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Why Healthy Financial Governance, Structures and Ratios Are Important for An Emerging Business:
A Complete View of Skyworth Financial Management

Executive Summary

Numerous household names of TV labels 30 years ago are dinosaurs in the industrial evolution. TV makers who have survived today are all because of its innovative spirit. But that still is not enough for its existence tomorrow. A successful TV brand needs to focus on not just its physical hardware features or screen sizes, but also digitalization to extend its capability into the internet and information technology arena.

Skyworth, being the freshest label in the TV industry, has made its name known through transformation and modernization. Besides the smart technologies being adopted by the group, Skyworth has also formulated a smart strategic direction for the next 5 years – ‘1334 Strategy’ (Skyworth, 2021b), which targets for RMB100 billion revenue, moves forward 3 key sub-strategies in business transformation, advances 3 priority projects in new headquarters and manufacturing plants, and cultivates 4 key business domains in technology advancement. A successful implementation of this strategy will significantly improve Skyworth’s competitive edge on the world stage and completely transform the group into a mixture of ‘hardware plus service’ and ‘manufacturing plus information technology’ business paradigm.

With the interest of studying its current financial management strategies, this research will embrace a mixed methodology to explore with both readily available qualitative and quantitative data through market literature reviews and contrasts among its competitors. The existing financial structure of Skyworth is assessed to illustrate its weakness in Z-Score that approaches financial distress. Skyworth’s various financial performance ratios are studied to reflect its challenges in asset and inventory turnovers, unsustainable operational costs, and extremely heavy long-term debts and low on ROCE. DuPont Identity was also analyzed to reveal its low returns on ROE and ROA by 50% from industrial average respectively. Plus, Skyworth’s current governance and risk management approaches are also carefully studied to expose the deficiencies in board’s roles and responsibilities, gender equality, internal & external audits as well as transparency in public communications.

Based on the above data and ratio analysis, it logically aids Skyworth to determine what breakthrough investment opportunities could present to itself and to enhance its future profitability, with the right financing tactic to aid the capital budgeting in the project. The study thus suggests Skyworth to adopt a less debt dependent method in the short term, where a longer-term IPO strategy could still be explored when the suitable timing announces itself.

A phased and time-bound improvement approach was detailed for Skyworth. If all these recommendations could be absorbed successfully in future financial management, it should become a solid foundation for Skyworth’s formulation to rebound and compete with opponents fruitfully in asset utilization, inventory turnovers, cost controls, debt handling as well as business governing and growth strategies.

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1. Introduction

The kingpins of TV making yesterday are very different than brands have survived today, with only one thing in mind: innovation. Household names like JVC, National or Hitachi are long gone. What still standing strong today are labels as Samsung, LG, and SONY who are revolutionary and supported with other lines of products; or uprising Chinese makers like Skyworth, TCL and Hisense who are competing in new domains of business frontiers. With each company is fighting for its similar basic features, consumers have more says in choosing the right products. This comes down to a sound financial management of the business to compete and endure in a muddled economy these days.

1.1 Industrial Environment

TV sets have long been used for communication and broadcasting since its debut. Traditionally, TV makers were competing solely in pricing and physical product features such as screen size and screen technologies (CRT, LCD, LED or DLP), yet there was only so much a manufacturer could do to compete on basic features-based pricing strategies (Verified Market Research, 2021).

This has theatrically changed in 2008 when the first Smart TV was inaugurated (Shilton, 2020). A Smart TV is not to be confused with Internet TV or IPTV, where a Smart TV is TV set preloaded with onboarding software to enable the accesses into programs delivered over-the-top (OTT) media services like IPTV and Internet TV through the public internet (Silva, 2021). A technological and commercial novelty affectedly boosts the business ecosystem around not just daily broadcasting but also video streaming and gaming industries. Verified Market Research (2021) has also predicted that the Smart TV market could reach USD 953.15 billion that is equivalent to a CAGR of 16.5% by 2027 in Figure 1.1-1.

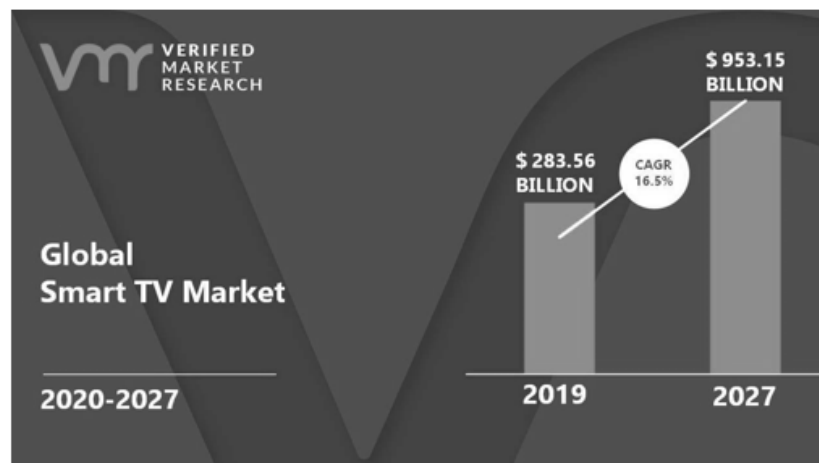


Figure 1.1-1 Global Smart TV Market Projection (2019-2027)
Source: Verified Market Research (2021)

The recent pandemic event has also contributed a positive surge in uplifting TV sales around the world. International Data Corporation (2020) has recorded an unmistakable pitch of increase sales of Smart TVs in 2019 in China and a continuing upward trend from 2022 onwards, where a clear drop in-between due to the ease of lockdown in China alone in mid-2020, see in Figure 1.1-2.

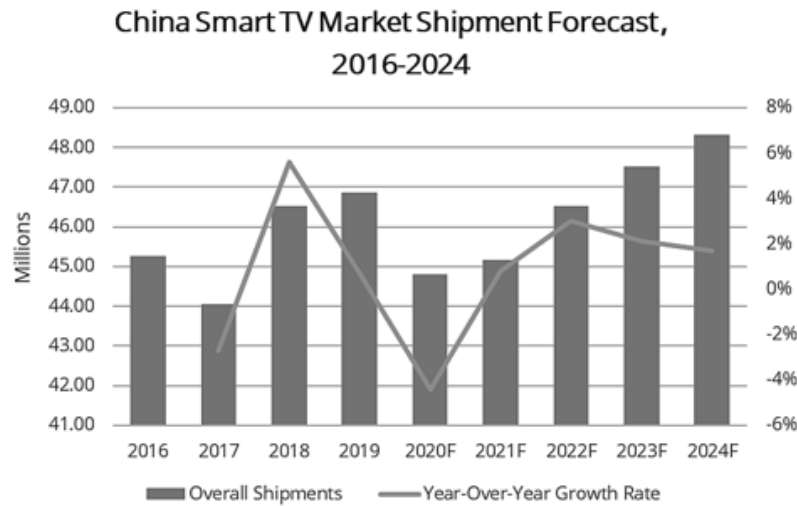


Figure 1.1-2 China Smart TV Shipment Forecast (2016-2024)
Source: International Data Corporation (2020)

Snider (2020) and The Japan Times (2021) have both reported an increase of TV sales despite COVID-19 and economic downturn, while families are constrained with more time at their homes.

technavio (2020) has provided a glimpse of largest world TV manufacturers today shown in Table 1.1-1.

Table 1.1-1 World TV Manufacturers Today

▪ Samsung: Established at Seoul in 1969. A global conglomerate has 20% of world's TV market share and been the leader in this industry since 2006.
▪ LG: Founded also at Seoul in 1958. As the second largest member of the TV industry, LG accounts for 12% of the world market. Its innovation spirit and extensive experience have bought LG a front seat in Smart TV technologies.
▪ Sony: Headquarters at Minato City, Tokyo in 1946. Sony is one of the oldest pioneers in TV industry and takes about 7% of the market share. Sony has revolutionized many technologies in TV manufacturing and always focused on the ergonomics of user experience.
▪ Hisense: Originated at Qingdao in 1969. Hisense is a glaring name in the TV industry and the largest in China. Hisense is picking up its speed in assisted technologies to achieve a breakthrough among its competitors.
▪ TCL: Created at Huizhou in 1981. Being the second largest TV maker in China, TCL has always been cautious on cost and pricing, while bring its best quality and modern technologies into its feature sets.
▪ Skyworth: Started at Shenzhen in 1988. Skyworth is the youngest player in the industry and eager to acquire further market shares around the world with its ambitious Smart TV strategies, plus its modern service tactics.

Source: Constructed by Author

1.2 Competitors and Comparisons

This research will only focus on the 3 TV makers domestically in China, namely Skyworth Group Limited (751), TCL Electronics Holdings Limited (1070) and Hisense Home Appliances Group Corporation Limited (921).

By examining the nature of the business, market values and PE ratios, as well as its operations geographically, presented in Table 1.2-1, the 3 companies are comparative in size and other areas of study. Thus, key financial ratios and indicators could be thoroughly cross referenced to help understand the performance and health of Skyworth, which is the interest of this research investigation.

Table 1.2-1 Company Business and Financial Comparisons

Company Name	Skyworth	TCL	Hisense	Reference
Stock number	751	1070	921	
Business Nature	TV, Smart System, Home Appliances, Service	TV, Audio, Home Appliance, Mobile	TV, Audio, Home Appliance, Mobile	(Skyworth, 2021a) (TCL, 2021) (Hisense, 2021)
Market Value *1 (RMB in million)	4897	11799	17144	
PE Ratio *1	7.6	3.2	8.4	
Market Area	Globally	Globally	Globally	(Skyworth, 2021b) (TCL, 2021) (Hisense, 2021)

Note 1: Stock market closing date on 31 December 2020

Source: Constructed by Author

1.3 Company Background

Skyworth was registered as a small Hong Kong company by founder, Stephen Wong, in 1988, with its factory in Shenzhen. The company has gone through several 'miraculous' events since its establishment.

Initially, Skyworth was manufacturing and selling remote controls, but suffered a great loss. In 1991, Stephen Wong seized an opportunity and took over a small bankrupting TV firm with its key engineers, starting the journey of color TV manufacturing. By April 2000, Skyworth has earned its reputation in the industry and launched its IPO in Hong Kong (Baidu, 2021).

The initial public offering was set at HKD 2.07 with a tentative 500 million shares, but was oversubscribed with an additional 50 million shares being supplemented even under the looming economy by then, totaling RMB 994 million acquired (CCCL, 2007). In the short of 8 months and by the end of 2000, Skyworth registered a record loss of RMB 125 million, although it had reported a straight 3-year profit before the IPO (Sina, 2004).

Although Skyworth had its several up and downs in the history of company evolution, including management and board member changes, it has been a steady and solid brand name recognized

internationally in a very competitive TV industry. As of end of July 2021, Skyworth was traded at HKD 2.13 with outstanding shares of 2.67 billion. The market cap was evaluated at HKD 5.68 billion and its enterprise value at 14.64 billion along with short-term and long-term debts (Yahoo Finance, 2021). While the market cap expands and shrinks, some of the Skyworth key indicators, illustrating in Table 1.3-1, show a helpful market reflection of the company. The book-to-share values move uptrend and price-to-book values move downwards in the past 3 years, where it demonstrates an undervalue stock to be reengaged by the market.

Table 1.3-1 Skyworth Market Value KPIs

Company		Skyworth 751		
RMB in million (Year)		2018	2019	2020
Market Value Ratio	Book Value Per Share Ratio	5.40	5.93	7.12
	Price to Book Value	0.27	0.34	0.26
	Market Capitalization	4412	6157	4897

Source: Constructed by Author

Outside of China, Skyworth has penetrated its operations globally into the Philippines, Indonesia, Thailand, Malaysia, Vietnam, India, South Africa, Germany, and the USA.

1.4 Business Overview

Skyworth's strategy in the 21st century is quite different than it used to be in the 1980s. Financially, it has transformed into an investment holding group, illustrated in Figure 1.4-1, rather than a manufacturer 30 years ago.

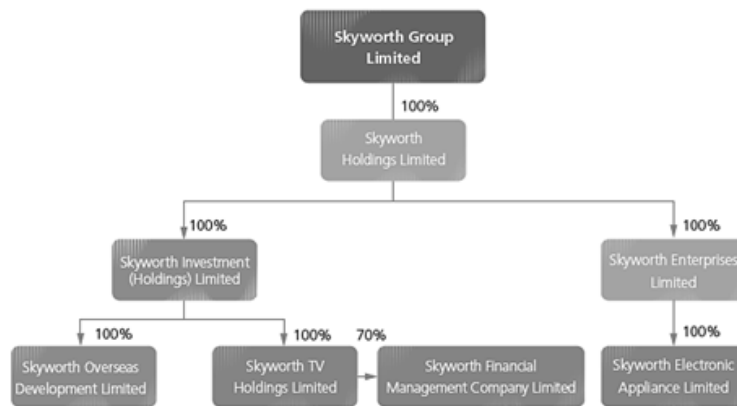


Figure 1.4-1 Skyworth Corporate Structure
Source: Skyworth Annual Report (2020a)

With recent modern technologies in mind, it has transitioned its core business holdings into 4 major domains: Multimedia, Smart systems Technology, Smart Appliances and Modern Services (Skyworth Annual Report, 2020), which are detailed in Table 1.4-1.

Table 1.4-1 Skyworth Business Domains

Multimedia: - Smart TV Systems (China) has suffered a 15.9% loss from the previous year in revenue due to the COVID-19. - Smart TV Systems (Overseas) were planned and expanded for businesses in 2020 and have astonishingly achieved a 15.4% growth in business and a 23.6% increase in revenue. - Internet Value-Added Services of Coocaa System – a Netflix alike business model has also ‘benefited’ from the pandemic and registered a 27.8% growth in revenue, amounting to RMB 1,056 million at the end of year 2020. - TV Set shipments have exceeded 17 million units a year
Smart Systems Technology: - While Skyworth has paid a lot of attention on current AIoT and 5G+8K technology developments, it has suffered greatly in this domain due to COVID-19. - Domestically, it has lost RMB 518 million in revenue that is equivalent to 9.1% from the previous year. - Internationally, it also endured an 8.6% loss in revenue of RMB 334 million from 2019.
Smart Appliances: - Smart Air Conditioners, Smart Refrigerators, Smart Washing Machines, and Smart Kitchen Appliances are the major components of this domain coverage. - In mainland, the pandemic has produced a negative impact of 6.8% decrease in revenue comparing to 2019. - Overseas, revenue has recorded a favorable 10.8% increase in 2020. - Further R&D investment will be poured into Smart Appliances domain, as the group is expecting a significant sales improvement in 2021.
Modern Services Business: - With its business model transformation, Skyworth has encompassed opportunities into the intangible arena, where rental and property management, logistics, construction development and financial leasing are being covered. - Both domestic and international services in this domain have achieved a stunning increase of 7.2% and 2,259.1% respectively, representing RMB 131 million and RMB 497 million.

Source: Constructed by Author

1.5 Research Scope

Looking into financial performance comparisons among Skyworth’s competitors, this report intends to evaluate, based on publicly available data, all the key fiscal KPIs, its governance and internal control practice, and further investment as well as financing strategies. As a result of these findings, broaden recommendations to clearly devise a future quarterly improvement plan in these critical domains.

1.6 Research Question

Here a question of *how Skyworth could further improve its financial performance among market contenders, with sound financial management planning* will stream through the whole article.

1.7 Research Objectives

A list of objectives to be achieved at the end is also listed here to guide the vibe of the flows below.

- To identify key financial KPIs that Skyworth could target to gain further advantage from
- To identify improvements on governance and risk management that Skyworth should further foster
- To explore potential investment opportunities that Skyworth can adopt to enrich its potentials

2. Financial Analysis

By analyzing and interpreting key ratios of a company, its surrounding economy as well as industry, this could bring clarity of a company's financial performance and positions among its competitors (Babalola and Abiola, 2013). Skyworth's financial health, repayment competences, debt capacities, operating efficiencies and expenses, stock and market stances, as well as profitability ought to be meticulously cross-examined along with its close competitors in the same industry.

2.1 Z-Score

Altman et al. (2014) stated that the original Z-Score had gone through several modifications in years since its launch to fit into different financial and business categorizations; yet the 1968 version was still the most recognizable version internationally. (Desiyanti et al., 2019; Cho, 2012) had conducted extensive studies to understand the applicability of the original Z-Score in different business and financial scenarios with specific attentions on its variables, and concluded that the formula should be referenced as such further studies could refine Z-Score's accuracy.

Altman (1968) clearly stated the critical boundaries of Score:

- A Z-Score over 2.99 indicates that a firm is in the Safe Zone based on the financial values
- A Z-Score between 1.8 and 2.99 is in the Grey Zone that could indicate a direction for bankruptcy within 2 years.
- A Z-Score below 1.8 suggests a high probability of financial troubles

Z-Score is only one of the means this paper will investigate and assess the financial state of Skyworth.

Although its Z-Score calculations in Table 2.1-1 and 2.1-2 demonstrate unfavorably, Skyworth is still assessed approvingly by the market and Fitch (2019) rated AA+ for Skyworth. Besides, both TCL and Hisense are also going for the downturn in the same calculation, with TCL is also getting closer to the 1.8 borderline. The study will funnel down to identify the key improvement areas for Skyworth.

Table 2.1-1 Skyworth, TCL and Hisense Key Financial Ratios

Company	Skyworth 751			TCL 1070			Hisense *2 921					
RMB in million (Year)	2018*3	2019	2020	2018	2019	2020	2018		2019		2020	
Net Current Assets	9,731.0	7,388.0	11,517.0	4,956.0	5,802.0	6,425.8	790.4		3,682.0		3,512.1	
Total Assets	43,101.0	47,538.0	53,684.0	24,772.3	29,789.0	44,067.7	21,827.9		33,990.7		41,811.6	
Retained Earnings	14,614.0	15,684.0	16,037.0	6,538.8	8,239.4	11,545.4	6,526.7		11,118.1		13,043.8	
EBIT	1,093.0	2,037.0	2,620.0	1,106.2	2,380.2	1,956.1	1,547.3		2,062.7		3,305.4	
Stock Value (HKD)*1	1.64	2.25	2.18	2.65	3.42	5.71	6.52	5.10	11.65	7.82	14.05	11.51
RMB/HKD FX Rate*1	1.138	1.119	1.188	1.138	1.119	1.188	1.138		1.119		1.188	
Number of Stock Units (Million Shares)	3,061	3,061	2,668	2,335	2,363	2,452	903	460	903	460	903	460
Total Liabilities	26,557.0	29,395.0	34,693.0	16,181.8	19,118.0	29,976.7	13,938.5		21,509.8		27,405.1	
Sales	38,795.0	36,802.0	39,657.0	40,039.9	42,008.1	42,902.9	36,019.6		37,453.0		48,392.9	

Note 1: December 31 market closing value with dividend, stock split adjustment and RMB/HKD FX rates (See Appendix A)

Note 2: Hisense files as a combined financial statement that includes A+H shares as shown

Note 3: Skyworth has decided to convert and align its reporting financial year with fiscal year starting from 2018; so the calculation was based on March 2018 to have the whole year results to be consistent (see Appendix B)

Source: Constructed by Author

Table 2.1-2 Skyworth, TCL and Hisense Z-Scores

Company	Skyworth			TCL			Hisense		
RMB in million (Year)	2018	2019	2020	2018	2019	2020	2018	2019	2020
A	0.23	0.16	0.21	0.20	0.19	0.15	0.04	0.11	0.08
B	0.34	0.33	0.30	0.26	0.28	0.26	0.30	0.33	0.31
C	0.03	0.04	0.05	0.04	0.08	0.04	0.07	0.06	0.08
D	0.17	0.21	0.14	0.38	0.42	0.47	0.57	0.64	0.63
E	0.90	0.77	0.74	1.62	1.41	0.97	1.65	1.10	1.16
Z Score	1.83	1.69	1.66	2.60	2.55	1.94	2.69	2.27	2.33

Z score : $Z = 1.2A + 1.4B + 3.3C + 0.6D + 0.999E$;

A = Working Capital/Total Assets ; B = Retained Earnings/Total Assets ; C = EBIT / Total Assets ;

D = [(Stock value x Total number of stocks)/RMB&HKD ex rate]/Total Liabilities; E = Sales/Total Assets

Source: Constructed by Author

2.2 Structures

Stiglitz (1988) has rightly pointed out in his study, “Why Financial Structure Matters”, the importance of financial structures: 1) to identify a firm’s risk status 2) to assess borrowing capabilities 3) to assist investors’ understanding of a firm’s return 4) to recognize tax policy impact on debt and equity. In Table 2.2-1, this research looks on some of the fundamentals.

Table 2.2-1 Skyworth, TCL and Hisense Financial Structure Overview

Company		Skyworth 751				TCL 1070				Hisense 921				3 Companies
RMB in million (Year)		2018	2019	2020	Average	2018	2019	2020	Average	2018	2019	2020	Average	Average
Financial Structure	Fixed Assets to Long Term Liabilities Ratio	1.47	2.06	0.88	1.47	14.53	6.66	1.68	7.62	7.56	18.34	17.57	14.49	7.86
	Current Liabilities to Net Asset Ratio	1.34	1.43	1.48	1.42	1.87	1.77	2.03	1.89	1.71	0.15	0.13	0.67	1.33
	Current Liabilities to Inventory Ratio	4.27	5.29	4.68	4.75	2.62	3.92	3.39	3.31	4.57	0.29	0.21	1.69	3.25

Source: Constructed by Author

Fixed Assets to Long Term Liabilities Ratio:

A well strengthened fixed assets reporting on a firm’s balance sheet could help its capability in obtaining external long-term debt financing (Cho, Chung and Kim, 2021). When the ratio’s value is higher, the greater the ability a firm can cover the long-term liabilities. At the same time, it also increases the debt capacity of the company; thus increasing the likelihood for gaining new long-term liabilities in the future. This ratio has

been decreasing for Skyworth and is lower than even the averages of its competitors, letting alone the 3-company average. While TCL also decreased significantly on this ratio, its average is still holding strong and on par with the industry average. One of the reasons why Skyworth didn't report appropriately on fixed assets was due to its various property related projects under construction (Skyworth Annual Report, 2020), in expanding its international headquarters and investing in new industrial parks, see in Table 2.2-2 below, which is worth of RMB 5.72 billion.

Table 2.2-2 Skyworth Properties for New Industrial Parks and International Headquarters

Fixed Asset Category	Location	Status	Market Value in RMB billion	Reference
Commercial	Shenzhen	Rental	3.53	Xueqiu (2018)
Commercial	Shenzhen	Rental	7.25	
Residential	Shenzhen	Rental	0.34	
Commercial	Shenzhen	Rental	0.11	
Commercial	Shenzhen	Rental	0.88	
Hotel	Chengdu	Rental	0.14	
Commercial	Shenzhen	Design		
Commercial	Guangzhou	Under Construction	1.25	
Commercial	Shenzhen	Under Construction	4.47	
Plant	Shenzhen	Skyworth	6.90	
Plant	Shenzhen	Skyworth	0.60	
Plant	Shenzhen	Skyworth	3.39	
Plant	Guangzhou	Under Construction		
Plant	Guangzhou	Skyworth	0.64	
Plant	Nanjing	Skyworth	1.00	
Plant	Hohhot	Skyworth	0.20	
Plant	Yichun	Skyworth	0.20	
Plant	Suining	Skyworth	0.20	
Plant	Jakarta	Skyworth	0.16	
Logistic	Chengdu	Skyworth	0.20	
Total			31.46	

Source: Constructed by Author

Taking this into account and putting back into the equation, the ratio could increase to 1.75 in 2020, which is slightly better than TCL's 1.68 reported in 2020.

Current Liabilities to Net Asset Ratio:

Current Liabilities to Net Asset Ratio implies confidence of a firm's equity for payment of debt. It is one of the means to evaluate firm's solvency and should be kept as low as possible. The higher the ratio is more stringent pressure in future cash flows. Comparing with Hisense, Skyworth's ratio is significantly high and almost doubling Hisense's 3-year average. Nevertheless, it's still performing better than TCL and kept at a stable level for the past 3 years.

According to Skyworth Annual Report (2020), there was an adjustment had to be done and reclassified as additional current liabilities of RMB 932 million in 2020, due to the Hong Kong Financial Reporting Standards Amendments. Taking this into account, the ratio could have been 1.43 that is the same as 2019, where TCL Annual Report (2020) had no such amendment.

Current Liabilities to Inventory Ratio:

As part of the current assets, inventory is a good indicator to assess how much reliance a firm is to use its unsold inventories financing operations. Skyworth in this case was performing poorly in comparison with the industry norms, where both TCL and Hisense are significantly lower. While consider the above mentioned RMB 932 million adjustment, Skyworth's 2020 ratio still concludes at 4.52 that is considerably higher than TCL and industry average.

A higher ratio like this could indicate a firm's products are not in favor on the market, which has been confirmed by Skyworth (Skyworth Annual Report, 2020). It had a significant write-off on slow-moving products in 2020, which could have contributed to this high ratio.

Overall, as the youngest player among its industrial competitors, Skyworth is not in the best financial shape. Nevertheless, it's still very competitive against TCL, which provides a hope for its future growth.

2.3 Liquidity and Repayment Ability

In a recent corporate solvency study, Chen and Zhou (2019) concluded with some valuable points below on solvency ratios:

- Current Ratio: higher the current ratio, the solidier the ability of a firm to repay the current liabilities, with actually a greater protection of its current liabilities that are needed for business survival. On the other hand, an excessive current ratio is also not a good phenomenon, where too much money stuck in current assets and cannot be fully utilized for profitability.
- Quick Ratio: is a better vehicle to analyze short-term solvency over the Current Ratio, where inventory is discounted due to its inability to quickly liquidate. From past studies, the ideal Quick Ratio for home appliance industry is 0.9 or above.
- Cash Ratio: is a means to directly pay off debts, where a shortage could doom a firm. While sufficient cash on hand is good, too much stranded cash in Current Assets could mean an ineffective management of cash-based investment.

Table 2.3-1 Skyworth Liquidity Ratios

Company RMB in million (Year)		Skyworth 751				TCL 1070				Hisense*1 921				3 Companies
		2018	2019	2020	Average	2018	2019	2020	Average	2018	2019	2020	Average	Average
Liquidity & Debt Payment Ability	Current Ratio	1.44	1.28	1.41	1.38	1.31	1.31	1.22	1.28	1.06	1.18	2.32	1.52	1.39
	Quick Ratio	1.20	1.10	1.20	1.17	0.93	1.05	0.93	0.97	0.84	1.01	2.32	1.39	1.17
	Stock Credit Index	(0.87)	(0.50)	(0.92)	(0.76)	0.19	(0.20)	0.24	0.08	0.73	(0.05)	0.18	0.29	(0.13)
	Cash	0.37	0.23	0.35	0.32	0.37	0.39	0.31	0.36	0.27	0.29	0.27	0.28	0.32

Source: Constructed by Author

Current Ratio:

When current ratio is below 1 indicates that a company's debt due in a year or less is greatly impacted with a cash problem. Fortunately, all 3 makers are showing a great ratio in this category (Table 2.3-1) and Skyworth is aligned with industrial average and again above TCL. Skyworth Annual Report (2020) also indicated there were contract liabilities needed to pay up deposits and advance payments, which resulted in an influence on its cash on hand.

Quick Ratio:

Again, Skyworth's Quick Ratio is meeting its industrial average and over TCL. It demonstrates its solid liquidity in repayments of near-term debts.

Stock Credit Index:

A Stock Credit Index reflects a firm's inventory capability to handle short-term liabilities. A negative ratio here is indeed a good sign to reflect the positive current asset performance without a need of inventory to cover debts. Skyworth has been managed well in years, while Hisense and TCL are both still uncertain on that front.

Cash Ratio:

Investors prefer a high cash ratio, as it directs a firm's enablement to easily pay off its current debts. Skyworth's 0.35 ratio in 2020 is quite on par with the industry mean of 0.38 and competitors' general practice.

Skyworth's liquidity capability is in the middle among the other competitors. The financial management strategies in current assets, especially inventory and cash, worked well to achieve these competitive results.

2.4 Leverage and Debt Capacity

Abobakr and Elgiziry (2015) found that profitability doesn't hinder a firm from obtaining debt to fund its operations, providing it's being managed to the right ratio, where internally generated revenue and equity could also be at firm's disposal to utilize.

Here in Table 2.4-1, this study examines the key ratios of Skyworth's Leverage and Debt capacities.

Table 2.4-1 Skyworth Leverage and Debt Ratios

Company		Skyworth 751				TCL 1070				Hisense 921				3 Companies
RMB in million (Year)		2018	2019	2020	Average	2018	2019	2020	Average	2018	2019	2020	Average	Average
Leverage & Debt Ratios	Total Debt Ratio	0.62	0.62	0.65	0.63	0.65	0.64	0.68	0.66	0.64	0.63	0.14	0.47	0.59
	Leverage Debt/Equity Ratio	1.61	1.62	1.83	1.68	1.88	1.79	2.13	1.93	1.77	1.72	0.08	1.19	1.60
	Long Term Debt/Equity Ratio ¹	0.20	0.11	0.30	0.20	0.01	0.00	0.05	0.02	0.04	0.04	0.03	0.04	0.09
	Long Term Debt/Total Cap Ratio ¹	0.17	0.10	0.23	0.17	0.01	0.00	0.05	0.02	0.04	0.04	0.03	0.04	0.07
	Total Debt/Fixed Asset Ratio	0.68	0.49	1.14	0.77	0.07	0.15	0.59	0.27	0.13	0.05	0.06	0.08	0.37
	Equity Multiplier	2.61	2.62	2.83	2.68	2.88	2.79	3.13	2.93	2.77	2.72	2.90	2.80	2.81
	Time Interest Cover Ratio	3.39	4.21	5.95	4.52	11.32	17.23	8.02	12.19	40.09	257.84	30.05	109.32	42.01

Note 1: Interest bearing debts

Source: Constructed by Author

Total Debt Ratio:

In Figure 2.4-1 below, it plainly demonstrates Skyworth's debts and assets relationship. Although the financial figures are up to 2021, it was not so different from the 2020 annual report. What striking is Skyworth's short-term assets are exceeding both its current liabilities and long-term liabilities. And that was why the ratio demonstrated positively and aligned with competitors' average.

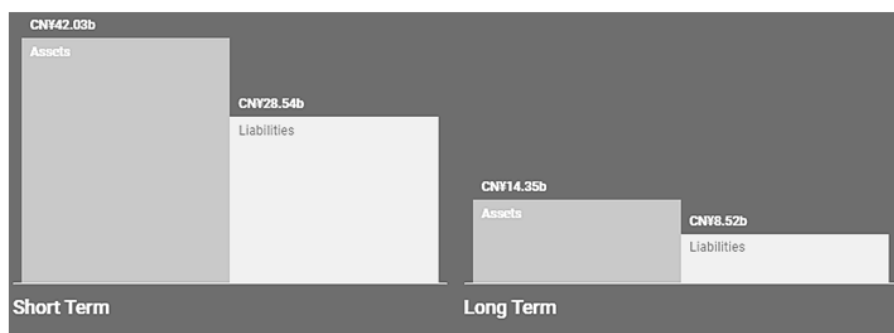


Figure 2.4-1 Skyworth Visual Assets View
Source: Simply Wall ST (2021a)

Debt to Equity Ratio:

All debt categories and equity are covered in this sub-section, including overall capital utilized ratios. Noticeably, Skyworth Annual Report (2020) has stated that several adjustments were being done due to the amendments from Hong Kong Financial Reporting Standards, which included RMB 77 million on bonds, RMB 913 million convertible instruments, and RMB 19 million convertible options being all reclassified as non-current liabilities. This could explain in a way why Skyworth's historical Total Debt to Equity ratio executed slightly better than TCL and even Hisense, but its non-current debts are mounting high in the industry lately. Even discounting the above adjustment, the 2020 long-term ratios are still holding at 0.25 and 0.19 respectively, which are not even close to the industry averages.

Total Debt to Fixed Asset Ratio:

As discussed in Financial Structures, the ongoing property related projects worth of RMB 5.72 billion could have an impact on fixed assets reporting, which could also explain a slightly improved ratio after putting this into play – 0.57 after adjustment. This would explain the sudden jump of ratio from 0.49 in 2019 to a surprising 1.14 in 2020, while the two competitors are reporting less than 1 in years. Nevertheless, improvements on debt should be better managed, as the average could be still at 0.58, which is obviously higher than the industry mean value.

Equity Multiplier:

The market is always looking for a low equity multiplier, since this implies a firm is using more equity and less debt to finance operations. In Figure 2.4-2, it shows a steep growth in equity while debt has been flat in years. This could be a good sign for investors to look at the future of Skyworth.



Figure 2.4-2 Skyworth Equity Growth vs Debt Growth
 Source: Simply Wall ST (2021a)

In terms of ratios, the EM value is aggressively managed by all 3 companies. And Skyworth is the best so far.

Time Interest Cover Ratios:

An interest coverage ratio should be at least over 1 to indicate its debt handling capabilities and cash flow health. While the other 2 contenders are performing extremely well on this, Skyworth is still showing a healthy coverage ratio consistently to manage the interest payment obligations.

In conclusion, although Skyworth's debt and leverage handling ratios are competitive among its contenders, further reduction of non-current debts to ease the trend is at paramount importance.

2.5 Operating Expenses

Table 2.5-1 and Figure 2.5-1 illustrate Skyworth's key operational expense ratios across past 3 years, along with competitors' figures in the same period.

Table 2.5-1 Skyworth Operating Expense Ratios

Company		Skyworth 751				TCL 1070				Hisense 921				3 Companies
RMB in million (Year)		2018	2019	2020	Average	2018	2019	2020	Average	2018	2019	2020	Average	Average
Operating Expenses	Operating Expense Ratio	1.02	1.00	1.01	1.01	0.99	0.99	1.00	0.99	1.00	0.98	0.94	0.97	0.99
	Staff Costs Ratio	0.09	0.12	0.11	0.10	0.06	0.07	0.08	0.07	0.01	0.02	0.01	0.01	0.06
	Depreciation & Amortization	676	870	917	821	192	274	434	300	2615	2617	2896	2709	1277
	Rental Expenses	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	R & D Ratio	0.05	0.05	0.05	0.05	0.02	0.02	0.03	0.02	0.02	0.02	0.03	0.02	0.03

Source: Constructed by Author

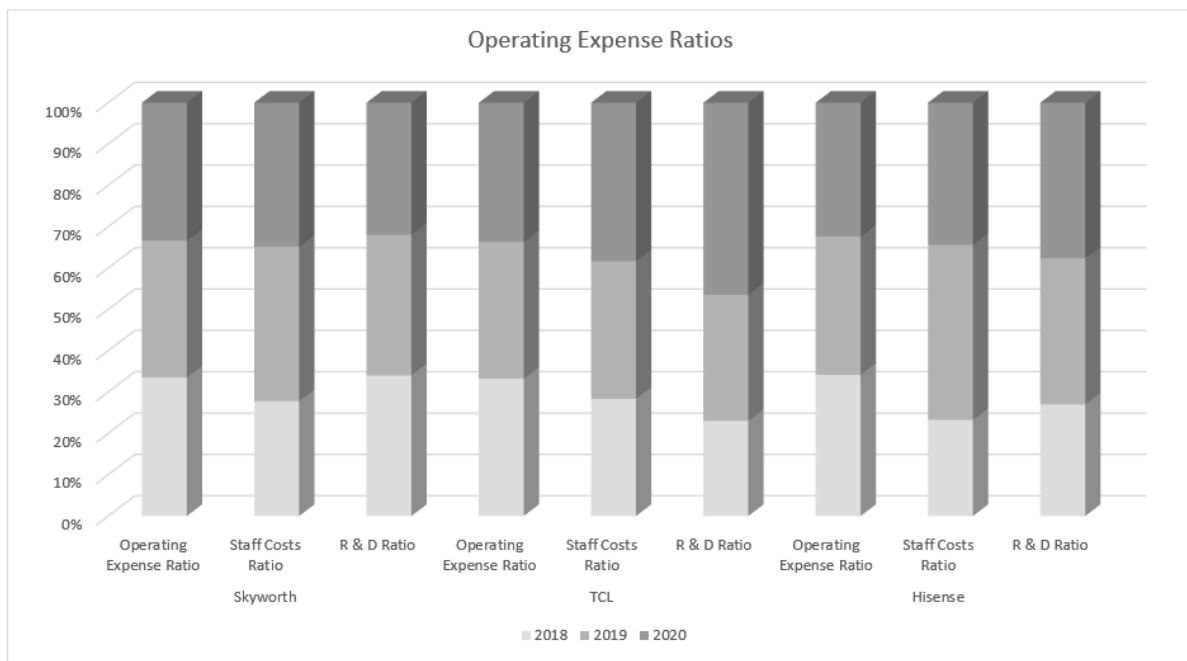


Figure 2.5-1 Skyworth Operating Expenses (2018-2020)
Source: Constructed by Author

Operating Expense Ratios:

Rea, Reid and Millar (1999) suggested that an efficient control of Operating Expense Ratios could contribute significantly an increase in asset growth. All 3 firms' Operating Expense Ratios are extremely similar, which construes a norm of the industry. Skyworth could have done better in this area, but a loss of RMB 42 million in a bad investment into a company where Skyworth had no control nor visibility of its business policies had aided an addition in expenses (Skyworth Annual Report, 2020).

Staff Costs Ratio:

A valuable visibility of labor cost ratio comparing to others in the same industry could mean a lot in managing competitiveness financially. According to Skyworth Annual Report (2020), TCL Annual Report (2020) and Simply Wall ST (2021b), 3 companies have 36,000, 34,155 and 39,500 employees respectively. Yet, Skyworth has the highest ratios, 67% above the average, across past 3 years in maintaining its workforce. A simple comparison between TCL and Skyworth's top management and directors' payout could produce a quick clue on this, where TCL spent only RMB 19.92 million on it versus Skyworth's RMB 90 million pay cheque.

R&D Ratio:

VanderPal (2015) precisely explained the correlation between R&D ratio and a firm's operational benefits.

- A positive contribution in future earnings
- Attracts investment thus higher market capitalization
- A strong determinant in productivity of the industry

- Lift operating performance

Skyworth's R&D Ratio has been constantly higher than its competitors and that could also explain the reasons why it has more consistent product strategies in the lead of heating 'Smart' and AIoT domains (Hong Kong Stock Research, 2021).

Commonly, there were pros and cons of each firm's performance, while Skyworth has a great challenge in labor cost management with a similar workforce to the others.

2.6 Operational Efficiency

Based on Table 2.6-1, this study will look at 3 companies' efficiency KPIs and assess where Skyworth stands in the industry.

Table 2.6-1 Skyworth Operating Efficiency Ratios

Company		Skyworth 751				TCL 1070				Hisense 921				3 Companies
RMB in million (Year)		2018	2019	2020	Average	2018	2019	2020	Average	2018	2019	2020	Average	Average
Efficiency Operating Ratio ¹	Total Assets Turnover Ratio	0.90	0.77	0.74	0.80	1.62	1.41	0.97	1.33	1.65	1.10	1.16	1.30	1.15
	Inventory Turnover Ratio	6.29	6.07	5.48	5.95	5.53	7.19	4.12	5.61	9.87	8.41	8.56	8.95	6.83
	Receivables Turnover	3.12	2.58	2.91	2.87	6.29	4.62	3.72	4.88	4.49	9.44	6.96	6.96	4.90
	Average Collection Period	117	141	126	128	58	79	98	78	81	39	52	57	88
	Days Sales in Inventory	58	60	67	62	66	51	89	69	37	43	43	41	57
	Payment Period	173	176	184	178	157	174	249	193	123	66	179	123	165

Note 1: Assume all sales and purchases are on credit

Source: Constructed by Author

Total Assets Turnover Ratio:

A company can perform better on this metric by decreasing assets to boost a better level of sales; thus profitability overall (Patin, Rahman and Mustafa, 2020). By looking at Skyworth's historical metrics, the asset utilization hasn't been fantastic in years, in comparison with TCL and Hisense who are all constantly above ratio of 1.

Inventory Turnover Ratio:

The Inventory Turnover Ratio is a clear indicator of how popular a maker's products are on the market. If lower, it's a sign that a firm's products aren't selling fast and overstocked. Too high, it could also show that the maker is understocked, and the operation or production is not efficient enough. Skyworth's average ratio shows again just in-between the competitors but a drop of 9.58% from 2019, while Hisense has shown a much promising turnover rate that is also illustrated in Figure 2.6-1 visually.

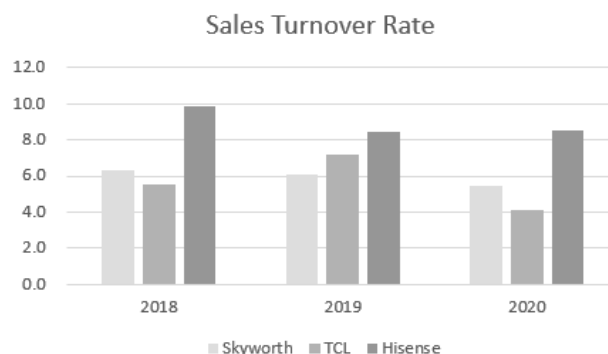


Figure 2.6-1 Skyworth Sales Turnover (2018-2020)

Source: Constructed by Author

Receivables Turnover:

Receivable ratio is a more analytical value when compares with the industry average. It provides a sign how cash flow could be impacted by settlement. Skyworth's ratio has been consistent and much lower than the others, which means a direct hit of the cash operation. Its Annual Report (2020) has stated 'credit risk by geographical locations is mainly in PRC, which accounted for 76% (2019: 79%), 100% (2019: 100%) and 100% (2019: 100%) of the total trade and bills receivables, loan receivables and finance lease receivables respectively at the end of the reporting period.'

Average Collection Period:

This inevitably reflects in the Average Collection Period where Skyworth has the highest average of 128 days in comparison to TCL's average of 78 and Hisense's 88 average days.

Days' Sales in Inventory:

This ratio reveals the average time a company takes to turn its inventory into sales. Obviously, Skyworth is high on this again with relevance to the above ratios, but still winning TCL by 7 days on average.

Payment Period:

The ratio can provide insight into a firm's cash flow and creditworthiness, where 3 makers are all over 100 days in general and can leverage for own cash management.

Cash Cycle:

A short conclusion from Figure 2.6-2 to provide a graphic view of all periods discussions above. Skyworth's cash management overall has been more normal than the others, where constant negative cash cycle could also expose issues to impact confidence from suppliers and customers.

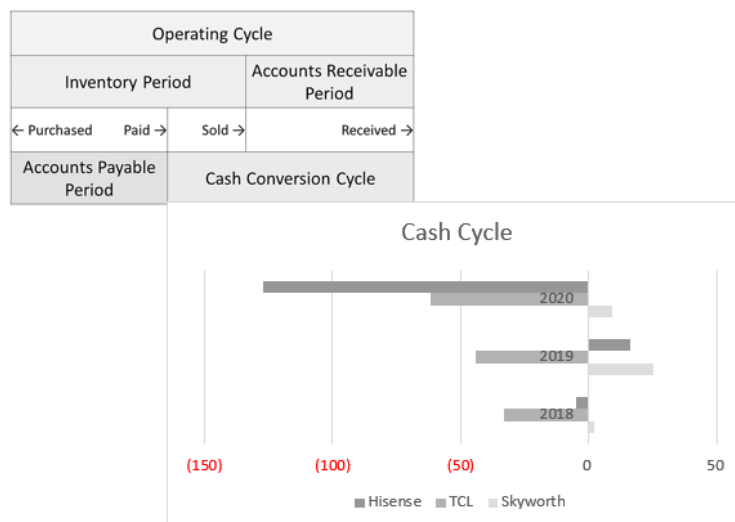


Figure 2.6-2 Skyworth Cash Cycle
Source: Constructed by Author

From operational point of view, Skyworth could really improve on asset efficiency, product attractiveness to improve inventory cycles, and a better risk management in receivables especially in China.

2.7 Stock and Market Values

Table 2.7-1 provides details of Skyworth's worthiness on the stock market.

Table 2.7-1 Skyworth Market & Stock Ratios

Company		Skyworth 751				TCL 1070				Hisense* 1921				3 Companies
RMB in million (Year)		2018	2019	2020	Average	2018	2019	2020	Average	2018	2019	2020	Average	Average
Market Value Ratio	Book Value Per Share Ratio	5.40	5.93	7.12	6.15	3.68	4.52	5.75	4.65	5.78	9.15	10.56	8.50	6.43
	Price to Book Value	0.27	0.34	0.26	0.29	0.63	0.68	0.84	0.72	0.77	0.76	0.92	0.82	0.61
	Dividend Yield Ratio	4.8%	2.4%	0.0%	2.4%	3.1%	2.8%	1.7%	2.5%	5.2%	4.5%	2.5%	4.1%	3.0%
	Earnings Per Share Ratio	0.11	0.24	0.24	0.20	0.43	1.00	1.54	0.99	1.01	1.32	1.16	1.16	0.78
	Market Capitalization	4412	6157	4897	5156	5428	7215	11799	8147	7947	13734	17144	12942	8748
Price-Earnings Ratio		13.05	8.24	7.63	9.64	5.81	3.10	3.24	4.05	4.44	5.30	8.36	6.03	6.57

Note 1: Hisense files as a combined financial statement that includes A+H shares

Source: Constructed by Author

By analyzing the Book and Price metrics, it shows evidently an undervalued stock that has much potential to grow once all the financial aspects are being well managed. To be more attractive, it needs also to maintain an attractive dividend scheme, which had been disappointing lately with no payout in 2020, although its Earnings per Share has been stable and increased by 118% since 2018. The ratios are of course still more challenging than TCL and Hisense. This could explain why its stock performance in the recent years has been disappointing in Figure 2.7-1.

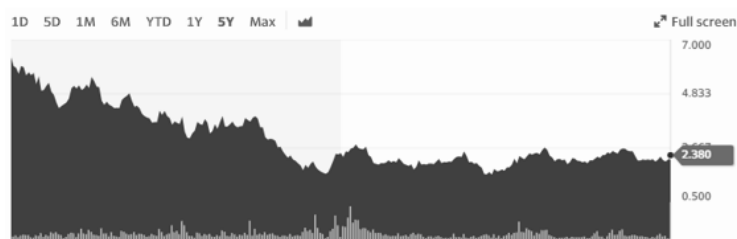


Figure 2.7-1 Skyworth Stock Performance (5 Years)

Source: Yahoo Finance (2021)

2.8 Profitability

Gross Profit related Ratios:

Looking at the gross margins across the industry in Table 2.8-1, everyone had been hit by events related to COVID-19 and an increase of raw material costs caused by it. Skyworth Annual Report (2020) also confirmed a 2.2% gross margin drop from 2019.

Table 2.8-1 Skyworth Profitability Ratios

Company		Skyworth 751				TCL 1070				Hisense 921				3 Companies
RMB in million (Year)		2018	2019	2020	Average	2018	2019	2020	Average	2018	2019	2020	Average	Average
Profitability	EBITDA Margin	4.56%	7.90%	8.92%	7.13%	3.24%	6.32%	5.57%	5.04%	11.55%	11.12%	9.18%	10.62%	7.60%
	Gross Profit Margin	15.64%	19.09%	16.97%	17.23%	15.25%	17.39%	18.96%	17.20%	19.01%	21.43%	24.05%	21.50%	18.64%
	Net Profit	499	1031	1835	1122	821	2079	3070	1990	1423	1950	2846	2073	1728
	Net Profit Margin	1.29%	2.80%	4.63%	2.90%	2.05%	4.95%	7.15%	4.72%	3.95%	5.21%	5.88%	5.01%	4.21%
	Sales Growth Rate	-16.14%	-5.14%	7.76%	-4.51%	-1.92%	4.92%	2.13%	1.71%	7.56%	3.98%	29.21%	13.58%	3.60%
	Net Profit Growth ¹	-2.62%	96.20%	77.98%	57.19%	17.32%	125.42%	56.53%	66.42%	-31.32%	37.03%	45.95%	17.22%	46.94%
	Retained Yield (Times)	29.3	15.2	8.7	17.7	8.0	4.0	3.8	5.2	4.6	5.7	4.6	5.0	9.3
	Self-Sustainable Growth Ratio	88.33%	82.59%	88.39%	86.44%	76.12%	77.21%	81.93%	78.42%	82.74%	89.08%	90.54%	87.45%	84.10%

Note 1: 2017 Annual Report was in HKD so the exchange rate conversion was taken into account

Source: Constructed by Author

Net Profit related Ratios:

Skyworth's Net Profit metrics had an impressive recovery, which was coherent to its cost management. In years, its annual reports have been emphasizing the focus to control and reduce operational costs. Here are the achievements in Figure 2.8-1.

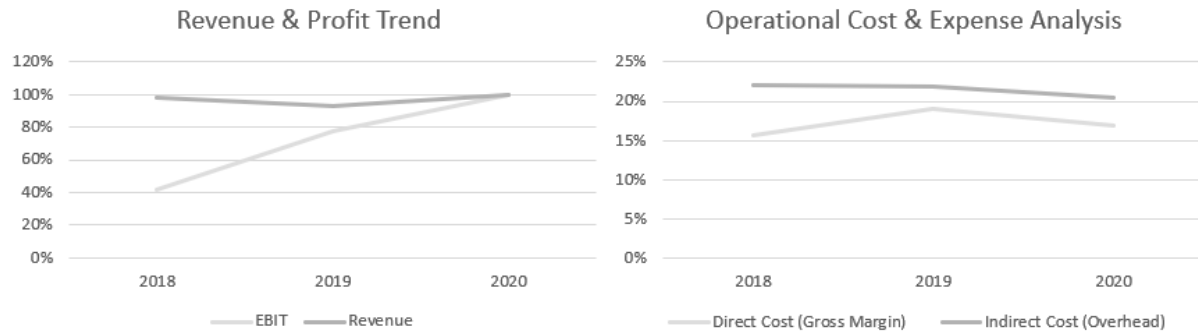


Figure 2.8-1 Skyworth Profit Analysis
Source: Constructed by Author

Growth Capacity Ratios:

Skyworth Annual Report (2020) has disclosed a significant overall revenue increase overseas of 37.6% equivalent to RMB 4,239 million, a 14.3% increase worth of RMB 3,066 million in Multimedia Business; and Modern Services Business also weights a domestic jump of 7.2% worth of RMB 131 million and internationally 2,259% increase of RMB 22 million. These all helped to contribute to its sales growth recovery in Figure 2.8-2. Nevertheless, as its revenue growth and expense reduction slopes shown in Figure 2.8-1 are extremely leveled, the not-so significant surge in sales couldn't serve much in the growth ratios.

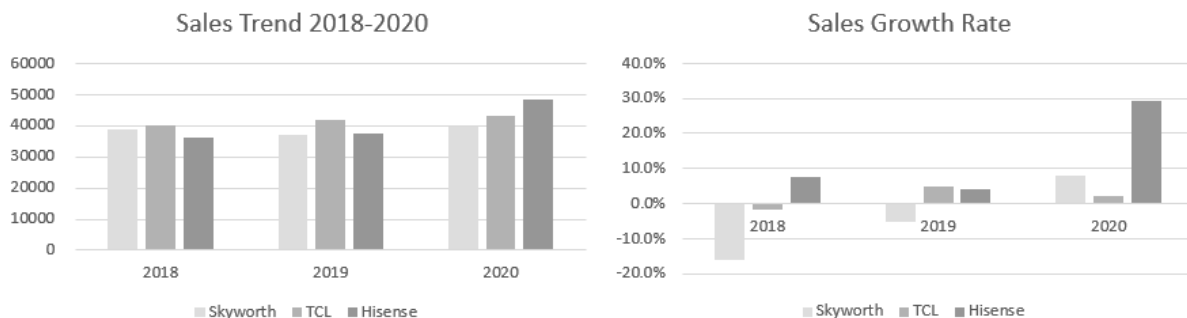


Figure 2.8-2 Skyworth Sales Trending
Source: Constructed by Author

Amazingly, 3 makers had adopted a very similar Self-Sustainable Growth strategy with a similar over 80% ratio year on year. The Retained Yield has dropped notably but this was due to its recent accomplishment in net income, which diluted this ratio from 29.3 3 years ago to 8.7, still higher than its competitors, a more relaxed stress on per dollar net income constraint. However, in order to attract investors and put a more positive image on the market, a proper dividend payout should be continued rather than skipping in 2020.

In general, Skyworth is on a the right track to improve its sales and net profit. Still, its expense and cost control tactics should be strengthened to aid its growth strategy; and the right dividend scheme could also help to boost its stock price on the market.

2.9 DuPont Identity

DuPont Identity provides analysts a quick way to look at the correlations among profit margins, assets, and debt utilization of a firm. Mutua (2019) concludes from his research that corporate finance should focus on the management of operational costs and asset utilization efficiency where return on equity is also impacted.

In Skyworth's case, its Equity Multiplier has adopted a close approach as the others with such intimate ratios in years. The difference how it stands out among the others in such low ROE and ROA ratios is exactly how poorly Skyworth has been managing its operational costs and asset turnovers. The asset utilization has been systematically below 1 and a 29.9% discount from the industry average, while profit margin is also 31% lower than the competitors' average. All these contributed drastically and disappointingly into DuPont KPIs.

Table 2.9-1 DuPont Identity Analysis

Company		Skyworth 751				TCL 1070				Hisense 921				3 Companies
RMB in million		2018	2019	2020	Average	2018	2019	2020	Average	2018	2019	2020	Average	Average
DuPont Identity	ROE	3.02%	5.68%	9.66%	6.12%	9.56%	19.48%	21.78%	16.94%	18.04%	15.62%	19.75%	17.81%	13.62%
	ROA	1.16%	2.17%	3.42%	2.25%	3.31%	6.98%	6.97%	5.75%	6.52%	5.74%	6.81%	6.35%	4.79%
	EMI	2.61	2.62	2.83	2.68	2.88	2.79	3.13	2.93	2.77	2.72	2.90	2.80	2.81
	Profit Margin	1.29%	2.80%	4.63%	2.90%	2.05%	4.95%	7.15%	4.72%	3.95%	5.21%	5.88%	5.01%	4.21%
	Total Asset Turnover	0.90	0.77	0.74	0.80	1.62	1.41	0.97	1.33	1.65	1.10	1.16	1.30	1.15
ROE		3.02%	5.68%	9.66%	6.12%	9.56%	19.48%	21.78%	16.94%	18.04%	15.62%	19.75%	17.81%	13.62%

Source: Constructed by Author

3. Governance, Risk Management and Internal Control

Van Hoang et al. (2021) identified a well-defined corporate governance and internal control approach, with transparency and an emphasis on gender diversity, could dramatically provide added-value into top-executives management processes.

Skyworth has suffered a major media disaster in 2021 when a smart TV consumer found unauthorized private data scanning and collections over entire home network, while Skyworth management was fully aware of this but reactively responded to the public (Impelli, 2021): a classic governance lesson-learned example for this research.

Hong Kong Institute of Certified Public Accountants (2005) had provided a constructive framework of corporate governance, covering internal control and risk management. This study takes it as a reference, with its recent incident, to evaluate Skyworth's current practice and to provide recommendations in Table 3-1.

Table 3-1 Skyworth's Governance, Risk Management & Internal Control

Applicable		Items		Today	Tomorrow	Reference	Improvement Timeline
Board	Standards of Behavior	Directors Chairman CEO Management	Ethical Conduct	There are areas mentioning about code of conducts, but nothing about ethical conducts	As part of Ethical conducts, personal integrity, honesty and transparency were not clearly mentioned by Skyworth	Skyworth Annual Report (2020) Hong Kong Institute of Certified Public Accountants (2005)	Q1
	Organizational Structure and Process	Directors	Board Members	- Nine members: 6 executive directors and 3 independent non-executive directors - Eight male directors and One female director	Diversity is not just a word for industry or experience, also carries the meaning of gender equality - an international trend		
			Roles and Responsibilities	- Each director has no clearly assigned tasks - Resolution protocols to address conflict of interests were not mentioned	- Each board member should have assigned tasks with clear reporting responsibilities - Having the right protocols to address conflict of interests is upmost important in governance		
			Meeting Schedules	- The Skyworth board held a total of 6 meetings during the reporting year: 4 meetings were held mainly for approving financial results and 2 held for internal control and governance, but without a clear timeline being mentioned - Notification of meetings were only 3 days before	- Board meetings should be held in quarterly intervals 14 days in advance notification should be given to the members		
			Meeting Attendance	Poor attendance of the board members	Members of the board should attend board meetings with punctuality to demonstrate its commitment to the business and to provide his/her valuable inputs to the ongoing strategies		
			Training	Not every director had appropriate governance trainings	- Each board member must vigorously go through governance and risk trainings - Furthermore, these trainings should be recurrent to provide valuable updates		
		Chairman	Roles and Responsibilities	Additional valuable R&R could be added in the future	- Provide clear guidance and governance of the board, ensuring code of conduct is fully exercised by each member - Proactively lead non-executive members, ensuring independent supervision of corporate governance is provided		
	CEO	Roles and Responsibilities	Is not clearly defined	More stringent R&R in the governance arena should be highlighted			
	Management	Reporting	Provide only occasional reports	management should constantly communicate with board on mission critical decisions before entering any commitments			
	Risk Management and Internal Control	Credit Rating		Fitch has given Skyworth a AA+ credit rating of bond issuer	Skyworth was only a few in the AA+ category, while the most bond issuers are in the AAA category		
Internal Audit Areas		- Risk assessment and control on capital and governance policies are missing - Being a transformational company into IT domains, risk management in systems and information technologies were missing - Request to audit key business partner is not an agenda	- Investment especially related to capital is important for a company's survival, which could doom a company if not being careful - Governance policies should be evaluated constantly to observe in compliance - Being a future technology company, system security should be in the heart of internal security audit - Auditability of key business partners should be explored to avoid similar data collection incident in 2021				
Audit Committee		Internal audit committee doesn't show enough independence and a whistleblowing system	The audit committee should establish a whistleblowing protocol to guard any improprieties within the organization				
Execution		- Talk the talk only - Unauthorized customer data scan incident in 2021	Skyworth should show commitment into walk the walk of all governance related approaches				
Accountability, Reporting and Disclosure	Internal and Financial Reporting		- Correlation between financial reporting and business objectives not emphasized - Financial reporting of the subsidiaries not emphasized	- Financial reporting should meet corporate and business objectives - Reporting compliance should dive into the subsidiaries level		Q4	
	External Audit Reporting		- Externa audit reports similar in years - Poor investment with significant loss was never mentioned	Announce and publish quarterly financial results within 45 days after the end of the relevant quarter			
	Communication to shareholders and Public		Skyworth has shown its reactiveness in public disclosure of important events such as unauthorized data collection incident in 2021	- True openness to the public and market is the key for a publicly traded company - Information should be always proactively communicated rather than a slow selectiveness			

Source: Constructed by Author

4. Investment Project Proposal

iQIYI, a subsidiary of Baidu, has long been eyeing opportunities and partnership with Coocaa - Skyworth's multimedia arm. A very logical business decision, by partnership, iQIYI could have Coocaa's established OTT accesses from Skyworth's Smart TVs, where a Netflix type of business could be directly delivered to increased subscribers. Coocaa itself has also had this in mind to spinoff and IPO this new business. Figure 4-1 illustrates a projected over 30% growth of OTT business in China until 2023.

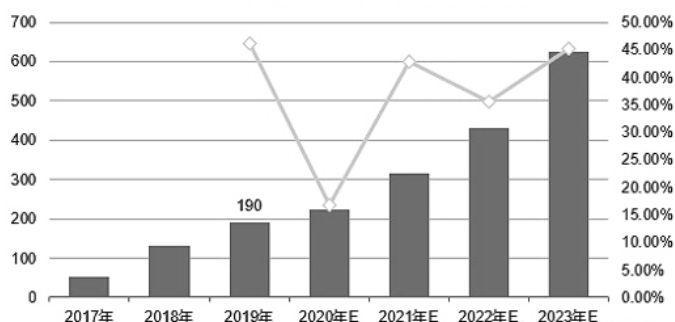


Figure 4-1 Projected OTT Business Growth in China (2017-2023)
Source: Shen and Shi (2021)

The study will assess the business model and its financial viability, advising a sustainable approach for Skyworth.

4.1 Assumptions

Tables 4.1-1, 4.1-2 and 4.1-3 sets the background of investment assumptions.

Table 4.1-1 Netflix Key Financial Ratios

Company	Netflix NFLX ^{1, *2}						Remarks
USD in million (Year)	2016	2017	2018	2019	2020	Average	
Revenue	8830.67	11692.71	15794.34	20156.45	24996.06	16294.05	
Sales Growth	0.00	32.41%	35.08%	27.62%	24.01%	23.82%	Close to Coocaa revenue growth in 2020 and market OTT growth projection of 30% in China
Operating Costs & Expenses	2193.41	2821.04	4221.58	5111.98	5134.45	3896.49	
EBITDA	468.15	795.436	1730.11	2791.833	4082.558	1973.62	
EBITDA Ratio	5.30%	6.80%	10.95%	13.85%	16.33%	10.65%	
Depreciation & Amortization	185.35	223.85	224.30	243.57	283.01	232.01	IT Assets
	70.15	59.32	53.42	46.42	36.63	53.19	Equipment
Net Profit/Loss	186.68	558.93	1211.24	1866.92	2761.40	1317.03	
Net Profit/Loss Ratio	2.11%	4.78%	7.67%	9.26%	11.05%	6.97%	

Note 1: IPO in 2002 with 796K subscribers

Note 2: Cost of Operations as of 86.1 million members on December 31, 2018

Source: Constructed by Author

Table 4.1-2 Netflix Memberships & Per Capital Operation Cost

Company	Netflix NFLX						Remarks
Members in million (Year)	2016	2017	2018	2019	2020	Average	
Subscribing Members	89.09	110.64	139.25	167.09	203.66	141.95	
Membership Growth		24%	26%	20%	22%	23%	Also close to the 30% OTT growth projection and matching Coocaa's revenue growth
Operating Costs & Expenses	24.62	25.50	30.32	30.59	25.21	27.45	Per Member
Membership Fees	USD 108						

Source: Constructed by Author

Table 4.1-3 Coocaa Memberships & Sales Growth Ratio

Company	Coocaa/Skyworth					Remarks
Members in million (Year)	2016	2017	2018	2019	2020	
Subscribing Members					65	Relatively close to Netflix subscribers 5 years ago
RMB in million (Year)	2016	2017	2018	2019	2020	
Coocaa Revenue				826	1056	
Coocaa Revenue Growth					27.85%	Close to market project of 30% OTT growth rate

Source: Constructed by Author

Table 4.1-4 summarizes all the assumptions to simulate the financial calculations.

Table 4.1-4 New Project Simulation and Investment Assumptions

Assumptions:	Reference
1. As iQIYI has been interested in coocaa services and invested in it, its membership fee of CNY318 could be used as a ref for coocaa IPO'd service's yearly member fees, which counts for sales calculation	iQIYI (2021)
2. Today, cooca has 65 million registered users, which is relatively close to the 89 million users 5 years ago from Netflix. And, as this simulation intended to take only 3% of Skyworth's assets, so the total investment amount is top at USD 252.92 million	Dean (2021) Skyworth Annual Report (2020)
3. Use operational costs from Netflix as a reference to calculate the possible similar OTT service ran by coocaa, yearly user numbers are used as a base to calculate per user based running cost at an average of USD 27.45	See Table 4.1-2
4. Based on the USD 252.92 million investment limit the project has and the per cap cost of 27.45, the projected initial user base is set to 9 million	See Assumption 10
5. Both Netflix and Skyworth uses a straight-line approach for DA, and most of the time information technology related assets are treated for depreciation in 3-5 years. To be socially responsible and green, the project takes 5 years as a base to depreciate	Netflix Annual Report (2020) Skyworth Annual Report (2020) See Appendix C
6. The IT and equipment investment and yearly spending including replenishment to grow were relatively close in range of the averages, so the study takes the total of USD200 million and USD50 million as the baseline to Depreciation and Amortization	See Table 4.1-1
7. As the business grows, DA would be proportionally increase by the same percentage of sales after 5 years, if applicable	
8. OTT service growth in China is at 30%, where coocaa 2020 vs 2019 sales growth was at 27.8%, plus similar growth ratio from Netflix. This is close enough to use 30% for the 1st 5 years and may project a slowdown to 25% growth after 5 years.	Shen and Shi (2021)
9. EBITDA will take the average at 11%	See Table 4.1-1
10. With the limitation on project capital of 3% from 2020 total assets, the user base and additional asset investment to simulate the project will take only 50% from all above assumptions, including users and asset investment to fund the project	4.5 million members USD 125 IT & Equipment
11. USD/RMB FX rate on 4 August 2021	See Appendix C
12. Tax ratio at standard 25%	PWC China (2021)

Source: Constructed by Author

4.2 Financial Simulation

From the assumptions, a series of fundamental project financial simulations have been carried out below in Tables 4.2-1, 4.2-2, 4.2-3 and 4.2-4.

Table 4.2-1 Coocaa Investment Project Simulation Financial Basics

Project Initial Cost		Remarks
RMB in million		
Operational Investment	787	
IT & Equipment	796	
Total Cost	1,583	
Basic Assumption Ratios		
Depreciation Years	5	
Sales Growth Rate 1	30%	1st 5Y
Sales Growth Rate 2	25%	2nd 5Y
EBITDA	11%	
Cash Cycle (days)	12	

Source: Constructed by Author

Table 4.2-2 Coocaa Investment Project 1st Year Revenue Calculation

1st Year Revenue Calculation		Remarks
Members (in million)	4.5	
Membership Fees (Yearly in RMB)	318	
Total	1,431	

Source: Constructed by Author

Table 4.2-3 Coocaa New Investment Project Financial Simulation in Profits

Profit Calculation					
RMB in million	Y1	Y2	Y3	Y4	Y5
Sales	1,431.0	1,860.3	2,418.4	3,143.9	4,087.1
EBITDA	543.8	706.9	919.0	1,194.7	1,553.1
Depreciation (Operational Investment + IT Asset Investment)	(316.5)	(316.5)	(316.5)	(316.5)	(316.5)
EBIT	227.3	390.4	602.5	878.2	1,236.6
Tax	(56.8)	(97.6)	(150.6)	(219.5)	(309.1)
Profit	170.5	292.8	451.9	658.6	927.4

Source: Constructed by Author

Table 4.2-4 Coocaa New Investment Project Financial Simulation in Cash Flows

Cash Flow Calculation					
RMB in million	Y1	Y2	Y3	Y4	Y5
EBITDA	543.8	706.9	919.0	1,194.7	1,553.1
Cash Period* ¹	(47.0)	(61.2)	(79.5)	(103.4)	(134.4)
Operational Investment Expenditure in 5Y* ²	(157.3)	(157.3)	(157.3)	(157.3)	(157.3)
Tax	(56.8)	(97.6)	(150.6)	(219.5)	(309.1)
Cash Flow	282.6	390.8	531.5	714.5	952.3

Note 1: 12 days cash cycle. Assume cash period will grow the same rate as sales growth.

Note 2: Assume 5 years to pay off the initial operational investment

Source: Constructed by Author

4.3 Investment Appraisal Techniques

While ARR and PBP might provide a quick and easy reference of capital budgeting, Apap and Masson (2004) found NPV and IRR techniques were more reliable with long term projectory and time bond. The study finds the similar conclusion throughout the calculations below in Tables 4.3-1, 4.3-2, 4.3-3, 4.3-4, 4.3-5 and 4.3-6.

Table 4.3-1 Coocaa Investment Project Capital Budgeting Simulation (ARR)

ARR	
RMB in million	
Total Profit for 5Y	2,501.0
Average Profit	500.2
Initial Cost	1,582.5
ARR	31.6%

Source: Constructed by Author

Table 4.3-2 Coocaa Investment Project Capital Budgeting Simulation (PBP)

PBP	
RMB in million	
Y1-4 Profit	1,801.0
Initial Cost	1,582.5
Payback Period	3 Years 6 Months

Source: Constructed by Author

Table 4.3-3 Coocaa Investment Project Capital Budgeting NPV Rate & Formula

R= Average ROA	2.3%	Tab 2.9-1 ROA average
t= Year	cash flow at t th year	PV=FV/(1+r) ^t

Source: Constructed by Author

Table 4.3-4 Coocaa Investment Project Capital Budgeting Simulation (NPV)

NPV	
RMB in million	Cash Flow
Initial Cost	(1,582.5)
Y1	282.6
Y2	390.8
Y3	531.5
Y4	714.5
Y5	952.3
NPV = 5Y Total Cash Flow - Initial Cost	1070.5

Source: Constructed by Author

Table 4.3-5 Coocaa Investment Project Capital Budgeting Simulation (IRR)

IRR	
RMB in million	Cash Flow
Initial Cost	(1,582.5)
Y1	531.5
Y2	0.0
Y3	0.0
Y4	0.0
Y5	0.0
IRR	19%

Source: Constructed by Author

Table 4.3-6 Coocaa Investment Project Capital Budgeting Simulation (PI)

PI	
RMB in million	PV
Initial Cost	1,582.5
Y1	276
Y2	374
Y3	497
Y4	654
Y5	852
PI = 5Y Total PV/Initial Cost	1.7

Source: Constructed by Author

4.4 Project Verdict

Coocaa's IPO planning may still take time. The immediate benefits are obvious via the capital simulation above. Both IRR and NPV for 5 years have produced a promising verdict to take on the project, whilst ARR and PBP have also surely yielded a timely return of the investment in a near term.

Skyworth could launch the investment project promptly to benefit from proximate revenues, which would definitely help its financial positions and profitability.

5. Financing

With the new project opportunity on the horizon, a total of RMB 1,583 million (3% of 2020 total assets) is required to fund the business incubation, where almost a 50/50 split on equipment and initial operational investments. Section below will explore the available financing options for Skyworth.

5.1 Financing Options

Table 5.1-1 highlights financing related KPIs could be explored in options discussion.

Table 5.1-1 Skyworth Financing Study

Company	Skyworth 751			TCL 1070	Hisense 921
RMB in million (Year)	2018	2019	2020	2020	
Cash & Equivalents	8,142	6,102	9,841	8914	780
Bank Loans	3301	1966	5773	722	484
Cash Ratio	0.37	0.23	0.35	0.31	0.27
Retained Yield	29.3	15.2	8.7	3.8	4.6
Net Debt Ratio * ¹	-29.3%	-22.8%	-21.4%	-49.0%	-2.1%
Net Interest Expense * ²	151	417	410	205	110
Net Interest Expense Turnover * ³	0.4%	1.1%	1.0%	0.5%	0.2%

Note 1: Net Debt Ratio = (Bank Loans - Cash) / Equity

Note 2: Net Interest Expense = Interest Payments - Interest Income

Note 3: Net Interest Expense Turnover = Net Interest Expense / Sales

Source: Constructed by Author

- **Cash Injection:** Skyworth does have enough cash to directly inject into the project. RMB 9,841 million cash on hand and a negative 21.4% Net Debt Ratio could strongly support this approach. Even after investing into the project, its cash equivalent or Cash Ratio is still close to TCL's, without a major impact to its cash flow related financial requirements.
- **Bank Loans:** Skyworth Annual Report (2020) stated its enjoyment of LIBOR rates provided by banks currently on all its existing loan facilities. Examining its current loan ratios and interest expenses, which is the highest among the competitors and more than 50% over the second highest borrower TCL, this could further deteriorate other debt related KPIs.
- **Commercial Bond:** Fitch has awarded Skyworth an AA+ credit rating in bond issuance. Although this could be an option, the facility is costlier with longer term of repayments. As mentioned in loans discussion, interest bearing financial vehicles might not be the best option today for Skyworth.
- **Selling Assets:** Skyworth has the lowest average ratio in Fixed Assets to Long Term Liabilities Ratio on record – 81% lower than the industry average. Any selling of assets could further drag down its financial performance and operations.
- **Public Shares:** As mentioned under project proposal, the spinoff of Coocaa to IPO has always been on Skyworth's agenda. This could be an option to raise funds for a larger investment and operation, but not a good strategy for just RMB 1,583 million. Considerations should also be put on its dividend strategy for the spinoff, where Skyworth hasn't been doing well in 2020 and could also backfire its own stock price.

5.2 Funding Approach Proposed

From the above deliberations, Skyworth should not engage any further borrowings at this moment. A direct cash injection could solve the issue and bring immediate benefits to the company, before any IPO engagement.

Table 5.2-1 demonstrates the effect after taking this proposed approach positively.

Table 5.2-1 Skyworth Proposed Funding Option Effect

Financial Simulation	Industry Average	2020	2021	Assessment
Fixed Asset to Long Term Liabilities Ratio	7.86	0.88	No Change	Good
Long Term Debt to Equity Ratio	1.6	1.83	No Change	Good
Interest Expense to Sales Ratio	0.6%	1.0%	No Change	Good
Cash & Equivalents	6,512	9,841	8,258	Good
Cash Ratio	0.32	0.35	0.29	OK

Source: Constructed by Author

6. Findings and Recommendations

Through careful studies of Skyworth's background, financial ratios, and governance conditions, this research can confidently provide a series of improvement recommendations below.

6.1 Governance and Internal Control

Without serious and careful top-down governance models in place, no corporate can succeed in a turbulent business environment, letting alone an epic disaster. The formulated improvement plan in Chapter 3 should suite Skyworth well in conjunction with the financial improvement discussions below.

6.2 Financial Improvements

Table 6.2-1 listed out key areas of financial improvements that Skyworth could adopt.

Table 6.2-1 Proposed Skyworth Financial Improvements

Company		Skyworth 751				TCL 1070				Hisense 921				3 Companies
RMB in million (Year)		2018	2019	2020	Average	2018	2019	2020	Average	2018	2019	2020	Average	Average
Profitability & Efficiency	ROCE	5.5%	10.1%	10.6%	8.7%	9.2%	24.3%	11.1%	14.9%	18.8%	15.9%	22.2%	19.0%	14.2%
	Asset Utilization	1.95	1.83	1.60	1.80	3.33	4.29	2.44	3.35	4.38	2.89	3.25	3.51	2.88
	Working Capital	9731	7388	11517	9545	4956	5802	6426	5728	790	3682	3512	2661	5978
	Total Assets Turnover Ratio	0.90	0.77	0.74	0.80	1.62	1.41	0.97	1.33	1.65	1.10	1.16	1.30	1.15
	Inventory Turnover Ratio	6.29	6.07	5.48	5.95	5.53	7.19	4.12	5.61	9.87	8.41	8.56	8.95	6.83
	Operating Profit Margin	2.8%	5.5%	6.6%	5.0%	2.8%	5.7%	4.6%	4.3%	4.3%	5.5%	6.8%	5.5%	5.0%
	Direct Cost (Gross Margin)	15.6%	19.1%	17.0%	17.2%	15.3%	17.4%	19.0%	17.2%	19.0%	21.4%	24.0%	21.5%	18.6%
	Indirect Cost (Overhead)	6.4%	2.8%	3.6%	4.2%	2.9%	3.2%	4.5%	3.5%	3.1%	3.9%	3.9%	3.6%	3.6%
	Debtor Collection Period	117	141	126	128	58	79	98	78	81	39	52	57	88
Gearing (Leverage)	3rd Party to Total Cap	16.6%	9.8%	23.3%	16.6%	0.7%	0.2%	4.9%	1.9%	4.0%	3.7%	3.3%	3.6%	7.4%
	3rd Party to Owner	20.0%	10.8%	30.4%	20.4%	0.7%	0.2%	5.1%	2.0%	4.2%	3.8%	3.4%	3.8%	8.7%
Stock Market	Price to Book Value	0.27	0.34	0.26	0.29	0.63	0.68	0.84	0.72	0.77	0.76	0.92	0.82	0.61
	Dividend Yield Ratio	4.8%	2.4%	0.0%	2.4%	3.1%	2.8%	1.7%	2.5%	5.2%	4.5%	2.5%	4.1%	3.0%

Source: Constructed by Author

- Throughout the sections, this study finds evidently that Skyworth has been inadequately utilizing its assets, especially current assets, to deliver the best value. An aggressive asset reduction or utilization program should be quickly adapted to further operation efficiency.
- Better and attractive products should be developed to enhance its sales and consequently its inventory turnovers to pace with competitors.
- Operating profit has been improving in years but still not able to surpass its competitors. Enhanced measures in both direct (cost of sales especially in raw materials) and indirect cost (staff costs and senior management remunerations) controls are imminent and needing to take place straightaway.
- Long term debts are not well managed and over 120% mark of the industry average. This could impact Skyworth's future capital financing needs and a burden in interest payments.
- Even though Skyworth's stock is undervalued, the mediocre dividend payout could fatally jeopardize not just its own stock trending but also Coocaa's IPO spinoff.
- Much more serious risk management approach should be taken on receivables in China to avoid possible cash constrains, maintaining healthy flows.

6.3 New Project Opportunity

Coocaa's IPO strategy should be in the heart of Skyworth's long-term strategy, where financial simulation in Chapter 4 has proven its utter successfulness. In the short term, a quick initiative in Netflix alike business

would benefit Skyworth in just 4 years. Long term, IPO is worthwhile with a promising 30% yearly revenue growth.

6.4 Priorities and Timeline

Table 6.4-1 proposes an ideal timeline in quarters that Skyworth could embrace to start improvement engagements.

Table 6.4-1 Proposed Skyworth Improvements Timelines

Improvement Agenda	Timeline			
	Q1	Q2	Q3	Q4
Governance: Organizational Structure and Process				
Risk Management & Internal Control				
Accountability, Reporting and Disclosure				
Asset Utilization Strategy				
Operational Expense Strategy				
Debt and Leverage Strategy				
Stock Strategy				
New Project (Short Term)				
New Project (Long Term)				

Source: Constructed by Author

6.5 Proposed Business Growth Strategy

Apart from the financial improvements, recommendations could also be given to the Skyworth's future business strategies in Table 6.5-1.

Table 6.5-1 Proposed Business Growth Strategies

Smart TV: Skyworth should further its product enhancement in AIoT and 5G+8K domains, where TV sets could be even smarter and more connected for the full spectrum of digitization.
R&D: As part of its transformation into an information technology company, Skyworth should put more emphasis on its R&D spending. This could also help its development in better product to turn over the inventories quicker so does the sales.
Marketing and Public Awareness: As a young company and being innovative, Skyworth could also organize better marketing strategies to boost its product image as well as company presence. A better brand equity exposure could achieve the same or even better from financial equity returns.

Source: Constructed by Author

7. Conclusion

As the youngest contender in TV industry, Skyworth is not shy in innovation and transformation. History has unmistakably proven in repetition that technological revolution will bring fruitful rewards to the ones who dare to change.

Besides of the right business strategies, financial planning could play miracles in business operations. With the accurate understanding of how to collect, utilize and analyze financial ratios, business managers could have a better insight into its tactics and strategy incubation.

Governance and risk management is also a protocol any successful corporation could go without. While establishing the framework is important, being serious enough to execute is the only answer to have fertile returns.

Once Skyworth has the willingness and confidence to master all these, the SKY is the limit!

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[Website/HKICPA/section4_cpd/Continuing-Professinoal-Development-Programme-\(CPD\)/Guide_Eng_August.pdf?la=en&hash=64947E3F384BBC605520949C7EBA3403](https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section4_cpd/Continuing-Professinoal-Development-Programme-(CPD)/Guide_Eng_August.pdf?la=en&hash=64947E3F384BBC605520949C7EBA3403) (Accessed: 6 August 2021).

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Appendix A

Historical Stock Prices and FX Rates

Skyworth 0751.HK

貨幣為 HKD

[↓ 下載](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2018年12月31日	1.650	1.700	1.630	1.690	1.641	4,096,000

貨幣為 HKD

[↓ 下載](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2019年12月31日	2.290	2.290	2.240	2.250	2.250	2,620,000

貨幣為 HKD

[↓ 下載](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2020年12月31日	2.180	2.180	2.180	2.180	2.180	-

*收市價已按拆股調整。 **經調整收市價已按股息和拆股調整。

Source: Yahoo Finance (2021)

TCL 1070.HK

貨幣為 HKD

[↓ 下載](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2018年12月31日	3.000	3.030	3.000	3.000	2.646	197,000

貨幣為 HKD

[↓ 下載](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2019年12月31日	3.700	3.720	3.630	3.660	3.415	596,934

貨幣為 HKD

[↓ 下載](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2020年12月31日	5.840	5.840	5.840	5.840	5.714	-

*收市價已按拆股調整。 **經調整收市價已按股息和拆股調整。

Source: Yahoo Finance (2021)

Hisense 0921.HK

Currency in HKD

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Date	Open	High	Low	Close*	Adj Close**	Volume
Dec 31, 2018	5.760	5.800	5.760	5.770	5.100	49,000

Currency in HKD

[↓ Download](#)

Date	Open	High	Low	Close*	Adj Close**	Volume
Dec 31, 2019	8.350	8.740	8.300	8.540	7.819	1,487,000

Currency in HKD

[↓ Download](#)

Date	Open	High	Low	Close*	Adj Close**	Volume
Dec 31, 2020	11.960	11.960	11.960	11.960	11.513	-

*收市價已按拆股調整。 **經調整收市價已按股息和拆股調整。

Source: Yahoo Finance (2021a)

Hisense 000921.SZ

Currency in CNY

[Download](#)

Date	Open	High	Low	Close*	Adj Close**	Volume
Dec 28, 2018	6.92	7.07	6.84	7.07	6.52	5,239,330

Currency in CNY

[Download](#)

Date	Open	High	Low	Close*	Adj Close**	Volume
Dec 31, 2019	11.87	12.47	11.78	12.33	11.65	11,683,312

Currency in CNY

[Download](#)

Date	Open	High	Low	Close*	Adj Close**	Volume
Dec 31, 2020	14.32	14.47	14.01	14.41	14.05	10,989,426

*收市價已按拆股調整。 **經調整收市價已按股息和拆股調整。

Source: Yahoo Finance (2021b)

Hisense A+H Share Distributions

SHARE CAPITAL STRUCTURE

As at 31 December 2018, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage to the total issued share capital
A shares	903,135,562	66.27%
H shares	459,589,808	33.73%
Total	1,362,725,370	100.00%

SHARE CAPITAL STRUCTURE

As at 31 December 2019, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage to the total issued share capital
A shares	903,135,562	66.27%
H shares	459,589,808	33.73%
Total	1,362,725,370	100.00%

As at 31 December 2020, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage to the total issued share capital
A shares	903,135,562	66.27%
H shares	459,589,808	33.73%
Total	1,362,725,370	100.00%

Source: Hisense Annual Report (2018; 2019; 2020)

Historical RMB/HKD FX Rates

CHINESE YUAN RENMINBI HISTORICAL RATES TABLE				CHINESE YUAN RENMINBI HISTORICAL RATES TABLE				CHINESE YUAN RENMINBI HISTORICAL RATES TABLE			
Top 10				Top 10				Top 10			
2018-12-31				2019-12-31				2020-12-31			
Go!				Go!				Go!			
Dec 31, 2018 17:00 UTC				Dec 31, 2019 17:00 UTC				Dec 31, 2020 17:00 UTC			
Chinese Yuan Renminbi	1.00 CNY	Inv. 1.00 CNY		Chinese Yuan Renminbi	1.00 CNY	Inv. 1.00 CNY		Chinese Yuan Renminbi	1.00 CNY	Inv. 1.00 CNY	
US Dollar	0.145384	6.878319		US Dollar	0.143615	6.963042		US Dollar	0.153172	6.526628	
Euro	0.128913	7.879442		Euro	0.127920	7.817413		Euro	0.125262	7.983279	
British Pound	0.113936	8.776878		British Pound	0.108246	9.238228		British Pound	0.112106	8.929145	
Indian Rupee	10.119467	0.098819		Indian Rupee	10.238650	0.097669		Indian Rupee	11.183010	0.089421	
Australian Dollar	0.206343	4.846309		Australian Dollar	0.204303	4.894685		Australian Dollar	0.198719	5.032222	
Canadian Dollar	0.198368	5.041134		Canadian Dollar	0.186156	5.371850		Canadian Dollar	0.195357	5.118845	
Singapore Dollar	0.198060	5.048963		Singapore Dollar	0.193121	5.178113		Singapore Dollar	0.202444	4.939634	
Swiss Franc	0.142962	6.994877		Swiss Franc	0.138993	7.194562		Swiss Franc	0.135449	7.382873	
Malaysian Ringgit	0.600886	1.664209		Malaysian Ringgit	0.587483	1.702178		Malaysian Ringgit	0.616132	1.623028	
Japanese Yen	15.955795	0.062993		Japanese Yen	15.808036	0.064070		Japanese Yen	15.807341	0.063262	
Dec 31, 2018 17:00 UTC				Dec 31, 2019 17:00 UTC				Dec 31, 2020 17:00 UTC			
Alphabetical order				Alphabetical order				Alphabetical order			
Chinese Yuan Renminbi ▲	1.00 CNY ▲ ▼	Inv. 1.00 CNY ▲ ▼		Chinese Yuan Renminbi ▲	1.00 CNY ▲ ▼	Inv. 1.00 CNY ▲ ▼		Chinese Yuan Renminbi ▲	1.00 CNY ▲ ▼	Inv. 1.00 CNY ▲ ▼	
Argentine Peso	5.474202	0.182672		Argentine Peso	8.599046	0.116292		Argentine Peso	12.876880	0.077659	
Australian Dollar	0.206343	4.846309		Australian Dollar	0.204303	4.894685		Australian Dollar	0.198719	5.032222	
Bahraini Dinar	0.054665	18.293401		Bahraini Dinar	0.053999	18.518730		Bahraini Dinar	0.057593	17.363371	
Botswana Pula	1.557240	0.642162		Botswana Pula	1.531102	0.653124		Botswana Pula	1.652787	0.605039	
Brazilian Real	0.564226	1.772339		Brazilian Real	0.577214	1.732461		Brazilian Real	0.795503	1.257966	
British Pound	0.113936	8.776878		British Pound	0.108246	9.238228		British Pound	0.112106	8.929145	
Bruneian Dollar	0.198060	5.048963		Bruneian Dollar	0.193121	5.178113		Bruneian Dollar	0.202444	4.939634	
Bulgarian Lev	0.248219	4.028995		Bulgarian Lev	0.250189	3.999860		Bulgarian Lev	0.244991	4.081786	
Canadian Dollar	0.198368	5.041134		Canadian Dollar	0.186156	5.371850		Canadian Dollar	0.195357	5.118845	
Chilean Peso	100.894965	0.009911		Chilean Peso	106.189248	0.009417		Chilean Peso	108.823626	0.009189	
Colombian Peso	472.132486	0.002118		Colombian Peso	471.224636	0.002122		Colombian Peso	523.968230	0.001909	
Croatian Kuna	0.940470	1.063298		Croatian Kuna	0.951804	1.050636		Croatian Kuna	0.944756	1.058474	
Czech Koruna	3.266096	0.306176		Czech Koruna	3.252257	0.307479		Czech Koruna	3.288643	0.304077	
Danish Krone	0.947528	1.055378		Danish Krone	0.955834	1.046207		Danish Krone	0.932117	1.072626	
Emirati Dirham	0.533824	1.872925		Emirati Dirham	0.527427	1.895995		Emirati Dirham	0.562523	1.777707	
Euro	0.128913	7.879442		Euro	0.127920	7.817413		Euro	0.125262	7.983279	
Hong Kong Dollar	1.138415	0.878414		Hong Kong Dollar	1.118621	0.893958		Hong Kong Dollar	1.187634	0.842910	

Source: X-Rates (2021)

Appendix B

Skyworth 2018 Annual Report fiscal year adjustment

Note B

The Group's subsidiaries incorporated in the People's Republic of China (the "PRC") are statutorily required to prepare their accounts with a financial year end date of 31 December. The Board resolved on 4 July 2018 that the financial year end date of the Company would be changed from 31 March to 31 December, so as to align its financial year end date with that of the Group's subsidiaries in the PRC, and to facilitate preparation of the consolidated financial statements of the Group. This is the first financial year after the change, reporting period of the financial statements presented therefore covers the nine months from 1 April to 31 December 2018, while relevant comparative figures cover the twelve months from 1 April 2017 to 31 March 2018.

Source: Skyworth Annual Report (2018)

Appendix C

New Project Simulation Depreciation Assumptions

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the shorter of the estimated useful lives of the respective assets, generally up to 30 years, or the expected lease term for leasehold improvements, if applicable.

Source: Netflix Annual Report (2020)

Property and Equipment, Net

Property and equipment and accumulated depreciation consisted of the following:

	As of December 31,		Estimated Useful Lives (in Years)
	2020	2019	
	(in thousands)		
Land	\$ 50,700	\$ 6,125	
Buildings	42,717	33,141	30 years
Leasehold improvements	524,537	354,999	Over life of lease
Furniture and fixtures	110,185	87,465	3-15 years
Information technology	283,014	243,565	3 years
Corporate aircraft	110,629	108,995	8 years
Machinery and equipment	34,633	46,415	3-5 years
Capital work-in-progress	298,558	100,521	
Property and equipment, gross	1,454,973	981,226	
Less: Accumulated depreciation	(494,790)	(416,005)	
Property and equipment, net	\$ 960,183	\$ 565,221	

Source: Netflix Annual Report (2020)

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of the terms of the leases or 20 to 50 years
Plant and machinery	10% to 50%
Furniture, equipment and motor vehicles	20% to 50%

Source: Skyworth Annual Report (2020)