efficiency on top of numerous advanced functions, such as "offline operation, multi-lingual capacity, multiple microphones, upgraded support, multi-scenario application and over 60 commands", it is also equipped with a direct-drive converter-fed DC motor and our i-health system, delivering high energy efficiency and durability. This voice-commanded new product with dual-cleaning function also offers a wide range of health technologies, it can prevent cross-contamination caused by pollutants and detergent residue in the drum, adding extra protection for a healthy life. Furthermore, through the introduction of refrigerator series offering features such as smart IoT connectivity, air cooling, even cooling and direct cooling, Skyworth also managed to achieve omni-platform and omni-capacity coverage, signifying its successful entry into the upscale market.

Skyworth continues to optimise its traditional channels and structures in the domestic market: on the one hand, it is upgrading from a county-and-village-based network to one that covers mega cities and super mega cities; on the other, it is also upgrading from small outlets to large home appliance stores. To expand its footprint to international markets, Skyworth has established a global presence. In addition to a globalised market network that covers several regions, including Europe, Southeast Asia, Middle East, Africa and South America, Skyworth has also formed overseas subsidiaries, all in a concerted effort to solidify existing foundation while engaging in ongoing exploration and expansion. We have every faith that Skyworth will continue to grow, make greater progress and further expand its sales network in the future. Driven by the dual-brand synergy between Skyworth and Toshiba, we aim to achieve new milestones.

Gross profit margin

For the six months ended 30 June 2019, the overall gross profit margin of the Group was 19.7% (six months ended 30 September 2018: 18.0%), representing an increase of 2.4 percentage points in comparison to 17.3% recorded in the Same Period of Previous Year.

During the Current Period, multiple integrated methods were adopted to increase the gross profit margin of our TV products. In light of a reduction in the price of upstream panel, the Company lowered prices in line with market trends, and launched the MAXTV and OLED series, which focused on user experience through product differentiation, thus further expanding its presence in larger-sized (55-inch and over) products. At the same time, the Group disposed of cooperative projects of low and negative gross profit margin in overseas markets, reinforced cooperation with core customers, thereby further improving service standards and product competitiveness. As a result, the gross profit margin of our TV products in overseas markets increased on a year-on-year basis.

Relying on strong research and development capabilities, our digital set-top boxes have been well received by customers. During the Current Period, the Group managed to offset part of the effect from higher raw material prices through an appropriate increase in product prices. Additionally, we also increased the shipment proportion of products of high added-values, which drove a year-on-year growth in both gross profit margin and revenue as compared with the Same Period of Previous Year. As a result, digital set-top boxes made greater contribution to the Group's growth in gross profit margin during the Current Period.

Expenses

For the six months ended 30 June 2019, the Group's selling and distribution expenses amounted to RMB1,838 million (six months ended 30 September 2018: RMB1,775 million), representing an increase of RMB173 million or 10.4% compared with RMB1,665 million for the Same Period of Previous Year. The selling and distribution expenses to revenue ratio for the six months ended 30 June 2019 was 10.7% (six months ended 30 September 2018: 9.5%), which increased by 1.1 percentage points from 9.6% recorded in the Same Period of Previous Year.

For the six months ended 30 June 2019, the Group's general and administrative expenses amounted to RMB1,326 million (six months ended 30 September 2018: RMB1,304 million), representing an increase of RMB109 million or 9.0% compared with RMB1,216 million for the Same Period of Previous Year. The general and administrative expenses to revenue ratio for the six months ended 30 June 2019 was 7.7% (six months ended 30 September 2018: 7.0%), which rose by 0.7 percentage points from 7.0% recorded in the Same Period of Previous Year.

Since the Group devoted enormous resources during the Current Period to the research and development of premium smart products and the improvement of its corporate competitiveness, a corresponding increase was recorded in research and development expenses, which amounted to RMB908 million for the six months ended 30 June 2019 (six months ended 30 September 2018: RMB831 million), representing an increase of RMB753 million or 20.6% compared with the Same Period of Previous Year.

LIQUIDITY, FINANCIAL RESOURCES AND CASH FLOW MANAGEMENT

The Group adopts a prudent financial policy to maintain stable financial conditions. As at 30 June 2019, net current assets amounted to RMB8,191 million, representing a decrease of RMB445 million or 5.2% when compared with that as at 31 December 2018. As at 30 June 2019, bank balances and cash amounted to RMB4,265 million, representing an increase of RMB951 million or 28.7% when compared with those as at 31 December 2018. As at 30 June 2019, pledged bank deposits amounted to RMB139 million, representing an increase of RMB16 million or 13.0% when compared with those as at 31 December 2018. As at 30 June 2019, restricted bank deposits amounted to RMB322 million, representing a decrease of RMB13 million or 3.9% when compared with those as at 31 December 2018.

The Group secured certain assets against its certain trade facilities and loans granted from various banks. As at 30 June 2019, such secured assets included bank deposits of RMB139 million (as at 31 December 2018: RMB123 million), trade receivables of RMB15 million (as at 31 December 2018: RMB25 million), bills receivables of RMB600 million (as at 31 December 2018: RMB500 million), as well as certain prepaid lease payments on land use rights, lands and properties in mainland China and Hong Kong, with net book value of RMB230 million (as at 31 December 2018: RMB242 million).

As at 30 June 2019, total bank loans amounted to RMB6,406 million (as at 31 December 2018: RMB6,324 million), corporate bonds (inclusive of interest) amounted to RMB2,081 million (as at 31 December 2018: RMB2,026 million) and convertible bonds (inclusive of interest) amounted to RMB902 million (as at 31 December 2018: nil). Overall interest-bearing liabilities of the Group were RMB9,389 million (as at 31 December 2018: RMB8,350 million), equity attributable to owners of the Company amounted to RMB15,267 million (as at 31 December 2018: RMB15,470 million). The debt to equity ratio revealed as 54.3% (as at 31 December 2018: 48.1%).

TREASURY POLICY

The Group's major investments and revenue streams are derived from mainland China. The Group's assets and liabilities are mainly denominated in RMB, others are denominated in HK$, US dollar and Euro. The Group uses general trade financing to fulfil the needs in operating cash flow. In order to reduce finance costs, the Group exploits currency-based and income-based financial management tools introduced by banks to offset such costs. The management of the Group regularly reviews changes in foreign exchange rates and its interest rate exposures, in order to determine the need on hedging of foreign exchange. However, faced with a number of uncertainties, including, among others, the US-China trade war, the United Kingdom's exit from the European Union and significant interest rate fluctuations in the US, it is now more difficult to predict future changes in exchange rates. For the six months ended 30 June 2019, the Group recorded a net foreign exchange gain of RMB20 million (six months ended 30 September 2018: gain of RMB23 million) associated with general operation, compared with a loss of RMB42 million for the Same Period of Previous Year.

In addition, the Group still held the following investments during the Current Period:

(a) Unlisted equity securities

As of 30 June 2019, the Group held investments in 31 unlisted companies. The total value (at fair value) of these investments (net of changes in fair value and costs) was RMB1,708 million, of which RMB1,211 million represented the Group's investment in a PRC investee company in which the Group held 10% equity interest. The principal business activity of such investee company is manufacturing and sale of flat screen display, display materials, LCD related products and other electronic accessories.

(b) Listed equity securities

As of 30 June 2019, the Group held two listed equity securities, details of which are as follows:

Listed company	**Shareholding as at 30 June 2019**	**Value of investment as at 30 June 2019**	**Value of investment as at 31 December 2018**	**Exchange on which the securities are listed**	**Principal business of the listed company**
		(RMB million)	(RMB million)		
Chigo Holding Limited	3.4%	20.4	27.9	The Stock Exchange of Hong Kong Limited	Manufacturing and sale of air-conditioners
Ningbo Exciton Technology Co., Limited	0.9%	22.3	18.2	The Shenzhen Stock Exchange	Manufacturing and sale of flat screen displays

The management looks upon these two listed equity securities as medium to long term investments, and their businesses are similar to those of the Group. Our judgment on their performance coincides with the whole electronic industry, which is one of the main business sectors being advocated by the Chinese government, though returns from these investments might still be affected by market uncertainties. The management will take a prudent approach to deal with these investments and take necessary actions to cope with market changes.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the Current Period, in order to cope with the increased production scale and improved output ratio of smart products, the Group invested a total of approximately RMB239 million in construction projects, including the expansion of its production plants in Nanjing, Guangzhou and Qianhai, and approximately RMB242 million for purchasing machinery and other equipment for production lines and improvement of facilities in former production plants. The Group planned to further invest approximately RMB820 million in building properties, plants, office premises and purchasing new equipment, with a view to further increasing productivity, improving operation efficiency for its products, as well as catering for future business needs in the development of intelligent, diversified and internationalised products.

During the Current Period, a subsidiary of the Group won a bid at the auction (by tender) for the acquisition of a land parcel located in Ningbo City, Zhejiang Province, PRC with a site area of 52,612 sq.m. at the consideration of approximately RMB1,224 million. The Group intends to develop the Land into a residential area for sale with high-rise residential building(s) together with commercial facilities.

CONTINGENT LIABILITIES

There are individual patent disputes which arise in the course of business of the Group. The Group is in the course of processing these matters. The directors are of the view that these patent disputes will not have a material adverse impact on the interim financial statements of the Group.

HUMAN RESOURCES CAPITAL

As at 30 June 2019, the Group had around 34,000 employees in China (Hong Kong and Macau inclusive) and overseas, including sales personnel situated throughout 34 branches and 207 sales offices. The Group places high emphasis on fundamental employee benefits, appraisal systems, long-term and short-term incentive schemes, in an effort to motivate and recognise staff with outstanding contributions and performance. The Group allocates substantial resources for staff development, focusing on pre-employment and on-the-job trainings, providing periodical updates on the latest industrial trends, policies and guidelines to improve the quality of human capital. Meanwhile, the Group continues to strengthen the infrastructure of human resources, provides guidance on position titles, salary norms, and gradually establishes a long-term centralised mechanism for the selection, training and development of industry leaders. It also sets up a specified department to enhance the professionalism of general staff and the leadership skills of its senior management.

The Group's remuneration policy is determined with reference to individual performance, functions and conditions of human resources market.

OUTLOOK

Signalled by the wider application of new technologies such as the internet, big data, cloud computing, artificial intelligence and 5G telecommunication, we will soon find ourselves in an era that features the "interconnection of all things and smart interaction". As it energizes the conventional home appliance industry by opening new markets, this era has created new opportunities for the Group's transformation and upgrading. In light of a multitude of factors, including, among others, an imminent turning point proclaiming the decline of the TV industry, the wider application of new technologies, increased penetration of smart TVs and domestic consumption upgrade, it has become inevitable for the Company to commit to its transformation and upgrading, which will lead to accelerated development of home appliances towards high-end finishes, smart capabilities and multiple functions. While the home appliance industry is faced with daunting challenges, it is also given great opportunities for future development. The Group will pay close attention to the trends in the global electronic information industry, fully comprehend new features and new technologies emerging in the smart home appliance industry, prioritise innovation-driven, technology-driven and capacity-driven development, with a view to staying focused on the promotion of transformation and upgrading.

To accelerate its reform and upgrade, the Group actively takes part in the national initiative of developing China into a manufacturing powerhouse. Adhering to its corporate philosophy of "innovation, entrepreneurship and pursuing future growth", the Group has established a five-year overall strategic direction for upgrading through reformation (also known as the "1334 Strategy"), under which it will organise operations around the objective of reaching the revenue threshold of one hundred billion, which will entail the full implementation of three key strategies, namely operation smartisation, refinement and internationalisation. By promoting the construction of its three key projects (namely the headquarters base, the Pearl River Delta smart manufacturing base and the Yangtze River Delta smart manufacturing base), together with the development of its four key business sectors (namely multimedia, smart appliances, smart systems technology and modern services), the Group aims to transform Skyworth into a leading enterprise in the field of smart home appliances and information technology that is known for advanced technologies of its key products, sound corporate governance, effective operations, stringent supervision, adequate incentives and global competitiveness.

Going forward, the Group will continue to fully promote the implementation of its "1334 Strategy", while following its work approach of "reform, innovation and development" in the coming years. Through its 3 key measures, namely increasing corporate dynamic through enhanced effort in reforming adjustment, improving product competitiveness through enhanced innovation in research and development, promoting quality development at Skyworth through enhanced effort in investment and reorganization, the Company aims to further improve its governance, operation and supervision, thereby promoting all-round operations within the Group. Skyworth sets out to deliver a transformation from traditional manufacturing to service industry, which will see its business focus shifting from hardware to software, and from terminals to systems.

The Group's management is confident that by increasing corporate capacity in making accurate and objective judgements about changes in the industries and markets in which it operates, and enhancing the reform and management of its research and development system at a corporate-level, Skyworth will be well equipped to seize opportunities arising from the current home appliance industry and consumption upgrade. Through its work in the next few years, Skyworth will be able to accelerate industrial transformation, technological upgrading and product innovation, thereby promoting sustainable development for the longer term.

CORPORATE GOVERNANCE STANDARDS

The Company recognises the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, and is committed to maintaining 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 Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the Current Period and up to the date of this announcement, the Company has complied with the code provisions as set out in the CG Code, save and except for the code provision A.6.7 of the CG Code as an independent non-executive Director (who is the chairperson of the nomination committee of the Company) was unable to attend the annual general meeting of the Company held on 31 May 2019 as he had other engagement.

For detailed information about the corporate governance practices of the Company, please refer to the "Corporate Governance Report" contained in the Company's 2018 annual report.

AUDIT COMMITTEE

The Audit Committee was established by the Board since the listing of the shares of the Company on the main board of The Stock Exchange of Hong Kong Limited on 7 April 2000. The Audit Committee is comprised of 3 independent non-executive Directors. The chairperson of the Audit Committee is Mr. Cheong Ying Chew, Henry and the other members are Mr. Li Weibin and Mr. Li Ming.

During the Current Period and up to the date of this announcement, the Audit Committee held 2 meetings and performed the following duties:

(a) to review and comment on the Company's annual and interim financial reports;
(b) to oversee the Group's financial reporting system, risk management and internal control systems on an ongoing basis;
(c) to review the financial reporting system to ensure the adequacy of resources, qualifications and experience of staff in accounting and financial reporting functions of the Group;
(d) to discuss on the Group's internal audit plan with the Risk Management Department;
(e) to review the continuing connected transactions; and
(f) to meet and communicate with the external auditors for audit works of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the 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, 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 transactions by Directors adopted by the Company throughout the Current Period.

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

During the Current Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

Taking into account the Company's profitability and capital required for future development, the Board does not recommend the payment of interim dividend for the Current Period (for the six months ended 30 September 2018: nil).

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website (http://investor.skyworth.com/en/index.php) and the website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk). The Company's 2019 interim report will be made available on the websites of the Company and Hong Kong Exchanges and Clearing Limited and will be despatched to the shareholders of the Company in due course.

APPRECIATION

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

By order of the Board
Skyworth Group Limited
Lai Weide
Chairman of the Board

Hong Kong, 27 August 2019

As at the date of this announcement, the Board of the Company comprises Mr. Lai Weide as the Chairman of the Board; Mr. Liu Tangzhi as executive Director and the chief executive officer; Ms. Lin Wei Ping, Mr. Shi Chi and Mr. Lin Jin as executive Directors; and Mr. Li Weibin, Mr. Cheong Ying Chew, Henry and Mr. Li Ming as independent non-executive Directors.