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SKYWORTH

SKYWORTH GROUP LIMITED

創維集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 00751)

UNAUDITED RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2021

SKYWORTH GROUP LIMITED (the “Company”, together with its subsidiaries referred to as the “Group”) is an investment holdings company with subsidiaries principally engaged in manufacturing and selling smart TV systems, home access systems, smart white appliances, internet value-added services, property development and property holding.

Highlights of Results

The Group recorded the following results for the Reporting Period:

- Revenue amounted to RMB9,943 million (62.8% of which was recorded from sales in the mainland China market). The revenue of the Same Period of Previous Year amounted to RMB6,752 million.
- Revenue from multimedia business and smart systems technology business accounted for 63.4% and 22.7% of the Group’s total revenue, respectively; compared to 59.3% and 25.6% in the Same Period of Previous Year, respectively.
- Gross profit achieved RMB1,687 million, while the gross profit margin was 17.0%. The gross profit margin of the Same Period of Previous Year was 22.8% (Excluding the effect of the revenue meeting the relevant tax policy in the Same Period of Previous Year, the gross profit margin was 18.5%).
- Profit for the period and profit for the period attributable to owners of the Company amounted to RMB284 million and RMB170 million, respectively.

The board (the “Board”) of directors (the “Directors”) of the Company is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2021 (the “Reporting Period”) together with the comparative figures for the three months ended 31 March 2020 (the “Same Period of Previous Year”). This three months results have been reviewed by the audit committee of the Company (the “Audit Committee”). The Company’s auditor, Messrs. Deloitte Touche Tohmatsu, has reviewed the condensed consolidated statement of financial position as of 31 March 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income and statement of cash flows for the three-month period then ended 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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2021

Amounts expressed in millions of Renminbi

	Three months ended 31 March <u>2021</u> (unaudited)	31 March <u>2020</u> (unaudited)
Revenue		
Contracts with customers	9,823	6,644
Leases	114	100
Interest under effective interest rate	6	8
Total revenue	9,943	6,752
Cost of sales	(8,256)	(5,213)
Gross profit	1,687	1,539
Other income	315	252
Other gains and losses	172	(57)
(Impairment loss recognised) reversal of impairment loss recognised in respect of financial assets	(13)	39
Selling and distribution expenses	(889)	(640)
General and administrative expenses	(305)	(303)
Research and development expenses	(492)	(370)
Finance costs	(120)	(118)
Share of results of associates	2	(10)
Share of results of joint ventures	(1)	-
Profit before taxation	356	332
Income tax expense	(72)	(66)
Profit for the period	284	266
Other comprehensive income (expense)		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(8)	29
Income tax relating to item that will be reclassified subsequently	(1)	-
Cumulative loss reclassified to profit or loss upon disposal of trade receivables at fair value through other comprehensive income ("FVTOCI")	5	-
	(4)	29

	Three months ended	
	31 March	31 March
	<u>2021</u>	<u>2020</u>
	(unaudited)	(unaudited)
Other comprehensive income (expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value gain (loss) on investments in equity instruments at FVTOCI	197	(278)
Income tax relating to item that will not be reclassified subsequently	<u>(31)</u>	<u>42</u>
	<u>166</u>	<u>(236)</u>
Other comprehensive income (expense) for the period	<u>162</u>	<u>(207)</u>
Total comprehensive income for the period	<u><u>446</u></u>	<u><u>59</u></u>
 Profit for the period attributable to:		
Owners of the Company	170	203
Non-controlling interests	<u>114</u>	<u>63</u>
	<u><u>284</u></u>	<u><u>266</u></u>
 Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	330	(2)
Non-controlling interests	<u>116</u>	<u>61</u>
	<u><u>446</u></u>	<u><u>59</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

Amounts expressed in millions of Renminbi

	As at 31 March 2021 (unaudited)	As at 31 December 2020 (audited)
Non-current Assets		
Property, plant and equipment	5,947	5,803
Right-of-use assets	2,462	2,470
Deposits paid for purchase of property, plant and equipment	177	132
Investment properties	1,546	1,566
Goodwill	446	447
Intangible assets	99	99
Interests in associates	234	197
Interests in joint ventures	16	17
Financial assets at fair value through profit and loss ("FVTPL")	982	1,032
Equity instruments at FVTOCI	1,413	1,216
Finance lease receivables	1	1
Loan receivables	480	598
Deferred tax assets	548	498
	<u>14,351</u>	<u>14,076</u>
Current Assets		
Inventories	8,048	6,004
Stock of properties	5,434	5,045
Financial assets at FVTPL	1,155	607
Trade and bills receivables	12,529	13,251
Trade receivables at FVTOCI	158	400
Other receivables, deposits and prepayments	3,977	2,890
Derivative financial instruments	9	9
Loan receivables	1,247	1,115
Finance lease receivables	127	127
Prepaid tax	208	119
Pledged bank deposits	938	1,309
Restricted bank deposits	270	318
Bank balances and cash	7,925	8,214
	<u>42,025</u>	<u>39,408</u>
Assets classified as held for sale	-	200
	<u>42,025</u>	<u>39,608</u>

	As at 31 March <u>2021</u> (unaudited)	As at 31 December <u>2020</u> (audited)
Current Liabilities		
Trade and bills payables	12,092	11,899
Other payables	4,365	4,672
Other financial liabilities	202	199
Derivative financial instruments	18	25
Lease liabilities	57	54
Contract liabilities	3,695	3,107
Provision for warranty	197	205
Tax liabilities	174	265
Bank borrowings	7,547	7,401
Deferred income	193	180
	<u>28,540</u>	<u>28,007</u>
Liabilities associated with assets classified as held for sale	-	84
	<u>28,540</u>	<u>28,091</u>
Net Current Assets	<u>13,485</u>	<u>11,517</u>
Total Assets less Current Liabilities	<u>27,836</u>	<u>25,593</u>
Non-current Liabilities		
Other financial liabilities	98	98
Lease liabilities	146	141
Provision for warranty	98	97
Bank borrowings	5,866	3,986
Convertible bonds	924	913
Corporate bonds	874	874
Deferred income	262	270
Deferred tax liabilities	166	120
Derivative financial instruments	90	103
	<u>8,524</u>	<u>6,602</u>
NET ASSETS	<u><u>19,312</u></u>	<u><u>18,991</u></u>
Capital and Reserves		
Share capital	273	273
Reserves	<u>16,262</u>	<u>16,037</u>
Equity attributable to owners of the Company	16,535	16,310
Non-controlling interests	<u>2,777</u>	<u>2,681</u>
	<u><u>19,312</u></u>	<u><u>18,991</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2021

Amounts expressed in millions of Renminbi

	Three months ended	
	31 March	31 March
	<u>2021</u>	<u>2020</u>
	(unaudited)	(unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(1,061)</u>	<u>631</u>
NET CASH USED IN INVESTING ACTIVITIES		
Dividend received	-	4
Interest received	74	45
Purchase of property, plant and equipment	(320)	(302)
Deposit paid for acquisition of property, plant and equipment	(45)	-
Proceeds on disposal of property, plant and equipment	3	8
Proceed on disposal of an associate	-	15
Net cash outflow from disposal of a subsidiary	(13)	-
Proceeds on redemption of investments in debt securities upon maturity	-	83
Investments in associates	(35)	-
Loans advanced	(82)	(559)
Repayments of loan receivables	68	297
Investments in financial assets at FVTPL	(572)	(206)
Proceeds on disposal of financial assets at FVTPL	171	11
Proceeds on disposal of equity instruments at FVTOCI	-	5
Government grants received related to assets	8	19
Placement of pledged bank deposits	(33)	-
Placement of other deposit	(680)	-
Withdrawal of pledged bank deposits	404	-
Placement of restricted bank deposits	(22)	(3)
Withdrawal of restricted bank deposits	70	30
	<u>(1,004)</u>	<u>(553)</u>

	Three months ended	
	31 March <u>2021</u> (unaudited)	31 March <u>2020</u> (unaudited)
NET CASH FROM FINANCING ACTIVITIES		
Interest paid	(151)	(69)
Dividend paid to non-controlling interests	(4)	(10)
New borrowings raised	6,275	5,049
Purchase of shares for unvested shares under share award scheme	(79)	-
Repayments of borrowings	(4,289)	(5,023)
Payments of lease liabilities	(21)	(24)
Contribution from non-controlling interests	17	-
Consideration paid in acquisition of additional interest in a subsidiary	(17)	-
New corporate bond raised, net of transaction costs	-	796
	<u>1,731</u>	<u>719</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(334)	797
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	8,214	4,806
Effect of foreign exchange rate changes	<u>45</u>	<u>(38)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	<u><u>7,925</u></u>	<u><u>5,565</u></u>

BUSINESS PERFORMANCE REVIEW

Revenue

For the three months ended 31 March 2021, the Group's overall revenue amounted to RMB9,943 million, representing an increase of RMB3,191 million or 47.3% compared with RMB6,752 million recorded in the Same Period of Previous Year.

(a) Business Review by Geographical Segment

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

Mainland China Market

For the three months ended 31 March 2021, revenue from the mainland China market amounted to approximately RMB6,247 million, representing an increase of RMB1,870 million or 42.7% compared with RMB4,377 million recorded in the Same Period of Previous Year.

During the Reporting Period, the Group's multimedia business, smart systems technology business and smart appliances business each accounted for 61.1% (the Same Period of Previous Year: 61.5%), 23.7% (the Same Period of Previous Year: 23.7%) and 9.4% (the Same Period of Previous Year: 8.5%) of its revenue from the mainland China market, while modern services business and other operations attributed the remaining 5.8% (the Same Period of Previous Year: 6.3%).

Overseas Markets

For the three months ended 31 March 2021, revenue from overseas markets amounted to RMB3,696 million, equivalent to 37.2% of the Group's overall revenue, representing an increase of RMB1,321 million or 55.6% compared with RMB2,375 million recorded in the Same Period of Previous Year.

Geographical distribution of revenue in overseas markets

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

	Three months ended 31 March	
	2021	2020
	(%)	(%)
Asia (excluding Middle East)	57	52
Europe	11	18
Middle East	13	12
America	11	10
Africa	7	8
Oceania	1	0
	100	100

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

(b) Business Review by Business Sector

The Group has announced its overall strategic direction for upgrading through reformation for the next five years (also known as the “1334 Strategy”), covering four key business sectors, including: 1. Multimedia business; 2. Smart systems technology business; 3. Smart appliances business; and 4. Modern services business.

1. Multimedia Business

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

For the three months ended 31 March 2021, the Group’s revenue of multimedia business recorded revenue of RMB6,308 million, representing an increase of RMB2,302 million or 57.5% compared with RMB4,006 million recorded in the Same Period of Previous Year.

For the three months ended 31 March 2021 and 2020, the Group’s smart TV systems sales volume by product and market are as follows:

	Three months ended 31 March 2021	Three months ended 31 March 2020	Three months ended March 2021 vs Three months ended March 2020 Increase/(decrease)
	Unit ('000)	Unit ('000)	
PRC Market	1,413	1,437	(1.7%)
Overseas Markets	1,991	1,528	30.3%
Total smart TV systems sales volume	3,404	2,965	14.8%

1.1 Smart TV systems products (PRC Market)

For the three months ended 31 March 2021, the Group’s smart TV systems products recorded revenue of RMB2,787 million in the mainland China market, representing an increase of RMB357 million or 14.7% compared with RMB2,430 million recorded in the Same Period of Previous Year.

During the Reporting Period, the Group changed its product sales structure in the PRC market, launched a high-end brand strategy, focused on new products such as OLED and 8K smart TV systems products with higher unit prices, and reduced the sales of low-end and small-size products. Therefore, the sales volume of the Group’s smart TV systems products decreased by 1.7% year on year, the turnover still recorded a growth. The Group will continue its marketing strategies and adjust unit rates to cope with downturn of the market and increase market share in order to improve the sales performance of the Group’s smart TV system products in the Mainland China market.

1.2 Smart TV Systems Products (Overseas Markets)

For the three months ended 31 March 2021, the Group’s smart TV systems products recorded revenue of RMB2,262 million in overseas markets, representing an increase of RMB950 million or 72.4% compared with RMB1,312 million recorded in the Same Period of Previous Year.

During the Reporting Period, as the global economy gradually recovers from the impact of COVID-19, the overall market performance of the international TV market is showing a rebound trend. The Group will continue to adopt relatively stable and conservative sales strategies, cancelling projects of low profit margin in certain overseas markets as part of its strategic decision, focusing on opportunities in consumption presented by emerging countries, as well as the optimisation of its sales channels and structures.

1.3 Internet value-added Services of Coocaa System

For the three months ended 31 March 2021, the Group recorded a significant growth of RMB112 million or 42.4% in revenue from the internet value-added services of Coocaa System, which increased from RMB264 million recorded in Same Period of Previous Year to RMB376 million.

As at 31 March 2021, the accumulated smart terminal of Coocaa System in the mainland China market was over 87 million.

During the Reporting Period, as the PRC's economy gradually recovered from the impact of COVID-19, advertising revenue increased by 125.6% year on year. Moreover, Chinese citizens spent a lot of time on watching TV at home instead of stay outside due to the outbreak of COVID-19. Therefore, a significant growth was recorded for both of the active volume and the internet value-added services of Coocaa System.

2. Smart Systems Technology Business

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

For the three months ended 31 March 2021, revenue recorded for smart systems technology business in the mainland China market amounted to RMB1,477 million, representing an increase of RMB439 million or 42.3% from RMB1,038 million recorded in the Same Period of Previous Year. For the three months ended 31 March 2021, revenue recorded for Smart Systems Technology business in overseas markets amounted to RMB783 million, representing an increase of RMB94 million or 13.6% from RMB689 million recorded in the Same Period of Previous Year.

3. Smart Appliances Business

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

For the three months ended 31 March 2021, revenue recorded for smart appliance products in the mainland China market amounted to RMB591 million, representing an increase of RMB220 million or 59.3% compared with RMB371 million recorded in the Same Period of Previous Year. Revenue in overseas markets amounted to RMB370 million, representing an increase of RMB81 million or 28.0% compared with RMB289 million recorded in the Same Period of Previous Year.

During the Same Period of Previous Year, the operating performance of smart appliances business was affected by the pandemic of COVID-19. As the epidemic situation in the mainland China is under control, the revenue recorded for smart appliance products in the mainland China market resumed to the level before the pandemic. Besides, as vaccination plans are launched around the world, the global epidemic situation is expected to improved, we expect the operating performance of the smart appliance business will significantly improve. Although the epidemic is still affecting the global market, we will continue to develop new products with excellent operational capabilities, take care of pipeline operations and achieve large-scale manufacturing in order to continue to grow our business scale.

4. Modern Services Business

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

The Group's modern services business is mainly based in the mainland China market. For the three months ended 31 March 2021, revenue recorded for modern services business in the mainland China market amounted to RMB337 million, representing an increase of RMB63 million or 23.0% compared with RMB274 million recorded in the Same Period of Previous Year. Revenue in overseas markets amounted to RMB11 million, representing a decrease of RMB74 million or 87.1% compared with RMB85 million recorded in the Same Period of Previous Year.

The Group has determined the development direction of the segments of modern services business, accelerated its upgrading transformation from manufacturing to modern services, and formed dedicated teams for financial services, macro-logistics services, supply chain operation, foreign trading, as well as park-based property management and construction development. We have set clear development plans for each of our business, and a specific development model for the modern services business: the establishment of a financial business platform with financial companies as the main body, supplemented by venture capital funds and small loans, broadened the Group's financing channels; the Group formulated a special plan for the development of macro-logistics service industry to promote the development of supply chain logistics, factory logistics, sales and after-sales logistics, and business integration has been fully launched; branch companies were set up to vigorously develop supply chain business centering on the Group's internal industrial support; the Group completed the professional restructuring of the development and operation business of the science and technology park and made full use of the construction opportunities of the three major bases to drive the development of Skyworth's intelligent human habitat industry, including green buildings, smart control systems and terminals, and a variety of content services; the Group proactively promoted the adjustment of asset structure by virtue of the construction of industrial park and made good use of the existing advantages to shape its modern services business.

Gross profit margin

For the three months ended 31 March 2021, the overall gross profit margin of the Group was 17.0%, representing a decrease of 5.8 percentage points in comparison to 22.8% recorded in the Same Period of Previous Year. Excluding the effect of the increase in revenue of RMB358 million, which met the relevant tax policy, recorded in the Same Period of Previous Year, the gross profit margin of the Group decreased by 1.5 percentage points year on year.

During the Reporting Period, the gross profit margin decreased remarkably compared with the Same Period of Previous Year, which is mainly due to the prices of upstream materials for TV products such as glass, panel and ICs continued to increase, and lowered the gross profit margin of TV products. Meanwhile, the low pricing of emerging brands also exerted an impact on the TV market, resulting in a decrease in the gross profit margin of TV products.

In addition, certain businesses of the smart systems technology business of the Group related to domestic broadcasting and telecom operators that have higher gross profit margin did not record significant growth for the time being. On the other hand, although the sales volume of products with higher profit margin increased period-on-period, the increase was lower than the overall business scale growth. A decrease in the proportion of sales of products with higher profit margin also contributed to a drop in overall gross profit margin.

Expenses

For the three months ended 31 March 2021, the Group's selling and distribution expenses amounted to RMB889 million, representing an increase of RMB249 million or 38.9% compared with RMB640 million for the Same Period of Previous Year. The selling and distribution expenses to revenue ratio for the three months ended 31 March 2021 was 8.9%, which decreased by 0.6 percentage points from 9.5% recorded in the Same Period of Previous Year.

For the three months ended 31 March 2021, the Group's general and administrative expenses amounted to RMB305 million, representing an increase of RMB2 million or 0.7% compared with RMB303 million for the Same Period of Previous Year. The general and administrative expenses to revenue ratio for the three months ended 31 March 2021 was 3.1%, which dropped by 1.4 percentage points from 4.5% recorded in the Same Period of Previous Year.

The Group continued to devote enormous resources during the Reporting Period to the research and development of premium smart products and the improvement of its corporate competitiveness. As the COVID-19 epidemic in mainland China was under control, the Group's investment in research and development during the Reporting Period has increased compared to the Same Period of Previous Year. For the three months ended 31 March 2021, the Group's research and development expenses amounted to RMB492 million, representing an increase of RMB122 million or 33.0% compared with RMB370 million for the Same Period of Previous Year. The research and development expenses to revenue ratio for the three months ended 31 March 2021 was 4.9%, which dropped by 0.6 percentage points from 5.5% recorded in the Same Period of Previous Year.

OUTLOOK

In 2021, the Skyworth Group's board of directors proposed the "Efficiency Improvement Year", requiring all industrial companies to accurately grasp the changes in the current situation, focus on key tasks such as innovation, reform, investment, development, and implement precise policies and proactive actions to accelerate the change from manufacturing business to modern services business, from hardware industry to software industry, from terminal business to smart system business, create greater value and better performance for enterprises.

Since the beginning of current year, Skyworth Group has actively responded to unfavourable factors such as the shrinking domestic market and skyrocketing prices of raw materials. It has increased investment in new products, promoted growth in overseas markets, controlled costs reasonably, and strengthened internal operation and management. The Group's performance in the first quarter increased steadily and its corporate development was coordinated and orderly. .

Looking forward, current year is the first year of China's "14th Five-Year Plan", which will fully implement the double-loop development strategy and comprehensively promote the revitalisation of rural areas, which will expand the room for the development environment of home appliance companies.

Faced with the post-epidemic era, Skyworth Group will actively leverage its technical and production advantages in the field of home appliances, actively overcome unfavourable factors such as rising raw material prices, and focus on new product development, supply chain construction, cost control, new bases construction, and industrial coordination enhancement, comprehensively improve the operating efficiency of Skyworth Group, and achieve the annual goal.

EVENTS AFTER THE REPORTING PERIOD

The continuous spread of the COVID-19 epidemic around the world has caused uncertainties in the business environment. The impact of the COVID-19 epidemic on the Group's overseas business is expected to continue for a period of time, but the duration and extent of the impact are difficult to predict and depend on the development of the situation.

However, with China, Germany, the United Kingdom, the United States and Russia and other advance countries taking the lead, a number of COVID-19 vaccines have been successfully developed. Currently, at least seven COVID-19 vaccines have been rolled out globally and more than 200 additional vaccine candidates are in development, of which more than 60 are in clinical development, and it is expected that there will be more vaccines ready for use and volume production in the first half of 2021. According to the announcement of the World Health Organization in April 2021, 780 million doses of the COVID-19 vaccine have been vaccinated globally. However, the pandemic still has a long way to run. Despite the rollout of COVID-19 vaccines, it will still take some time for most people to be vaccinated and there will be no "herd immunity" until the end of 2021. Health experts around the world predict that it will be late 2021 to 2022 at the earliest before humans return to their pre-epidemic lives.

In view of this, the Group carefully studies the situation, come up with countermeasures, and continues to formulate adjustment plans in terms of product structure and business structure; improve product quality, and reduce operating costs; accelerate the work of reorganisation and integration; take advantage of opportunities, actively expand the market, and boost revenue to reduce the financial impact of the challenges. As the operations of most of the Group's customers, suppliers, associates, joint ventures and investees are located in mainland China, the negative impact of the COVID-19 epidemic on entities, such as the Group, will be mitigated to the greatest extent as long as the COVID-19 epidemic is continued to be under control in mainland China.

APPRECIATION

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

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

Hong Kong, 27 April 2021

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