SKYWORTH

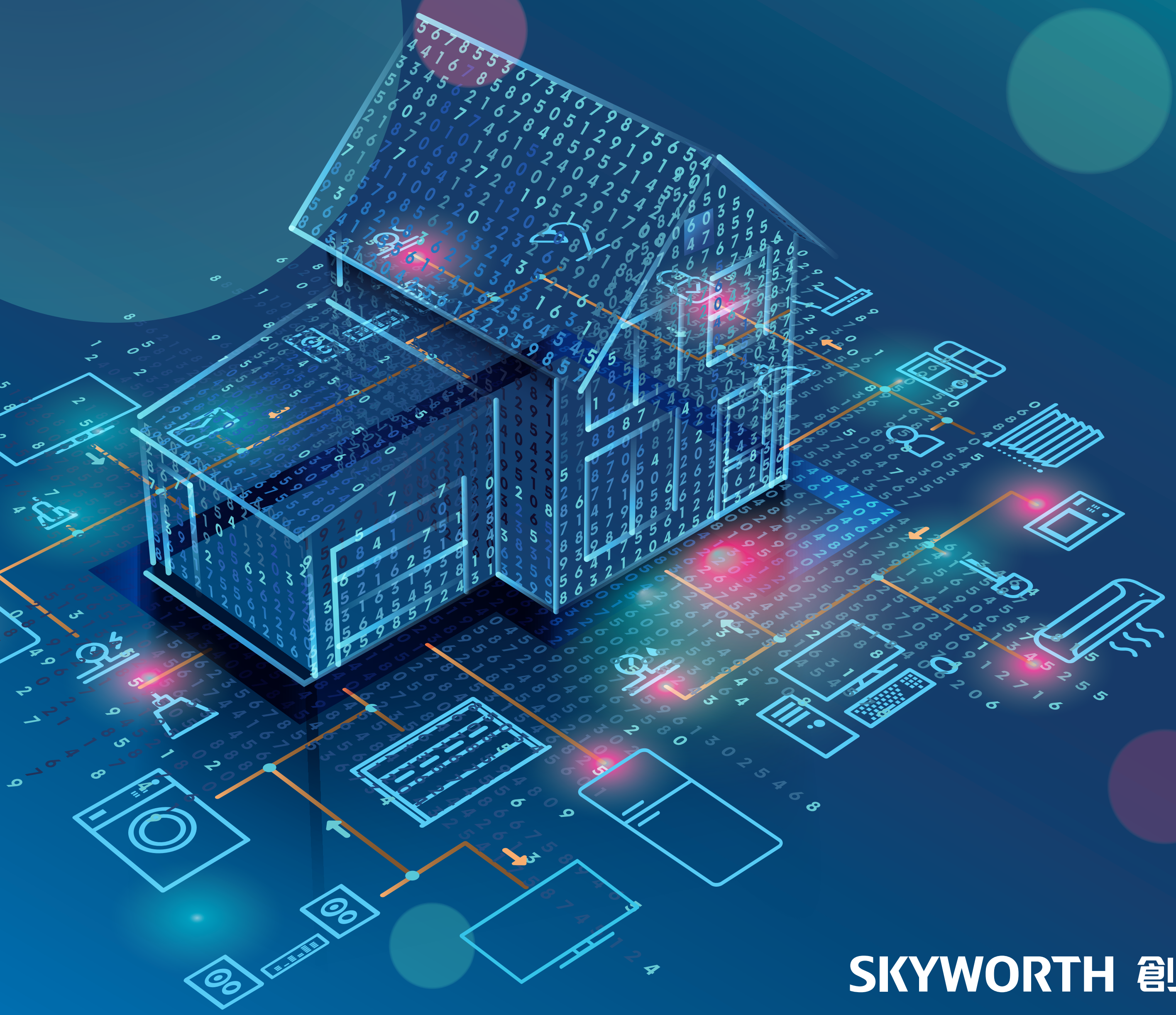
創維集團有限公司
SKYWORTH GROUP LIMITED

(formerly known as SKYWORTH DIGITAL HOLDINGS LIMITED 創維數碼控股有限公司)

(Incorporated in Bermuda with limited liability)

Stock Code : 00751.HK

Interim Report
2019



SKYWORTH 創維

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FINANCIAL HIGHLIGHTS

Amounts expressed in Renminbi ("RMB") million (except for data per share)

	Six months period from 1 January to 30 June 2019 (unaudited)	Six months period from 1 April to 30 September 2018 (unaudited)	Change
OPERATING RESULTS			
Revenue	**17,230**	18,722	–8.0%
Earnings before interest and tax	**785**	560	+40.2%
EBITDA	**1,188**	879	+35.2%
Profit for the period	**348**	271	+28.4%
Profit attributable to owners of the Company	**181**	187	–3.2%
FINANCIAL POSITION			
Net cash from (used in) operating activities	**1,462**	(2,021)	–172.3%
Cash position*	**4,726**	4,373	+8.1%
Borrowings	**6,406**	6,700	–4.4%
Convertible bonds**	**902**	–	N/A
Corporate bonds**	**2,081**	1,998	+4.2%
Equity attributable to owners of the Company	**15,267**	16,628	–8.2%
Working capital	**8,191**	9,558	–14.3%
Bills receivable	**4,877**	4,880	–0.1%
Trade receivables (excluded bills receivable)	**8,963**	8,844	+1.3%
Inventories	**5,617**	5,579	+0.7%
KEY RATIOS			
Gross profit margin (%)	**19.7%**	18.0%	+1.7pp
Earnings before interest and tax margin (%)	**4.6%**	3.0%	+1.6pp
EBITDA margin (%)	**6.9%**	4.7%	+2.2pp
Profit margin (%)	**2.0%**	1.4%	+0.6pp
ROE (%)	**2.4%**	2.2%	+0.2pp
Debt to equity (%)***	**54.3%**	47.1%	+7.2pp
Net debt to equity****	**Net Cash**	Net Cash	N/A
Current ratio (times)	**1.4**	1.5	–6.7%
Trade receivables turnover period (days)*****	**160**	128	+25.0%
Inventories turnover period (days)*****	**77**	67	+14.9%
DATA PER SHARE (RMB CENTS)			
Earnings per share – Basic	**5.96**	6.17	–3.4%
Earnings per share – Diluted	**5.90**	6.17	–4.4%
Dividend per share	**–**	–	–
Book value per share	**564.46**	602.97	–6.4%
SHARE INFORMATION AT FINANCIAL PERIOD END			
Skyworth Group Limited			
(Shares are listed in Hong Kong, stock code: 00751)			
Number of shares in issue (million)	**3,061**	3,061	–
Market capitalisation Hong Kong Dollar ("HK$")	**6,428**	6,765	–5.0%
Skyworth Digital Co., Limited			
(Shares are listed in Shenzhen, stock code: 000810)			
Number of shares in issue (million)	**1,075**	1,075	–
Market capitalisation (RMB)	**9,494**	6,988	+35.9%

* Cash position refers to pledged bank deposits, restricted bank deposits, bank balances and cash

** Included interests payable

*** (Borrowings + corporate bonds + convertible bonds)/total equity

**** (Cash position + bills on hand – borrowings – corporate bonds – convertible bonds)/total equity

***** Calculated based on average inventory; average sum of bills receivable and trade receivables

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lai Weide *(Chairman of the Board)*
Mr. Liu Tangzhi *(Chief Executive Officer)*
Ms. Lin Wei Ping
Mr. Shi Chi
Mr. Lin Jin

Independent Non-executive Directors

Mr. Li Weibin
Mr. Cheong Ying Chew, Henry
Mr. Li Ming

MEMBERS OF COMMITTEES

Audit Committee

Mr. Cheong Ying Chew, Henry *(Chairperson)*
Mr. Li Weibin
Mr. Li Ming

Executive Committee

Mr. Lai Weide *(Chairman of the Board)*
Mr. Liu Tangzhi
Ms. Lin Wei Ping
Mr. Shi Chi
Mr. Lin Jin
Mr. Huang Mingyan
Mr. Wang Zhiguo
Mr. Wu Qinan
Mr. Lam Shing Choi, Eric
Mr. Wu Wei
Mr. Ying Yiming

Nomination Committee

Mr. Li Ming *(Chairperson)*
Mr. Li Weibin
Mr. Cheong Ying Chew, Henry
Ms. Lin Wei Ping

Remuneration Committee

Mr. Li Weibin *(Chairperson)*
Mr. Cheong Ying Chew, Henry
Mr. Li Ming
Ms. Lin Wei Ping

COMPANY SECRETARY

Mr. Lam Shing Choi, Eric

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Reed Smith Richards Butler
Michael Li & Co.

PRINCIPAL BANKERS

Bank of China Limited
China Merchants Bank Co., Ltd.
China CITIC Bank International Limited
DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1601–04 Westlands Centre
20 Westlands Road
Quarry Bay
Hong Kong

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712–16
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

SHARES LISTING

Shares of the Company are listed on
The Stock Exchange of Hong Kong Limited
Stock Code: 00751

COMPANY WEBSITE

http://www.skyworth.com

OPERATIONAL AND FINANCIAL REVIEW

HIGHLIGHTS OF RESULTS

The Group recorded the following financial 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).

BUSINESS PERFORMANCE REVIEW

During the six months period from 1 January to 30 June 2019 (the "Six months ended 30 June 2019" or the "Current Period"), the consolidated revenue of the Group was RMB17,230 million (for the six months period from 1 April to 30 September 2018 (the "Six months ended 30 September 2018" or the "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

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 report after changing the year end date, the reporting period of the interim report presented therefore covers the six months from 1 January to 30 June 2019, while relevant comparative figures cover the six months from 1 April to 30 September 2018.

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 "Six months ended 30 June 2018" or the "Same Period of Previous Year") for comparison.

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

	1 January to 30 June 2019 (Unaudited) ***RMB million***	1 January to 30 June 2018 (Unaudited) *RMB million*	1 January to 30 June 2019 vs 1 January to 30 June 2018 *Increase/ (decrease)*
Revenue	**17,230**	17,351	(0.7%)
Gross profit	**3,387**	2,996	13.1%
Gross profit margin	**19.7%**	17.3%	2.4pp
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 30 June 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 ended 30 June 2019 and the six months ended 30 June 2018, the Group’s sales volume of TV by products and markets are as follows:

	1 January to 30 June 2019 ***Unit ('000)***	1 January to 30 June 2018 *Unit ('000)*	January to June 2019 vs January to June 2018 *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 4.6% (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 Original Equipment Manufacturer ("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 (excluding Middle East), Middle East and Africa. The geographical distribution of the revenue in proportion for overseas markets is illustrated as follows:

	Six months period from 1 January to 30 June		Six months period from 1 April to 30 September
	2019	2018	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 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+TransAI 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+TransAI 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 report, 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, Passive Optical Network, Cable Modem, Optical Network Unit, 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 a 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 direct-current 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 the gross profit margin 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 RMB110 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 RMB155 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 *(RMB million)*	Value of investment as at 31 December 2018 *(RMB million)*	Exchange on which the securities are listed	Principal business of the listed company
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. In addition, 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.

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	*5*	**98**	(34)
Impairment loss recognised in respect of financial assets	*5*	**(85)**	(55)
Selling and distribution expenses		**(1,838)**	(1,775)
General and administrative expenses		**(1,326)**	(1,304)
Finance costs	*6*	**(223)**	(202)
Share of results of associates		**–**	5
Profit before taxation		**562**	358
Income tax expense	*7*	**(214)**	(87)
Profit for the period	*8*	**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
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	*9*	**5.96**	6.17
Diluted	*9*	**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	11	**6,708**	6,571
Right-of-use assets	11	**2,466**	–
Deposits paid for purchase of property, plant and equipment		**94**	109
Deposits for acquisition of leasehold land	11	**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")	12	**551**	463
Equity instruments at FVTOCI	12	**1,217**	1,494
Loan receivables	13	**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	14	**209**	158
Financial assets at FVTPL		**49**	37
Trade receivables	15	**13,840**	16,416
Other receivables, deposits and prepayments	16	**2,552**	2,545
Loan receivables	13	**1,857**	2,730
Finance lease receivables	17	**128**	128
Prepaid tax		**68**	31
Pledged bank deposits		**139**	123
Restricted bank deposits	18	**322**	335
Bank balances and cash		**4,265**	3,314
		29,993	32,764

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – *continued*

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	*20(a)*	**8,352**	10,456
Bills payables	*21*	**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	*22*	**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	*20(b)*	**179**	173
Lease liabilities		**65**	–
Provision for warranty		**64**	80
Borrowings	*22*	**869**	734
Derivative financial instruments	*23*	**140**	–
Convertible bonds	*23*	**901**	–
Corporate bonds	*24*	**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	*25*	**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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019
Amounts expressed in millions of Renminbi

	Attributable to owners of the Company											Attributable to non-controlling interests			
	Share capital	Share premium	Share option reserve	Share award reserve	Shares held for share award scheme	FVTOCI reserve	Surplus account	Capital reserve	Exchange reserve	Accumulated profits	Sub-total	Share award reserve of a subsidiary	Share of net assets of subsidiaries	Sub-total	Total
At 1 April 2018	308	3,292	198	–	(105)	2,064	40	1,280	18	9,820	16,915	14	1,608	1,622	18,537
Profit for the period	–	–	–	–	–	–	–	–	–	187	187	–	84	84	271
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	(55)	–	(55)	–	(7)	(7)	(62)
Fair value loss on equity instruments at FVTOCI, net of tax	–	–	–	–	–	(208)	–	–	–	–	(208)	–	–	–	(208)
Total comprehensive (expense) income for the period	–	–	–	–	–	(208)	–	–	(55)	187	(76)	–	77	77	1
Recognition of equity-settled share-based payments *(note 26)*	–	–	3	12	–	–	–	–	–	–	15	13	–	13	28
Lapse of share options	–	–	(135)	–	–	–	–	–	–	135	–	–	–	–	–
Shares vested under the share award schemes of the Company	–	–	–	(7)	7	–	–	–	–	42	42	–	17	17	59
Dividends recognised as distribution *(note 10)*	–	–	–	–	–	–	–	–	–	(241)	(241)	–	–	–	(241)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(32)	(32)	(32)
Contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	78	78	78
Non-controlling interests arising on disposal of partial interests in subsidiaries that does not result in losing control of subsidiaries *(Note)*	–	–	–	–	–	–	–	–	–	(68)	(68)	–	80	80	12
Disposal of a subsidiary *(note 32(b))*	–	–	–	–	–	–	–	–	–	–	–	–	(2)	(2)	(2)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(1)	(1)	(1)
At 30 September 2018 (unaudited)	308	3,292	66	5	(98)	1,856	40	1,280	(37)	9,875	16,587	27	1,825	1,852	18,439
At 1 January 2019 (audited)	308	3,292	67	10	(98)	565	40	1,616	(102)	9,772	15,470	35	1,850	1,885	17,355
Profit for the period	–	–	–	–	–	–	–	–	–	181	181	–	167	167	348
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	(10)	–	(10)	–	(9)	(9)	(19)
Fair value loss on equity instruments at FVTOCI, net of tax	–	–	–	–	–	(235)	–	–	–	–	(235)	–	–	–	(235)
Total comprehensive (expense) income for the period	–	–	–	–	–	(235)	–	–	(10)	181	(64)	–	158	158	94
Recognition of equity-settled share-based payments *(note 26)*	–	–	12	7	–	–	–	–	–	–	19	5	–	5	24
Shares vested under the share award schemes of the Company	–	–	–	(15)	15	–	–	–	–	–	–	–	–	–	–
Dividends recognised as distribution *(note 10)*	–	–	–	–	–	–	–	–	–	(160)	(160)	–	–	–	(160)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(34)	(34)	(34)
Contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	5	5	5
Acquisition of additional interests in subsidiaries *(Note)*	–	–	–	–	–	–	–	–	–	2	2	–	(8)	(8)	(6)
At 30 June 2019 (unaudited)	308	3,292	79	2	(83)	330	40	1,616	(112)	9,795	15,267	40	1,971	2,011	17,278

Note: During the six months ended 30 June 2019, the Group acquired 2.5% equity interest in Skyworth Electronic Appliance Limited from a non-controlling shareholder for a consideration of RMB6 million. The difference between the consideration and the net assets attributable to the interest acquired from the non-controlling shareholders is credited to accumulated profits.

During the six months ended 30 September 2018, the Company mainly disposed of 7.53% equity interest of Shenzhen Coocaa Network Technology Company Limited ("Shenzhen Coocaa") for a consideration of RMB12 million. The difference between the consideration and the net assets attributable to the interest disposed to the non-controlling shareholders is debited to accumulated profits.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019
Amounts expressed in millions of Renminbi

	NOTES	Six months period from 1 January to 30 June 2019 (unaudited)	Six months period from 1 April to 30 September 2018 (unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES			
Operating cash flows before movements in working capital		**1,333**	854
Decrease (increase) in trade and bills receivables		**2,555**	(1,172)
Decrease (increase) in other receivables, deposits and prepayments		**152**	(698)
(Decrease) increase in trade and other payables		**(2,236)**	746
Increase in bills payable		**(489)**	(538)
Other operating cash flows		**147**	(1,213)
		1,462	(2,021)
NET CASH USED IN INVESTING ACTIVITIES			
Dividend received		**13**	1
Interest received		**95**	52
Deposits paid for acquisition of leasehold lands		**(801)**	–
Purchase of property, plant and equipment		**(470)**	(459)
Proceeds on disposal of property, plant and equipment		**5**	79
Investments in debt securities		**(101)**	(178)
Proceeds on redemption of investments in debt securities upon maturity		**50**	81
Investments in equity instruments at FVTPL		**(80)**	(112)
Investments in financial assets at FVTPL		**(35)**	(5)
Proceeds on disposal of equity instruments at FVTPL		**83**	–
Proceeds on disposal of financial assets at FVTPL		**22**	34
Advances to staffs		**(7)**	(77)
Repayments from staffs		**14**	74
Government grant received related to assets		**16**	–
Placement of pledged bank deposits		**(139)**	(234)
Withdrawal of pledged bank deposits		**123**	350
Placement of restricted bank deposits		**(322)**	(449)
Withdrawal of restricted bank deposits		**335**	538
Investments in associates		**(2)**	–
Proceeds on disposal of a joint venture		**–**	17
Net cash inflow from acquisition of a subsidiary	*32(a)*	**14**	–
Net cash inflow from disposal of a subsidiary	*32(b)*	**–**	14
		(1,187)	(274)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – *continued*

FOR THE SIX MONTHS ENDED 30 JUNE 2019
Amounts expressed in millions of Renminbi

	Six months period from 1 January to 30 June 2019 (unaudited)	Six months period from 1 April to 30 September 2018 (unaudited)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		
Dividend paid	**(194)**	(283)
Interest paid	**(147)**	(118)
Amounts received for restricted share incentive scheme	**–**	15
Contributions from non-controlling interests	**5**	59
Acquisition of additional interests in subsidiaries	**(6)**	(1)
Proceeds from partial disposal of subsidiaries	**–**	12
New bank borrowings raised	**6,632**	4,740
Repayments of bank borrowings	**(6,616)**	(5,523)
Repayments of lease liabilities	**(31)**	–
New convertible bonds raised, net of transaction costs	**1,030**	–
	673	(1,099)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**948**	(3,394)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**3,314**	7,294
Effect of foreign exchange rate changes	**3**	(183)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**4,265**	3,717

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 for 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 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 periods 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/or 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* ("HKAS 17"), 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* ("HKFRS 9") 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.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed in which case the related lease liability is remeasured by disclosing the revised lease payments using a revised discount rate at the date of reassessment.

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* ("HKFRS 15") 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%.

	As at 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:

	As at 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

Note: For the purpose of reporting cash flows for the six months ended 30 June 2019, movements have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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 on 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.

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 – *continued*

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.

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 (i))*	–	–	–	–	21	2,069	2,090
Contracts with customers *(Note (ii))*	6,639	2,926	3,640	1,682	21	2,099	17,007
Rental	–	–	–	–	195	–	195
Interest *(Note (iii))*	–	–	–	–	–	28	28
Segment revenue	6,639	2,926	3,640	1,682	216	2,127	17,230

3. REVENUE – *continued*

Disaggregation of revenue from contracts with customers, rental and interest – *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*	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 (i))*	–	–	–	–	–	2,210	2,210
Contracts with customers *(Note (ii))*	7,119	3,697	3,406	1,332	–	2,839	18,393
Rental	–	–	–	–	179	–	179
Interest *(Note (iii))*	–	–	–	–	–	150	150
Segment revenue	7,119	3,697	3,406	1,332	179	2,989	18,722

Notes:

(i) 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.

(ii) 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.

(iii) Interest represents interest income from loan receivables amounted to RMB28 million (for the six months 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	–	manufacture and sale of digital set-top boxes modules 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.

4. SEGMENT INFORMATION – *continued*

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

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. OTHER GAINS AND LOSSES AND IMPAIRMENT LOSS RECOGNISED IN RESPECT OF FINANCIAL ASSETS

	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)
Other gains and losses include:		
Exchange gain, net	**20**	23
Gain from changes in fair value of derivative financial instruments	**1**	15
Gain (loss) from changes in fair value of equity instruments at FVTPL	**91**	(13)
Gain on disposal of a joint venture	**–**	1
Impairment loss recognised in respect of assets classified as held for sale	**–**	(10)
Loss from changes in fair value of financial assets at FVTPL	**(1)**	(15)
Loss on disposal of a subsidiary *(note 32(b))*	**–**	(30)
Loss on disposal of property, plant and equipment	**(7)**	(5)
Impairment loss recognised/(reversed) in respect of financial assets comprise of:		
Impairment loss recognised in respect of trade receivables, net of reversal of RMB39 million (for the six months ended 30 September 2018: nil)	**(32)**	(43)
Impairment loss recognised in respect of loan receivables, net of reversal of RMB42 million (for the six months ended 30 September 2018: nil)	**(35)**	(12)
Impairment loss recognised in respect of other receivables	**(19)**	–
Impairment loss reversed in respect of investments in debt securities	**1**	–
	(85)	(55)

6. FINANCE COSTS

	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)
Interest on customer deposits from associates	**–**	5
Interest on borrowings	**147**	136
Interest on convertible bonds *(note 23)*	**11**	–
Interest on corporate bonds *(note 24)*	**56**	55
Imputed interest expense on other financial liabilities *(note 20(b))*	**6**	6
Imputed interest expense on lease liabilities	**3**	–
	223	202

7. 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

7. 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%.

Land appreciation tax 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.

8. 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)

9. 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 *(note 26(iii))*	**(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 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.

10. 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:		
2018 Final dividend – HK6.0 cents (for the six months ended 30 September 2018: 2017/18 Final dividend – HK9.0 cents) per share	**160**	241

The final dividend for the nine months ended 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).

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND DEPOSITS FOR ACQUISITION OF LEASEHOLD LAND

During the six months ended 30 June 2019, the Group had incurred approximately RMB239 million (for the six months ended 30 September 2018: approximately RMB228 million) in construction in progress, and mainly for the development of factory buildings and office premises situated on lands in the PRC, and spent approximately RMB242 million (for the six months ended 30 September 2018: approximately RMB247 million) on the acquisition of other property, plant and equipment for business operations and expansion.

During the six months ended 30 June 2019, the Group entered into new lease agreements for the use of properties ranging from 1 to 7 years. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised right-of-use asset and lease liability of RMB14 million.

During the nine months ended 31 December 2018, the Group has won a bid at the auction by tender for the acquisition of a leasehold land in Anhui Province. Up to 30 June 2019, the land use rights certificate in respect of that leasehold land has not been granted to the Group. Accordingly, the deposits paid amounting to RMB1,052 million (31 December 2018: RMB251 million) in respect of acquisition of such leasehold land has been presented as "deposits for acquisition of leasehold land".

12. MOVEMENTS IN EQUITY INSTRUMENTS AT FVTOCI AND EQUITY INSTRUMENTS AT FVTPL

During the six months ended 30 June 2019, there is no significant movement in equity instruments at FVTOCI.

During the six months ended 30 June 2019, the Group invested RMB80 million (for the six months ended 30 September 2018: RMB170 million) in certain unlisted equity securities at FVTPL in the PRC.

13. 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).

As at 30 June 2019, loan receivables of RMB1,086 million (as at 31 December 2018: RMB885 million) are advanced by subsidiaries with principal activity of loan financing, in which the corresponding interest income included as revenue. The remaining balances of RMB1,409 million (as at 31 December 2018: RMB1,886 million) are advanced by other subsidiaries, the related interest income was included as other income.

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.

13. LOAN RECEIVABLES – *continued*

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.

Included in the carrying amounts of loan receivables of approximately RMB383 million (as at 31 December 2018: nil) are secured by motor vehicles and guaranteed by 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 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%

14. MOVEMENTS IN INVESTMENTS IN DEBT SECURITIES

During the six months ended 30 June 2019, the Group invested RMB101 million (for the six months ended 30 September 2018: RMB185 million) in certain debt securities in the PRC and redeemed RMB50 million (for the six months ended 30 September 2018: RMB642 million) upon maturity.

15. 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

15. 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 as disclosed in note 22, 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.

16. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Other receivables, deposits and prepayments are analysed as follows:

	As at 30 June 2019 *RMB million* (unaudited)	As at 31 December 2018 *RMB million* (audited)
Other deposits paid and prepayments	**252**	222
Other receivables	**702**	659
Purchase deposits paid for materials	**594**	983
Purchase deposits paid for leasehold land for property development	**180**	–
Rental deposits paid	**5**	5
VAT receivables	**819**	676
	2,552	2,545

17. FINANCE LEASE RECEIVABLES

Finance lease receivables are secured over the plant and machinery leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee. However, in the event of default, the Group is entitled to sell the asset, and has rights to any proceeds from such a sale up to the total amount receivable from the lessee.

As at 30 June 2019, the Group entered finance lease contracts with principal amount of approximately RMB128 million (as at 31 December 2018: RMB128 million) to lease out certain plant and machinery of the Group. All interest rate inherent in the lease are fixed at the contract date over the lease terms and repayable within one year.

Effective interest rate of the above finance lease is 9.02% (as at 31 December 2018: 9.02%) per annum.

Included in the carrying amount of finance lease receivables as at 30 June 2019 is accumulated impairment loss of RMB9 million (as at 31 December 2018: RMB9 million). No repayment is received during the current period and the finance lease receivables is in default, however, no additional allowance has been recognised since there is no significant changes in the quality of the collateral held.

18. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent reserve deposits placed by a finance company of the Group to the People's Bank of China ("PBOC"). The balances of the reserve deposits were calculated at certain percentage of qualified deposits made from customers to the finance company of the Group as determined by the PBOC against unexpected events such as unusually large net withdrawal by customers. These reserve are required by local regulation and not available for the Group's daily operations.

19. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS MODEL

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the nine months ended 31 December 2018.

20. 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 i)*	**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 ii)*	**848**	999
Rental deposits received	**73**	66
VAT payable	**73**	55
	8,352	10,456

Notes:

i. The customer deposits bear interest at 0.35% (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 ("New Seven Days"), which bear interest at 0.35% (as at 31 December 2018: 0.35%) per annum and is repayable on demand.

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

20. TRADE AND OTHER PAYABLES AND OTHER FINANCIAL LIABILITIES – *continued*

(b) Other financial liabilities

Movement in other financial liabilities is as follows:

	Six months period from 1 January to 30 June 2019 ***RMB million*** **(unaudited)**	Nine months period from 1 April to 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, 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 ended 30 September 2018: RMB6 million) has been recognised in respect of this financial liability during the six months ended 30 June 2019.

21. 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.

22. BORROWINGS

	As at 30 June 2019 *RMB million* (unaudited)	As at 31 December 2018 *RMB million* (audited)
Borrowings comprise the following:		
Financial liabilities on bills discounted with recourse	**600**	500
Other bank borrowings	**5,806**	5,824
	6,406	6,324
Secured	**1,574**	829
Unsecured	**4,832**	5,495
	6,406	6,324
Carrying amount of borrowings that contain a repayment on demand clause (shown under current liabilities) but are repayable based on scheduled repayment dates set out in the loan agreements:		
Within one year	**100**	299
Carrying amount of other borrowings repayable based on scheduled repayment dates set out in the loan agreements:		
Within one year	**5,437**	5,291
More than one year but not more than two years	**2**	–
More than two years but not exceeding five years	**867**	732
Over five years	**–**	2
	6,306	6,025
	6,406	6,324
Less: Amounts due within one year shown under current liabilities	**(5,537)**	(5,590)
Amounts shown under non-current liabilities	**869**	734

23. CONVERTIBLE BONDS

On 15 April 2019, Skyworth Digital issued 10,400,000 convertible bonds at a par value of RMB100 each, which are listed on the Shenzhen Stock Exchange. The convertible bonds are interest bearing at 0.40%, 0.60%, 1.00%, 1.50%, 1.80% and 2.00% per annum for the first, second, third, fourth, fifth and sixth year respectively with a maturity date on the sixth anniversary on the date of their issue (i.e. 15 April 2025) and entitle the holders to convert them, in whole or in part, into ordinary shares of Skyworth Digital at an initial conversion price of RMB11.56 per share (subject to anti-dilutive provision) at any time from the first trading day immediately after the expiry of six months from the date of issuance of the convertible bonds until maturity date. The conversion price shall be adjusted if (i) Skyworth Digital resolved to issue bonus shares, increased its share capital, placing or issue of new shares (other than issue of conversion shares) or the distribution of cash dividends or (ii) subject to the approval by a two-third majority of the shareholders of Skyworth Digital present at a general meeting (shareholders also hold the convertible bonds are abstained from voting), the conversion price may be adjusted downwards if the closing price of the A-shares of Skyworth Digital as quoted on the Shenzhen Stock Exchange for at least 10 trading days during a continuous period of 20 trading days are less than 90% of the prevailing conversion price at that time. Interest will be paid annually up until settlement date.

In addition, Skyworth Digital has the right to redeem all or part of the convertible bonds at any time during the conversion period if the closing prices of Skyworth Digital as quoted on the Shenzhen Stock Exchange for any 15 trading days in a consecutive period of 30 trading days are higher than or equal to 130% of the conversion price at the time or the outstanding amount of the convertible bonds is less than RMB30 million. The bondholders shall also have the right to request for Skyworth Digital to repurchase all or any part of the outstanding convertible bonds at the face value together with the accrued interest due for that period if the closing price of Skyworth Digital as quoted on the Shenzhen Stock Exchange is less than 70% of the conversion price at the time for any 30 consecutive trading days during the fifth and sixth year or there is any substantial change to the use of proceeds from the issue of the convertible bonds. The redemption price is at 113% of the face value of the convertible bonds.

The conversion option will be settled other than by the exchange of a fixed amount of financial asset for a fixed number of Skyworth Digital's own equity instruments and therefore is a conversion option derivative. The convertible bonds contain two components, debt component and derivative (including conversion and early redemption options) component. The effective interest rate of the debt component is 5.62%. The derivative component is measured at fair value with changes in fair value recognised in profit or loss. At initial recognition, both the debt component and derivative component are recognised at fair value and the fair value of the debt component and derivative component is approximately RMB891 million (netted of transaction costs) and RMB140 million respectively, measured at market price. The transaction costs relating to the derivative conversion component are charged to profit or loss immediately.

23. CONVERTIBLE BONDS – *continued*

The movements of the convertible bonds and derivative financial instruments for the six months ended 30 June 2019 are set out as below:

	Convertible bonds *RMB million*	Derivative financial instruments *RMB million*
At 1 April 2018 and 31 December 2018 (audited)	–	–
Issued during the period, net of transaction costs	891	140
Interest on convertible bond	11	–
Less: Included as interest payables on convertible bonds	(1)	–
At 30 June 2019 (unaudited)	901	140

24. CORPORATE BONDS

	Six months period from 1 January to 30 June 2019 ***RMB million*** **(unaudited)**	Nine months period from 1 April to 31 December 2018 *RMB million* (audited)
At the beginning of the period	**1,990**	1,990
Interest on corporate bonds	**56**	83
Interest paid	**–**	(83)
Less: Included in interest payables on corporate bonds	**(56)**	–
At the end of the period	**1,990**	1,990

On 15 September 2017, the Company issued secured corporate bonds with principal value of RMB2,000 million. The corporate bonds bear interest at 5.36% per annum and fall due on 14 September 2022. Pursuant to the terms of the subscription agreement of the corporate bonds, the Group has the right to adjust the coupon rate and the bond holders have the right to put the bond back to the Group after 14 September 2020. The management considers the fair value of these options are insignificant.

The corporate bonds are subsequently measured at amortised cost, using effective interest rate of 5.48% (as at 31 December 2018: 5.48%). As at 30 June 2019, the carrying amount of the corporate bonds was approximately RMB1,990 million (as at 31 December 2018: RMB1,990 million).

25. SHARE CAPITAL

	Number of shares		Share capital	
	As at 30 June 2019	As at 31 December 2018	**As at 30 June 2019**	As at 31 December 2018
			RMB million **(unaudited)**	*RMB million* (audited)
Ordinary shares of RMB0.1 each:				
Authorised:				
At beginning and at end of the period	**10,000,000,000**	10,000,000,000	**1,063**	1,063
Issued and fully paid:				
At beginning and at end of the period	**3,060,929,420**	3,060,929,420	**308**	308

26. SHARE-BASED PAYMENTS

The Company has applied HKFRS 2 *Share-based Payments* to account for its share options (Note (i)) and share awards (Note (ii)), and Skyworth Digital's restricted share incentive scheme (Note (iii)). Amounts of share-based payment expenses of RMB12 million (for the six months ended 30 September 2018: RMB3 million) for share options, RMB7 million (for the six months ended 30 September 2018: RMB12 million) for share awards of the Company and RMB5 million (for the six months ended 30 September 2018: RMB13 million) for restricted share incentive scheme of Skyworth Digital have been recognised in the profit or loss for the six months ended 30 June 2019.

Note (i): Share options of the Company

The followings are the movements in the outstanding share options granted by the Company during the current and prior period.

	Six months period from 1 January to 30 June 2019		Nine months period from 1 April to 31 December 2018	
	Number of share options	**Weighted average exercise price** ***HK$***	Number of share options	Weighted average exercise price *HK$*
Outstanding at the beginning of the period	**69,698,000**	**4.523**	142,576,500	4.460
Granted during the period	**55,400,000**	**2.680**	–	–
Lapsed during the period	**–**	**–**	(72,878,500)	4.400
Outstanding at the end of the period	**125,098,000**	**3.707**	69,698,000	4.523
Exercisable at the end of the period	**63,198,000**		63,198,000	

26. SHARE-BASED PAYMENTS – *continued*

Note (i): Share options of the Company – *continued*

Share options expenses charge to profit or loss are based on valuation determined using the Black-Scholes Model. Share options granted in current period were valued based on the following assumptions:

Date of grant	Number of share options granted	Vesting period	Exercisable period	Fair value per option *HK$*	Total fair value of options granted *HK$*	Closing share price at date of grant *HK$*	Exercise price *HK$*	Expected volatility *%*	Dividend yield *%*	Expected interest rate *%*	Risk free rate *%*
15 April 2019	22,160,000	15 April 2019 to 30 September 2019	30 September 2019 to 20 August 2024	0.7707	17,078,468	2.62	2.68	44.47	3.57	1.62	0.75
15 April 2019	16,620,000	15 April 2019 to 30 September 2020	30 September 2020 to 20 August 2024	0.7930	13,179,843	2.62	2.68	44.47	3.57	1.62	0.75
15 April 2019	16,620,000	15 April 2019 to 30 September 2021	30 September 2021 to 20 August 2024	0.8014	13,319,348	2.62	2.68	44.47	3.57	1.62	0.75
	55,400,000				43,577,659						

The Group recognised in the total expense of RMB12 million for the period (for the six months ended 30 September 2018: RMB3 million) in relation to share options granted by the Company.

Note (ii): Share awards of the Company

On 24 June 2014, an employees' share award scheme was adopted by the Company. The share award scheme is valid and effective for a period of 10 years commencing from 24 June 2014. Pursuant to the rules of the scheme, the Group has set up a trust for the purpose of administering the share award scheme and holding the awarded shares before they vest.

During the nine months ended 31 December 2018, 10,060,000 shares in the Company have been awarded to certain directors and employees of the Company at no consideration.

Besides, a total of 3,430,000 (for the six months ended 30 September 2018: 2,400,000) awarded shares were vested on 30 April 2019.

Vesting dates	Outstanding at 1 April 2018	Movement during the period			Outstanding at 31 December 2018	Movement during the period	Outstanding at 30 June 2019
		Awarded	Allotted	Lapsed		Allotted	
31 July 2018	–	2,400,000	(2,400,000)	–	–	–	–
30 April 2019	–	3,830,000	–	(400,000)	3,430,000	(3,430,000)	–
30 April 2020	–	3,830,000	–	(400,000)	3,430,000	–	3,430,000
	–	10,060,000	(2,400,000)	(800,000)	6,860,000	(3,430,000)	3,430,000
Weighted average fair value	–	HK$3.63	HK$3.63	HK$3.63	HK$3.63	HK$3.63	HK$3.63

26. SHARE-BASED PAYMENTS – *continued*

Note (ii): Share awards of the Company – *continued*

During the six months ended 30 June 2019 and 30 September 2018, no additional shares of the Company was acquired for this scheme. As at 30 June 2019, there are 24,234,000 shares (as at 31 December 2018: 27,664,000 shares) held for such scheme with carrying amount of RMB79 million (as at 31 December 2018: RMB98 million) accumulated in equity under the heading of "shares held for share award scheme".

The Group recognised in the total expense of RMB7 million for the period (for the six months ended 30 September 2018: RMB12 million) in relation to share awards granted by the Company.

Note (iii): Restricted share incentive scheme of Skyworth Digital

The restricted share inventive scheme was approved and adopted by the shareholders of Skyworth Digital at the special general meeting held on 31 August 2017. The restricted share incentive scheme is valid and effective for a period of 4 years commencing from 31 August 2017.

During the nine months ended 31 December 2018, a total of 4,608,000 shares of Skyworth Digital have been awarded to certain directors and employees of Skyworth Digital at RMB4.66 per share with a vesting period of 1 year, 2 years or 3 years with dividend entitlement during the vesting period.

Vesting dates	Outstanding at 1 April 2018	Movement during the period Awarded	Movement during the period Allotted	Movement during the period Lapsed	Outstanding at 31 December 2018	Movement during the period Allotted	Movement during the period Lapsed	Outstanding at 30 June 2019
3 September 2018	10,911,900	–	(10,454,100)	(457,800)	–	–	–	–
3 September 2019	10,911,900	–	–	(457,800)	10,454,100	–	–	10,454,100
3 September 2020	14,549,200	–	–	(520,400)	14,028,800	–	–	14,028,800
11 June 2019	–	2,304,000	–	–	2,304,000	(2,249,000)	(55,000)	–
11 June 2020	–	2,304,000	–	–	2,304,000	–	(55,000)	2,249,000
	36,373,000	4,608,000	(10,454,100)	(1,436,000)	29,090,900	(2,249,000)	(110,000)	26,731,900
Weighted average fair value	RMB1.12	RMB2.53	RMB2.10	RMB1.14	RMB1.30	RMB2.53	RMB2.53	RMB1.19

During the six months ended 30 September 2018, the total fair value of the restricted shares granted by Skyworth Digital determined at the date of grant was RMB11 million. During the six months ended 30 June 2019, the Group recognised total expense of RMB5 million (for the six months ended 30 September 2018: RMB13 million) in related to restricted share incentive scheme of Skyworth Digital.

The fair value of restricted shares granted are based on valuation determined by reference to the closing share price of the Company at date of grant, which was RMB9.65 per share and adjusted for the exercise price.

27. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liabilities	Fair value as at 30 June 2019 *RMB million* (unaudited)	Fair value as at 31 December 2018 *RMB million* (audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Equity instruments at FVTPL				
Listed equity securities	**43**	73	Level 1	Quoted bid prices in an active market
Unlisted equity securities	**508**	390	Level 3	Market approach
			(Note (a))	Valuations are derived by the earnings attributable to owners of the investment, price of earnings multiples of comparable and discount for the marketability.
	551	463		
Equity instruments at FVTOCI				
Unlisted equity securities	**1,217**	1,494	Level 3	Market approach
			(Note (b))	Valuations are derived by the earnings attributable to owners of the investment, price of earnings multiples of comparable and discount for the marketability.

27. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – *continued*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis – *continued*

Financial assets/ financial liabilities	Fair value as at 30 June 2019 RMB million (unaudited)	Fair value as at 31 December 2018 RMB million (audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at FVTPL				
Unlisted investment fund	**49**	37	Level 3	Discounted cash flow
			(Note (c))	Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustments of related expenses, discounted at a rate that reflects the credit risk of various counterparties.
Derivative financial instruments:				
Foreign currency forward contract	**(6)**	(3)	Level 2	Discounted cash flow
				Future cash flows are estimated based on forward exchange (from observable forward exchange at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivatives	**(140)**	–	Level 3	Binomial option pricing model
			(Note (d))	The fair value is estimated based on the risk free rate, share price, volatility of the share price of Skyworth Digital and conversion price.

27. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – *continued*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis – *continued*

Notes:

(a) *A slight decrease in discount rate on discount for lack of marketability used in valuation would result in a significant increase in the fair value measurement of the unlisted equity securities at FVTPL, and vice versa. A 5% decrease in the discount for lack of marketability holding all other variables constant would increase the carrying amount of the unlisted equity securities at FVTPL by RMB25 million (as at 31 December 2018: RMB20 million).*

(b) *A slight decrease in discount rate on discount for lack of marketability used in valuation would result in a significant increase in the fair value measurement of the unlisted equity securities at FVTOCI, and vice versa. A 5% decrease in the discount for lack of marketability holding all other variables constant would increase the carrying amount of the unlisted equity securities at FVTOCI by RMB61 million (as at 31 December 2018: RMB75 million).*

(c) *A slight increase in the expected yield would result in a significant increase in the fair value measurement of the unlisted investment fund, and vice versa. A 5% increase in the expected applicable yield holding all other variables constant would increase the carrying amount of the unlisted investment fund by RMB2 million (as at 31 December 2018: RMB2 million).*

(d) *An increase in the volatility of the share price of Skyworth Digital would result in an increase in the fair value of the conversion option derivatives, and vice versa.*

27. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – continued

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity securities		Unlisted investment funds
	Equity instruments at FVTPL	Equity instruments at FVTOCI	Financial assets at FVTPL
	RMB million	*RMB million*	*RMB million*
At 1 April 2018	305	3,257	120
Loss from changes in fair value of equity instruments at FVTPL	(13)	–	–
Loss from change in fair value of financial assets at FVTPL	–	–	(15)
Fair value loss on investments in equity instruments at FVTOCI	–	(244)	–
Investments	112	–	5
Disposals	(1)	–	(26)
Exchange realignments	11	–	–
At 30 September 2018	414	3,013	84
At 1 January 2019	390	1,494	37
Gain from changes in fair value of equity instruments at FVTPL	70	–	–
Loss from change in fair value of financial assets at FVTPL	–	–	(1)
Fair value loss on investments in equity instruments at FVTOCI	–	(277)	–
Investments	80	–	35
Disposals	(32)	–	(22)
At 30 June 2019	508	1,217	49

Reconciliation of conversion option derivatives is disclosed in note 23.

There is no transfer between different levels of the fair value hierarchy for both periods.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities measured at amortised cost in the condensed consolidated financial statements approximate their fair values.

27. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – *continued*

Reconciliation of Level 3 fair value measurements of financial assets – *continued*

The total gains or losses for the period included an unrealised loss of RMB1 million (for the six months ended 30 September 2018: RMB15 million) relating to unlisted investment fund of RMB49 million (for the six months ended 30 September 2018: RMB84 million) and an unrealised gain of RMB70 million (for the six months ended 30 September 2018: unrealised loss of RMB13 million) relating to unlisted equity instruments at FVTPL of RMB508 million (for the six months ended 30 September 2018: RMB414 million) at the end of reporting period, respectively. Such fair value gains or losses are included in "other gains and losses".

All gains and losses included in other comprehensive income relate to equity instruments at FVTOCI held at the end of the reporting period and are reported as changes of "FVTOCI reserve".

Fair value measurements and valuation processes

The board of directors of the Company has set up a valuation committee, which is headed up by the chief financial officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports the valuation committee's findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

No changes in the business or economic circumstances that significantly affect the fair value of financial instruments is considered by the directors of the Company.

28. 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.

29. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	As at 30 June 2019 ***RMB million*** **(unaudited)**	As at 31 December 2018 *RMB million* (audited)
Contracted but not provided for, in respect of:		
Purchase of property, plant and equipment	**119**	155
Factory buildings and office premises under development	**701**	414
	820	569

30. CONTINGENT LIABILITIES

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

31. RELATED PARTY TRANSACTIONS

Trading transactions

During the period, in addition to the related party transactions disclosed elsewhere in the condensed consolidated financial statements, the Group has the following transactions with related parties:

	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)
Joint ventures		
Repair and maintenance service fee income	**–**	2
Sales of finished goods	**–**	1
Associates		
Interest paid	**–**	1
Repair and maintenance service fee paid	**–**	1
Sales of finished goods	**404**	526
Related parties		
Interest income from loan receivables from a related party *(Note)*	**4**	21
Consultancy fee paid to a substantial shareholder of the Company	**1**	1

Note: The related party is controlled by a substantial shareholder of the Company.

Compensation of key management personnel

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

	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)
Short-term benefits	**14**	13
Share-based payments	**8**	8
	22	21

The remuneration of directors and other key management is reviewed by the remuneration committee having regard to the responsibilities and performance of the relevant individuals and market trends.

32. 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

32. 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 contractual cash flows not expected to be collected is insignificant.

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.

32. 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*

Had the acquisition been completed on 1 January 2019, total group revenue and profit for the six months ended 30 June 2019 would have been RMB17,273 million and RMB345 million, respectively. 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.

(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

32. ACQUISITION OF A SUBSIDIARY AND DISPOSAL OF A SUBSIDIARY – *continued*

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

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

33. COMPARATIVE FIGURES

In order to conform with current period's presentation, comparative figures of deposits for acquisition of leasehold land of RMB251 million previously included in the "deposits paid for purchase of property, plant and equipment" line item is recategorised into "deposits for acquisition of leasehold land" on the condensed consolidated statement of financial position as at 31 December 2018.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF SKYWORTH GROUP LIMITED
創維集團有限公司
(FORMERLY KNOWN AS SKYWORTH DIGITAL HOLDINGS LIMITED
創維數碼控股有限公司)
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Skyworth Group Limited (formerly known as Skyworth Digital Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 16 to 66, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 August 2019

CORPORATE GOVERNANCE AND OTHER INFORMATION

REVIEW OF INTERIM RESULTS

The unaudited interim results of Skyworth Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 (the "Current Period") were reviewed by the audit committee of the Company ("Audit Committee") and the auditor of the Company, Messrs. Deloitte Touche Tohmatsu.

INTERIM DIVIDEND

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

DIRECTORS' INTERESTS IN SHARES, SHARE OPTIONS AND AWARDED SHARES

As at 30 June 2019, the interests of the Directors and of their associates in the shares, share options, awarded shares or other underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to The Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

(a) Shares of the Company

As at 30 June 2019, Directors had long positions in the shares of the Company as follows:

Name of director	Capacity		Number of issued shares held	Approximate percentage of the total number of issued shares
Lai Weide	Beneficial owner		3,500,000	0.11%
Lin Wei Ping	Beneficial owner		9,160,382	0.30%
	Held by spouse	*(Note a and b)*	1,218,656,799	39.81%
		(Note a and c)	1,227,817,181	40.11%
Liu Tangzhi	Beneficial owner		6,884,675	0.22%
Shi Chi	Beneficial owner		5,184,825	0.17%
	Held by spouse		4,146,466	0.13%
			9,331,291	0.30%
Lin Jin	Beneficial owner		3,898,719	0.13%
Li Weibin	Beneficial owner		1,000,000	0.03%

(a) Shares of the Company – *continued*

Notes:

(a) 37,300,000 shares of the Company are held by Mr. Wong Wang Sang, Stephen and 1,181,356,799 shares of the Company are held by Target Success Group (PTC) Limited ("Target Success") in its capacity as trustee of the Skysource Unit Trust in which all of the units and issued shares of Target Success are held by Mr. Wong Wang Sang, Stephen. As such, Mr. Wong Wang Sang, Stephen is interested and deemed to be interested in 1,218,656,799 shares of the Company.

(b) Ms. Lin Wei Ping is interested in 1,227,817,181 shares of the Company, which comprise 9,160,382 shares held by herself and the deemed interests in 1,218,656,799 shares held by her spouse Mr. Wong Wang Sang, Stephen.

(c) Mr. Wong Wang Sang, Stephen is interested in 1,227,817,181 shares of the Company, which comprise 37,300,000 shares held by himself, the deemed interests in 1,181,356,799 shares held by Target Success and the deemed interests in 9,160,382 shares held by his spouse Ms. Lin Wei Ping.

(b) Shares of the associated corporation – Skyworth Digital Co., Ltd.

Name of director	Capacity	Number of issued shares held	Approximate percentage of the total number of issued shares
Lai Weide	Beneficial owner *(Note)*	750,000	0.07%
Liu Tangzhi	Beneficial owner *(Note)*	800,000	0.07%
Shi Chi	Beneficial owner	36,770,524	3.42%
	Held by spouse	6,507,500	0.61%
		43,278,024	4.03%

Note: These shares are restricted shares granted under the restricted share incentive scheme of Skyworth Digital Co., Ltd., which is a 57.21% owned subsidiary of the Company, (the "Restricted Share Incentive Scheme"), which are subject to lock-up restrictions under the terms and conditions of the Restricted Share Incentive Scheme. The restricted shares will be released from the lock-up restriction in 3 batches in accordance with the release schedule under the Restricted Share Incentive Scheme, conditional upon the fulfillment of performance targets specified thereunder. Details of the Restricted Share Incentive Scheme were published on the information website of the Shenzhen Stock Exchange (http://www.cninfo.com.cn/). During the Current Period, none of the restricted shares of Mr. Lai Weide and Mr. Liu Tangzhi were lapse or cancelled.

(c) Share options of the Company

As at 30 June 2019, certain Directors had personal interests in the share options granted under the Company's share option schemes as follows:

Name of Director	Capacity	Number of share options held/underlying shares of the Company
Lai Weide	Beneficial owner	20,000,000
Liu Tangzhi	Beneficial owner	10,000,000
Total		**30,000,000**

(d) Awarded shares of the Company

As at 30 June 2019, certain Directors had personal interests in the awarded shares granted under the Company's Share Award Scheme as follows:

Name of Director	Capacity	Number of awarded shares held/underlying shares of the Company
Lai Weide	Beneficial owner	1,000,000
Liu Tangzhi	Beneficial owner	1,000,000
Total		**2,000,000**

Save as disclosed above and the nominee shares in certain subsidiaries held in trust for the Group, none of the Directors or chief executives, nor their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 30 June 2019, and none of the Directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the Current Period.

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

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following substantial shareholders had notified the Company of the relevant interests in the issued shares of the Company.

Name of shareholder	Capacity	Number of issued shares held	Approximate percentage of the total number of issued shares
Long positions			
Target Success Group (PTC) Limited	Trustee *(Note a)*	1,181,356,799	38.59%
Wong Wang Sang, Stephen	Beneficial owner	37,300,000	1.22%
	Held by spouse *(Note b)*	9,160,382	0.30%
	Interest of controlled corporation *(Note a)*	1,181,356,799	38.59%
		1,227,817,181	40.11%
Lin Wei Ping	Beneficial owner	9,160,382	0.30%
	Held by spouse *(Note c)*	1,218,656,799	39.81%
		1,227,817,181	40.11%

Notes:

(a) 1,181,356,799 shares of the Company are held by Target Success in its capacity as trustee of the Skysource Unit Trust in which all of the units and issued shares of Target Success are held by Mr. Wong Wang Sang, Stephen. As such, Mr. Wong Wang Sang, Stephen is deemed to be interested in 1,181,356,799 shares of the Company.

(b) Ms. Lin Wei Ping is interested in 1,227,817,181 shares of the Company, which comprise 9,160,382 shares held by herself and the deemed interests in 1,218,656,799 shares held by her spouse Mr. Wong Wang Sang, Stephen.

(c) Mr. Wong Wang Sang, Stephen is interested in 1,227,817,181 shares of the Company, which comprise 37,300,000 shares held by himself, the deemed interests in 1,181,356,799 shares held by Target Success and the deemed interests in 9,160,382 shares held by his spouse Ms. Lin Wei Ping.

Save as disclosed above, as at 30 June 2019, the Company had not been notified of any other interests or short positions representing 5% or more of the number of shares of the Company in issue as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

The Company adopted two share option schemes, one approved and adopted at the annual general meeting held on 30 September 2008 ("2008 Share Option Scheme") and one approved and adopted at the annual general meeting held on 20 August 2014 ("2014 Share Option Scheme"). The 2008 Share Option Scheme had expired on 30 September 2018. The following tables show the movements in the Company's share options granted to the Directors and employees and/or consultants under 2014 Share Option Scheme during the Current Period:

(a) Directors

				Number of share options				
Date of grant	Exercise price *HK$*	Vesting period	Exercisable period	Outstanding as at 1 January 2019	Granted during the Current Period	Exercised during the Current Period	Cancelled/ Lapsed during the Current Period	Outstanding as at 30 June 2019
Directors:								
Lai Weide								
8 July 2016	6.320	8 July 2016 to 31 August 2017	1 September 2017 to 20 August 2024	2,500,000	–	–	–	2,500,000
		8 July 2016 to 31 August 2018	1 September 2018 to 20 August 2024	2,500,000	–	–	–	2,500,000
		8 July 2016 to 31 August 2019	1 September 2019 to 20 August 2024	2,500,000	–	–	–	2,500,000
		8 July 2016 to 31 August 2020	1 September 2020 to 20 August 2024	2,500,000	–	–	–	2,500,000
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	–	4,000,000	–	–	4,000,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	–	3,000,000	–	–	3,000,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	–	3,000,000	–	–	3,000,000
Liu Tangzhi								
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	–	4,000,000	–	–	4,000,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	–	3,000,000	–	–	3,000,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	–	3,000,000	–	–	3,000,000
(a) Sub-total (Directors)				**10,000,000**	**20,000,000**	**–**	**–**	**30,000,000**

(b) Employees and/or Consultants

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Number of share options: Outstanding as at 1 January 2019	Granted during the Current Period	Exercised during the Current Period	Cancelled/ Lapsed during the Current Period	Outstanding as at 30 June 2019
Employees and/or Consultants:								
22 January 2016	4.226	22 January 2016 to 31 August 2016	1 September 2016 to 20 August 2024	14,852,000	–	–	–	14,852,000
		22 January 2016 to 31 August 2017	1 September 2017 to 20 August 2024	17,154,000	–	–	–	17,154,000
		22 January 2016 to 31 August 2018	1 September 2018 to 20 August 2024	25,692,000	–	–	–	25,692,000
9 August 2017	4.090	9 August 2017 to 31 August 2018	1 September 2018 to 20 August 2024	500,000	–	–	–	500,000
		9 August 2017 to 31 August 2019	1 September 2019 to 20 August 2024	500,000	–	–	–	500,000
		9 August 2017 to 31 August 2020	1 September 2020 to 20 August 2024	500,000	–	–	–	500,000
		9 August 2017 to 31 August 2021	1 September 2021 to 20 August 2024	500,000	–	–	–	500,000
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	–	14,160,000	–	–	14,160,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	–	10,620,000	–	–	10,620,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	–	10,620,000	–	–	10,620,000
(b) Sub-total (Employees and/or Consultants)				**59,698,000**	**35,400,000**	**–**	**–**	**95,098,000**
Grand Total: (a) Directors + (b) Employees and/or Consultants				**69,698,000**	**55,400,000**	**–**	**–**	**125,098,000**

SHARE AWARD SCHEME

The Share Award Scheme was approved by the Board on 24 June 2014 (the "Share Award Scheme"). The maximum number of shares of the Company can be awarded or held under the Share Award Scheme is limited to 2% of the issued share capital of the Company from time to time. The maximum number of shares of the Company (including vested and non-vested) which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time. During the Current Period, the Company did not purchase any shares of the Company from the market through an independent trustee. As at 30 June 2019, 24,254,601 shares of the Company were held by the independent trustee, for the purpose of the Share Award Scheme.

First batch: Awarded shares granted on 25 July 2014

On 25 July 2014, a total of 27,836,000 shares of the Company were granted by the Board pursuant to the Share Award Scheme. 8,694,000, 8,442,000 and 3,753,000 awarded shares were vested on 31 August 2015, 31 August 2016 and 31 August 2017 respectively.

Second batch: Awarded shares granted on 20 July 2015

On 20 July 2015, a total of 10,312,000 shares of the Company were granted by the Board pursuant to the Share Award Scheme, 2,978,000, 2,874,000 and 3,490,000 awarded shares were vested on 31 December 2015, 31 December 2016 and 31 December 2017 respectively.

Third batch: Awarded shares granted on 12 June 2018

On 12 June 2018, a total of 10,060,000 shares of the Company were granted by the Board pursuant to the Share Award Scheme, 2,400,000 and 3,410,000 awarded shares were vested on 31 July 2018 and 30 April 2019 respectively and the remaining awarded shares will be vested on 30 April 2020.

During the Current Period, cash dividend of HK$1,455,276.06 had been received in respect of the shares of the Company held upon the trust for the Share Award Scheme and shall form part of the trust fund of such trust. The trustee may, after having taken into consideration the advice of the Company, apply the cash deposited by the Company to purchase shares of the Company in the market, or apply such cash to defray the fees, costs and expenses in relation to the establishment and administration of the Share Award Scheme, or return such cash or shares to the Company.

SHARE AWARD SCHEME – *continued*

As at 30 June 2019, certain Directors had interests in the awarded shares under the Company's Share Award Scheme as follows:

		Number of award shares				
Directors/Date of grant	Vesting date	Outstanding as at 1 January 2019	Granted during the Current Period	Vested during the Current Period	Lapsed during the Current Period	Outstanding as at 30 June 2019
Lai Weide						
12 June 2018	31 July 2018	–	–	–	–	–
	30 April 2019	1,000,000	–	(1,000,000)	–	–
	30 April 2020	1,000,000	–	–	–	1,000,000
		2,000,000	–	(1,000,000)	–	1,000,000
Liu Tangzhi						
12 June 2018	31 July 2018	–	–	–	–	–
	30 April 2019	1,000,000	–	(1,000,000)	–	–
	30 April 2020	1,000,000	–	–	–	1,000,000
		2,000,000	–	(1,000,000)	–	1,000,000
Total		**4,000,000**	**–**	**(2,000,000)**	**–**	**2,000,000**

Save as disclosed above and the nominee shares in certain subsidiaries held in trust for the Group, none of the Directors or chief executives, nor their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2019.

RELATED PARTY TRANSACTIONS

During the Current Period, the Group entered into certain transactions with related parties under the applicable accounting principles, details of which are set out in note 31 of the condensed consolidated financial statements. These transactions were not connected transactions within the meaning of the Listing Rules and were mainly entered into by the Group in the ordinary course of business and the terms were on normal commercial terms and on an arm's length basis. Other than these related party transactions, the Group also entered into certain transactions with connected persons of the Company within the meaning of the Listing Rules. These connected transactions all fall under the de minimis provision set forth in Rule 14A.76(1) of the Listing Rules and are therefore fully exempted from the reporting, announcement and independent shareholders' approval requirements. The Group has performed regular review on the connected transactions in accordance with its corporate governance practice.

CONTINUING CONNECTED TRANSACTIONS

The followings are the continuing connected transactions of the Group conducted during the Current Period and up to the date of this report:

(i) On 25 April 2019, Shenzhen Chuangwei Financial Leasing Company Limited（深圳創維融資租賃有限公司）("Shenzhen Chuangwei Financial Leasing"), an indirect wholly-owned subsidiary of the Company, entered into a sale and leaseback agreement with Nanjing Golden Dragon Bus Co., Ltd.（南京金龍客車製造有限公司）("Nanjing Golden Dragon Bus"), pursuant to which Shenzhen Chuangwei Financial Leasing has agreed to provide sale and leaseback services in relation to a number of production equipment and motor vehicles in favour of Nanjing Golden Dragon Bus at an initial sale price of RMB260,000,000 (equivalent to approximately HK$302,879,000) commencing on the date of payment of the initial sale price and ends on the date which is 3 years from the date of the sale and leaseback agreement. Details of the transaction were announced by the Company on 25 April 2019.

(ii) On 9 August 2019, the Company entered into a consultancy contract with Mr. Wong Wang Sang, Stephen ("Mr. Stephen Wong") to renew his engagement as a consultant of the Group for a term of 3 years commencing from 9 August 2019 to 8 August 2022, with an annual consultancy fee of HK$1,200,000 and a discretionary bonus, subject to a total annual maximum amount payable to Mr. Stephen Wong of less than HK$3,000,000. Details of the transaction were announced by the Company on 9 August 2019.

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.

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 contained in Appendix 14 to the Listing Rules (the "CG Code").

During the Current Period and up to the date of this report, 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 (the "Nomination Committee")) 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.

BOARD COMMITTEES

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the business of the Group. As an integral part of good corporate governance and to assist the Board in execution of its duties, the Board is supported by 4 Board Committees, including Executive Committee, Nomination Committee, Remuneration Committee and Audit Committee. Each of these committees oversees particular aspects of the Group's affairs under its defined scope of duties and terms of reference approved by the Board, the summary of which were disclosed in the "Corporate Governance Report" of the Company's 2018 annual report. The terms of reference of the Nomination Committee, Remuneration Committee and Audit Committee are available on the Company's website (http://investor.skyworth.com/en/index.php) and the website of the Stock Exchange. All committees are provided with sufficient resources to discharge their duties.

Executive Committee

The executive committee of the Company (the "Executive Committee") was established by the Board on 5 February 2005. The Executive Committee currently comprises 11 members, including several executive Directors and senior management of the Company. During the Current Period and up to the date of this report, the Executive Committee had held monthly meetings to review, discuss and evaluate the business performance and other business and operational matters of each major subsidiary within the Group.

Nomination Committee

The Nomination Committee was set up under the auspices of the Board on 5 February 2005 with written terms of reference adopted on 19 August 2005, which was updated and approved on 30 March 2012 and 25 August 2017. The Nomination Committee is comprised of 4 members. The chairperson of the Nomination Committee is Mr. Li Ming and the other members are Ms. Lin Wei Ping, Mr. Li Weibin and Mr. Cheong Ying Chew, Henry. Except for Ms. Lin Wei Ping is an executive Director, all remaining 3 members are independent non-executive Directors.

The Company recognises the importance of board diversity to corporate governance and the board effectiveness. The Board adopted a board diversity policy ("Policy") which setting out the basic principles to ensure the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standard of corporate governance. Under the Policy, the selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, cultural background, educational background, skills, knowledge and professional experience.

In considering the new appointment of Directors, the Nomination Committee had considered the Policy and with reference to certain criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibilities effectively, etc.

During the Current Period and up to the date of this report, the Nomination Committee held 2 meetings to review the composition of the Board; to review and assess the independence of independent non-executive Directors; to review the appointment of a director of a wholly-owned subsidiary of the Company; and to consider and recommend to the Board the renewal of director's services contract of an independent non-executive Director.

BOARD COMMITTEES – *continued*

Remuneration Committee

The Remuneration Committee was set up under the auspices of the Board on 5 February 2005 with written terms of reference adopted on 19 August 2005, which was updated and approved on 30 March 2012 and 25 August 2017. The Remuneration Committee is comprised of 4 members. The chairperson of the Remuneration Committee is Mr. Li Weibin and the other members are Ms. Lin Wei Ping, Mr. Cheong Ying Chew, Henry and Mr. Li Ming. Except for Ms. Lin Wei Ping is an executive Director, the remaining 3 members of the Remuneration Committee are independent non-executive Directors.

The remuneration policy of the Group is formulated to ensure remuneration offered to the Directors or employees is appropriate for the corresponding duties performed, sufficiently compensated for the effort and time dedicated to the affairs of the Group, and competitive and effective in attracting, retaining and motivating employees. The key components of the Company's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme, share options granted under the share option schemes of the Company and awarded shares granted under the Share Award Scheme.

During the Current Period and up to the date of this report, the Remuneration Committee held 3 meetings to review the bonus payable to the Directors and senior management of the Group; to review the vesting conditions of the 2019 awarded shares under the Share Award Scheme; to review the proposal for the grant of share options; and to consider and recommend to the Board the renewal of service contracts of an executive Director and an independent non-executive Director.

Audit Committee

The Audit Committee was established by the Board since the listing of the shares of the Company on the Stock Exchange 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 report, 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.

CORPORATE SUSTAINABILITY

The Company is committed to maintain a high standard of corporate governance and corporate responsibility consistent with prudent management. It is the belief of the Board that such commitment can enhance shareholders' value in the long run.

Under the capable leadership, the Board will certainly maintain a high degree of transparency and good corporate governance practices, and the Company will surely retain its competitive edge in the market.

Environmental Protection

The Company recognised environmental protection as an important part of corporate social responsibility. Therefore, the Group has implemented various green measures in cooperation with its business partners for energy conservation and emission reduction, with an aim to mitigate the adverse impact on the environment. By actively promoting public awareness of environmental protection and providing guidelines to different business segments, we intend to integrate the Group's environmental protection strategies into every aspect of our operation, and finally realise its vision of attaining "Green Skyworth, Green Audio-visual, Green World".

The Company has adopted, in a comprehensive manner, the internationally recognised Environmental Management System (ISO14001:2015) and Energy Management System (ISO50001:2011) as the guiding principles of the Group in environmental protection. The Group's environmental policy comprises four main strategies, namely "Production Design", "Operational Energy Saving", "Concepts of Environmental Protection" and "Clean Energy".

The "Production Design" strategy aims to optimize the overall production system such as streamlining the production procedure, increasing the mould utilisation rate and considering the use of recycled materials to minimise resources consumption. With the "Energy Saving in Operation" strategy, the Group will relentlessly promote the environmental awareness culture and embed the conservation value to our workforce. The Company is promoting E-process of documents to reduce paper wastage; we are also applying natural lighting concepts and adjustable air-conditioning as well as establishing a robust waste management system in our buildings. The "Environmental Concepts" strategy targets to implant the green initiatives into the Group's supply chain from procurement to delivery of end products. This requires energy efficiency improvement in product designs, eco-friendly packaging, or even the transportation emissions. Last but not least, we also formulated the "Clean Energy" strategy to encourage the on-going transformation from the traditional energy sources to the increased utilisation of clean and renewable energy.

Our People

The Company recognises its employees as the most valuable asset and the primary force in sustaining its business growth. In terms of talent management, we follow the principles of diversity and merit, with a view to attracting a wide range of excellent talents to the Skyworth family. The Group also attaches great importance to employee development, and encourages its staff members to receive further education, to propose innovative ideas and make improvement. Meanwhile, Skyworth is committed to nurturing a healthy, diversified, fair, caring and inclusive workplace, through which it motivates staff members to put into practice the spirit of mutual help.

As at 30 June 2019, Skyworth employed a total of over 34,000 full-time employees to serve different posts in the Group, including, among others, its management team, innovation development team, frontline manufacturing operation team, sales team and administration team.

Our People – *continued*

The Group is committed to building a youthful and energetic team of employees. Over 51% of its staff are aged 30 or under, while around 46% of the remaining employees are aged between 31 and 50, only around 3% of its staff are aged over 50. Geographically speaking, approximately 93% of its staff are based in operating and manufacturing locations of provinces and cities across China, while the rest are stationed in the Hong Kong head office or overseas subsidiaries, including a number of Southeast Asian countries (e.g. the Philippines, Indonesia, Thailand, Vietnam and Malaysia) and markets in Europe and America (e.g. Germany, the Netherlands, France, Italy, the United Kingdom and the United States). Overall, the ratio of male to female employees of the Group is approximately 1.5:1.

For detailed information about the corporate sustainability practices of the Company, please refer to the Company's 2018 Environmental, Social and Governance Report.

RISK MANAGEMENT

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

Risk Management Department

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

(a) efficiency and effectiveness of operating functions;

(b) reliability of financial reporting;

(c) status of implementation and effectiveness of the internal control policies and procedures; and

(d) compliance with applicable laws and regulations.

The Head of Risk Management Department has unrestricted direct access to the Audit Committee and reports directly to the Board and the Audit Committee. During the Current Period and up to the date of this report, the Head of Risk Management Department attended 2 Audit Committee meetings to report the progress and findings of the works performed so far and to discuss the internal audit plan of the Group.

INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The system includes a defined management structure with specified limits of authority, to:

(a) achieve business objectives and safeguard assets against unauthorised use or disposition;

(b) ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and

(c) ensure compliance with the relevant legislation and regulations.

The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and manage, rather than eliminate, risks of failure in operational systems, and to ensure achievement of the Group's objectives.

Internal Audit Department

The Internal Audit Department was established since 1996, its principal duties are examining and evaluating the business operations of the sales offices and branches of all the business units and ensuring the compliance status of the Group's business units. Besides, the Internal Audit Department also carries out special audits when senior staff leaving their positions either due to resignations or job rotations within the Group.

During the Current Period, the Internal Audit Department carried out the audit works of certain major business units, and provided recommendations on management enhancement and operational efficiency.

SUBSEQUENT EVENTS AFTER THE CURRENT PERIOD

Change of Company Name and Stock Short Name

On 8 July 2019, the Company published an announcement in relation to the change of name of the Company from "Skyworth Digital Holdings Limited" to "Skyworth Group Limited" and the adoption of the Chinese name "創維集團有限公司" as a secondary name of the Company. The Company received the Certificate of Incorporation on Change of Name and the Certificate of Secondary Name from the Registrar of Companies in Bermuda and the change of name and adoption of secondary name were made both effective from 11 June 2019. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 4 July 2019, certifying the registration of the new name of the Company "Skyworth Group Limited" and "創維集團有限公司" in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) with effect from 4 July 2019. Following the change of name of the Company, the English stock short name of the Company was changed from "SKYWORTHDIGITAL" to "SKYWORTH GROUP" and the Chinese stock short name of the Company was changed from "創維數碼" to "創維集團" for trading in the shares of the Company on the Stock Exchange with effect from 11 July 2019.

BOARD OF DIRECTORS

As at the date of this report, the Board 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.

On behalf of the Board

Lai Weide
Chairman of the Board
27 August 2019