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# SKYWORTH

## SKYWORTH GROUP LIMITED

### 創維集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 00751)

## UNAUDITED RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2020

**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 smart TV systems, home access systems, smart white appliances, internet value-added services, property development and property holding.**

### Highlights of Results

The Group recorded the following results for the Reporting Period:

- Revenue amounted to RMB6,752 million (64.8% of which was recorded from sales in the mainland China market). The revenue of the Same Period of Previous Year amounted to RMB9,165 million.
- Revenue from multimedia business and smart systems technology business accounted for 59.3% and 25.6% of the Group’s total revenue, respectively; compared to 56.2% and 25.9% in the Same Period of Previous Year, respectively.
- Gross profit achieved RMB1,539 million, while the gross profit margin was 22.8%. The gross profit margin of the Same Period of Previous Year was 18.8%.
- Profit for the period and profit for the period attributable to owners of the Company amounted to RMB266 million and RMB203 million, respectively.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2020 (the “**Reporting Period**”) together with the comparative figures for the three months ended 31 March 2019 (the “**Same Period of Previous Year**”). This three months results have been reviewed by the audit committee of the Company (the “**Audit Committee**”) and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED 31 MARCH 2020

Amounts expressed in millions of Renminbi

	Three months ended	
	31 March <u>2020</u> (unaudited)	31 March <u>2019</u> (unaudited)
Revenue		
Contracts with customers	6,644	9,066
Leases	100	91
Interest under effective interest rate	8	8
	<u>6,752</u>	<u>9,165</u>
Total revenue		
Cost of sales	(5,213)	(7,444)
	<u>1,539</u>	<u>1,721</u>
Gross profit		
Other income	252	221
Other gains and losses	(57)	45
Reversal of impairment loss recognised in respect of financial assets	39	5
Selling and distribution expenses	(640)	(929)
General and administrative expenses	(303)	(252)
Research and development expenses	(370)	(434)
Finance costs	(118)	(102)
Share of results of associates	(10)	-
	<u>332</u>	<u>275</u>
Profit before taxation		
Income tax expense	(66)	(102)
	<u>266</u>	<u>173</u>
Profit for the period		
<b>Other comprehensive income (expense)</b>		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	29	(42)
	<u>29</u>	<u>(42)</u>
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	(278)	(151)
Income tax relating to item that will not be reclassified subsequently	42	23
	<u>(236)</u>	<u>(128)</u>
Other comprehensive expense for the period	(207)	(170)
Total comprehensive income for the period	<u>59</u>	<u>3</u>

	Three months ended	
	31 March	31 March
	<u>2020</u>	<u>2019</u>
	(unaudited)	(unaudited)
Profit for the period attributable to:		
Owners of the Company	203	106
Non-controlling interests	<u>63</u>	<u>67</u>
	<u>266</u>	<u>173</u>
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	(2)	(57)
Non-controlling interests	<u>61</u>	<u>60</u>
	<u>59</u>	<u>3</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2020

Amounts expressed in millions of Renminbi

	As at 31 March <u>2020</u> (unaudited)	As at 31 December <u>2019</u> (audited)
<b>Non-current Assets</b>		
Property, plant and equipment	5,545	7,040
Right-of-use assets	2,503	2,496
Deposits paid for purchase of property, plant and equipment	324	299
Investment properties	1,478	4
Goodwill	409	410
Intangible assets	91	91
Interests in associates	171	196
Interests in joint ventures	19	19
Equity instruments at fair value through profit and loss ("FVTPL")	1,188	1,005
Equity instruments at FVTOCI	1,241	1,523
Finance lease receivables	5	5
Loan receivables	945	585
Deferred tax assets	501	500
	<u>14,420</u>	<u>14,173</u>
<b>Current Assets</b>		
Inventories	5,321	4,909
Stock of properties	4,258	4,171
Investments in debt securities	-	83
Financial assets at FVTPL	32	50
Derivative financial instruments	19	-
Trade receivables	11,867	14,265
Other receivables, deposits and prepayments	2,410	2,045
Loan receivables	1,292	1,540
Finance lease receivables	125	125
Prepaid tax	82	75
Pledged bank deposits	885	885
Restricted bank deposits	384	411
Bank balances and cash	5,565	4,806
	<u>32,240</u>	<u>33,365</u>

	As at 31 March <u>2020</u> (unaudited)	As at 31 December <u>2019</u> (audited)
<b>Current Liabilities</b>		
Trade payables	5,840	6,559
Other payables	3,798	4,264
Bills payables	2,976	3,500
Derivative financial instruments	2	4
Lease liabilities	31	34
Contract liabilities	2,063	1,951
Corporate bonds	1,990	1,990
Provision for warranty	171	181
Tax liabilities	142	189
Borrowings	6,403	7,135
Deferred income	153	170
	<u>23,569</u>	<u>25,977</u>
<b>Net Current Assets</b>	<u>8,671</u>	<u>7,388</u>
<b>Total Assets less Current Liabilities</b>	<u>23,091</u>	<u>21,561</u>
<b>Non-current Liabilities</b>		
Other financial liabilities	288	285
Lease liabilities	98	112
Provision for warranty	98	91
Borrowings	1,837	1,042
Convertible bonds	880	924
Medium term note	796	-
Deferred income	417	426
Deferred tax liabilities	217	262
Derivative financial instruments	233	276
	<u>4,864</u>	<u>3,418</u>
<b>NET ASSETS</b>	<u>18,227</u>	<u>18,143</u>
<b>Capital and Reserves</b>		
Share capital	308	308
Reserves	<u>15,691</u>	<u>15,684</u>
Equity attributable to owners of the Company	15,999	15,992
Non-controlling interests	<u>2,228</u>	<u>2,151</u>
	<u>18,227</u>	<u>18,143</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED 31 MARCH 2020

Amounts expressed in millions of Renminbi

	Three months ended	
	31 March <u>2020</u> (unaudited)	31 March <u>2019</u> (unaudited)
NET CASH FROM OPERATING ACTIVITIES	<u>631</u>	<u>669</u>
NET CASH USED IN INVESTING ACTIVITIES		
Dividend received	4	-
Interest received	45	43
Purchase of property, plant and equipment	(302)	(206)
Proceeds on disposal of property, plant and equipment	8	3
Proceed on disposal of an associate	15	-
Proceeds on redemption of investments in debt securities upon maturity	83	-
Investments in debt securities	-	(101)
Investments in equity instruments at FVTPL	(204)	(48)
Loan advanced	(559)	-
Repayment of loan receivables	297	-
Purchase of financial assets at FVTPL	(2)	(34)
Proceeds on disposal of financial assets at FVTPL	11	22
Proceeds on disposal of equity instruments at FVTOCI	5	-
Government grant received related to assets	19	16
Placement of pledged bank deposits	-	(72)
Withdrawal of pledged bank deposits	-	5
Placement of restricted bank deposits	(3)	-
Withdrawal of restricted bank deposits	30	35
Net cash inflow from acquisition of a subsidiary	-	14
	<u>(553)</u>	<u>(323)</u>

	Three months ended	
	31 March <u>2020</u> (unaudited)	31 March <u>2019</u> (unaudited)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>		
Interest paid	(69)	(61)
Dividend paid to non-controlling interests	(10)	-
New bank borrowings raised	5,049	2,421
Repayments of bank borrowings	(5,023)	(2,563)
Repayments of lease liabilities	(24)	(15)
New medium term note raised, net of transaction costs	796	-
	<u>719</u>	<u>(218)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	797	128
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	4,806	3,314
Effect of foreign exchange rate changes	<u>(38)</u>	<u>(12)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash</b>	<u><u>5,565</u></u>	<u><u>3,430</u></u>

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## **BUSINESS PERFORMANCE REVIEW**

### **Revenue**

For the three months ended 31 March 2020, the Group's overall revenue amounted to RMB6,752 million, representing a decrease of RMB2,413 million or 26.3% compared with RMB9,165 million recorded in the Same Period of Previous Year.

#### **(a) Business Review by Geographical Segment**

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 three months ended 31 March 2020, revenue from the mainland China market amounted to approximately RMB4,377 million, representing a decrease of RMB2,336 million or 34.8% compared with RMB6,713 million recorded in the Same Period of Previous Year.

During the Reporting Period, the Group's multimedia business, smart systems technology business and smart appliances business each accounted for 61.5% (the Same Period of Previous Year: 55.8%), 23.7% (the Same Period of Previous Year: 23.7%) and 8.5% (the Same Period of Previous Year: 9.7%) of its revenue from the mainland China market, while modern services business and other operations attributed the remaining 6.3% (the Same Period of Previous Year: 10.8%).

#### ***Overseas Markets***

For the three months ended 31 March 2020, revenue from overseas markets amounted to RMB2,375 million, equivalent to 35.2% of the Group's overall revenue, representing a decrease of RMB77 million or 3.1% compared with RMB2,452 million recorded in the Same Period of Previous Year.



### *Geographical distribution of revenue in overseas markets*

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

	Three months ended 31 March	
	2020 (%)	2019 (%)
Asia (excluding Middle East)	52	55
Europe	18	17
Middle East	12	16
America	10	3
Africa	8	8
Oceania	0	1
	100	100

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

#### (b) Business Review by Business Sector

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.

##### **1. Multimedia Business**

The Group's multimedia business primarily covers, among others, smart TV systems and provision of internet valued-added services of Coocaa System.

For the three months ended 31 March 2020, the Group's revenue of multimedia business recorded revenue of RMB4,006 million, representing a decrease of RMB1,141 million or 22.2% compared with RMB5,147 million recorded in the Same Period of Previous Year.

For the three months ended 31 March 2020 and 2019, the Group's smart TV systems sales volume by product and market are as follows:

	1 January to 31 March 2020	1 January to 31 March 2019	January to March 2020 vs January to March 2019 Increase/(decrease)
	Unit ('000)	Unit ('000)	
PRC Market	1,437	2,058	(30.2%)
Overseas Markets	1,528	1,623	(5.9%)
<b>Total smart TV systems sales volume</b>	<b>2,965</b>	<b>3,681</b>	<b>(19.5%)</b>

### **1.1 Smart TV systems products (PRC Market)**

For the three months ended 31 March 2020, the Group's smart TV systems products recorded revenue of RMB2,430 million in the mainland China market, representing a decrease of RMB1,121 million or 31.6% compared with RMB3,551 million recorded in the Same Period of Previous Year.

During the Reporting Period, due to the effect from the outbreak and spread of COVID-19, the sales volume of the Group's smart TV systems products decreased by 30.2% year on year. The Group will continue its marketing strategies and adjust unit rates to cope with downturn of the market and increase market share in order to improve the sales performance of the Group's smart TV system products in the Mainland China market.

### **1.2 Smart TV Systems Products (Overseas Markets)**

For the three months ended 31 March 2020, the Group's smart TV systems products recorded revenue of RMB1,312 million in overseas markets, representing a decrease of RMB90 million or 6.4% compared with RMB1,402 million recorded in the Same Period of Previous Year.

During the Reporting Period, overall performance of the international TV market remained sluggish amidst the effect from the worldwide outbreak and spread of COVID-19, which resulted a serious blow to the global economic activities. To cope with the current situation, the Group will continue to adopt relatively stable and conservative sales strategies, cancelling projects of low profit margin in certain overseas markets as part of its strategic decision, focusing instead on opportunities in consumption presented by emerging countries, as well as the optimisation of its sales channels and structures.

### **1.3 Internet value-added Services of Coocaa System**

For the three months ended 31 March 2020, the Group recorded a significant growth of RMB70 million or 36.1% in revenue from the internet value-added services of Coocaa System, which increased from RMB194 million to RMB264 million in Same Period of Previous Year.

As at 31 March 2020, the total activated smart terminal of Coocaa System in the mainland China market was approximately 46.79 million, the monthly active volume of smart terminal was approximately 30.45 million, while the average daily active volume was approximately 18.99 million.

During the Reporting Period, Chinese citizens spent a lot of time on watching TV at home instead of stay outside due to the outbreak of COVID-19. Therefore, a significant growth was recorded for both of the active volume and the internet value-added services of Coocaa System.

## **2. *Smart Systems Technology Business***

Smart systems technology business covers, among others, home access systems, intelligent manufacturing, automotive electronic systems and other electronic products.

For the three months ended 31 March 2020, revenue recorded for smart systems technology business in the mainland China market amounted to RMB1,038 million, representing a decrease of RMB554 million or 34.8% from RMB1,592 million recorded in the Same Period of Previous Year. For the three months ended 31 March 2020, revenue recorded for Smart Systems Technology business in overseas markets amounted to RMB689 million, representing a decrease of RMB90 million or 11.6% from RMB779 million recorded in the Same Period of Previous Year.

### **3. *Smart Appliances Business***

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

For the three months ended 31 March 2020, revenue recorded for smart appliance products in the mainland China market amounted to RMB371 million, representing a decrease of RMB277 million or 42.7% compared with RMB648 million recorded in the Same Period of Previous Year. Revenue in overseas markets amounted to RMB289 million, representing an increase of RMB18 million or 6.6% compared with RMB271 million recorded in the Same Period of Previous Year.

During the Reporting Period, the operating performance of smart appliances business was affected by the pandemic of COVID-19. As the epidemic situation in the mainland China is under control and the global epidemic situation is expected to improve, we expect the operating performance of the smart appliance business to improve significantly. Although the epidemic is still affecting the global market, we will continue to develop new products with excellent operational capabilities, take care of pipeline operations and achieve large-scale manufacturing in order to continue to grow our business scale.

### **4. *Modern Services Business***

Modern services business covers, among others, maintenance and repair for home appliances, macro-logistics services, international trades, construction development, financial lease and property operation for industrial parks.

The Group's modern services business is mainly based in the mainland China market. For the three months ended 31 March 2020, revenue recorded for modern services business in the mainland China market amounted to RMB274 million, representing a decrease of RMB454 million or 62.4% compared with RMB728 million recorded in the Same Period of Previous Year. Revenue in overseas markets amounted to RMB85 million, the Group did not have modern services business in overseas markets in the Same Period of Previous Year.

### **Gross profit margin**

For the three months ended 31 March 2020, the overall gross profit margin of the Group was 22.8%, representing an increase of 4.0 percentage points in comparison to 18.8% recorded in the Same Period of Previous Year.

During the Reporting Period, the gross profit margin increased compared with the Same Period of Previous Year. According to the latest PRC tax policy, some of the Group's revenue, meeting the relevant exemption of Value-Added Tax, was concluded by the relevant tax authority to be refunded through issuing Credit Value-Added Tax Invoices during the Reporting Period. At the same time, since the Group continued to refine operations management, adopting multiple integrated methods to increase the gross profit margin of our products and reduce group-wide operating costs. Those methods to enhance the gross profit margin include strengthen control on prices, change of sales structures to increase the sales proportion of products with higher gross profit margin and high-end smart TV systems products, assess the ability of cooperative projects in overseas markets recording low gross profit with a view to minimising loss-making projects, continually improve the quality of customer services with an aim to deliver higher added values, strengthening the strategic cooperation with other business of the Group and combining innovative technologies to bring new elements to products.

## Expenses

For the three months ended 31 March 2020, the Group's selling and distribution expenses amounted to RMB640 million, representing a decrease of RMB289 million or 31.1% compared with RMB929 million for the Same Period of Previous Year. The selling and distribution expenses to revenue ratio for the three months ended 31 March 2020 was 9.5%, which decreased by 0.6 percentage points from 10.1% recorded in the Same Period of Previous Year.

For the three months ended 31 March 2020, the Group's general and administrative expenses amounted to RMB303 million, representing an increase of RMB51 million or 20.2% compared with RMB252 million for the Same Period of Previous Year, which was mainly due to an increase in consultancy fee. The general and administrative expenses to revenue ratio for the three months ended 31 March 2020 was 4.5%, which rose by 1.8 percentage points from 2.7% recorded in the Same Period of Previous Year.

The Group continued to devote enormous resources during the Reporting Period to the research and development of premium smart products and the improvement of its corporate competitiveness. However, due to the impact of the COVID-19 epidemic, the Group's investment in research and development during the Reporting Period has decreased compared to the Same Period of Previous Year. For the three months ended 31 March 2020, the Group's research and development expenses amounted to RMB370 million, representing a decrease of RMB64 million or 14.7% compared with RMB434 million for the Same Period of Previous Year. The research and development expenses to revenue ratio for the three months ended 31 March 2020 was 5.5% which rose by 0.8 percentage points from 4.7% recorded in the Same Period of Previous Year.

## OUTLOOK

In 2020, the board of directors put forward the working principle of “investment, innovation, and reform”, requiring managers to “continuously break through the stereotypes and innovate the development model”, vigorously implement intelligent, international, and refined strategies, as the country accelerates the construction of new infrastructure, Accelerate the research and development of key technologies and products in the field of smart living and the ultra-high-definition video industry, accelerate the adjustment of asset structure, industrial structure, and talent structure, and strive to create new performance and new value.

This year, the new pneumonia epidemic has swept the world. Skyworth takes employees' interests as the top priority and attaches great importance to epidemic prevention and control work. Since late January, it has established a group prevention and control mechanism from top to bottom, strictly implemented prevention and control measures, strengthened park access management, established centralized isolation centers, and invested mask production lines, etc. So far, no Skyworth employees have contracted new pneumonia. At the same time, based on the principle of "scientific prevention and orderly resumption of work", the Group strives to create conditions for resumption of work and speed up resumption of production. The resumption of work began on February 11, and production has been fully resumed so far. Work resumed one after another.

Faced with the outbreak of the epidemic and huge uncertainties in the development of the world economy, Skyworth Group will seize new opportunities for changes in markets; speed up business development, improve the construction of the online marketing system, promote the growth of Skyworth products, and create new value for shareholders and investors.

## EVENTS AFTER THE REPORTING PERIOD

The new coronavirus (COVID-19) epidemic has caused uncertainties in the business environment, especially the recent outbreaks around the world, which are expected to have an impact on the Group's overseas business.

The impact of the COVID-19 outbreak on the Group's overseas business is expected to continue for a period of time, but the length of the period and scale of its impact are difficult to predict and depend on the development of the situation. In view of this, the Group carefully studies the situation, come up with countermeasures, and continues to formulate adjustment plans in terms of product structure and business structure; improve the strength of the enterprise, improve product quality, and reduce operating costs; accelerate the work of reorganization and integration; take advantage of opportunities, actively expand the market, and boost revenue to reduce the financial impact of the challenges.

The directors of the Company are currently assessing the impact of the COVID-19 epidemic on the Group's financial performance, but they also expect that the COVID-19 epidemic will have an impact on the Group's consolidated results in year 2020.

## 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 Reporting Period.

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

Hong Kong, 6 May 2020

*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, Mr. Lin Jin and Mr. Lam Shing Choi, Eric as executive Directors; and Mr. Li Weibin, Mr. Cheong Ying Chew, Henry and Mr. Hung Ka Hai, Clement as independent non-executive Directors.*