创意感动生活
The Creative Life

TCL ELECTRONICS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock code: 01070

ANNUAL REPORT 2018


PROVIDING USERS WITH
SMART AND HEALTHY LIVING RELATED
PRODUCTS AND SERVICES
• INTERCONNECTED
• OPEN AND CONVERGED

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TCL
ng Life Intelligent

Corporate Profile

Corporate Profile

TCL Electronics Holdings Limited (the “Company”, together with its subsidiaries, collectively the “Group”) is the world’s leading consumer electronics company. Headquartered in China, it is engaged in the research and development, manufacturing and sale of consumer electronics products, and its products are sold all over the world. Through a product-and-user-oriented business model that focuses primarily on a “double +” strategy which includes “intelligence + internet” and “products + services”, it is committed to establishing interconnected, smart and healthy ecosystem based on smart device business to facilitate interconnection of all devices and integration of various scenarios, providing users with smart and healthy living related products and services, and empowering itself to become a global leading smart technology company.

Year in Review 2018

JAN

- The Company announced the completion of the rights issue which raised net proceeds of approximately HK$2.00 billion, with an over-subscription of approximately 7.9 times, reflecting the confidence of its shareholders and investors in the Group's prospect
- Won the "China Innovation Brand Award" at the 2018 International Consumer Electronics Show ("CES") in Las Vegas, the United States. Moreover, its flagship new TV product series X5, C6 and P5 received the "China Innovative Product Award"; Meanwhile, TCL has once again clinched three awards including "2017-2018 Top 10 Consumer Electronics Brands", "2017-2018 Global TV Brands Top 15 ", and "2017-2018 Global Top 50 Consumer Electronics Brands" in the 2017-2018 Global Top Brands Award Ceremony, organized by American International Data Group ("IDG")

FEB

- The Company issued a "Positive Profit Alert" for its 2017 Annual Results

MAR

- Mr. BO Lianming resigned as an executive director of the Company, the chairman of the Board and the chairman of the strategy committee of the Company with effect from 2 March 2018
- Mr. LI Dongsheng was appointed as an executive director of the Company, the chairman of the Board and the chairman of the strategy committee of the Company with effect from 2 March 2018
- Launched its new products of X5, C6, and P5 series at the 2018 Spring New Product Launch Press Conference themed "Innovate to See the Future" in Shanghai, China
- Declared a final dividend of HK15.07 cents per share for 2017 (2017 interim dividend was HK3.90 cents per share and dividend for the year totaled HK18.97 cents per share), with an annual dividend payout ratio of 40%

APR

- Appointed the world-renowned Brazilian football star, Neymar da Silva Santos Júnior as TCL's Global Brand Ambassador
- Announced to obtain "Onkyo" brand authorization from Onkyo Corporation to explore the smart AV market

Year in Review 2018

Year in Review 2018

Year in Review 2018

MAY

- Officially renamed TCL Electronics Holdings Limited to better reflect the Company's determination to implement the strategy of business transformation and diversification
- Announced that NBA Milwaukee Bucks Player – Giannis Antetokounmpo was appointed as the Brand Ambassador for TCL in North America

JUN

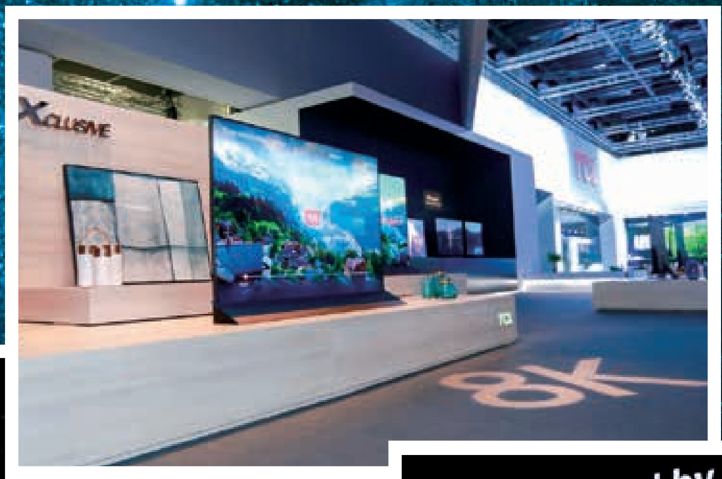
- Officially became the Global Partner of the 2019 FIBA Basketball World Cup

JUL

- The Company issued a "Positive Profit Alert" for its 2018 Interim Results
- Announced to establish a joint venture with New South Media to reinforce "1+1+N" strategic cooperation and partnership in internet TV ecosystem

AUG

- Entering the blue ocean market of commercial display through the completion of the acquisition of commercial business
- With proprietarily developed smart home system, the Group reached all-round strategic cooperation with Sunshine 100 China Holdings Limited (02608.HK) to jointly build shared smart apartments, propelling the development of smart home business
- Mr. ZHANG Zhiwei resigned as a non-executive Director; Mr. LIU Hong resigned as a non-executive Director; Mr. LI Yuhao was appointed as a non-executive Director, the above changes in the Company's directorship all took effect from 24 August 2018
- C6 product series of the Company were named the highly renowned EISA (Expert Imaging and Sound Association) – "2018-2019 Best Buy LCD TV" at IFA in Europe
- Declared 2018 interim dividend of HK9.80 cents per share, with dividend payout ratio of 40%.



SEP

- Officially included as a constituent stock of the Hang Seng Stock Connect Hong Kong Index

NOV

- Won the "Listed Company Awards of Excellence 2018" from the Hong Kong Economic Journal, one of the most authoritative financial media in Hong Kong

DEC

- Started to build manufacturing bases in India for its first integrated smart manufacturing industrial park in overseas markets with Shenzhen China Star Optoelectronics Technology Co., Ltd. ("CSOT"), a subsidiary of TCL Corporation

Financial Highlight

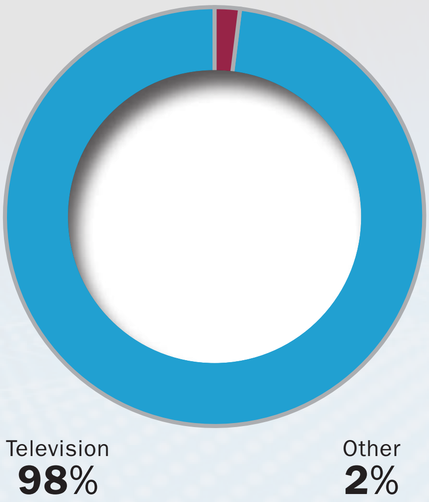
Financial Performance

(HK$ Million)	2018	2017
Turnover	45,582	40,822
Gross profit	6,952	6,301
Gross profit margin (%)	15.3	15.4
Profit attributable to owners of the parent	944	815
Basic Earnings Per Share (HK cents)[1]	42.63	47.43

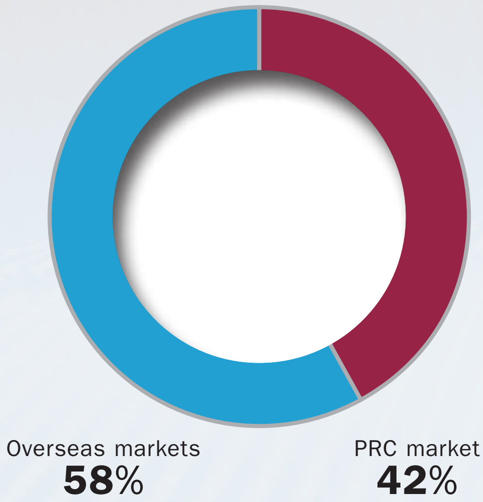
Note:

1. Owing to the dilution effect of the rights issue in 2018

TURNOVER BREAKDOWN BY PRODUCTS



TV TURNOVER BREAKDOWN BY REGIONAL BUSINESS CENTRES



Financial Highlight

Financial Position

(HK$ Million)	2018	2017
Property, plant and equipment	1,347	1,676
Cash and bank balances	6,742	5,910
Total assets	28,201	26,064
Total liabilities	18,421	18,367
Interest-bearing borrowings	1,115	2,927
Net assets	9,780	7,697

Operation Indicators

	2018	2017
Return on equity (%)[1]	10	11
Inventory turnover (days)[2]	44	46
Trade receivables turnover (days)[2]	46	50
Trade payables turnover (days)[2]	79	78
Current ratio	1.3	1.2
Gearing ratio (%)	0	0

Notes:

1. Owing to the dilution effect of the rights issue in 2018
2. The above turnover days are calculated on average balance for a 12-month period

Chairman's Statement

Mr. LI Dongsheng
Chairman

Chairman's Statement

DEAR SHAREHOLDERS,

In 2018, TCL Electronics stayed focused on its long-term development by pursuing revolutionary transformation and persistent innovation in a dynamic environment. On 23 May 2018, "TCL Multimedia Technology Holdings Limited" was officially renamed "TCL Electronics Holdings Limited", carving a path towards business diversification. In the past year, we continued to strengthen globalization strategy and proactively enhanced product competitiveness and brand power. As a result of our continuous effort, operating efficiency has improved significantly and the key performance indicators have continued to improve, achieving a high-quality growth in both sales and profitability.

TCL Electronics' sales volume rose by 23.1% year-on-year, to a total of 28.61 million sets in 2018, beating the full year target. In 2018, TCL Electronics leaped to No.2 in the global TV market in terms of shipment. The Group's turnover reached HK$45.6 billion, increased by 11.7% year-on-year, while the expense ratio was kept under control and decreased to 12.7%, the lowest level since 2003. The Group's profitability has continuously improved with profit attributable to owners of the parent company grew by 15.8% to HK$944 million. Profit attributable to owners of the parent after extraordinary items in 2018 increased significantly by 30.8% year-on-year to HK$778 million. The Board of Directors proposed a final dividend of HK9.38 cents per share, with annual dividend totaling HK19.18 cents per share, representing a dividend payout ratio of 45% in gratitude of the shareholders' years of support for TCL Electronics.

TCL Electronics maintained a high-quality growth in 2018, mainly driven by accelerated globalization strategy, continuous improvement in product competitiveness and expansion strategy for new businesses.

By adhering to implementation of globalization strategy and enhancement in global brand building, TCL Electronics has established obvious competitive advantages in the overseas markets. In 2018, TCL Electronics began full-fledged efforts to boost brand awareness in the global market through adopting localized sports and entertainment marketing strategies to keep abreast of market trend. In the meantime, we have joined hands with CSOT to explore an emerging market, India and jointly build the first overseas panel module and TV set integrated intelligent manufacturing industrial park, facilitating overseas market penetration. The Group's sales volume in overseas markets for the year of 2018 reached 18.21 million sets, a year-on-year increase of 29.5%, of which the North American market made significant breakthrough, the European business continued to improve, business in the emerging markets grew rapidly, and the Group successfully tapped into a lot of new markets. Overseas markets contributed over 60% of the overall sales volume in 2018 and the operating results increased by 135.4% year-on-year to HK$1.12 billion, which signifies that the overseas markets with remarkable performance have become an important growth engine for business development of the Company.

With more than 30 years of experience in the industry, we recognize that technological innovation is the growth engine for accelerating corporate development and product is the core competence for a company. In 2018, the Group continued to focus on product innovation. The newly-launched X/C/P mid-to-high-end products have obtained recognition from the industry and market with numerous international accolades. Of which, the C6 Series was awarded "Best Buy LCD TV 2018-2019", by the highly renowned EISA at IFA 2018 in Europe. The X10 series, which was showcased at the CES 2019 in the United States, won "2018-2019 8K TV Gold Award of the Year". Thanks to the continuous improvement in product competitiveness, TCL's brand price index remained in second place in the PRC market. Besides, TCL Electronics was officially included as a constituent stock of the Hang Seng Stock Connect Hong Kong Index in September 2018, reflecting the confidence of capital market in the prosperous outlook of the Company.

In the Internet era, transformation and upgrade have become a trend in the TV industry. TCL Electronics has reshaped its products in response to the market trend and explored a development path for diversification. The Group established strategic partnership with industry titans including Tencent and South New Media to invest in Shenzhen Falcon Network Technology Co., Ltd. ("Falcon Network Technology"), with an aim to establish an "Intelligent Manufacturing + Internet" model. In 2018, the Internet operating platform made a breakthrough in development, with user scale surpassing the 30-million threshold up to 31.91 million, and revenue contributed by advertisement, video-on-demand and membership increased significantly. The monetization capability of the Internet business continued to improve. Meanwhile, TCL Electronics proactively developed diversified businesses such as smart AV, commercial display and smart home. In 2018, TCL Electronics obtained global brand authorization from ONKYO, a well-known audio brand in Japan and established TCL Entertainment Solutions Limited ("TES") to enter smart AV market; completed the acquisition of TCL Commercial Information Technology (Huizhou) Limited ("CI Tech") to explore the huge potentials in the commercial display market; proprietarily developed smart home system and established strategic cooperation with Sunshine 100 China Holdings Limited ("Sunshine 100 China") to build shared smart apartments, propelling the development of smart home business.

Chairman's Statement

Looking forward to 2019, challenges and opportunities will coexist in the global economy. In 2019, the real economy will obtain greater support from the government through the implementation of tax and fee reduction measures to ease the burden of manufacturers, and boost high-quality development of the manufacturing industry. Reform of the financial industry will help ease financing difficulty and usher in spring for the development of private companies. At the beginning of this year, China launched several new policies including "The Ultra HD Video Industry Development Action Plan" and Energy Saving and Emission Reduction Policy for Home Appliances, and the TV industry is expected to fully benefit from the new policies.

In 2019, we are committed to seizing the opportunities and striving for stable growth. "Enhancing efficiency, breaking through bottleneck and upgrading innovation" will be the core theme for our work. We will:

— Increase investment in research and development ("R&D") in order to continuously strengthen product innovation and reinforce intelligent manufacturing, and actively promote advanced display technologies of quantum dot, Mini LED, 8K as well as Artificial Intelligence (A.I.) technology to maintain the leading position in product competitiveness;

— While improving business competitiveness in the PRC market, we will reinforce globalization strategy to increase the market share in overseas markets. With the leading product competitiveness and brand power, we will consolidate our position in the North American market and European markets, and aggressively explore emerging markets such as India and Russia to enhance our global layout;

— Accelerate the revolution and transformation progress, continuously push forward Internet business development and business diversification, and develop the new capabilities in smart technology, Internet, and IoT, to explore new growth opportunities;

— Substantially improve operational efficiency, better control operational risk, optimize organization process and tighten cost control, aiming to push forward the digitalization transformation and enhance its profitability.

A.I., Internet and IoT are gradually changing the industry and market landscape, and new market entrants from technology and Internet companies made market competition more intense, which resulted in both challenges and opportunities. We will grasp the opportunity to develop smart Internet business, to promote revolution and transformation of the Company, to make breakthrough in business bottlenecks, and to develop new capabilities for the future. In 2019, with the aim to significantly improve our competitiveness and enhance our profitability, we take the initiative to implement the strategy of "A.I. x IoT", devoting to creating an all-rounded smart home ecosystem and achieving the interconnection of hardware + software + all devices with IoT scenarios. In the future, TCL Electronics will be dedicated to providing users with smart and healthy living related products and services, empowering itself to become a global leading smart technology company.

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to all shareholders and investors for their long-standing support and trust, and to convey my appreciation to all directors, management and staff of the Group for their contributions and dedication over the past years.

LI Dongsheng
Chairman
18 March 2019

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2018

In 2018, under a challenging operating environment, the Group reinforced its globalization strategy, and at the same time, insisted on cost reduction and efficiency enhancement, to strengthen its product competitiveness and brand power, and to explore diversified business opportunities. During the year, the Group maintained continuous growth and achieved notable profitability.

Globalization Strategy Delivered Remarkable Results Annual TV Sales Volume Hit Historical High

With the Group's persistent effort to strengthen globalization strategy and existing sales channels, and to proactively explore the huge potential in new markets at the same time, annual sales volume of its LCD TVs reached 28.61 million sets, again hitting historical high with a significant increase of 23.1% year-on-year, exceeding the full year target which had been adjusted upward to 28.30 million sets. In which, the sales performance in overseas markets remained outstanding with sales volume surged by 29.5% year-on-year, to 18.21 million sets, and the sales volume in the PRC market increased by 13.4% year-on-year to 10.39 million sets.

Strong Growth in Operating Results Proposed a Final Dividend of HK9.38 Cents Per Share

Annual turnover increased by 11.7% year-on-year to HK$45.58 billion and hit historical high. Annual gross profit increased by 10.3% year-on-year to HK$6.95 billion and annual gross profit margin remained flat at 15.3%. The annual expense ratio has been kept under control since 2015 and decreased to 12.7% and reached the lowest level since 2003. The Group's operating profit for the year of 2018 increased by 13.1% year-on-year to HK$1.19 billion, and net profit after tax was HK$935 million, surged by 17.3% year-on-year. Profit attributable to owners of the parent amounted to HK$944 million (including a one-off gain of HK$166 million), representing a year-on-year increase of 15.8%. Profit attributable to owners of the parent after extraordinary items increased significantly by 30.8% year-on-year to HK$778 million (excluding a one-off gain). Basic earnings per share was HK42.63 cents. The Board has proposed a final dividend of HK9.38 cents per share, and full year dividend per share amounted to HK19.18 cents, translating into an annual dividend payout ratio of 45%.

Orderly Implementation of Business Diversification Dedicated to Becoming a Global Leading Smart Technology Company

Following the renaming of the Company to TCL Electronics Holdings Limited, the Group accelerated implementation of its business diversification strategy. After entering the smart AV market in the first half of 2018, the Group continued its business upgrade and transformation in the second half of the year. The Group completed the acquisition of CI Tech in the third quarter, thereby entering the blue ocean market of commercial display and realizing "B2B and B2C dual-track development". Meanwhile, the Group developed a proprietary smart home system centered on smart TV, and established an open smart platform. It also announced an industry-leading move – establishing a strategic partnership with Sunshine 100 China (a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (Stock Code: 02608)) to create shared smart apartments, propelling the implementation of the leading smart home system in China. The Group is dedicated to providing users with smart and healthy living related products and services so as to become a global leading smart technology company.

Leading Market Position with Accolades from Global Industry and Capital Market

According to Sigmaintell data, the Group moved up one spot to second place in the global TV market with a market share of 11.6% in terms of shipment in 2018. According to CMM omni-channel data, the Group ranked No. 3 in the PRC TV market with a market share of 12.8% in terms of turnover in 2018. The Group won numerous rewards and honors from the industry and capital market in 2018. It was ranked 79th on Forbes' inaugural Top 100 Digital Companies list, becoming the only Chinese home appliance brand on the list, and it was also included among the Top 50 Chinese Brands with Great Global Influences in 2018 as selected jointly by Facebook and KPMG. The Group's mid-to-high-end product C6 launched in 2018 was awarded as the "Best Buy LCD TV 2018-2019", the highly renowned EISA award at IFA in Europe. Additionally, in January 2019, the Group won four international awards including "2018-2019 8K TV Gold Award of the Year" at 2019 (CES) in the US. Moreover, the Group was officially included as a constituent stock of the Hang Seng Stock Connect Hong Kong Index in September 2018 and was granted with positive ratings by several investment firms, which demonstrates the Group's strong comprehensive capability, business performance and development prospects. The Group's strategy of product and brand enhancement has delivered remarkable results and its brand power is widely recognized.

Management Discussion and Analysis

The Group's sales volume of LCD TVs by region and the number of TCL Internet TV users for the year are as follows:

Sales volume of LCD TVs

	2018 ('000 sets)	2017 ('000 sets)	**Change**
Overall	**28,606**	23,231	23.1%
– Overseas markets	**18,214**	14,068	29.5%
– PRC market	**10,392**	9,163	13.4%
Of which: smart TVs	**21,182**	15,094	40.3%
4K TVs	**9,181**	5,805	58.2%

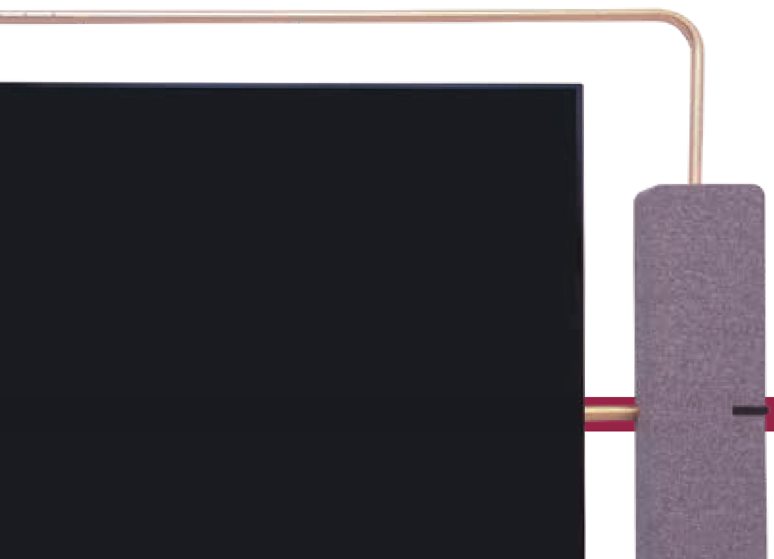
	Accumulated number as at 31 December 2018	**December 2018**	December 2017	**Change**	**2018**	2017	**Change**
Number of activated users of TCL Internet TV[1]	**31,907,420**	**951,316**	634,475	49.9%	**8,370,898**	6,247,088	34.0%
Average daily number of active users[2] [3]	**N/A**	**15,282,347**	10,809,751	41.4%	**N/A**	N/A	N/A

Notes:

(1) The number of users who have used Internet TV web service once or more

(2) The number of unrepeated individual users who have used the Internet TV service within 7 days

(3) December 2018 data



Overseas Markets

The Group has continued to penetrate into existing key overseas markets for many years. By optimizing its product mix, enhancing its product competitiveness and brand power, and exploring new markets, the Group has successfully developed apparent competitive advantage in overseas markets. Therefore, the sales volume and turnover in many regions of overseas markets remained strong growth with enhanced profitability. The outstanding results in both sales volume and profit in overseas markets indicates that overseas markets have become an important growth engine of the Group.

Significant Increase in Both Sales Volume and Turnover: With its persistent efforts to develop and penetrate into key overseas markets, the Group recorded sales volume of approximately 18.21 million sets of LCD TVs in overseas markets during the year, a significant year-on-year growth of 29.5%, and turnover from LCD TV sales was up by 27.0% year-on-year to HK$26.60 billion.

Optimized Product Mix with Continuous Growth in Gross Profit Margin: With decreasing panel prices and continuous product mix optimization, the gross profit margin of the Group's LCD TVs in overseas markets recorded 12.6% in 2018, 1.2 percentage points higher than that in the previous year. The gross profit margin of the Group's own brand products reached 14.7%, an increase of 1.8 percentage points year-on-year.

Operating Results Achieved Notable Growth: With an improved product mix, enhanced efficiency and economies of scale, the Group's operating results in overseas markets rocketed by 135.4% year-on-year to HK$1.12 billion.

In 2018, the Group achieved notable sales growth in all its overseas markets:

- North American market: The Group continued to consolidate its market leading position during the year, with a 41.8% increase in sales volume year-on-year, and ranked 3rd in the full year of 2018 while ranked 2nd in the third quarter and in November (source: NPD data);

- Emerging markets: The Group continued with strong growth momentum, with sales volume up by 30.7% against the previous year, among which India, Southeast Asia, Brazil and Australia achieved rapid growth. In 2018, the Group ranked 3rd in the Philippines, 4th in Vietnam, and 5th in Australia and Thailand in terms of sales volume (source: GfK data); and

- European markets: The Group's sales volume surged by 43.1% year-on-year, with robust growth in France, Germany, Italy and Spain. In 2018, the Group ranked 3rd in France in terms of sales volume (source: GfK data).

In 2018, sales volume proportion of the Group's mid-to-high-end products in overseas markets continued to increase, in addition to continuous improvement in its product mix (excluding ODM business):

- Proportion of smart TVs rose from 77.6% in 2017 to 84.4% in 2018;
- Proportion of 4K TVs increased substantially from 26.4% in 2017 to 39.6% in 2018;
- Proportion of 55-inch and above LCD TVs rose from 20.6% in 2017 to 25.2% in 2018; and
- The average size of LCD TVs sold increased from 39.8 inches in 2017 to 42.2 inches in 2018.

Collaborated with CSOT to Build Factories in India Entered Indian Market with Huge Potential

Indian market with huge growth potential is expected to play an important strategic role in sustaining growth in the overseas markets. In December 2018, the Group collaborated with CSOT to build its first overseas panel module and TV set integrated smart manufacturing industrial park in Andhra Pradesh, Southern India, to achieve all-rounded coverage from production to sales. Upon completion of the construction, the industrial park will cover TV production ranging from 32-inch to 65-inch, which will not only serve the TCL brand, but also provide ODM services to other brands in the Indian market.

FIFA World Cup Craze and Localized Marketing Strategy Strengthened Global Brand Influence

Tapping into the FIFA World Cup craze, in April 2018, the Group appointed the world famous professional Brazilian football player Neymar Jr. as its "Global Brand Ambassador". In February 2019, the Group became the official partner of CONMEBOL Copa America Brazil 2019, to further develop European markets and emerging markets represented by South America. At the same time, the Group adopted a localized consumer-centric marketing strategy in the North American market, using tactics such as purchasing the naming rights for the famed Chinese Theatre (previously Grauman's Chinese Theatre) in Hollywood, appointing Giannis Antetokounmpo ("Letter Bro"), an extremely talented NBA player from the Milwaukee Bucks, as brand ambassador in North America, and title-sponsoring popular talk shows, sports and eSports events, which have further increased the brand awareness and brand influence of TCL in the global market.

Management Discussion and Analysis

The PRC Market

Sales Volume Increased Year-on-year, Beating Industry Level: TV demand in the PRC market was weak in 2018. According to CMM's omni-channel data, the overall sales volume of LCD TVs in the PRC market dropped by 1.6% year-on-year in 2018. Remaining steadfast in implementing its premium product strategy and continuing to optimize its product mix and channel structure, the Group enhanced its product competitiveness and recorded total sales volume of 10.39 million LCD TVs in the PRC market in 2018, a 13.4% increase year-on-year, representing an increase higher than the industry average level.

Turnover: Turnover of the Group's LCD TVs for the year in the PRC market was down by 7.1% year-on-year to HK$18.37 billion, which was impacted by the notable increase in the proportion of online sales and lower average selling price caused by declining panel prices.

Outstanding Performance in Online Sales: The Group's online sales volume in the PRC market (excluding ODM business) climbed up to 37.2% of the total sales volume in the PRC market in 2018 with a notable increase of 11 percentage points from 26.2% in the same period last year. According to CMM omni-channel data, the Group ranked No.3 in the PRC market in 2018 in terms of online turnover.

Stable Gross Profit Margin: In 2018, gross profit margin of the Group's LCD TVs in the PRC market remained stable, slightly down by 0.5 percentage point year-on-year to 19.2%, and the gross profit margin of the Group's own brand products was 22.1%, a slight increase of 0.3 percentage point compared to the previous year.

Operating Results: The Group's operating results in the PRC market was HK$175 million.

In 2018, the Group continued to optimize its product mix in the PRC market (ODM business data excluded below):

- Smart TV sales volume reached 82.0% of the total LCD TV sales volume from 76.3% in 2017;
- 4K TV sales volume accounted for 54.1% of the total LCD TV sales volume from 42.7% in 2017;
- Proportion of 55-inch and above LCD TVs' sales volume rose notably from 37.5% in 2017 to 43.1% in 2018;
- Average size of LCD TVs sold increased to 47.2 inches in 2018 from 45.8 inches in 2017;
- The market share of the curved TV was 34.4%, remaining as the leader in the PRC market (source: CMM omni-channel data); and
- Brand price index rose from 102 in 2017 to 110 in the PRC market, ranking second among the Chinese brands (source: CMM omni-channel data).

Internet Business

In 2018, the Group implemented at full strength the "Intelligent Manufacturing + Internet" new business model and constructed a smart TV ecosystem. It also stepped up its effort in platform development and users operation, as well as enhancing cooperation with partners for mutual benefits, which ultimately helped markedly boost the competitiveness of the Group within the industry.

Number of Users Exceeded 30 million with Significant Increase in Paid Users User Loyalty Enhanced

As at 31 December 2018, the accumulated number of TCL activated Internet TV users of the Group totaled 31.91 million, surged by 35.6% year-on-year, with paid users significantly grew up by 198.0% against that of 2017. The average daily number of active users in December 2018 increased by 41.4% year-on-year to 15.28 million. The scale of Internet TV business users maintained notable growth. Average daily time of users spent on TV reached 5.5 hours, increased by 12.2% year-on-year. By adopting delicacy management practices in user operation, the Group was able to further strengthen user loyalty.

Enriched Platform Content and Strengthened Users Operation Monetization Ability Further Enhanced

As the Group continued to pursue the "1+1+N" strategic cooperation model, its Internet business platform Falcon Network Technology set up a joint venture with South New Media in July 2018, which has deepened the cooperation with the TV license party, enriched content resources, leveraged the advantages of products, technologies, markets, channels and user network, resulting in an improvement of users' overall experience. Meanwhile, through product innovation and refinement in users operation, the Group was able to expand the scale of users, increase proportion of user in operation, strengthen user loyalty so as to encourage the pay-to-view habit among users, optimize revenue stream, and extend its revenue stream to cover overseas markets.

The monetization capability of the Internet business continued to grow. The annual turnover recorded significant growth of 114.0% year-on-year in 2018, exceeding the annual turnover target of RMB260 million, which had been adjusted upward and hitting a new historical record of RMB306 million, in which the shared income from video-on-demand and membership, as well as turnover from advertising grew significantly by 127.3% and 86.8% year-on-year respectively. Net profit after tax was approximately RMB62 million for the year, which represents a significant growth in profitability.

Falcon Network Technology will be Consolidated into the Financial Statements of the Group that Helps Enhance the Group's Profitability

On 23 January 2019, the Company, through its subsidiary, acquired approximately 15.56% equity interest of Falcon Network Technology by entering into sale and purchase agreement with the seller ("Falcon Technology Transaction"). Details of Falcon Technology Transaction are available in the announcement of the Company dated 23 January 2019.

The Company is pleased to announce that, Falcon Technology Transaction is expected to be completed by late March 2019. Upon completion, the Group will hold in aggregate approximately 60.00% of the total equity interest of Falcon Network Technology through two subsidiaries of the Group. Thereafter, Falcon Network Technology will become a subsidiary of the Company, and will be consolidated into the financial statements of the Group. Its higher profitability will further enhance the Group's profitability.

R&D

Since 2018, the Group has continued to focus on quantum dot, Mini LED and other cutting-edge technologies to launch a variety of mid-to-high-end products that formed a strong portfolio to satisfy the diverse needs of consumers, and strengthen its branded product competitiveness. To enhance the personalized product experience of users, the Group has been devoted to the R&D of A.I. technology, which may inject innovation into the Group's various product series, striving to develop TVs into an important smart terminal of future homes.

Regarding high-end products, the industrial leading TCL X10 QLED 8K TV that the Group displayed in the 2019 CES in the US, was equipped with industrial leading 8K+QLED display technology, adopting for the first time Mini LED backlight technology and supporting Dolby Vision®, plus powered by TCL's proprietary "Q Engine", showing the Group's strong R&D capability. Moreover, C7 theatre TV, which possesses excellent visual and audio system, with 4000R curved monitor, Dolby Vision HDR technology, Manhattan 360-degree independent system and measured just 6.4mm thick, was highly recognized by many industry awards after its launch. The P series are specially designed for young generations that pursue fashion styles. The above-mentioned three new product series are all equipped with the "TCL A.I. 2.0 plus" A.I. technology, providing authentic and customized content recommendation capacity, thereby ensuring information and services are more accurately available to users.

Regarding A.I., the Company established a joint A.I. design center with TCL Corporate Research to accelerate the application of A.I. technology in products. The Group took the lead in establishing an open A.I. technological framework in the TV industry, which can connect to various businesses and realize autonomous control based on users' intention, thereby enriching user experience and at the same time cultivating user habit to use large-screen TVs as Internet terminals. The new generation smart engine has been adopted in smart products, which has expanded the application from TV, film, music, and encyclopedia to daily services. It also adds more diversified functions, such as navigation, searching for popular attractions, gourmet recommendations and ticketing service, on top of multi-turn dialogue, celebrity identification and natural language interaction. In the future, with the existing open A.I. structure as foundation, the Group will proactively integrate smart TV and smart audio system, to push forward the innovation and application of new A.I. technology in the TV arena. The Group will further enhance the experience in different A.I. scenes and application services and deepen the cooperation with the industry leaders, to increase its product competitiveness.

In terms of the overseas markets, the Group has adopted Google A.I. (Google Assistant) engine and its smart devices to actively expand the application of A.I. technology overseas, and provide consumers with a simple and personalized life experience using TV as large screen smart speaker for families. Also, the self-developed TV middleware TV+ OS developed new iterations and upgrades, aiming to establish an open smart platform, so as to enjoy the first-mover advantage of its leading technology in the overseas markets and digital globalization recognitions. The smart TV products of the Group have received certification from BBC Free View Play 2018 and DUK in the UK in 2018, which helped the Group in making technology breakthroughs for its high-end smart TVs to enter the UK market and further expand European markets.

The Group's innovative R&D capability is well-recognized internationally by the industry. TCL Electronics was awarded by IDG with three major awards, named as "2018-2019 CE Brands Top 10", "2018-2019 Global CE Brands Top 50" and "2018-2019 Global TV Brands Top 10". The Group's industry leading product TCL X10 QLED 8K TV also received the prestigious "2018-2019 8K TV Gold Award of the Year" from IDG. Moreover, the C6 series won EISA Award at the world famous IFA in August 2018. The Group's R6 products received positive feedbacks from the certification authorities in North America. TCL products are widely recognized by international awards, which spotlighted the Group's innovative technology and brand power.

Outlook

In 2019, guided by the theme of "enhancing efficiency, breaking through bottleneck and upgrading innovation" and based on the first-mover advantage of the globalization strategy, the Group will seize the opportunity to develop smart Internet business while enhancing efficiency and maintaining continuous business growth. The Group will consolidate its existing TV business while at the same time actively developing diversified businesses to further push forward the reform and transformation of the Company, thus to establish new capability for future development and to explore more new profit growth opportunities, and ultimately create greater value for shareholders.

I. Focus on its Core TCL TV Business and Explore Diversified Business

Following the renaming of "TCL Electronics Holdings Limited", the Company has proactively reinforced its business diversification. In the future, the Group will focus on its core TCL TV business while developing diverse businesses such as smart AV, commercial display and smart home, in order to increase the Group's overall profitability. Moreover, the Group will continue to strengthen its product technology, industry chain, brand promotion and synergies between international business segments. With the advantages of its comprehensive global network and channel as well as its competitiveness in the overseas markets, TCL Electronics is dedicated to becoming a global leading brand of consumer and home electronics.

II. Expand Overseas Markets Scale and Enhance Global Strategic Layout

The Group will further strengthen its globalization strategy, as well as the competitiveness and influence of the TCL brand. The Group will continue to strengthen its competitiveness in the PRC market and at the same time further explore overseas markets by consolidating the North American market, increasing market share and profitability in Europe and Southeast Asia, exploring emerging markets such as India and Russia in order to seek for new growth drivers. Meanwhile, through innovative sports marketing and entertainment marketing, the Group will be able to upgrade its international brand image, which in return further increases the market share and brand power of TCL in the global market, and improve its global strategic layout.

III. Increase R&D Investment and Implement A.I. x IoT Strategy

The Group will continue to put more resources into strengthening its capability in R&D and set up a blueprint for the future. The Group will focus on and actively promote advanced display technologies such as quantum dot, Mini LED, 8K and A.I. technology to strengthen its Internet business, continuously enhance "Product + Service" operational capabilities, and to improve its overall product competitiveness and user experience, enlarge the scale of users and boost the monetization capacity of businesses. Moreover, the Group will continuously pursue its "Intelligent + Internet" strategy to actively expand the smart home market. With "A.I. x IoT" as the key strategy, through smart items, smart home system, smart community platform services, etc., the Group is dedicated to creating an all-rounded smart home ecosystem and achieving the interconnection of hardware + software + all devices with IoT scenarios.

IV. Smart Manufacturing Enhances Operational Efficiency and Profitability

The Group will continuously promote intelligent automated manufacturing, and enhance industrial manufacturing capability and efficiency. At the same time, the Group will persistently pursue reform and transformation, continuously optimize business and process and firmly implement cost reduction and efficiency enhancement, thereby greatly enhancing operational efficiency and effectiveness and improving overall profitability and competitiveness. The Group will be dedicated to providing users with smart and healthy living related products and services so as to become a global leading smart technology company and create value for shareholders.

FINANCIAL REVIEW

Completion of Rights Issue

References are made to the prospectus (the "Prospectus") of the Company in relation to the rights issue dated 28 December 2017 and the announcements dated 28 November 2017, 9 January 2018, 18 January 2018 and 25 January 2018 of the Company in relation to allotting and issuing 582,544,371 rights shares (the "Rights Share(s)") at the subscription price of HK$3.46 per Rights Share on the basis of one Rights Share for every three ordinary shares held on 27 December 2017 (the "Rights Issue"). As at 4:00 p.m. on Friday, 12 January 2018, being the latest time for acceptance of applications for the Rights Shares as set out in the Prospectus, in aggregate, a total of 179 valid acceptance and applications in respect of 1,656,946,129 Rights Shares had been received, representing approximately 284.43% of the total number of 582,544,371 Rights Shares available under the Rights Issue. Accordingly, the Rights Issue was over-subscribed by 1,074,401,758 Rights Shares. On 26 January 2018, the Company allotted and issued 582,544,371 Rights Shares.

In accordance with the terms of the underwriting agreement (the "Underwriting Agreement") dated 28 November 2017 entered into between the Company and BNP Paribas Securities (Asia) Limited as the underwriter and given the over-subscription for the Rights Shares, the obligations of the underwriter in respect of the Rights Shares not taken up have been fully discharged and the underwriter is not required to take up any Rights Shares. For further details, please refer to the Prospectus and announcements of the Company.

Significant Investments, Acquisitions and Disposals

On 23 March 2018, TTE Corporation, a wholly-owned subsidiary of the Company, entered into a subscription agreement with TCL Ventures Inc., as general partner, pursuant to which TTE Corporation agreed to make a capital commitment of USD15 million (equivalent to approximately HK$117 million) into TCL Ventures Fund L.P., constituting approximately 20% of its total capital commitment. In addition, Shenzhen TCL New Technology Company Limited ("TCL New Technology", a subsidiary of the Company) entered into a partnership agreement (the "PRC Partnership Agreement") with Huizhou TCL Kaichuang Enterprise Management Co., Ltd. as general partner and TCL Corporation and CSOT as limited partners, in relation to the establishment of the PRC Investment Fund. Pursuant to the PRC Partnership Agreement, TCL New Technology agreed to make a capital commitment of RMB40 million (equivalent to approximately HK$49 million) into the Shenzhen TCL Strategic Share Investment Fund Limited Partnership (Limited Partnership), constituting approximately 19.9% of its total capital commitment.

On 27 April 2018, Falcon Network Technology and Beijing Jingdong Century Trading Company Limited ("JD.com") reached a consensus on cooperation in relation to the proposed capital contribution of RMB300 million to Falcon Network Technology by JD.com so as to acquire equity interests in Falcon Network Technology after such proposed capital increase. The terms of the proposed capital increase would be subject to the obtaining of all necessary company approvals and negotiation by the parties concerned and the approval, execution and delivery of the definitive transaction documents by the parties concerned.

On 10 May 2018, TCL New Technology entered into sale & purchase agreement with TCL Technology Industrial Park (Shenzhen) Co., Ltd. ("TCL Industrial Park", a subsidiary of TCL Corporation), pursuant to which TCL New Technology has agreed to transfer the Assets and the Business (as defined in announcement of the Company dated 10 May 2018) to TCL Industrial Park, and that the TCL Industrial Park has agreed to acquire the Assets and the Business and to assume the liabilities, at a consideration of RMB328,964,988.18 (equivalent to approximately HK$407,291,551.87). The transaction was completed on 28 June 2018.

On 18 May 2018, TCL New Technology entered into the capital increase agreement with Lerong Zhixin Electronic Technology (Tianjin) Co., Limited ("Lerong Zhixin"), Leshi Internet Information and Technology Corp., Beijing and Tianjin Jiarui Huixin Corporate Management Co., Ltd., pursuant to which, among others, TCL New Technology agreed to make a capital contribution of RMB0.3 billion to Lerong Zhixin subject to the terms and conditions thereof. Upon completion of the capital increase, the Company's interest in Lerong Zhixin through TCL New Technology would be approximately 2.71%.

On 1 June 2018, TCL King Electrical Appliances (Huizhou) Company Limited ("TCL King Electrical") and TCL New Technology, (collectively the "Purchasers", both are subsidiaries of the Company) and TCL Corporation, Ningbo Yuanheng Juyuan Investment Partnership (Limited Partnership) and Huizhou Guanlian Industrial Investment Co., Ltd. (collectively the "Vendors") entered into the equity transfer agreement, pursuant to which the Purchasers conditionally agreed to acquire from the Vendors and the Vendors conditionally agreed to transfer to the Purchasers regarding to 65%, 20%, and 15% of equity interest in CI Tech at a consideration of RMB793,020,340.79 which shall be settled in cash. Upon completion of the acquisition, CI Tech would become a subsidiary of the Company. The transaction was completed on 31 July 2018.

On 20 July 2018, TCL King Electrical and TCL Intelligence Industry (Huizhou) Company Limited ("TCL Intelligence Industry", a wholly-owned subsidiary of TCL Corporation) entered into the sale and purchase agreement pursuant to which, among others, TCL King Electrical shall purchase the Assigned Equipment (as defined in the announcement of the Company dated 20 July 2018) from TCL Intelligence Industry subject to and in accordance with the terms and conditions thereof with a consideration amounting to RMB15,494,434.63 (equivalent to approximately HK$18,377,948.91).

On 16 August 2018, the Company and Sunshine 100 China entered into the Platform Cooperation Agreement (as defined in the announcement of the Company dated 17 August 2018), pursuant to which the Company and Sunshine 100 China agreed to jointly establish a joint venture ("Smart Apartment Joint Venture") through their respective designated subsidiary(ies) established in the Mainland China as a management platform for sharing intelligentized operational network, and enter into the field of smart apartment sharing operation through the Smart Apartment Joint Venture. According to the terms of the Platform Cooperation Agreement, the registered capital of the Smart Apartment Joint Venture would be RMB50,000,000, in which RMB25,500,000, i.e. 51% of the total registered capital, would be contributed by Sunshine 100 China's designated subsidiary(ies) established in the Mainland China and RMB24,500,000, i.e. 49% of the total registered capital, would be contributed by the Company's designated subsidiary(ies) established in the Mainland China.

On 21 September 2018, Shenzhen TCL Digital Technology Co., Ltd. ("Shenzhen TCL Digital", a subsidiary of the Company), TCL Corporation, Ningbo Juge Yingrui Investment Partnership (Limited Partnership), Ningbo Xingxing Jiuli Investment Management Partnership (Limited Partnership), CSOT and Mr. He Jun entered into the articles, pursuant to which the parties thereto agreed to establish a joint venture (the "Joint Venture"). The registered capital of the Joint Venture is RMB100 million and Shenzhen TCL Digital would contribute RMB20 million. i.e. 20% of the total registered capital.

Save as disclosed above, the Group had no other significant investment, acquisition and disposal during the year.

Liquidity and Financial Resources

The Group's principal financial instruments comprise bank loans, factorings, cash and short-term deposits. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the lowest cost possible.

The cash and bank balance of the Group as at 31 December 2018 amounted to approximately HK$6,741,976,000, of which 1.0% was maintained in Hong Kong dollars, 38.3% in US dollars, 56.6% in Renminbi, 1.4% in Euros and 2.7% in other currencies for the overseas operation.

There was no material change in the available credit facilities when compared with those for the year ended 31 December 2017.

As at 31 December 2018, the Group's gearing ratio was 0% since the Group's cash and bank balances of approximately HK$6,741,976,000 were higher than the total interest-bearing borrowings of approximately HK$1,114,527,000. The maturity profile of the borrowings ranged from one to two years.

Pledge of Assets

As at 31 December 2018 and 2017, no asset of the Group was pledged.

Capital Commitments and Contingent Liabilities

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

	2018 **HK$'000**	2017 HK$'000
Contracted, but not provided for	**516,729**	284,396
Authorised, but not contracted for	**255,202**	269,823
	771,931	554,219

As at 31 December 2018, the Group did not have any material contingent liability not provided for in the consolidated financial statements.

Pending Litigation

The Group was not involved in any material litigation as at 31 December 2018.

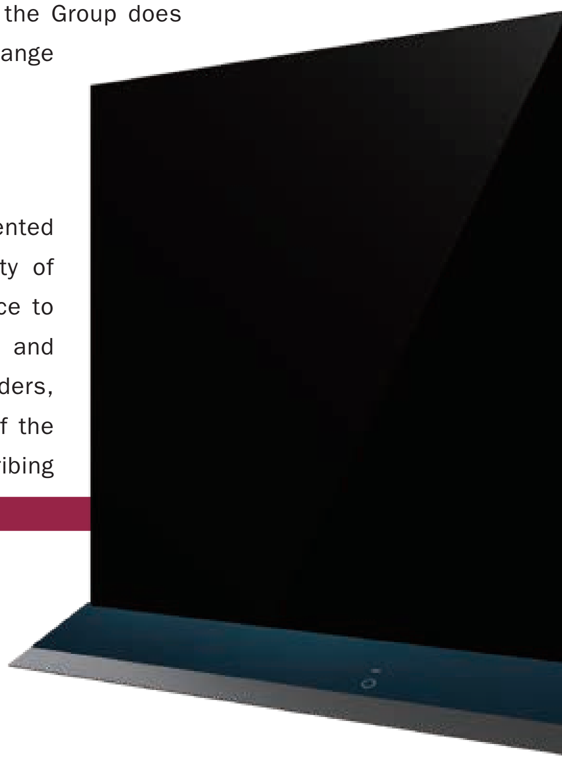
Foreign Exchange Exposure

Due to its international presence and operation, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor its total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In addition, in line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employee and Remuneration Policy

As at 31 December 2018, the Group had a total of 26,814 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Group. In order to align the interests of staff with those of the shareholders, share options were granted to the relevant grantees, including employees of the Group, under the Company's share option scheme. Share options for subscribing a total of 242,286,987 shares remained outstanding at the end of the reporting period.




BOARD OF

DIRECTORS

Board of Directors

EXECUTIVE DIRECTOR

MR. LI DONGSHENG

Aged 61, the founder, the chairman, an executive director and a member of the Strategy Committee of the Company. He is currently the chairman and chief executive officer of TCL Corporation (000100.SZ). Mr. LI is also currently (i) the chairman of TCL Communication Technology Holdings Limited (whose shares were listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") from September 2004 to September 2016) ("TCL Communication"); (ii) the chairman and the legal representative of CSOT; (iii) an independent non-executive director of Tencent Holdings Limited (700.HK); (iv) a non-executive director of Fantasia Holdings Group Co., Limited (1777.HK). He held the position of an independent director of Legrand (whose shares are listed on NYSE Euronext, securities code: Euronext: LR) from July 2013 to May 2018.

In 1982, Mr. LI graduated from South China University of Technology. He was awarded the"National Model Worker" and the "May 1st Labor Medal". He was elected as a delegate to China's 16th Party Congress, and served as a representative of the 10th, 11th, 12th and 13th National People's Congress. Mr. LI currently holds a number of prestigious positions as vice chairman of All-China Federation of Industry & Commerce, vice chairman of China Chamber of International Commerce, chairman emeritus of China Video Industry Association, chairman of Guangdong Provincial Enterprise Confederation and Guangdong Provincial Association of Entrepreneurs, chairman of Shenzhen Flat Panel Display Industry Association, etc. He was awarded "China's Economic Person of the Year" in 2002 and 2004 respectively. Mr. LI was named "2004 Asia Businessman of the Year" by Fortune magazine and "2004 Top 25 Global Business Leaders" by Time magazine and CNN. He received OFFICIER DE LA LEGION D'HONNEUR (French national honor) in 2004. In 2009, he was named "China's Economic Person of the Year – Business Leaders of the Decade" by CCTV. In 2013, Mr. LI was selected as one of the "Best CEOs of Listed Companies in China" by Forbes magazine. In 2018, Mr. LI was awarded the title of "Reform Pioneer" at the 40th anniversary of China's reform and opening up policy.

MR. WANG CHENG KEVIN

EXECUTIVE DIRECTOR

Aged 44, an executive director, the chief executive officer and a member of the Strategy Committee and the Management Team of the Company. He joined the Company in July 1997. During 1997 to 2006, he held various positions in HR Department of the Company's Sales Center and Europe Channel Customers Department of Strategic OEM Business Center of TTE. From 2006 to 2015, he successively worked as general manager of TCL (Vietnam) Corporation Limited, general manager of Overseas Business Center and vice president of the Company. From June 2015 to July 2016, Mr. WANG was assigned as HR Director and general manager of Human Resource Management Center of TCL Corporation. From August 2016 to November 2017, Mr. WANG was the general manager of Supply Chain Management Center and chief operating officer of the Company. Mr. WANG graduated from Heilongjiang Commercial College in 1997 with a Bachelor Degree in Economics. In 2005, he acquired a Master's Degree of Executive Business Administration from University of Texas at Arlington.

EXECUTIVE DIRECTOR

DR. YAN XIAOLIN

Aged 52, an executive director and a member of the Strategy Committee of the Company. Dr. YAN joined the Company in 2001 and is currently the Chief Technology Officer ("CTO"), a member of Executive Committee and senior vice president of TCL Corporation, the president of TCL Corporate Research of TCL Corporation, a director and chief scientist of CSOT, the chairman of Guangdong Juhua Printing Display Technology Co., Ltd., the chairman of Guangdong Hua Rui Optronic Material Co., Ltd., vice chairman of Amlogic Semiconductor (Shanghai) Co. Ltd. and a director of US Kateeva Corporation. Dr. YAN joined TCL Corporation in May 2001. From May 2001 to December 2004, he served as the project manager, director of Research Institute and deputy general manager of the Research & Development Centre of the Company. From December 2004 to October 2005, he was the CTO of Components Strategic Business Unit of TCL Corporation and the deputy principal and acting principal of TCL Corporate Research. From October 2005 to present, he is the president of TCL Corporate Research of TCL Corporation. From May 2008 to November 2012, Dr. YAN was a vice president of TCL Corporation.

Dr. Yan is also a member of the National Advisory Committee on New Materials Industry, a member of the national expert group for planning of "Key Project for New Materials Research and Development and Application", the leader of the expert group of New Display Key Project of the "12th Five-Year Plan" of the Ministry of Science and Technology of the PRC, the expert of planning group for Implementation Plan of Key Project on Strategic Advanced Electronic Materials of the National"13th Five-Year Plan", a committee member of the Electrical Technology Committee of the Ministry of Industry and Information Technology of the PRC, the chairman (Asia) of Society For Information Display, a director of the Display Technology Committee of the Chinese Vacuum Society, director of National Engineering Laboratory of Digital Life, executive director of National Engineering Research Center of Digital Life and chairman of China 3D Industry Association.

Dr. YAN graduated from the Institute of Plasma Physics of Chinese Academy of Science with a Doctoral Degree in July 1999. From July 1999 to May 2001, he was a postdoctoral fellow in the Chinese Academy of Science. Dr. YAN is currently a professor-level senior engineer and a concurrent professor in the Department of Information Engineering, Peking University.

Dr. YAN was awarded the special allowance from the State Council of the PRC, the National Middle-aged and Young Expert with Outstanding Contributions in the National "Hundred, Thousand and Ten Thousand Talent Project", Outstanding Leader for Technology and Innovation in Special Support for High-level Talent Program by Organization Department of the CPC Central Committee, the Leader of the Innovative Team in Key Sector of Innovative Talent Promotion Program supported by the Ministry of Science and Technology, Guangdong Province's Guangdong Hundred Talent, the Labour Model of Guangdong Province and the Outstanding National Leader of Shenzhen. In addition, Dr. YAN completed 12 national projects as a person-in-charge, formulated one set of International Electrotechnical Commission international standard and two sets of national standard as a group leader, as well as registered 32 patents of his inventions as the chief inventor, two of which were awarded the Gold Award and Outstanding Award of the PRC National Patent Award respectively.

MR. WANG YI MICHAEL

EXECUTIVE DIRECTOR

Aged 41, an executive Director, a member of the Remuneration Committee, Nomination Committee and the Management Team of the Company. He is also the general manager of China Sales Group of the Company.

Since joining the Company in September 2013, he had held the positions of vice president, financial controller and chief financial officer of the Company. From 1999 to 2001, Mr. WANG worked successively as a cost accountant and budget supervisor in Financial Department in Compressor Business Unit of Midea Group. In 2002, he was transferred to work as a planning and investment manager in Business Strategy and Investment Management Department of Midea Group. From 2003 to 2009, he was transferred to serve as the head of Business Management Department and Finance Department in the Microwave Electronics Business Unit of Midea Group. From 2009 to 2012, he worked as the chief vice president to oversee Finance, HR, IT and Legal affairs in Twins Group. Mr. WANG graduated from Jiangxi University of Finance and Economics in 1998 and holds a Bachelor Degree in Accounting. In 2008, he obtained a Master's Degree in Executive Business Administration from China Europe International Business School.

MR. ALBERT THOMAS DA ROSA, JUNIOR (ALIAS: ALBERTO THOMAZ DA ROSA, JUNIOR 羅凱栢)

NON-EXECUTIVE DIRECTOR

Aged 65, is a non-executive director of the Company. He has been a director of the Company since November 1999. Mr. DA ROSA holds both Bachelor's and Master's Law Degrees from The University of Hong Kong. He qualified as a solicitor in Hong Kong in 1980. He is currently a practicing solicitor and a partner of Messrs. Cheung Tong & Rosa Solicitors, Hong Kong.

Mr. DA ROSA is a fellow of The Chartered Institute of Arbitrators and The Hong Kong Institute of Directors, a member of the Hong Kong Securities and Investment Institute and an accredited mediator with certain institutions in the United Kingdom and Hong Kong.

Mr. DA ROSA is an independent non-executive director of HKC (Holdings) Limited (190.HK), and the company secretary of Y.T. Realty Group Limited (75.HK) and Yugang International Limited (613.HK), all of which are companies listed on the Hong Kong Stock Exchange.

Mr. DA ROSA serves as the chairman of the Board of Review (Inland Revenue Ordinance) Panel and as a member of the Standing Committee on Standards and Development of The Law Society of Hong Kong. He served as chairman of the Appeal Tribunal (Buildings) Panel from 2009 to 2017. He served the Solicitors Disciplinary Tribunal Panel from 1998 to 2014 as a member, deputy tribunal convenor and ultimately the tribunal convenor. He also served as a member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission of Hong Kong from 2003 to 2009.

MR. YANG ANMING

NON-EXECUTIVE DIRECTOR

Aged 41, a non-executive director and member of Audit Committee of the Company. Besides, he is also a senior vice president of CSOT. Mr. YANG was the finance manager of the Company from March 2001 to June 2006, the senior manager/vice president of the financial management centre of TCL Corporation (000100.SZ) from June 2006 to July 2014, the president of the financial management centre of TCL Corporation from July 2014 to October 2017, and was the chief financial officer of TCL Communication from October 2017 to January 2019. Mr. YANG graduated from Shanghai University of Finance and Economics with a Master's Degree in Business Administration and also obtained a Master's Degree of Executive Business Administration from China Europe International Business School in 2018. He is also a certified public accountant and a registered asset valuer in the People's Republic of China.

NON-EXECUTIVE DIRECTOR

MR. LI YUHAO

Aged 37, a non-executive director of the Company. Mr. LI served as an engineer and the chief business manager in BOE Technology Group Co., Ltd. (000725.SZ & 200725.SZ), from July 2004 to September 2008. From January 2010 to December 2010, he worked as an investment manager of AXA. From January 2011 to August 2013, he was employed as an investment leader of the Beijing Office of Infinity Investment Group. From August 2013 to September 2017, he was the chief investment officer and the head of internet investment department in Legend Holdings Limited (03396.HK). From October 2017 to December 2018, Mr. LI was a director and senior vice president of Leshi Internet Information & Technology Corporation, Beijing, (300104.SZ). From December 2018 to present, Mr. LI has served as assistant to president of Culture Group and general manager of investment department in Sunac China Holdings Limited (01918.HK). Mr. LI graduated from Peking University with a Master's Degree in Business Administration.

MR. ROBERT MAARTEN WESTERHOF

INDEPENDENT NON-EXECUTIVE DIRECTOR

Aged 75, is an independent non-executive director of the Company. He has over thirty years' experience in the electronics industry. Mr. WESTERHOF had held senior management positions in the Computer, Telecommunications and Medical Systems divisions of Philips, his last positions in Philips were CEO of Philips Asia (based in Hong Kong and Shanghai) and CEO of Philips North America (based in New York). After his retirement, Mr. WESTERHOF had positions in the Supervisory Board of listed companies in United Kingdom and the Netherlands in the areas of Electronics, ICT and Medical products and as chairman of the Supervisory Board of Sparta Beheer B.V., a leading football club in the Netherlands with activities in the Netherlands, Mainland China and Hong Kong. Mr. WESTERHOF is currently the regional coordinator at a non-profit healthcare organization in Netherlands.

Mr. WESTERHOF holds a Master's Degree in Business Administration at the Erasmus University of Rotterdam, the Netherlands, and he has also completed Harvard Business School's Advanced Management Program and International Senior Management Program.

DR. TSENG SHIENG-CHANG CARTER

INDEPENDENT NON-EXECUTIVE DIRECTOR

Aged 70, an independent non-executive director, the chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee of the Company. Dr. TSENG served as an independent non-executive director of TCL Corporation from 20 June 2008 to 20 June 2011. Dr. TSENG is currently a senior consultant of the Shenzhen Municipal Government, senior consultant of Tianjin Economic-Technological Development Area and the executive chairman of "Nankai International Business Forum". Dr. TSENG also serves as adjunct professor at a number of renowned universities over the globe including the University of Alberta (Canada), the City University of Hong Kong, the Nankai University in Tianjin, the Sichuan University and the University of Electronic Science and Technology of China in Chengdu. Dr. TSENG is also a member of the U.S.-based "Committee of 100".

Dr. TSENG holds a Bachelor's Degree of Science in Electrical Engineering from the National Taiwan University, he then pursued further studies at the University of California where he received his Master's and Doctor's Degrees in Computer Science and Electronics Engineering. Dr. TSENG has over 38 years of experience in the high-tech industry. While in the U.S., Dr. TSENG worked at PARC (XEROX Research Center) in Silicon Valley and various U.S. based companies including Lockheed Aircraft Co. and NRL. Dr. TSENG then returned to Taiwan in 1980, and was a co-founder of MICROTEK which was listed in 1988 – the world class leader in the image scanner industry, one of the first and most successful listed high-tech companies based in Taiwan Hsinchu Science Park. Dr. TSENG has also drawn on his rich experience to coach and mentor executives and managers in the high-tech arena. In 1998, Dr. TSENG set up the "Little Dragon Foundation" with a mission to guide entrepreneurs of tomorrow, which has served many large corporations in the PRC. Dr. TSENG also serves as the overseas director of Canada National Institute of Nano-Technology and a director of China National Academy of Nano Technology & Engineering.

PROFESSOR WANG YIJIANG

INDEPENDENT NON-EXECUTIVE DIRECTOR

Aged 65, an independent non-executive director, the chairman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee of the Company. He is currently the Professor of Economics and Human Resource Management, an Academic Associate Dean at Cheung Kong Graduate School of Business and a senior researcher at the National Center of Economic Research, Tsinghua University. He is currently also an independent director of Shenzhen ZQGame Co., Ltd. (300052.SZ); a non-executive director of Zhejiang Red Dragonfly Footwear Co., Ltd. (603116.SH); an independent non-executive director of Zhuhai Holdings Investment Group Limited (908.HK); and an independent director of Bank of Sanxiang.

He served as a consultant of World Bank, a senior researcher of Chinese Economy Research Institute in Business and Management School of Tsinghua University and vice president of the Chinese Economists Society of North America. He was also a professor emeritus of Human Resource Management at the Carlson School of Management of University of Minnesota, a research fellow at the William Davidson Institute of Transition Economics at the University of Michigan, an independent director of Beijing Huatu Hongyang Education Culture Corp., Ltd. (stock code: 830858), which is a company listed on NEEQ and an external director of XCMG Construction Machinery Co., Ltd. (000425.SZ).

His research areas cover human resource management, labour and personnel economics, comparative international management systems, economics of transition and emerging markets and economics of organisation, and his research findings have been frequently quoted. Professor WANG graduated from the Peking University with a Bachelor's Degree in Economics and a Master's Degree in International Economics in 1982 and 1985 respectively. He then pursued further studies and obtained a Master's Degree and a Doctor of Philosophy Degree in Economics at the Harvard University in 1989 and 1991 respectively.

INDEPENDENT NON-EXECUTIVE DIRECTOR

MR. LAU SIU KI

Aged 60, an independent non-executive director, the chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee of the Company. He graduated from Hong Kong Polytechnic in 1981. He is currently a financial advisory consultant of his management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. LAU worked at Ernst & Young for over 15 years. He has over 35 years of experience in corporate governance, corporate financing, financial advisory and management, accounting and audit. Mr. LAU is currently a senior member of both of the Association of Chartered Certified Accountants ("ACCA") and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. LAU was a member of the World Council of ACCA from 2002 to 2011 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA.

Currently, Mr. LAU also serves as an independent non-executive director of Binhai Investment Company Limited (2886.HK), Comba Telecom Systems Holdings Limited (2342.HK), Embry Holdings Limited (1388.HK), Samson Holding Ltd. (531.HK) and FIH Mobile Limited (2038.HK), all being listed companies on the Hong Kong Stock Exchange. He is also the company secretary of Hung Fook Tong Group Holdings Limited (1446.HK), Yeebo (International Holdings) Limited (259. HK) and Expert Systems Holdings Limited (8319.HK), all being listed companies on the Hong Kong Stock Exchange. From March 2015 to March 2016, Mr. LAU served as an independent non-executive director of UKF (Holdings) Limited (1468.HK) and an independent non-executive director of TCL Communication from April 2004 to October 2016. From June 2014 to June 2017, Mr. LAU served as an independent supervisor of the sixth session of Beijing Capital International Airport Company Limited (694.HK). From June 2004 to December 2018, he served as an independent non-executive director of China Medical & HealthCare Group Limited (383.HK),

MR. HU LIHUA

CHIEF FINANCIAL OFFICER

Aged 46, the chief financial officer of the Company. Mr. HU was the financial manager of TCL Computer Technology Co., Ltd. from August 2000 to September 2005, the financial controller of Huizhou TCL Mobile Communication Co., Ltd. from September 2005 to March 2012, the financial controller of CSOT from March 2012 to September 2013, and the chief financial officer of CSOT from September 2013 to January 2019. During Mr. HU's tenure with CSOT, he experienced the successful construction of 6 semi-conductor display panel factories and the evolution of 3 factories reaching world-leading operational efficiency, and was a member of the core management team of CSOT and its subsidiaries. Mr. HU graduated from the Central Radio and TV University (currently known as Open University of China) and the Dongbei University of Finance and Economics and obtained a Master's Degree in Business Administration at China Europe International Business School. Mr. HU is also a certified public accountant in the People's Republic of China.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng (Chairman) (appointed as an executive Director and the Chairman with effect from 2 March 2018)
Mr. WANG Cheng Kevin (CEO)
Mr. YAN Xiaolin
Mr. WANG Yi Michael
Mr. Bo Lianming (resigned as an executive Director and the Chairman with effect from 2 March 2018)

Non-executive Directors

Mr. Albert Thomas DA ROSA, Junior
Mr. HUANG Xubin (resigned as a non-executive Director with effect from 10 January 2019)
Mr. YANG Anming (appointed as a non-executive Director with effect from 10 January 2019)
Mr. ZHANG Zhiwei (resigned as a non-executive Director with effect from 24 August 2018)
Mr. LIU Hong (resigned as a non-executive Director with effect from 24 August 2018)
Mr. LI Yuhao (appointed as a non-executive Director with effect from 24 August 2018)

Independent Non-executive Directors

Mr. Robert Maarten WESTERHOF
Dr. TSENG Shieng-chang Carter
Professor Wang Yijiang
Mr. LAU Siu Ki

COMPANY SECRETARY

Ms. CHOY Fung Yee, Solicitor, Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

LEGAL ADVISOR

Cheung Tong & Rosa Solicitors
Room 501, 5/F
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

PRINCIPAL REGISTRAR

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman
KY1-1110
Cayman Islands

BRANCH REGISTRAR

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL OFFICE

7th Floor, Building 22E
22 Science Park East Avenue
Hong Kong Science Park
Shatin, New Territories
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

INVESTOR AND MEDIA RELATIONS

Strategic Financial Relations (China) Limited
2402 Admiralty Centre I
18 Harcourt Road
Hong Kong

INTRODUCTION

The board of directors ("Directors" and each a "Director") of the Company ("Board") aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the world's leader in the electronics industry. The Group's ultimate goal is to maximise values for its shareholders and customers, and to provide opportunities for employees.

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relations with its employees, business partners, shareholders and investors.

On 13 August 2013, the Company adopted a corporate governance code prepared based on the code provisions (the "Code Provisions") of the latest revised code on corporate governance (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange (the "Listing Rules") as the guidelines for corporate governance of the Company, which was subsequently amended on 20 December 2018 to reflect the latest changes in the Code Provisions, and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2018, the Company has complied with the Code Provisions with the following exceptions:

Under Code Provision D.1.4, all directors should clearly understand delegation arrangements in place, and the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Company has no formal letters of appointment for Mr. BO Lianming (resigned as the Chairman of the Board and an executive Director with effect from 2 March 2018) being the then Chairman of the Board and an executive Director, Mr. Albert Thomas DA ROSA, Junior and Mr. HUANG Xubin (resigned as a non-executive Director with effect from 10 January 2019), both being non-executive Directors, and Mr. Robert Maarten WESTERHOF and Dr. TSENG Shieng-chang Carter, both being independent non-executive Directors, as most of them have been serving as Directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and the Directors, and so there is no written record of the same. In any event, all Directors, including those without a letter of appointment and those appointed for a specific term, shall be subject to retirement by rotation in the manner prescribed under the articles of association of the Company ("Articles") and on re-election of the retiring Directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant Directors.

Under Code Provision E.1.2, the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval.

Due to other pre-arranged business commitments which must be attended to, Mr. LI Dongsheng, being the Chairman of the Board and an executive Director was not present at the annual general meeting of the Company held on 23 May 2018 ("2018 AGM"). However, Dr. TSENG Shieng-chang Carter, being the chairman of the Remuneration Committee and an independent non-executive Director, Professor WANG Yijiang, being the chairman of the Nomination Committee and an independent non-executive Director and Mr. LAU Siu Ki, being the chairman of the Audit Committee and an independent non-executive Director, were present at the 2018 AGM to maintain an ongoing dialogue and communication with the shareholders and encourage their participation.

Under Code Provision F.1.1, the company secretary should be an employee of the Company and have the day-to-day knowledge of the Company's affairs.

The company secretary of the Company, Ms. CHOY Fung Yee ("Ms. CHOY") is a practising solicitor in Hong Kong and a partner of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors. During the year and up to 24 August 2018, the Company assigned Mr. SIN Man Lung, the then financial controller of the Company, as the contact person with Ms. CHOY. From 24 August 2018 up to 18 March 2019, Mr. WANG Yi Michael, an executive Director and the then chief financial officer, replaced Mr. SIN Man Lung as the assigned contact person with Ms. CHOY, and with effect from 18 March 2019, Mr. HU Lihua, the current chief financial officer of the Company, replaced Mr. WANG Yi Michael as the assigned contract person with Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. CHOY through the contact persons assigned. Given the long-term relationship between Ms. CHOY and the Group, Ms. CHOY is very familiar with the operations of the Group and has in depth knowledge of the management of the Group. Having in place a mechanism that Ms. CHOY will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. CHOY as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

For the period from 1 January 2019 up to the date of publication of this annual report, the Company has continued to comply with Code Provisions except Code Provision D.1.4 and Code Provision F.1.1. The reasons for such deviation remain the same as those stated above.

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received two confirmations (the "Confirmations") from TCL Corporation and T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries") (collectively the "Covenantors") signed by them confirming that for the period from 1 January 2018 to 31 December 2018 and up to the date of signing the Confirmations by the relevant Covenantors, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 November 1999 as amended from time to time (the "Deed of Non-Competition").

The independent non-executive Directors have reviewed the Confirmations and all of them are satisfied that the Deed of Non-Competition has been complied with during the year.

DIRECTORS

The Board

The Board, led by the Chairman, steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the Directors in person or through other electronic means of communication.

Board Composition

There are currently 11 Directors, all being industry veterans, responsible to the shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management. The Board during the year ended 31 December 2018 and as at the date of this annual report comprises the following Directors:

Executive Directors

Mr. LI Dongsheng (appointed as an executive Director and the Chairman on 2 March 2018)
Mr. WANG Cheng Kevin
Mr. YAN Xiaolin
Mr. WANG Yi Michael
Mr. BO Lianming (resigned as an executive Director and the Chairman on 2 March 2018)

Non-executive Directors

Mr. Albert Thomas DA ROSA, Junior
Mr. HUANG Xubin (resigned as a non-executive Director with effect from 10 January 2019)
Mr. YANG Anming (appointed as a non-executive Director with effect from 10 January 2019)
Mr. ZHANG Zhiwei (resigned as a non-executive Director with effect from 24 August 2018)
Mr. LIU Hong (resigned as a non-executive Director with effect from 24 August 2018)
Mr. LI Yuhao (appointed as a non-executive Director with effect from 24 August 2018)

Independent Non-executive Directors
Mr. Robert Maarten WESTERHOF
Dr. TSENG Shieng-chang Carter
Professor WANG Yijiang
Mr. LAU Siu Ki

An updated list of the Company's Directors by category identifying their role and function is at all times available on the websites of the Company and the Hong Kong Stock Exchange. The list specifies whether the Director is an independent non-executive Director and expresses the respective roles and functions of each Director.

The Company identifies the independent non-executive Directors in all corporate communications which disclose the names of Directors.

Details of the biographies of the Directors are given under the section "Board of Directors and Senior Management" of this annual report at pages 34 to 47.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The non-executive Directors play an important role on the Board. Accounting for more than half of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole. Throughout the year of 2018, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and the number of independent non-executive Directors make up at least one-third of the total number of members of the Board.

Number of Meetings Attended/Eligible to Attend in 2018

During the year of 2018, the Board held 4 regular meetings at about quarterly intervals and 8 additional meetings. As regards general meetings, the Company held the 2018 AGM, the January EGM, the May EGM and the July EGM during the year to consider the matters, among others, regarding (i) the Rights Issue; (ii) seeking of scheme mandate to issue shares under the share award scheme of the Company; and (iii) the acquisition of CI Tech. A table summary in regard to the directors' participation at the various board meetings and board committee meetings and the Company's general meetings is set out below:

	Regular Board Meetings	Additional Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	Strategy Committee Meetings (Note 8)	General Meetings
Executive Directors							
LI Dongsheng (Note 1)	3/4	2/5	N/A	N/A	N/A	3/5	0/3
WANG Cheng Kevin	3/4	6/8	N/A	N/A	N/A	6/6	0/4
YAN Xiaolin	2/4	7/8	N/A	N/A	N/A	6/6	0/4
WANG Yi Michael	4/4	7/8	N/A	4/4	2/2	N/A	3/4
BO Lianming (Note 2)	0/0	3/3	N/A	N/A	N/A	0/1	0/1
Non-executive Directors							
Albert Thomas DA ROSA, Junior	4/4	7/8	N/A	N/A	N/A	N/A	4/4
HUANG Xubin (Note 3)	3/4	5/8	2/3	N/A	N/A	N/A	0/4
ZHANG Zhiwei (Note 4)	1/3	5/8	N/A	N/A	N/A	N/A	0/4
LIU Hong (Note 5)	0/3	0/8	N/A	N/A	N/A	N/A	0/4
YANG Anming (Note 7)	0/0	0/0	0/0	N/A	N/A	N/A	0/0
LI Yuhao (Note 6)	1/1	0/0	N/A	N/A	N/A	N/A	0/0
Independent Non-executive Directors							
Robert Maarten WESTERHOF	4/4	7/8	N/A	N/A	N/A	N/A	2/4
TSENG Shieng-chang Carter	4/4	8/8	3/3	4/4	2/2	N/A	2/4
WANG Yijiang	3/4	6/8	2/3	3/4	1/2	N/A	4/4
LAU Siu Ki	3/4	8/8	3/3	3/4	1/2	N/A	4/4

Notes:

1. Mr. LI Dongsheng was appointed as an executive Director and the Chairman of the Board with effect from 2 March 2018.

2. Mr. BO Lianming resigned as an executive Director and the Chairman of the Board with effect from 2 March 2018.

3. Mr. HUANG Xubin resigned as a non-executive Director with effect from 10 January 2019.

4. Mr. ZHANG Zhiwei resigned as a non-executive Director with effect from 24 August 2018.

5. Mr. LIU Hong resigned as a non-executive Director with effect from 24 August 2018.

6. Mr. LI Yuhao was appointed as a non-executive Director with effect from 24 August 2018.

7. Mr. YANG Anming was appointed as a non-executive Director with effect from 10 January 2019.

8. The Strategy Committee was established on 22 September 2017 and was made up of Mr. BO Lianming as the chairman and Mr. WANG Cheng Kevin and Mr. YAN Xiaolin as the members. After the resignation of Mr. BO Lianming, Mr. LI Dongsheng was appointed as the chairman of the Strategy Committee with effect from 2 March 2018.

Notice of regular Board meetings are served to all Directors at least 14 days before the meeting while reasonable notice is generally given for other Board meetings.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the members, to ensure that they have sufficient time to review the board papers, be adequately prepared for the meeting, keep the Directors apprised of the latest developments and financial position of the Company and to enable them to include any matter in the agenda and to make informed decisions.

The Board and each Director, upon reasonable request, have access to independent professional advice to assist them in performing their duties to the Company, at the Company's expense.

Minutes of all Board meetings, Audit Committee, Remuneration Committee and Nomination Committee meetings are kept by the Company Secretary. All of the above minutes record the matters considered and the discussions and decisions reached by the relevant members in sufficient detail, including any concern raised by Directors or dissenting views expressed. Any Director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to Directors or members of the relevant committee for comment within a reasonable time after each meeting and the final version is sent to all Directors or committee members for their record.

According to the current Board practice, any transaction, which involves a conflict of interests between a substantial shareholder or a Director and the Company, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the independent non-executive Directors who have no material interest in the said transaction. Directors are abstained from voting and not be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The Company has maintained appropriate insurance cover in respect of legal action against its Directors and officers arising out of corporate activities.

Chairman and CEO

The Company fully supports the division of responsibility between the Chairman of the Board and the CEO to ensure a balance of power and authority, and adopted a set of consolidated memorandum of duties setting out its division of responsibilities between the Chairman and the CEO on 24 February 2012.

For the period commencing from 1 January 2018 to 2 March 2018, the position of the Chairman was held by Mr. BO Lianming. Following the resignation of Mr. BO Lianming as the Chairman with effect from 2 March 2018, the position of the Chairman has been held by Mr. LI Dongsheng.

The core duties of the Chairman include:

- ensuring, with the assistance of the management, that the Directors receive adequate, accurate, clear, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings;

- providing leadership for the Board;

- ensuring that the Board works effectively, performs its responsibilities, discusses all key and appropriate issues in a timely manner, with good corporate governance practices and procedures;

- ensuring that the agenda for each Board meeting are drawn up and approving the same, taking into account matters proposed by other Directors;

- encouraging all Directors to fully and actively contribute to the Board’s affairs, express different views and discuss issues in sufficient depth before reaching any consensus in Board decisions;

- facilitating the effective contribution of Directors, in particular, non-executive Directors, and promote the constructive relations between executive and non-executive Directors;

- meeting at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters were openly discussed; and

- ensuring the effective communication between the Board and the shareholders as a whole through different channels, including (i) printed or electronic copies (as elected by shareholders) of corporate communications required by the Listing Rules; (ii) the AGM which provides a forum for shareholders to raise comments and exchange views with the Board; (iii) the Company's website which allows the shareholders to acquire the updated and key information on the Group and to provide feedback for the Company.

Appointments, Re-election and Removal of Members of the Board

Under article 116 of the Articles, at each AGM, not less than one-third of the Directors for the time being shall retire from office by rotation and every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every 3 years while those retiring Directors shall be eligible for re-election. Any Director who has not been subject to retirement by rotation in the 3 years preceding the annual general meeting shall retire by rotation at such AGM.

At the 2018 AGM, Mr. YAN Xiaolin, Mr. Albert Thomas DA ROSA, Junior, Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang retired from office by rotation pursuant to article 116 of the Articles, and were re-elected as Directors thereat.

Independent Non-executive Directors

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive Director of his/her independence to the Company. The Company has assessed the independence and considers all of the independent non-executive Directors to be independent based on the independence criteria in accordance with the requirements in Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationships which will interfere with the exercise of their independent judgement.

Mr. Robert Maarten WESTERHOF has served the Company for more than 9 years, since his appointment in 2006. However, the Company believes that Mr. Robert Maarten WESTERHOF is still independent as he is very familiar with the business and operation of the Group as well as relevant responsibilities, obligations and requirements under the Listing Rules for being an independent non-executive Director. The Company is not aware of any matter which may indicate that Mr. Robert Maarten WESTERHOF cannot remain as an independent non-executive Director. Having considered background and experience of Mr. Robert Maarten WESTERHOF, the Board is of the view that Mr. Robert Maarten WESTERHOF has the expertise allowing him to discharge his duty as an independent non-executive Director and to give independent competent advice to the Company and it is in the best interests of the Company and its shareholders as a whole that Mr. Robert Maarten WESTERHOF be continued to act as an independent non-executive Director.

Non-executive Directors

Under the Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election.

Mr. Robert Maarten WESTERHOF and Mr. LAU Siu Ki will retire from office by rotation at the forthcoming AGM and are subject to re-election by the shareholders of the Company, who, if re-elected, will hold office until the conclusion of the AGM of 2022.

All the other non-executive Directors and independent non-executive Directors were elected to hold office for a specific term until the AGM to be held in 2021, except for Mr. LI Yuhao and Mr. YANG Anming, who, if elected at the forthcoming AGM, will hold office until the conclusion of the AGM of 2022.

Nomination of Directors

The Board has established a nomination committee (the "Nomination Committee") to provide a framework and set the standards for the appointment of high quality directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s).

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

Responsibilities of Directors

The chief financial officer of the Company, with assistance from the Company's external legal advisor, works closely with the newly appointed Directors both immediately before and after his/her appointment to acquaint the newly appointed directors with the duties and responsibilities as a Director and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisors setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related laws and relevant regulatory requirements of Hong Kong is provided to each newly appointed Director. The package also includes information relating to the operations and business of the Group. The Directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of Directors from time to time. Guidelines for Directors issued by the Companies Registry of Hong Kong have been forwarded to each Director for his/her information and ready reference.

The Board views that the non-executive Directors are well aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at the Board meetings, taking the lead where potential conflicts of interest arise, scrutinizing the Company's performance and providing constructive and informed advice on the business strategies, policies, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit Committee, Remuneration Committee and/or Nomination Committee.

The Directors have disclosed to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. They have also informed the Company of the identity of other public companies or organisations they serve and the time involved in these public companies or organisations.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which he/she is charged with. The contribution made by the Directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the Directors with reference to his/her necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and board committee meetings indicates the constant participation of all Directors, including executive, independent non-executive and other non-executive Directors and ensures the better understanding of the views of shareholders by all Directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

To fulfil their duties properly, where they consider it necessary to obtain additional information other than that is provided by the management, the Directors make inquiries during the Board meetings and Board committee meetings. The queries raised by Directors have received a prompt and full response.

Induction and Continuous Professional Development

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2018 to 31 December 2018:

Directors	Read materials	Attend seminars/briefings
Executive Directors		
Mr. LI Dongsheng	✓	✓
Mr. WANG Cheng Kevin	✓	✓
Mr. YAN Xiaolin	✓	✓
Mr. WANG Yi Michael	✓	✓
Mr. BO Lianming (resigned)	✓	✓
Non-executive Directors		
Mr. Albert Thomas DA ROSA, Junior	✓	✓
Mr. HUANG Xubin (resigned)	✓	✓
Mr. ZHANG Zhiwei (resigned)	✓	✓
Mr. LIU Hong (resigned)	✓	✓
Mr. YANG Anming	N/A	N/A
Mr. LI Yuhao	✓	✓
Independent Non-executive Directors		
Mr. Robert Maarten WESTERHOF	✓	✓
Dr. TSENG Shieng-chang Carter	✓	✓
Professor WANG Yijiang	✓	✓
Mr. LAU Siu Ki	✓	✓

Securities Transactions Guidelines

The Board has adopted a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that throughout the year ended 31 December 2018, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The Directors' interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571) ("SFO") as at 31 December 2018 are set out on pages 93 to 95 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employees, including any employee or a director or employee of a subsidiary or holding company who, because of his office or employment, is likely to be in possession of inside information in relation to the issuer or its securities, in respect of their dealings in the Company's securities.

DELEGATION BY THE BOARD

Management Functions

The Board delegates its powers and authorities from time to time to the Board committees (the "Board Committee") in order to ensure the operational efficiency and specific issues are being handled by personnel with the relevant expertise. All Board Committees are provided with accurate and sufficient information in a timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources for the Board Committees to discharge their duties.

On 24 February 2012, the Board has adopted a set of consolidated memorandum of duties setting out its delegation policy. The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the Company.

The types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole;
- business plan, budgets and public announcements;

- delegation to the Chairman, and delegation to and by Board Committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditor;
- remuneration of Directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies.

The types of decisions that the Board has delegated to the management include:

- approving the extension of the Group's activities not in a material manner into a new geographic location or a new business;
- approving assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving the entering into of any connected transactions not requiring disclosure under the Listing Rules;
- approving the nomination and appointment of personnel other than the member of the Board, senior management and auditor;
- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and cessation of non-material part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

Operation

To facilitate the strategic development of the Company, enhance its operation efficiency and core competitiveness and improve its management and decision-making procedures, the Board transformed the predecessor executive committee into the strategy executive committee (the "Strategy Executive Committee") on 23 October 2014 with specific written terms of reference. The Strategy Executive Committee comprised three executive Directors, namely Mr. BO Lianming (chairman), Mr. YAN Xiaolin and Ms. XU Fang.

In order to facilitate the strategic development of the Company and enhance its operation efficiency, the Board resolved on 22 September 2017 to dissolve the Strategy Executive Committee and to establish the strategy committee ("Strategy Committee"). After the dissolution of the Strategy Executive Committee, the Strategy Executive Committee no longer remained in force.

At the time of the establishment of the Strategy Committee, it comprised three executive Directors of the Company for the period commencing from 22 September 2017 to 2 March 2018, namely, Mr. BO Lianming (chairman), Mr. WANG Cheng Kevin and Mr. YAN Xiaolin. Following the resignation of Mr. BO Lianming as the chairman of the Strategy Committee with effect from 2 March 2018, the Strategy Committee currently comprises Mr. LI Dongsheng (chairman), Mr. WANG Cheng Kevin and Mr. YAN Xiaolin.

Board Committees

Throughout 2018, the Board had four Board Committees. The four committees under the Board are the Remuneration Committee, the Audit Committee, the Nomination Committee, and the Strategy Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

Attendance of the relevant members of the Board Committee at the meetings of the committees in 2018 is set out on page 53 of this annual report.

Nomination Committee

The Nomination Committee currently comprises four members, namely Mr. WANG Yi Michael, Dr. TSENG Shieng-chang Carter, Professor WANG Yijiang, and Mr. LAU Siu Ki, the majority being independent non-executive Directors. Professor WANG Yijiang is the chairman of the Nomination Committee. The Nomination Committee held two meetings during 2018.

The Nomination Committee is governed by its terms of reference, which are closely aligned with the relevant Code Provisions requirements and are available at both the Company's website http://electronics.tcl.com and Hong Kong Stock Exchange's website www.hkex.com.hk.

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the independent non-executive Directors;
- make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and any proposed change to the Board to implement the Company's corporate strategy;

- review the board diversity policy (“Board Diversity Policy”); and

- review the sufficiency of time commitment of Directors to perform their responsibilities.

The work performed by the Nomination Committee during 2018 included:

- considering the nomination of Mr. LI Dongsheng as an executive Director with effect from 2 March 2018;

- considering the nomination of Mr. LI Yuhao as a non-executive Director with effect from 24 August 2018;

- reviewing policy for nomination of Directors;

- reviewing the current Board structure, diversity and composition;

- assessing the independence of all independent non-executive Directors;

- reviewing the contribution required from a Director to perform his/her responsibilities and whether he/she has spent sufficient time performing them; and

- reviewing the training and continuous professional development of Directors.

The Nomination Committee performed all these main duties in 2018.

The Company adopted the nomination policy (“Nomination Policy”) on 20 December 2018 (with effect from 1 January 2019), which sets out the Company’s policy in relation to nomination that the Company has been following. The terms of the Company’s Nomination Policy are set out as follows:

OBJECTIVE

1. This Nomination Policy aims to list out the principles and procedures for selection and nomination of the Board, to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company’s business.

2. The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies.

3. The Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of Directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

SELECTION CRITERIA

4. The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate.

Common Criteria for All Directors

4.1. Reputation, character and integrity

4.2. Commitment in respect of available time

4.3. The willingness to assume broad fiduciary responsibility

4.4. Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs

4.5. Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company

4.6. Significant business or public experience relevant and beneficial to the Board and the Company

4.7. Breadth of knowledge about issues affecting the Company

4.8. Ability to objectively analyse complex business problems and exercise sound business judgement

4.9. Ability and willingness to contribute special competencies to Board matters

4.10. Fit with the Company's culture

4.11. Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

Criteria Applicable to Non-executive Directors/Independent Non-executive Directors

4.12. Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a Director (including attendance at and active participation in Board and committee meetings), and considering the other responsibility of the relevant candidate (such as other directorships held in public companies the securities of which are listed on any securities market in Hong Kong or overseas and other major appointments, if any) and the effort and time that may be required by the candidate in fulfilling such role

4.13. Accomplishments of the candidate in his/her field

4.14. Outstanding professional and personal reputation

4.15. The candidate's ability to meet the independence criteria for directors established in the Listing Rules

5. These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

6. Retiring directors, save for those who have served as independent non-executive Directors for a period of 9 consecutive years, are eligible for nomination by the Board to stand for re-election at a general meeting. Any independent non-executive Director of the Company who has served such role for a period of 9 consecutive years are, subject to the Nomination Committee having satisfied that he/she still maintains his/her independence and that his/her continuation to serve in such role is in the interest of the Company and its shareholders as a whole, eligible for nomination by the Board to stand for re-election at a general meeting.

7. Proposed candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as such directorship of the Company and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as such directorship.

8. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

NOMINATION PROCEDURES

9. The Board Affairs team of the Company shall be responsible to liaise with the Company Secretary to call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

10. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. The Nomination Committee follows the procedures below when considering nomination of directors:

10.1. the Nomination Committee will evaluate the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy or the directorship the candidate is proposed to take (e.g. independence status in the case of an independent non-executive Director);

10.2. the Nomination Committee will consider the role and capabilities required for the particular vacancy or the directorship;

10.3. the Nomination Committee will identify candidates through personal contacts/recommendations by Board members, senior management, business partners or investors, and will to the extent possible select from a broad range of candidates who are outside the Board's circle of contacts in accordance with the Company's Board Diversity Policy;

10.4. where appropriate, the Nomination Committee will conduct interview with the relevant candidate to evaluate whether he/she meets the aforesaid selection and nomination criteria, and verify the information provided by the candidate;

10.5. the Nomination Committee will make recommendations to the Board on the appointment or re-appointment of Directors.

11. The Nomination Committee shall ensure the selection process should be transparent and fair.

12. For the avoidance of doubt, the ultimate responsibility for selection and appointment of Directors rests with the entire Board.

13. Until the issue of the shareholder circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.

14. In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, a circular will be sent to shareholders. The names, brief biographies (including qualifications and relevant experience), independence (for independence non-executive Directors), proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to shareholders.

15. "Procedures for Shareholders to propose a person for election as a Director" shall apply in respect of the nomination by shareholders of person for election as Director.

16. A candidate is allowed to withdraw his candidature at any time before the despatch of circular to shareholders for election at the general meeting by serving the Company a notice in writing provided that such notice shall be served on the Company not less than 3 business days prior to the despatch of the said circular. If any candidate wishes to withdraw his candidature after the despatch of circular but before the convening of the general meeting for any special reason(s), the Board may, after considering such reason(s) and having confirmed that such withdrawal is in the interest of the Company and the shareholders, approve such withdrawal.

17. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

CONFIDENTIALITY

18. Unless required by law or any regulatory authority, under no circumstances shall a member of the Nomination Committee or a staff member of the Company disclose any information to or entertain any enquiries from the public with regard to any nomination or candidature before the circular to shareholders, as the case may be, is issued. Following the issue of the circular, the Nomination Committee or other staff member of the Company, approved by the Nomination Committee may answer enquiries from the regulatory authorities or the public but confidential information regarding nominations and candidates should not be disclosed.

REVIEW

19. In addition to meeting for the purpose of considering Board appointment(s), the Nomination Committee shall from time to time meet (and at least once annually):

    19.1. to review and consider the performance of the Board, including but not limited to looking at benchmarking how the Company's Board measures up against the other boards in Hong Kong or Mainland China of peer issuers;

    19.2. to consider the need to refresh the Board composition regularly to avoid entrenchment and to attract fresh thinking;

    19.3. to consider Board succession planning and conduct periodical reviews of the plan to ensure the long term success of the Company;

    19.4. to monitor and review this Nomination Policy to ensure that it remains relevant to the Company's needs and reflects both current regulatory requirements and good corporate governance practice.

20. The Nomination Committee will continually review this Nomination Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel this Nomination Policy at any time.

21. The Board may in accordance with the requirements of the relevant laws and regulations disclose in the Company's Corporate Governance Report annually any information regarding this Nomination Policy, procedures and objectives made for implementation of this Nomination Policy and the progress made towards achieving the objectives.

Board Diversity Policy

The Company adopted the Board Diversity Policy on 13 August 2013 which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board, which was subsequently revised and updated on 20 December 2018.

The Company recognizes the benefits of Board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. All Board appointments and succession will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Board has set measurable objectives (in terms of gender, skills and experience) to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The Nomination Committee considers that the current composition of the Board is characterised by diversity after taking into account its own business model and specific needs, whether considered in terms of professional background or skills.

Remuneration Committee

The Remuneration Committee currently comprises four members, namely Mr. WANG Yi Michael, Dr. TSENG Shieng-chang Carter, Professor WANG Yijiang and Mr. LAU Siu Ki, the majority being independent non-executive Directors. Dr. TSENG Shieng-chang Carter is the chairman of the Remuneration Committee.

The Remuneration Committee is governed by its terms of reference, which were revised by the Board on 24 February 2012. The terms of reference are made available on the Company's website http://electronics.tcl.com and Hong Kong Stock Exchange's website www.hkex.com.hk.

The Remuneration Committee was established on 16 April 2005 pursuant to Rule 3.25 of the Listing Rules. It meets from time to time to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time, and determines, with delegated responsibility, the remuneration packages of individual executive Directors and senior management.

During 2018, the Remuneration Committee accomplished the following:

- making recommendations to the Board on the remuneration of non-executive Directors;
- considering the distribution of special cash compensation in respect of the rights issue to the relevant grantees of the restricted shares, executive Directors, non-executive Directors and senior management;
- reviewing the emolument policy and the levels of remuneration paid to the Directors and senior management of the Group;
- assessing the performance of executive Directors;
- approving the terms of executive Directors' service contracts;
- determining the remuneration packages of the individual Directors, chief financial officer and certain senior management;
- approving the salary incentive adjustments of certain senior management of the Group; and
- formulating a new framework for determining the remuneration package in the coming year.

The human resources department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent, the Company provides a competitive remuneration package to its executive Directors and senior management. This comprises base monthly salary, guaranteed cash benefits and allowances, special allowances, variable pay, long-term incentive plan which includes share option scheme and Award Scheme. The amount of variable pay is set at a percentage of the fixed pay, and is paid half-yearly or yearly relative to performance delivered through plans and objectives which have pre-determined criteria and standards. Long-term incentive plan primarily consists of share options to subscribe for the shares of the Company and shares of the Company under the Award Scheme respectively. Please refer to pages 241 to 249 of this annual report for details of the Award Scheme. The emoluments payable to the Directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The remuneration package of executives is designed so that a proportion is structured to link rewards to corporate and individual performance, and gives incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The non-executive Directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee, which is usually paid annually; and

- share options or restricted shares which are awarded subject to the discretion of the Board.

The fees and any other reimbursement or emolument payable to the Directors and senior management by band are set out in note 8 to the financial statements.

DIVIDEND POLICY

The Company has confirmed and consolidated its dividend policy (the "Dividend Policy") on 20 December 2018 (with effect from 1 January 2019), which aims to consolidate and set out the approach and principles of the Company in declaration of dividend.

PURPOSE

1. This Dividend Policy aims to consolidate and set out the approach and principles of the Company in declaration of dividend.

FACTOR(S) TO BE CONSIDERED FOR DECLARATION OF DIVIDENDS

2. In considering whether to declare any dividend, the Board shall consider factors in all aspects whether on the operating results, cash flow, financial condition and capital requirements of the Group and the interests of the Shareholders of the Company, including but not limited to:

 2.1. the Company's actual and expected financial performance;

 2.2. retained earnings and distributable reserves of the Company and each of the members of the Group;

 2.3. the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

 2.4. any restrictions on payment of dividends that may be imposed by the Group's lenders;

 2.5. the Group's expected working capital requirements and future expansion plans;

 2.6. general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

 2.7. any other factors that the Board deem appropriate.

PRINCIPLES IN RELATION TO DECLARATION OF DIVIDENDS

3. If the Group records a profit and the Board, having considered factors of all aspects (including but not limited to those factors set out in paragraph 2), is satisfied that the declaration and distribution of dividends does not affect the Group's normal operations, and subject to compliance with any restrictions under the Companies Law of the Cayman Islands and the Articles:

 3.1. the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders");

 3.2. the Company will take priority to distributing dividends in cash and shares its profits with the Shareholders, whereas the target payout ratio of dividends distributed is expected to be in the range of 30%–50% of the Group's net profit for the current year, and the remaining profit will be used for the business development and operation of the Group;

 3.3. yet, any such declaration and payment of dividends shall remain to be determined at the sole discretion of the Board.

4. Subject to the Articles and all laws and regulations applicable to the Company,

    4.1. the Company in general meeting may declare final dividends in any currency but no dividends shall exceed the amount recommended by the Board;

    4.2. the Board may from time to time pay to the Shareholders such interim dividends as appear to the Board to be justified by the profits of the Company.

5. This Dividend Policy and the declaration and/or payment of dividends under this Dividend Policy are subject to the Board's continuing determination that this Dividend Policy and the declaration and/or payment of dividends would be in the best interests of the Group and Shareholders, and are in compliance with all laws and regulations applicable to the Group.

6. The Board endeavours to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy.

7. The Board will continually review this Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel this Dividend Policy at any time, and this Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

Audit Committee

The Audit Committee currently comprises four members, namely Mr. LAU Siu Ki, Mr. YANG Anming, Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang. Mr. LAU Siu Ki is the chairman of the Audit Committee. Mr. HUANG Xubin was a member of the Audit Committee until his resignation with effect from 10 January 2019.

The Audit Committee usually meets twice a year to review the Company's interim and annual results and the integrity of the Group's financial statements. In addition, to review and monitor the effectiveness of the audit process in accordance with applicable standards, the Audit Committee will meet with the external auditor before the annual audit commences to discuss the nature and scope of the audit and reporting obligations of the Company.

The Audit Committee is governed by its terms of reference. The terms of reference are made available on the Company's website http://electronics.tcl.com and Hong Kong Stock Exchange's website www.hkex.com.hk.

The Audit Committee meetings are normally attended by the Company's chief financial officer. When meetings concern the routine finance control, the head of the internal control department of the Company also attends the meeting to report on the problems identified during the internal control audits and recommend methods to alleviate and solve the problems identified. The external auditor is often present on discussion of the audit of financial results and audit planning.

The work performed by the Audit Committee during 2018 included consideration of the following matters:

- the completeness and accuracy of the 2017 annual and 2018 interim financial statements;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- review of the effectiveness of the systems of internal control and risk management of the Group;
- the internal control reports submitted by the internal audit department of the Company;
- the management letter prepared by the external auditors;
- the audit fees payable to external auditors, the scope and timetable of the audit for year 2018;
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors, which the Board agreed and accepted;
- reviewed the risk management system;
- reviewed the financial reporting system; and
- discussed on the intended reformation of internal financial system conducted or to be conducted by the Group.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Audit Committee is also supported by the staff of internal audit department and the external auditor.

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming AGM, Messrs. Ernst & Young be re-appointed as the Company's external auditor for 2019.

Strategy Executive Committee/Strategy Committee

The Board established the Strategy Executive Committee on 23 October 2014 with specific written terms of reference. The Strategy Executive Committee comprised three then executive Directors, namely Mr. BO Lianming (chairman), Mr. YAN Xiaolin and Ms. XU Fang. The Company dissolved the Strategy Executive Committee and established the Strategy Committee on 22 September 2017.

The Board delegated responsibilities to the Strategy Executive Committee or the Strategy Committee for making certain decisions for the management of the Company. In accordance with their terms of reference, members of the Strategy Executive Committee and the Strategy Committee shall be appointed by the Board from amongst the executive Directors only.

The Strategy Committee comprises three executive Directors, namely, Mr. LI Dongsheng (chairman), Mr. WANG Cheng Kevin and Mr. YAN Xiaolin.

For details of the Strategy Executive Committee and the Strategy Committee, please refer to the section “Delegation by the Board – Operation” of this Corporate Governance Report on page 61.

The work completed by the Strategy Committee during 2018 included consideration of the following matters:

- approval of any routine matters or matters concerning day-to-day operation of the Group;
- formulating for the Board’s review of the Group’s overall corporate governance policy and investor relation policy;
- implementing the annual business plan, operating and capital expenditure budgets of the Company as approved by the Board; and
- implementing the strategic plans and long-term objectives as approved by the Board.

Corporate Governance Function

The work completed by the Board during 2018 as part of its corporate governance function included the following:

- reviewed the Company's policies and practices on corporate governance;
- reviewed and monitored the training and continuous professional development of Directors and senior management;
- reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- reviewed and monitored the code of conduct applicable to employees and Directors; and
- reviewed the Company's compliance with the code and disclosure in this corporate governance report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors have acknowledged their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" on pages 117 to 123.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the financial statements set out on pages 124 to 281 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategies for delivering its objectives are explained in the "Management Discussion and Analysis" set out in pages 18 to 33 in this report.

The Management provides the Board with sufficient explanation and information, such as the Group's major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company before approval.

The Management also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of Listing Rules.

Risk Management and Internal Controls

The Board is responsible for ensuring that an effective risk management and internal control system is maintained within the Group. The Directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's system of risk management and internal controls. During the year, the Directors, through the Audit Committee, have reviewed the effectiveness of all material aspects of the risk management and internal control system of the Group, including the identification and monitoring of risks, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Company has adopted a set of risk management and internal control policies and procedures to identify, evaluate and properly manage significant risks, safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations by regularly reviewing the Group's internal operations and investigating into complaints made internally following guidelines developed internally and implementing disciplinary actions for non-compliance incidents accordingly.

The Company has assigned different geographical locations in which the Group carries out its business with different risk profile and set different priorities and coverage for its internal control, risk management and internal audit work to be carried out in these locations, which enhances the cost-effectiveness of the Group's internal control, risk management and internal audit work. Such systems are designed to manage rather than eliminate the risk of failure to achieve its business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness.

Certain executive Directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units. Annual budgets of the Group and quarterly financial reports have been provided to the Strategy Committee of the Board.

Each year, the Audit Committee reviews the findings made by the external auditor in respect of issues encountered by them in preparation of the independent auditor's report, which often cover issues relating to internal control. The Audit Committee also reviews the risk management and internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

The Company's internal audit department independently reviews the effectiveness of the internal controls, including financial, operational and compliance controls, in the key activities of the Company's business. The head of the Company's internal audit department reports to the Audit Committee, and submits regular reports for its review in accordance with the approved review and audit mechanisms. The internal audit department submits a detailed report at least once a year to the Board for its review and monitors the effectiveness of the system of internal control and risk management of the Group. In case any material internal control defect is discovered, the Board would require reports on the cause of and proposed solution for remedying the defect be submitted by the internal control department and follow up with the defect until it is resolved.

For the year of 2018, no significant risk or critical internal control issues have been identified.

The Audit Committee has reviewed the effectiveness of the Group's internal control and risk management systems and is of the opinion that the resources for and qualifications of staff of the Company's accounting and financial reporting function are adequate and effective. Based on information furnished to it and on its own observations, the Audit Committee is satisfied with the adequacy and effectiveness of the internal control system of the Group.

The Company has procedures and internal controls for the handling and dissemination of inside information. The Group strictly prohibits unauthorised use of inside information. The Group strives to identify inside information and any information which may potentially constitute inside information at the earliest practicable opportunity, which is then assessed and handed to the Board for decision on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the Listing Rules and the Securities and Futures Ordinance (Cap. 571) will be disclosed in accordance with all applicable requirements in due course. Inside information would be kept strictly confidential until such disclosure.

Connected Transactions

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to identify and monitor connected transactions to ensure that connected transactions are conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the independent shareholders in accordance with Listing Rules. The connected persons will be required to abstain from voting in the general meetings. Details of the connected transactions of the Company during the year are set out in the Report of the Directors in this annual report.

Senior Management's Remuneration

For the year ended 31 December 2018, senior management of the Company comprises 2 individuals. The senior management's remuneration payment of the Company during the year ended 31 December 2018 falls within the followings bands:

	Number of individuals
HK$5,500,001 to HK$6,000,000	1
HK$8,500,001 to HK$9,000,000	1

Auditor's Remuneration

For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

Statutory audit services	HK$9,600,000
Non-audit services (which include taxation compliance and agreed upon procedures)	HK$5,614,000
Continuing connected transactions	HK$480,000

COMPANY SECRETARY

The position of Company Secretary is held by Ms. CHOY. Ms. CHOY is a practising solicitor of Hong Kong who is not an employee of the Company. The Company Secretary can contact the Company through Mr. HU Lihua, the chief financial officer of the Company. The Company Secretary is responsible to the Board and reports to the Chairman of the Board from time to time. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable laws, rules and regulations are followed.

Ms. CHOY is required to take no less than 15 hours of relevant professional training during the year 2018. Ms. CHOY has fulfilled the requirement during the year under review.

INVESTOR RELATIONS PROGRAMS

The Group places great emphasis on maintaining close and effective communications with shareholders and investors, which allow them to better understand its latest development, business strategy and industry prospect. Active stakeholder engagement increases corporate transparency and creates greater value for shareholders.

The Group is committed to maintaining high standard of corporate disclosure through announcement of interim results and annual results as well as the voluntary announcements of sensitive information pursuant to the Listing Rules, the timely disclosure of information are available on both the Stock Exchange of Hong Kong and the Company's website to ensure that the interests of investors and shareholders are well protected.

Annual General Meeting is organized every year as an important platform to facilitate an open and effective dialogue between the Group and its shareholders. The press conferences and investor briefings are organized by the Group following the interim and annual results announcements with the participation of the Board and senior management to respond to questions from the media and investors, fostering two-way communication.

In addition to further strengthening its bonds with investors and enhancing communication between the company and capital market through multi-channel communication such as one-on-one meetings, non-deal roadshows, conference calls and investor conferences, the Group actively participates in major overseas investor conferences in the United States, Japan, South Korea, Singapore, Malaysia, Taiwan, Beijing, Shanghai, Shenzhen and Xiamen to help expand its reach to overseas investors.

Since December 2016, the Group has been included in the eligible shares list of the Southbound Hong Kong Trading Link under mutual stock market access between Shenzhen and Hong Kong, which further raises corporate awareness in the Mainland and expands shareholding structure. Besides, the Group was officially included as a constituent stock of the Hang Seng Stock Connect Hong Kong Index on 10 September 2018. By attracting more quality investors, its shareholder structure can be further optimized, and its valuation can be raised.

The outstanding performance of the Group in investor relations and corporate disclosure has gained high recognition from the market and numerous awards over the past year including:

- The “Listed Company Awards of Excellence 2018” by The Hong Kong Economic Journal
- “Best Shareholder Return Award” at the “Golden Lion Awards” by Sina Finance
- “Best Performance in Investment Return Stock under Stock Connect” at the “2018 Golden Wing Awards” by Securities Times
- “The Most Attractive Hong Kong Stock Connect Companies for Institutional Investors” co-organized by Yuediaoyan (約調研) and Gelonghui (格隆匯)
- “The Outstanding Corporate Social Responsibility Award” at the “Golden Hong Kong Stocks Awards 2018” co-organized by Zhitongcaijing.com (智通財經) and www.10JQKA.com.cn (同花順財經)
- Silver Award at “The International Annual Report Design Awards” (IADA) for its Annual Report 2017
- Gold Award under the category of Annual Reports - Overall Presentation: Technology and Bronze Award under the category of Annual Reports - Overall Presentation: Telecommunications at the Mercury Award for its Annual Report 2017

Key Investor Relations Events in 2018

Date	Event	Location
Jan	Participated in investor conference (organized by UBS)	Shanghai
	Participated in investor conference (organized by Credit Suisse)	Hong Kong
March	Spring New Product Launch Event	Shanghai
	Participated in investor conference (organized by Changjiang Securities)	Xiamen
	Participated in investor conference (organized by UBS)	Hong Kong
	2017 annual results announcement (press conference and analyst/investor briefing)	Hong Kong
	Hosted a non-deal road show (organized by CICC)	Shenzhen
April	Hosted a non-deal road show (organized by Industrial Securities)	Shenzhen
	Hosted a non-deal road show (organized by SWS)	Shenzhen
	Hosted a non-deal road show (organized by BNP)	Hong Kong
	Hosted a non-deal road show (organized by CCBI)	Hong Kong
May	Participated in investor conference (organized by China Everbright)	Shanghai
	Participated in investor conference (organized by BNP)	Hong Kong
	Participated in investor conference (organized by Guotai Junan Securities)	Shenzhen
	Hosted a non-deal road show (organized by CICC)	Hong Kong
June	Hosted an Investor Day for site visit and communication	Shenzhen
	Participated in investor conference (organized by First Shanghai)	Shenzhen
	Hosted a non-deal road show (organized by Industrial Securities)	Shanghai
	Hosted a non-deal road show (organized by Industrial Securities)	Beijing
August	2018 interim results announcement (press conference and analyst/investor briefing)	Hong Kong
	2018 interim results announcement (analyst/investor briefing)	Shenzhen
	Participated in investor conference (organized by Industrial Securities)	Beijing
	Hosted a non-deal road show (organized by Industrial Securities)	Hong Kong
September	Hosted a non-deal road show (organized by Industrial Securities)	South Korea
	Participated in investor conference (organized by Essence Securities)	Shanghai
	Hosted a non-deal road show (organized by Industrial Securities)	Taiwan
	Participated in investor conference (organized by UBS)	Hong Kong
	Hosted a non-deal road show (organized by CICC)	Shanghai

Date	Event	Location
October	Hosted a non-deal road show (organized by Industrial Securities)	Singapore
	Hosted a non-deal road show (organized by Industrial Securities)	Malaysia
	Participated in investor conference (organized by UOB)	Singapore
	Hosted a non-deal road show (organized by Haitong International)	Japan
	Participated in investor conference (organized by JP Morgan)	Japan
November	Participated in investor conference (organized by Jefferies)	Hong Kong
	Participated in investor conference (organized by Citi)	Shenzhen
	Participated in investor conference (organized by JP Morgan)	Hong Kong
	Participated in investor conference (organized by Industrial Securities)	Shanghai
	Hosted a non-deal road show (organized by Haitong Securities)	Shanghai
December	Participated in investor conference (organized by SWS)	Shenzhen

All published information, including all the statutory announcements, press releases and event calendars, is promptly posted on the Company's website at http://electronics.tcl.com. For inquiries and suggestions, please send an email to hk.ir@tcl.com or directly by raising questions at the shareholder meetings of the Company.

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

The external auditor of the Company, Messrs. Ernst & Young also attends the AGM to answer questions about the conduct of the audit, the preparation and content of the independent auditors' report, the accounting policies and auditor independence.

Voting by Poll

The Company expresses in each relevant corporate communication that the shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the meeting would explain the voting procedure and answer any questions from the shareholders regarding voting by poll in the general meetings. The poll voting results of the general meetings were published on the websites of the Hong Kong Stock Exchange and the Company respectively on the same day after the general meetings were held.

Shareholders' Rights to Convene an EGM

Under article 72 of the Articles, shareholders at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to require an EGM to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Communication with Shareholders and Procedures for Putting forward Proposals at General Meetings

A shareholders communication policy was formulated and adopted on 24 February 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company, which was subsequently updated on 20 December 2018. The Board has taken appropriate steps to provide effective communication with shareholders.

All published information, including all the statutory announcements, press releases and event calendars, is promptly posted on the Company's website at http://electronics.tcl.com. Shareholders can also send enquiries and proposals putting forward for shareholders' consideration at shareholder meetings to the Board or senior management.

Investors can submit enquiries to management by sending emails to hk.ir@tcl.com or directly by raising questions at the general meetings of the Company. The Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

Constitutional Documents

In 2018, there has been no significant change in the memorandum and Articles. Yet, resolutions have been passed in respect of (i) the increase in the authorised share capital of the Company from HK2,200,000,000 divided into 2,200,000,000 shares of HK$1.00 each to HK$3,000,000,000 divided into 3,000,000,000 shares of HK$1.00 each; and (ii) the change of name of the Company from "TCL Multimedia Technology Holdings Limited" to "TCL Electronics Holdings Limited". The updated memorandum and Articles together with the aforesaid resolutions annexed are available on the websites of the Company and the Stock Exchange.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency possible. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website http://electronics.tcl.com. Enquiries and proposals to be put forward at shareholder meetings can also be sent to the board or senior management by contacting the Investor relations department via e-mail to hk.ir@tcl.com, or directly through the questions and answers session at shareholder meetings or press conference.

HUMAN RESOURCES

In 2018, the Group continued to focus on the theme of "Facilitating the Organization to Enter Rapid Development Cycle" and carried out a series of human resource management initiatives to provide direct and effective support for the Group's strategy, enhancement of organizational performance and employee development.

1. Basic Profile of Human Resources

As at 31 December 2018, the total number of employees was 26,814. The distribution is as follows:

Employees by Geographic Region as of 31 December 2018:

Mainland China	24,726
Countries other than Mainland China (including Hong Kong and Australia)	2,088

Employees by Age as of 31 December 2018:

Employees aged below 30	13,844
Employees aged between 30 to 49	12,433
Employee aged 50 or above	537

The male-to-female ratio was 1.49:1. The overall turnover rate was approximately 7.6%.

2. Major Accomplishments in Human Resources

In order to support the development strategy of the Company, the Group endeavored to optimize its talent structure and increase the efficiency of its talents continuously. Adhering to the theme of "Facilitating the Organization to Enter Rapid Development Cycle", a series of proactive measures in strengthening areas such as appraisals and incentives, recruitment of talents, talent nurturing and development were adopted as follows:

In the area of performance appraisals and incentives, the Group continued to optimize the comprehensive remuneration and incentives system. While focusing resources on key areas of incentives, the Group continued to strengthen the linkage between the Company's overall performance and employees' incentives at various levels, so as to facilitate the achievement of business objectives. Through formulating and implementing performance bonus schemes based on business streams, the integration of incentives for both frontline and back office support were strengthened. The Group also focused its resources on sales incentives, incentives for product items and incentives for innovations and technologies, in order to support the Company's improvements in product competitiveness, retail capabilities and technological innovation capabilities. In terms of long-term incentives, the Group formulated a profit-sharing scheme for senior management and key employees, to achieve the incentive orientation of responsibility-sharing and profit-sharing, aiming to strengthen retention and motivation of outstanding talents through the realization of long-term incentives.

Human Resources and Social Responsibility

In 2018, the Group adhered to the approach of performance orientation for the improvement of the Company's results with concerted efforts of all employees, and continued to promote and improve the performance management system and processes.

In terms of talents recruitment, the Group follows the business development trend and actively explores diverse channels for the introduction of talents, in order to attract top talents with required expertise and international perspectives. In 2018, more than 1,000 external talents were recruited in areas including products, R&D, smart manufacturing, Internet management, domestic and overseas marketing. With the focus on the need arising from strategical development, the Group focused on top talent recruitment in the AI&IoT sector, laying a good foundation for a talent pool geared toward the Company's transformation into smart home business and the expansion into the international market. To cope with the changes in business and organizational structure, the Group also recruited dozens of senior management officers with international perspectives and abundant experiences in corporate management, to provide powerful support in the process of the organizational transformation.

In respect of talent nurturing and development, the Group continued to carry out reviews on the organization and talents, actively promoted younger staff as managers, boldly appointed outstanding young talents to take up important roles, actively implemented talent rotation and nurtured first-line, middle and top managers in order to build a solid foundation for the management and facilitate the rapid growth of the Group's new management force.

Meanwhile, based on the needs of business and requirements of the talent pool, the Group constantly launched talent development plans such as the "Eagle Program" for high-potential talents and development programs for the incumbent talents and professional talents. According to business changes, special breakthrough programs for the development of overseas marketing talents, R&D and technology talents and new retail talents were launched, with an objective to enhance the employees' international perspectives, business philosophy, management skills, customer-oriented thinking and innovation. While meeting the current business needs, the Group also focused on development in the long run.

SOCIAL RESPONSIBILITY

In the past year, the Group continued to focus on social responsibility and contributed to the society with actions including organizing and participating in educational support, public charity activities and school-enterprise cooperation.

Huameng Foundation (華萌基金)

Mr. LI Dongsheng, the chairman of the Board, highly values education as he considers education as the foundation for building and strengthening our country. As early as 2007, Mr. LI Dongsheng founded "Huameng Foundation" with his wife Ms. ICHIKAWA Yuki (WEI Xue). Huameng Foundation is the first fund founded by entrepreneurs under China Youth Development Foundation, which is committed to the support of the Chinese educational development with an aim to ensure that junior high graduates of good character and excellent performance in poverty-stricken areas can successfully complete senior high school studies and enter into universities. A subsidy of tuition and living of RMB8,000 is provided by Huameng Foundation to each of 150 senior high school students in "Huameng foundation Class" every year.

A "Huameng Foundation Scholarship for College Study" of RMB23,000 is awarded to each of the top ten students with the highest scores in the comprehensive quality assessment of "Huameng Foundation Class" every year. The fund also started the Huameng 5010 Plan to provide university students of Huameng with internship subsidies and entrepreneurial support. In addition, Huameng Foundation promoted the overall quality of students and facilitated their all-round development with innovative supporting programs including "Huameng Star Classroom", "Huameng Summer Camp" and "Graduate Farewell Party". In 2018, Huameng Foundation contributed a total of RMB5,910,309.28 for the launch of the above charity activities.

Shenzhen TCL Foundation

As an entrepreneur with a strong sense of social responsibility, Mr. LI Dongsheng founded the Shenzhen TCL Foundation in June 2012. TCL Foundation is the first private foundation established by an enterprise in the industry of consumer electronics in the PRC. It upholds the values of "Seeking Public Interest and Promoting Social Progress", with the purposes of "Creating Educational and Growth Opportunities for the Disadvantaged, Seeking Community Welfare and Environmental Sustainable Development". It has been dedicated to the three public welfare undertakings, including foundation education assistance, major disaster relief and care for special groups. In 2018, the expenditure on public welfare undertakings of Shenzhen TCL Foundation amounted to RMB18,163,565.68 for the launch of charity projects such as "TCL Hope Project Candlelight Award".

Mutual Aid Fund for Employees

The Group is dedicated to building a mutual aid platform internally for employee care, poverty alleviation and relieving the distress of employees. To boost the team spirit of "Assistance for Those with Adversities, Mutual Help and Dedication with Love", the sense of humanity and the corporate culture of people-orientation among the employees, a Mutual Aid Fund for Employees, advocated and supported with donation by Dr. TSENG Shieng-chang Carter (an independent non-executive Director) and others was set up. Established in August 2012, the Mutual Aid Fund for Employees is a self-managed organization formed by employees under the Company's Union Association and is dedicated to assisting employees or families suffering from serious illness or major disasters. Since its establishment, Mutual Aid Fund for Employees has been rendering assistance to employees who suffered hardship with a total donation amount of RMB255,000 in 2018.

Human Resources and Social Responsibility

In addition, the Mutual Aid Fund for Employees also fulfilled corporate social responsibility externally by sponsoring the student financial support program "Caring For Tomorrow" for six consecutive years, with the cumulative donation amount of RMB1,000,000. At the same time, volunteers were designated to participate in the sponsorship activities of "Caring For Tomorrow" in poverty-stricken mountain areas and former revolutionary base regions in Jingxi and Lingyun (of Guangxi Province) and Chengdu. Other activities, including the assistance to the disabled persons of Xili Disabled Persons' Federation and the sponsorship of Xili Primary School No. 2, received an aggregated donation amount of RMB118,000. These activities will continue on an on-going basis.

School-enterprise Cooperation

With an aim to scout and nurture talents, the Group consistently retained strategic relationship with well-known universities in China and abroad to provide universities and students with occupational skills training and a practical platform for experience.

Through establishing TCL Club and organizing "TCL Open Day" activities, the Group interacted and communicated with teachers and management team of universities, who were invited to participate in the activities through touring and seminars. The activities also aimed to encourage and support students to gain project experience and internship in the Company. Meanwhile, according to the business needs of the Company, the Group continued to carry out Hi-Fly Program (助飛計劃) to select and nurture talents for the strategic talents pool of the Group. The Company conducted Hi-Fly Program in many well-known universities in North America, Hong Kong and Mainland China, aiming to select outstanding talents with business minds, development potentials, determination to succeed and leadership aptitudes among fresh graduates. For the selected university graduates, the Company developed a customized training program in their early stages of career, laying a solid foundation for their rapid development in the future.

Environmental Protection

The Group strives to achieve environmental sustainability and incorporates its philosophy of corporate social responsibility into daily operations. The Group operates its in-house manufacturing facilities in compliance with all applicable local environmental regulations. The Group strives to protect the environment.

The Group continuously implements fine-tuned strategy to shoulder its corporate environmental, social and ethical responsibility and improve corporate governance, in order to create greater value for all of the Group's stakeholders including shareholders, customers and employees as well as the communities where it operates. Further, the Group continued to adhere to a highly responsible attitude toward employees, customers and the environment, in the product manufacturing process from raw materials to finished goods, toxic and hazardous substances are strictly regulated and controlled, and toxic and hazardous substances are prohibited to enter all aspects of production, packaging, distribution, marketing, etc., and any harm of the health of employees and consumer safety, destruction of natural environment and other serious incidents are prohibited.

The Environmental, Social and Governance Report of the Company for the year ended 31 December 2018 prepared in accordance with Appendix 27 to the Listing Rules will be published separately pursuant to the requirements under Appendix 27 to the Listing Rules.

The Directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There was no significant change in the nature of the Group's principal activities during the year.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the annual general meeting of the Company held on 23 May 2018 approving the change of name of the Company, and the Certificate of Incorporation on Change of Name issued by the Registry of Companies in the Cayman Islands on 24 May 2018, the name of the Company was changed from TCL Multimedia Technology Holdings Limited to TCL Electronics Holdings Limited.

The Chinese translation of the Company's name for identification purposes was changed from TCL多媒體科技控股有限公司 to TCL電子控股有限公司.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 124 to 281.

The Board has proposed a final dividend for the year ended 31 December 2018 of HK9.38 cents in cash per share (31 December 2017: HK15.07 cents) out of the share premium account of the Company.

Subject to (i) shareholders' approval at the forthcoming AGM to be held on 28 May 2019, Tuesday, and (ii) the Directors being satisfied that there are no reasonable grounds for believing that the Company is, and immediately after the final dividends are paid, will be unable to pay its liabilities as they become due in the ordinary course of business, the said final dividend will be payable on or about 21 June 2019, Friday to shareholders whose names appear on the register of members of the Company on 31 May 2019, Friday.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 282. This summary does not form part of the audited financial statements.

RECORD DATE AND CLOSURE OF REGISTER OF MEMBERS

To ascertain the entitlements to attend and vote at the AGM, members of the Company must lodge the relevant transfer document(s) and share certificate(s) at the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 22 May 2019, Wednesday for registration. Members of the Company whose names are recorded in the register of members of the Company on 22 May 2019, Wednesday are entitled to attend and vote at the AGM.

The record date for determining the entitlements of the shareholders to the proposed final dividend is 31 May 2019, Friday. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 31 May 2019, Friday. The Hong Kong register of members of the Company will be closed from 3 June 2019, Monday to 4 June 2019, Tuesday (both dates inclusive), during which no transfer of the shares may be registered.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the section headed "Management Discussion and Analysis" on pages 18 to 33 of this annual report. Discussions on non-financial performance including human resources management initiatives, the key relationships with its employees and the Group's environmental policies and performance are disclosed in the section headed "Human Resources and Social Responsibility" of this annual report. Those discussions form part of this Report of the Directors. Key relationships with customers and suppliers are disclosed in the paragraphs headed "Major Customers and Suppliers" in this Report of the Directors. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a review of the business of the Group, discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position, and an indication of the outlook of the business of the Group, are set out under sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. Those discussions also form part of this Report of the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has complied with regulations related to occupational safety, including but not limited to the Fire Prevention Law of the People's Republic of China, the Production Safety Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Occupation Diseases.

The Group maintains the occupational safety of employees mainly by the following methods: weekly inspection of safety production risks including risks of fire, piling up of hazardous materials and electricity; regular disinfection of workplace and arranging professional medical institutions to conduct physical examination for employees; accelerating the automatization of factories, replacing dangerous operation by machines to prevent employees from being injured.

The Group has also complied with regulations related to production materials and emission, including but not limited to the Environmental Protection Law of the People's Republic of China. The Group carries out supervision mainly by the following methods: regular commissioning of professional institutions to implement the indicator monitoring on pollution discharge so as to meet the national standard; reasonable storage and isolation of dangerous materials; strict selection of suppliers to source and prioritize materials that meet the EU REACH and ROHS standards.

As at 31 December 2018 and up to the date of this annual report, the Board was not aware of any non-compliance with the relevant laws and regulations that had a significant impact on the Company.

SIGNIFICANT RISKS AND UNCERTAINTIES

Some significant risks and uncertainties affecting the Group are outlined below. They are not exhaustive and there may be other additional risks and uncertainties which are now unknown or immaterial to the Group but could become material in future.

Market Competition

As mentioned in the section "Management Discussion and Analysis" of this annual report above, in 2018, the global LCD TV market was weak, the TV demand in the PRC market also shrank and market competition further intensified. The general state of the global economy, market condition and consumers' behavior may have significant impact on the operating results and financial condition of the Group. The global market for the Group's products and services is highly competitive and is subject to ever-changing technological advancements, market development, changes in customer needs, evolving industry standards, and frequent product launches and upgrades.

To minimise this risk, the Group continues its efforts on research and development to broaden its product and technology platforms and enhance its product competitiveness, which enable the Group to extend its reach to different end products so as to diversify its source of revenue and profit, and in turn, reduce its dependency on one single type of product. In addition, the Group continues to strengthen its customer relationship and refine its sales strategy, in order to maintain a robust profitability. Further discussion in this aspect has been set out under sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

Raw Materials

Panel is an important raw material to the Group's TV products and hence the Group's business is dependent on the availability and price of panel.

To better control the risk, the Company maintains good relationships with its suppliers (as more specifically discussed in the paragraph "Major Customers and Suppliers" below in this Report of the Directors). Further, the Group has been pursuing and will continue to pursue synergies across multiple industries within TCL Corporation Group and leverage the advantages in the vertical integration with CSOT (which is a major panel supplier in the PRC) in order to become a forerunner in capitalising opportunities arising from the revolution of the industry and to establish an eco-system enterprise based on smart TVs. Further, it will consolidate and expand its existing TV business while actively diversifying its business to develop smart AV and smart home businesses through investments, mergers and acquisitions, and restructuring to explore new business growth opportunities. Further discussion in this aspect has been set out under sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

Financial Risks

Further discussions on the financial risks, including interest rate risk, foreign currency risk, credit risk, liquidity risk, that would affect the business operations of the Group, as well as the potential financial impact and measures undertaken to manage those risk areas are disclosed in note 42 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND AWARD SCHEME

By an ordinary resolution resolved by the shareholders of the Company at the extraordinary general meeting of the Company held on 25 January 2018, the authorised share capital of the Company was increased from HK$2,200,000,000 divided into 2,200,000,000 shares of HK$1.00 each to HK$3,000,000,000 divided into 3,000,000,000 shares of HK$1.00 each by the creation of an additional 800,000,000 new shares of HK$1.00 each. For details of such change in the authorised share capital of the Company, please refer to the Company's announcements respectively dated 9 and 25 January 2018 and the Company's circular dated 10 January 2018.

Details of movements in the Company's share capital (including issue of shares by the Company), share options and Award Scheme during the year, together with the reasons thereof are set out in note 33 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands ("Cayman Law") which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of shares for the year ended 31 December 2018.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 43 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company had an aggregate of HK$5,488,776,000 standing to credit of its share premium account and HK$738,936,000 standing to the credit of its capital reserve account. As the aforesaid capital reserve represents a premium arising on an issue of shares of the Company, the entire amount of HK$738,936,000 standing to the credit of the capital reserve account of the Company will be transferred to the share premium account in compliance with the Articles and Cayman Law. Subject to compliance with certain requirements under Cayman Law, the share premium may be applied for payment of dividend by the Company. After the transfer of the capital reserve as aforesaid, the amount which can be utilised for payment of dividend by the Company out of its share premium account in future would be HK$6,227,712,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK$434,000.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	30%
– the five largest suppliers combined	55%
Sales	
– the largest customer	11%
– the five largest customers combined	35%

Those suppliers have been cooperating with the Group for a long term. The Group recognises that maintaining good and stable relationship with suppliers, customers and business partners is key for the sustainable development of the Group. Therefore, the Group maintains good business relationships with its major suppliers and customers which have been cooperating with the Group for a long term.

Major Customers

The Group's major customers are all from consumer television products industry, which is characterised by its cycles of integration and emergence of new brands. Any loss of or changes in market position of any of these customers may materially and adversely affect the business, financial conditions and operating results of the Group. In light of this, the Group adopts the following strategies to reduce the risk from reliance on one single customer. On one hand, the Group strengthens the relationship with its existing customers which made relatively stable contribution to the revenue of the Group. On the other hand, the Group endeavours to expand business and acquire new customers by improving its product mix and integrating its industry chain.

Further discussion in this aspect has been set out under section headed "Management Discussion and Analysis" of this annual report.

The Group's credit terms with its customers including credit period are disclosed in note 22 to the financial statements. Each customer has a credit limit depending on the size and credibility of the customers. The Group also maintains credit insurance for trade receivables from customers.

Major Suppliers

There are numerous suppliers providing materials required for the Group's production and other business operations. The Group adopts multiple sourcing policies and strategic inventory management to ensure sufficient supply of materials for production.

None of the Directors, their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers, except those disclosed in note 40(a) to the financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:
Mr. LI Dongsheng (appointed as the Chairman and an executive Director with effect from 2 March 2018)
Mr. WANG Cheng Kevin
Mr. YAN Xiaolin
Mr. WANG Yi Michael
Mr. BO Lianming (resigned as the Chairman and an executive Director with effect from 2 March 2018)

Non-executive Directors:
Mr. Albert Thomas DA ROSA, Junior
Mr. HUANG Xubin (resigned as a non-executive Director with effect from 10 January 2019)
Mr. YANG Anming (appointed as a non-executive Director with effect from 10 January 2019)
Mr. ZHANG Zhiwei (resigned as a non-executive Director with effect from 24 August 2018)
Mr. LIU Hong (resigned as a non-executive Director with effect from 24 August 2018)
Mr. LI Yuhao (appointed as a non-executive Director with effect from 24 August 2018)

Independent Non-executive Directors:
Mr. Robert Maarten WESTERHOF
Dr. TSENG Shieng-chang Carter
Professor WANG Yijiang
Mr. LAU Siu Ki

In accordance with Article 116 of the Articles, at each annual general meeting of the Company, not less than one-third of the Directors for the time being shall retire from office by rotation and, under the corporate governance code adopted by the Company, every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. All retiring Directors shall be eligible for re-election.

Accordingly, Mr. WANG Cheng Kevin, Mr. WANG Yi Michael, Mr. Robert Maarten WESTERHOF and Mr. LAU Siu Ki shall retire from office by rotation at the conclusion of the AGM. All of them, being eligible, will offer themselves for re-election at the AGM.

REMUNERATION OF DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID EMPLOYEES

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

Particulars of the remuneration of the Directors and the five highest paid employees (including senior management) during the financial year are set out in notes 8 and 9 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 49 to 82 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the remuneration payable to the Directors.

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 2.4 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 34 to 47 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors or their associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules were as follows:

(A) Interests in the Company – Long Positions

	Number of ordinary shares interested or deemed to be interested			Number of Underlying shares interest or deemed to be interested under equity derivatives			
Name of Director	Personal interests	Spouse personal interests	Other interests (Note 1)	Personal interests	Spouse interests	Total	Approximate percentage of the number of issued shares of the Company (Note 2)
LI Dongsheng	54,982,197	5,429,458	1,185,959	7,312,235	504,895	69,414,744	2.97%
WANG Cheng Kevin	594,650	–	1,804,389	7,262,284	–	9,661,323	0.41%
YAN Xiaolin	147,763	–	147,986	1,970,324	–	2,266,073	0.10%
WANG Yi Michael	1,831,792	–	1,050,785	5,509,395	–	8,391,972	0.36%
Albert Thomas DA ROSA, Junior	63,333	–	44,778	315,907	–	424,018	0.02%
HUANG Xubin*	1,220,688	–	147,986	1,260,138	–	2,628,812	0.11%
LI Yuhao	24,000	–	–	–	–	24,000	0.001%
Robert Maarten WESTERHOF	30,000	–	44,778	315,907	–	390,685	0.02%
WANG Yijiang	–	–	44,778	242,260	–	287,038	0.01%
LAU Siu Ki	–	–	44,778	236,301	–	281,079	0.01%

(B) Interests in Associated Corporation of the Company – Long Positions

TCL Corporation (Note 3)

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Corporate interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Corporation (Note 4)
LI Dongsheng	638,273,688	408,899,521	–	1,047,173,209	7.73%
YAN Xiaolin	599,500	–	–	599,500	0.004%
HUANG Xubin*	3,383,380	–	–	3,383,380	0.02%

(C) Interests in Associated Corporation of the Company – Long Positions

Tonly Holdings (Note 5)

Name of Director	Number of ordinary shares interested or deemed to be interested: Personal interests	Number of ordinary shares interested or deemed to be interested: Spouse personal interests	Number of ordinary shares interested or deemed to be interested: Other interests (Note 6)	Number of Underlying shares interested or deemed to be interested under equity derivatives: Personal interests	Number of Underlying shares interested or deemed to be interested under equity derivatives: Spouse interests	Total	Approximate percentage of the number of issued shares of Tonly Holdings (Note 7)
LI Dongsheng	649,513	30,135	82,100	1,214,852	178,868	2,155,468	0.80%
WANG Cheng Kevin	9,684	–	–	33,463	–	43,147	0.02%
YAN Xiaolin	27,511	–	23,607	226,098	–	277,216	0.10%
HUANG Xubin*	28,263	–	23,607	230,068	–	281,938	0.11%

(D) Interests in Associated Corporation of the Company – Long Positions

China Display (Note 8)

Name of Director	Number of ordinary shares interested or deemed to be shares held		Number of underlying shares interested or deemed to be interested under equity derivatives	Total	Approximate percentage of the number of issued shares of China Display (Note 9)
	Personal interests	Other interests			
LI Dongsheng	5,164,499	–	–	5,164,499	0.25%

Notes:

1. These interests are restricted shares that have been granted to the relevant Directors under the Award Scheme of the Company and were not vested as at 31 December 2018. Further, the restricted shares that have been granted to the spouse of the relevant Directors under the share award scheme of the Company are included.

2. The percentages are calculated based on the number of issued shares of the Company as at 31 December 2018, i.e. 2,335,493,874 shares.

3. As at 31 December 2018, TCL Corporation, a joint stock company established under the laws of the PRC, is the ultimate controlling shareholder of the Company.

4. Such percentage was calculated based on the number of issued shares of TCL Corporation as at 31 December 2018, being 13,549,648,507 shares in issue.

5. As at 31 December 2018, Tonly Electronics Holdings Limited ("Tonly Holdings") is a subsidiary of TCL Corporation and hence an associated corporation of the Company under Part XV of the SFO.

6. These interests are awarded shares that have been granted to the relevant Directors under the award scheme of Tonly Holdings and were not vested as at 31 December 2018. Further, the restricted shares that have been granted to the spouse of the relevant Directors under the share award scheme of Tonly Holdings are included.

7. The percentages are calculated based on the number of issued shares as of 31 December 2018 disclosed by Tonly Holdings on the website of the Hong Kong Stock Exchange, i.e. 268,474,420 shares in issue.

8. As at 31 December 2018, China Display Optoelectronics Technology Holdings Limited ("China Display") is a subsidiary of TCL Corporation and hence an associated corporation of the Company under Part XV of the SFO.

9. The percentages are calculated based on the number of issued shares as of 31 December 2018 disclosed by China Display on the website of the Hong Kong Stock Exchange, i.e. 2,086,718,219 shares in issue.

* Mr. HUANG Xubin resigned as a non-executive Director with effect from 10 January 2019.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in shares of the Company:

Shareholder	Capacity	Number of shares held	Percentage of issued share capital of the Company (Note 1)
TCL Corporation (Note 2)	Interest of controlled Corporation	1,232,472,639 (Note 3)	52.77%
WANG Jingbo	Interest of controlled corporation	348,850,000 (Note 4)	14.94%
ZENG Edward Qiang	Interest of controlled corporation	348,850,000 (Note 4)	14.94%
Noah Holdings Limited	Interest of controlled corporation	348,850,000 (Note 5)	14.94%
Shanghai Noah Investment Management Co., Ltd 上海諾亞投資管理有限公司	Interest of controlled corporation	348,850,000 (Note 4)	14.94%
諾亞正行基金銷售有限公司	Interest of controlled corporation	348,850,000 (Note 5)	14.94%
China Bridge Capital Management Co., Ltd 北京鑫根投資管理有限公司	Interest of controlled corporation	348,850,000 (Note 4)	14.94%
歌斐創世鑫根併購一號投資基金	Interest of controlled corporation	348,850,000 (Note 4)	14.94%

Shareholder	Capacity	Number of shares held	Percentage of issued share capital of the Company (Note 1)
歌斐創世鑫根併購基金 F 投資基金	Interest of controlled corporation	348,850,000 (Note 6)	14.94%
Aeon Life Insurance Co. Ltd 百年人壽保險股份有限公司	Interest of controlled corporation	348,850,000 (Note 7)	14.94%
Wuhu Gopher Asset Management Co., Ltd 蕪湖歌斐資產管理有限公司	Interest of controlled corporation	348,850,000 (Note 4)	14.94%
Leshi Internet Information and Technology Corp., Beijing (樂視網信息技術(北京)股份有限公司)	Interest of controlled corporation	348,850,000 (Note 4)	14.94%
深圳市樂視鑫根併購基金投資管理企業(有限合夥)	Interest of controlled corporation	348,850,000 (Note 4)	14.94%
深圳市樂視鑫根併購基金投資管理有限公司	Interest of controlled corporation	348,850,000 (Note 4)	14.94%

Notes:

1. The percentage in respect of the interest of TCL Corporation was calculated based on the number of shares and underlying shares of the Company in which TCL Corporation was interested as notified to the Company and disclosed on the website of the Hong Kong Stock Exchange against the number of issued shares of the Company as at 31 December 2018, being 2,335,493,874 shares in issue.

2. The following directors are directors/employees of TCL Corporation who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

   (a) Mr. LI Dongsheng is a chairman and chief executive officer of TCL Corporation;

   (b) Mr. YAN Xiaolin is a member of the executive committee, a senior vice president and the chief technology officer, and the president of TCL Corporate Research of TCL Corporation; and

   (c) Mr. HUANG Xubin was at the material time an executive Director, a member of the executive committee and chief financial officer of TCL Corporation but resigned from positions with effect from 10 January 2019.

3. TCL Corporation was deemed to be interested in 1,232,472,639 shares held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly-owned subsidiary of TCL Corporation.

4. Based on the information set out in the relevant disclosures made by the said substantial shareholder(s), the 348,850,000 shares were held by Zeal Limited, a wholly-owned subsidiary of Shenzhen LETV Bridge Merger Acquisition Fund Investment Management Enterprise (Limited Partnership) (深圳市樂視鑫根併購基金投資管理企業(有限合夥)), which was in turn indirectly held as to (i) 0.1% by Mr. ZENG Edward Qiang through China Bridge Capital Management Co., Ltd. (北京鑫根投資管理有限公司); (ii) 20.81% by Leshi Internet Information and Technology Corp., Beijing (樂視網信息技術(北京) 股份有限公司) through 深圳市樂視鑫根併購基金投資管理有限公司; (iii) 63.14% by Mr. WANG Jingbo through Shanghai Noah Investment Management Co., Ltd. (上海諾亞投資管理有限公司), Wuhu Gopher Asset Management Co., Ltd (蕪湖歌斐資產管理有限公司) and 歌斐創世鑫根併購一號投資基金.

5. Based on the information set out in the relevant disclosures made by the said substantial shareholder(s), the 348,850,000 shares were held on trust for 諾亞正行基金銷售有限公司 as one of the beneficiaries, and Noah Holdings Limited was deemed to be interested in the shares through its indirect 100% interest in 諾亞正行基金銷售有限公司.

6. Based on the information set out in the relevant disclosures made by the said substantial shareholder(s), 歌斐創世鑫根併購基金F投資基金 was deemed to be interested in 348,850,000 shares through its 65.4% indirect interest in 歌斐創世鑫根併購一號投資基金.

7. Based on the information set out in the relevant disclosures made by the said substantial shareholder(s), the 348,850,000 shares were held on trust for Aeon Life Insurance Co. Ltd (百年人壽保險股份有限公司) as one of the beneficiaries.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors and chief executive of the Company whose interests are set out in the section “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the financial year ended 31 December 2018, the Company has granted share options under its share option scheme to grantees who are Directors and spouse of a Director, details as follows:

Grant Date	Name of Director/spouse of Director	Number of shares to be subscribed under the share option
23 January 2018	BO Lianming (Note 2)	4,301,397
	WANG Cheng Kevin	4,301,397
	WANG Yi Michael	2,150,700
	YAN Xiaolin	116,442
	Albert Thomas DA ROSA, Junior	116,442
	HUANG Xubin (Note 5)	116,442
	ZHANG Zhiwei (Note 3)	116,442
	LIU Hong (Note 3)	116,442
	Robert Maarten WESTERHOF	116,442
	TSENG Shieng-chang Carter	116,442
	WANG Yijiang	116,442
	LAU Siu Ki	116,442
26 January 2018 (Note 1)	BO Lianming (Note 2)	156,033
	WANG Cheng Kevin	65,114
	WANG Yi Michael	85,113
	YAN Xiaolin	33,337
	Albert Thomas DA ROSA, Junior	5,055
	HUANG Xubin (Note 5)	15,339
	LIU Hong (Note 3)	2,084
	Robert Maarten WESTERHOF	5,055
	WANG Yijiang	3,188
25 April 2018	LI Dongsheng (Note 4)	1,599,903
	WANG Cheng Kevin	391,464
	YAN Xiaolin	538,392
	HUANG Xubin (Note 5)	538,392
	ZHANG Zhiwei (Note 3)	119,859
	LAU Siu Ki	119,859
	ICHIKAWA Yuki (WEI Xue) (spouse of LI Dongsheng)	272,468

Notes:

1. These represent adjustments made to the number of share options of the respective Directors as a result of and immediately upon the completion of the Rights Issue on 26 January 2018.

2. Mr. BO Lianming resigned as an executive Director with effect from 2 March 2018.

3. Mr. ZHANG Zhiwei and Mr. LIU Hong resigned as non-executive Directors with effect from 24 August 2018.

4. Mr. LI Dongsheng was appointed as an executive Director with effect from 2 March 2018.

5. Mr. HUANG Xubin resigned as a non-executive Director with effect from 10 January 2019.

During the financial year ended 31 December 2018, Tonly Holdings has granted share options under its share option scheme to grantees who are Directors and spouse of a Director, details as follows:

Grant Date	Name of Director/spouse of Director	Number of shares to be subscribed under the share option
21 May 2018	LI Dongsheng (Note 1)	412,500
	YAN Xiaolin	138,813
	HUANG Xubin (Note 2)	138,813
	ICHIKAWA Yuki (WEI Xue) (spouse of LI Dongsheng)	70,250

Note:

1. Mr. LI Dongsheng was appointed as an executive Director with effect from 2 March 2018.

2. Mr. HUANG Xubin resigned as a non-executive Director with effect from 10 January 2019.

Save as disclosed under the heading “Directors’ and chief executive’s interest and short position in shares, underlying shares and debentures” above, under the heading "Share Option Scheme and Award Scheme" and in the section below, at no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; nor was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

The Company adopted the share option scheme on 15 February 2007 (“2007 Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. By a shareholders’ resolution passed in the annual general meeting held on 18 May 2016, the new share option scheme (“2016 Scheme”) was adopted and the 2007 Scheme was terminated. As a result, the Company can no longer grant any further options under the 2007 Scheme but all options granted prior to the termination of the 2007 Scheme will remain in full force and effect. Eligible participants of the 2007 Scheme include the Company’s Directors, including independent non-executive Directors, other employees of the Group, advisers, consultants, agents, contractors, suppliers of goods or services to the Group, customers of the Group, the Company’s shareholders, any non-controlling shareholder in the Company’s subsidiaries and any other person whom the Board at its sole discretion considers may contribute or have contributed to the Group. The 2016 Scheme mainly refined the definition of “any other person” in the eligible participants of the 2007 Scheme to employees and officers of TCL Corporation and its affiliated companies. The 2016 Scheme became effective on 18 May 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The directors have estimated the values of the share options granted, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Details of the 2016 Scheme and the amendments were set out in the circular of the Company dated 18 April 2016.

As at 16 April 2018, the balance of the scheme mandate limit under the 2016 Scheme was 41,627,743 shares (without taking into account of the share options granted under the 2016 Scheme which had lapsed after the completion of the Rights Issue (as defined subsequently) and the adjustments in relation to the share options pursuant thereto but on or before 16 April 2018), which represented approximately 1.78% of the total number of issued shares of the Company as at 16 April 2018.

At the annual general meeting of the Company held on 23 May 2018, an ordinary resolution was passed to refresh the scheme mandate limit under the 2016 Scheme provided that the total number of shares which may be allotted and issued pursuant to the grant or exercise of share option under the 2016 Scheme shall not exceed 10% of the number of issued shares of the Company as at the date on which the resolution was passed.

As at 31 December 2018, the number of shares of the Company that could be issued upon exercise of (i) all outstanding share options; and (ii) all share options that could be granted under the then available scheme mandate limit were 242,286,987 and 233,261,356, respectively, which represented about 10.37% and 9.99% of the total number of issued shares of the Company as at 31 December 2018, respectively.

Number of Shares to be Issued upon Exercise of Share Options

The following share options were outstanding under the share option schemes during the year:

Name or category of participant	Number of share options: At 1 January 2018	Reclass-ification	Granted during the year	Adjustment during the year[Δ]	Exercised during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options	Exercise price of share options[Δ] HK$	Exercise period of share options	Share closing price immediately before the date of grant of share options HK$	Weighted average share closing price immediately before the exercise dates HK$
Directors												
Executive Directors												
LI Dongsheng*	–	3,000,634	–	78,016	–	–	3,078,650	09-Mar-15	4.4834	Note 1	4.40	N/A
	–	270,610	–	7,035	–	–	277,645	31-Aug-15	3.3918	Note 2	3.54	N/A
	–	200,134	–	5,203	–	–	205,337	02-Jun-16	4.3860	Note 3	4.49	N/A
	–	2,150,700	–	–	–	–	2,150,700	23-Jan-18	4.1520	Note 5	3.91	N/A
	–	–	1,599,903	–	–	–	1,599,903	25-Apr-18	3.5700	Note 6	3.55	N/A
	–	5,622,078	1,599,903	90,254	–	–	7,312,235					
BO Lianming#	6,001,268	–	–	156,033	–	–	6,157,301	09-Mar-15	4.4834	Note 1	4.40	N/A
	–	–	4,301,397	–	–	–	4,301,397	23-Jan-18	4.1520	Note 5	3.91	N/A
	6,001,268	–	4,301,397	156,033	–	–	10,458,698					
YAN Xiaolin	979,912	–	–	25,479	–	–	1,005,391	09-Mar-15	4.4834	Note 1	4.40	N/A
	152,651	–	–	3,970	–	–	156,621	31-Aug-15	3.3918	Note 2	3.54	N/A
	149,590	–	–	3,888	–	–	153,478	02-Jun-16	4.3860	Note 3	4.49	N/A
	–	–	116,442	–	–	–	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	–	–	538,392	–	–	–	538,392	25-Apr-18	3.5700	Note 6	3.55	N/A
	1,282,153	–	654,834	33,337	–	–	1,970,324					
WANG Cheng Kevin	653,275	–	–	16,986	–	–	670,261	09-Mar-15	4.4834	Note 1	4.40	N/A
	1,413,076	–	–	36,741	–	–	1,449,817	31-Aug-15	3.3918	Note 2	3.54	N/A
	154,271	–	–	4,011	–	–	158,282	02-Jun-16	4.3860	Note 3	4.49	N/A
	283,687	–	–	7,376	–	–	291,063	12-May-17	3.7329	Note 4	3.70	N/A
	–	–	4,301,397	–	–	–	4,301,397	23-Jan-18	4.1520	Note 5	3.91	N/A
	–	–	391,464	–	–	–	391,464	25-Apr-18	3.5700	Note 6	3.55	N/A
	2,504,309	–	4,692,861	65,114	–	–	7,262,284					
WANG Yi Michael	979,912	–	–	25,479	–	–	1,005,391	09-Mar-15	4.4834	Note 1	4.40	N/A
	2,119,615	–	–	55,110	–	–	2,174,725	31-Aug-15	3.3918	Note 2	3.54	N/A
	174,055	–	–	4,524	–	–	178,579	02-Jun-16	4.3860	Note 3	4.49	N/A
	–	–	2,150,700	–	–	–	2,150,700	23-Jan-18	4.1520	Note 5	3.91	N/A
	3,273,582	–	2,150,700	85,113	–	–	5,509,395					
	13,061,312	**5,622,078**	**13,399,695**	**429,851**	**–**	**–**	**32,512,936**					

Name or category of participant	Number of share options: At 1 January 2018	Reclass-ification	Granted during the year	Adjustment during the year[Δ]	Exercised during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options	Exercise price of share options[Δ] HK$	Exercise period of share options	Share closing price immediately before the date of grant of share options HK$	Weighted average share closing price immediately before the exercise dates HK$
Non-executive Directors												
Albert Thomas DA ROSA, Junior	194,410	–	–	5,055	–	–	199,465	09-Mar-15	4.4834	Note 1	4.40	N/A
	–	–	116,442	–	–	–	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	194,410	–	116,442	5,055	–	–	315,907					
HUANG Xubin**	194,410	–	–	5,055	–	–	199,465	09-Mar-15	4.4834	Note 1	4.40	N/A
	239,098	–	–	6,216	–	–	245,314	31-Aug-15	3.3918	Note 2	3.54	N/A
	156,457	–	–	4,068	–	–	160,525	02-Jun-16	4.3860	Note 3	4.49	N/A
	–	–	116,442	–	–	–	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	–	–	538,392	–	–	–	538,392	25-Apr-18	3.5700	Note 6	3.55	N/A
	589,965	–	654,834	15,339	–	–	1,260,138					
ZHANG Zhiwei***	–	–	116,442	–	–	(116,442)	–	23-Jan-18	4.1520	Note 5	3.91	N/A
	–	–	119,859	–	–	(119,859)	–	25-Apr-18	3.5700	Note 6	3.55	N/A
	–	–	236,301	–	–	(236,301)	–					
LIU Hong****	80,162	–	–	2,084	–	(82,246)	–	12-May-17	3.7329	Note 4	3.70	N/A
	–	–	116,442	–	–	(116,442)	–	23-Jan-18	4.1520	Note 5	3.91	N/A
	80,162	–	116,442	2,084	–	(198,688)	–					
Independent Non-executive Directors												
Robert Maarten WESTERHOF	194,410	–	–	5,055	–	–	199,465	09-Mar-15	4.4834	Note 1	4.40	N/A
	–	–	116,442	–	–	–	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	194,410	–	116,442	5,055	–	–	315,907					
TSENG Shieng-chang Carter	–	–	116,442	–	–	(116,442)	–	23-Jan-18	4.1520	Note 5	3.91	N/A
	–	–	116,442	–	–	(116,442)	–					
WANG Yijiang	122,630	–	–	3,188	–	–	125,818	02-Jun-16	4.3860	Note 3	4.49	N/A
	–	–	116,442	–	–	–	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	122,630	–	116,442	3,188	–	–	242,260					

Name or category of participant	Number of share options: At 1 January 2018	Reclass-ification	Granted during the year	Adjustment during the year[Δ]	Exercised during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options	Exercise price of share options[Δ] HK$	Exercise period of share options	Share closing price immediately before the date of grant of share options HK$	Weighted average share closing price immediately before the exercise dates HK$
LAU Siu Ki	–	–	116,442	–	–	–	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	–	–	119,859	–	–	–	119,859	25-Apr-18	3.5700	Note 6	3.55	N/A
	–	–	236,301	–	–	–	236,301					
	1,181,577	**–**	**1,709,646**	**30,721**	**–**	**(551,431)**	**2,370,513**					
Associate(s) of Director(s)												
ICHIKAWA Yuki	–	102,434	–	2,664	–	–	105,098	31-Aug-15	3.3918	Note 2	3.54	N/A
(Spouse of Mr.	–	124,101	–	3,228	–	–	127,329	02-Jun-16	4.3860	Note 3	4.49	N/A
LI Dongsheng)	–	–	272,468	–	–	–	272,468	25-Apr-18	3.5700	Note 6	3.55	N/A
	–	**226,535**	**272,468**	**5,892**	**–**	**–**	**504,895**					
Other employees of the Group	23,924,065	(3,000,634)	–	526,651	–	(4,803,611)	16,646,471	09-Mar-15	4.4834	Note 1	4.40	N/A
	84,036,799	(373,044)	–	2,125,268	(4,678,464)	(6,454,756)	74,655,803	31-Aug-15	3.3918	Note 2	3.54	3.75
	8,324,124	(324,235)	–	203,817	–	(2,013,913)	6,189,793	02-Jun-16	4.3860	Note 3	4.49	N/A
	16,204,665	–	–	421,103	(39,261)	(2,237,527)	14,348,980	12-May-17	3.7329	Note 4	3.70	4.04
	–	(2,150,700)	91,206,240	–	–	(7,735,659)	81,319,881	23-Jan-18	4.1520	Note 5	3.91	N/A
	132,489,653	**(5,848,613)**	**91,206,240**	**3,276,839**	**(4,717,725)**	**(23,245,466)**	**193,160,928**					
Those who have contributed or may contribute to the Group	3,786,579	–	–	91,166	(467,266)	(14,989)	3,395,490	31-Aug-15	3.3918	Note 2	3.54	3.75
	2,724,371	–	–	70,835	–	(14,471)	2,780,735	02-Jun-16	4.3860	Note 3	4.49	N/A
	–	–	9,284,417	–	(131,398)	(1,591,529)	7,561,490	25-Apr-18	3.5700	Note 6	3.55	3.81
	6,510,950	**–**	**9,284,417**	**162,001**	**(598,664)**	**(1,620,989)**	**13,737,715**					
	153,243,492	**–**	**115,872,466**	**3,905,304**	**(5,316,389)**	**(25,417,886)**	**242,286,987**					

Note 1: One-third of such share options are exercisable commencing from 9 January 2017, a further one-third are exercisable commencing from 9 January 2018, and the remaining one-third are exercisable commencing from 9 January 2019, up to 8 March 2021.

Note 2: For share options granted to the employees of the Group, approximately one-third of such share options are exercisable commencing from 9 January 2017, a further approximately one-third are exercisable commencing from 9 January 2018, and the remaining approximately one-third are exercisable commencing from 9 January 2019, up to 30 August 2021.

For share options granted to the employees of TCL Corporation, approximately one-third of such share options are exercisable commencing from 31 December 2015, a further approximately one-third are exercisable commencing from 31 December 2016, and the remaining approximately one-third are exercisable commencing from 31 December 2017, up to 30 August 2021.

Note 3: For share options granted to the employees of the Group, approximately 13% of such share options are exercisable commencing from 9 January 2017, a further approximately 43% are exercisable commencing from 9 January 2018, and the remaining approximately 44% are exercisable commencing from 9 January 2019, up to 1 June 2022.

For share options granted to the employees of TCL Corporation, approximately one-third of such share options are exercisable commencing from 31 December 2016, a further approximately one-third are exercisable commencing from 31 December 2017, and the remaining approximately one-third are exercisable commencing from 31 December 2018, up to 1 June 2022.

Note 4: Approximately 21% of such share options are exercisable commencing from 9 January 2018, and the remaining approximately 79% are exercisable commencing from 9 January 2019, up to 11 May 2023.

Note 5: Approximately one-sixth of such share options are exercisable commencing from 18 May 2019, approximately one-sixth from 9 January 2020, approximately one-sixth from 18 May 2020, approximately one-sixth from 9 January 2021, a further approximately one-sixth are exercisable commencing from 18 May 2021, and the remaining approximately one-sixth are exercisable commencing from 9 January 2022, up to 22 January 2024.

Note 6: For share options granted to the employees of the Group, all of such share options are exercisable commencing from 9 January 2019, up to 24 April 2024.

For share options granted to the employees of TCL Corporation, approximately one-third of such share options are exercisable commencing from 15 June 2018, a further approximately one-third are exercisable commencing from 15 June 2019, and the remaining approximately one-third are exercisable commencing from 15 June 2020, up to 24 April 2024.

* Mr. LI Dongsheng resigned as the Chairman and an executive Director with effect from 22 September 2017; and subsequently appointed as the Chairman and an executive Director with effect from 2 March 2018.

** Mr. HUANG Xubin resigned as a non-executive Director with effect from 10 January 2019.

*** Mr. ZHANG Zhiwei and Mr. LIU Hong resigned as a non-executive Director with effect from 24 August 2018.

**** Mr. LIU Hong resigned as a non-executive Director with effect from 24 August 2018.

Mr. BO Lianming resigned as the Chairman and an executive Director with effect from 2 March 2018.

Δ Adjustments have been made to the number of outstanding share options and their exercise prices immediately upon the completion of the Rights Issue on 26 January 2018.

AWARD SCHEME

The Company adopted the Award Scheme on 6 February 2008. By a shareholders' resolution passed in the extraordinary general meeting held on 11 August 2015, the Award Scheme was amended. Details of the Award Scheme and the amendments were set out in the announcements dated 6 February 2008 and 25 June 2015 respectively and the circulars dated 19 March 2008 and 27 July 2015 respectively. On 13 June 2016, the Board further resolved to amend the Award Scheme to allow the Board, at its sole and absolute discretion, to accelerate the vesting of awarded shares and/or waive and/or alter any or all of the vesting conditions attached to the awarded shares. On 24 November 2017, the Board resolved to, among others, divide the Award Scheme into two sub-schemes, namely the Restricted Share Award Scheme for Management and the Restricted Share Award Scheme for Employees and Others respectively for the said two groups of participants for better management and administration ("2017 Amendments").

On 4 May 2018, the Board further resolved to make the 2018 Amendments to the Award Scheme which primarily introduced a refreshment mechanism that allowed for refreshment of the scheme limit subject to fulfilment of certain conditions and other consequential amendments. For further details of the 2017 Amendments and the 2018 Amendments, please refer to the circular of the Company dated 7 May 2018.

As at 4 May 2018, 56,229,890 further restricted shares might be granted to the eligible participants of the Award Scheme, which represented about 2.41% of the total number of issued shares of the Company as at 4 May 2018. On 4 May 2018, the Board conditionally approved to refresh the scheme limit to not exceeding 10% of the number of issued shares of the Company as of the date of such Board's approval, subject to the passing of the resolutions approving the amended Award Scheme with the 2018 Amendments incorporated by the shareholders of the Company at the extraordinary general meeting of the Company held on 23 May 2018. On 23 May 2018, an ordinary resolution was passed to approve the amended Award Scheme with the 2018 Amendments incorporated. As at 4 May 2018, the number of issued shares of the Company was 2,332,299,307, hence a total of maximum of 233,229,930 shares of the Company may be granted as awarded shares under the Award Scheme. No further shares had been awarded thereafter as at 31 December 2018.

On 23 May 2018, an ordinary resolution was also passed to grant an annual specific mandate to the Directors to allot and issue new shares under the Award Scheme for not exceeding 3% of the number of shares of the Company in issue as at the date on which the resolution was passed. As at 23 May 2018, the number of issued shares of the Company was 2,332,613,561 and the maximum number of new shares which could be issued as approved under the said annual specific mandate was 69,978,406 shares. No new shares had been issued under the said specific mandate thereafter as at 31 December 2018.

The Company has appointed BOCI-Prudential Trustee Limited (the "Trustee") for the administration of the Award Scheme. To the knowledge and belief of the Company, the Trustee is an independent third party to the Company. No one, including the Trustee, may exercise any voting rights in respect of the awarded shares held by the Trustee.

The trust for management and the trust for employees and other details of which are set out in note 33 to the financial statements.

CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transactions and continuing connected transactions with its connected persons including (i) TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (excluding the Group) (being associate(s) (as defined in the Listing Rules) of TCL Corporation) (collectively, the "TCL Group") and associates of TCL Corporation; and (ii) Lerong Zhixin (being the immediate holding company of a substantial shareholder of the Company).

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.73 of the Listing Rules) during the year ended 31 December 2018:

On 23 March 2018, pursuant to the overseas subscription agreement entered into by TTE Corporation, a wholly-owned subsidiary of the Company, overseas general partner (i.e. TCL Ventures Inc.), China Star Optoelectronics International (HK) Limited and Plus Incentive Investment Limited, the parties agreed to, among others, invest in Overseas Investment Fund with a total capital commitment of USD75 million in the proportion of 20%, 0%, 40% and 40%, respectively.

On 23 March 2018, pursuant to the PRC partnership agreement entered into by TCL New Technology (a wholly-owned subsidiary of the Company), PRC general partner (i.e. Huizhou TCL Kaichuang Enterprise Management Co., Ltd.) and the other PRC limited partners (i.e. TCL Corporation and CSOT), the parties agreed to, among others, establish the PRC investment fund ("PRC investment Fund") and invest in PRC Investment Fund with a total capital commitment of RMB201 million in the proportion of 19.9%,0.5%,39.8% and 39.8%, respectively.

On 10 May 2018, TCL New Technology, a subsidiary of the Company entered into sale & purchase agreement ("Sale & Purchase Agreement") with TCL Industrial Park pursuant to which TCL New Technology has agreed to transfer all assets held by TCL New Technology, including, among others, the entire club membership interest of TCL New Technology in the R&D Elite Club ("Club"), which, subject to the articles of association of the Club, covers all the rights of the Club, including the exclusive rights to occupy and use the premises which is situated at Unit 102 (category B of 1st floor) for commercial use, the whole floors of 2nd to 6th and 9th to 12th for office use of D4 building, International E City, Tongle Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC* (中國廣東省深圳市南山區同樂路國際E城D4棟1層B型102單元層商業單元、2至6層及9至12層寫字樓單元) with a total gross floor area of 23,415.94 square meters ("Premises") free of charge and to let Premises and receive any revenue or profits generated from the Premises and all debts receivable held by TCL New Technology, as more particularly listed out in the Sale & Purchase Agreement ("Assets") and all businesses in relation to the Assets, including but not limited to all rights and obligations under all business contracts (including rental contracts and employment contracts) in relation thereto of TCL New Technology, as more particularly listed out in the Sale & Purchase Agreement ("Business") to the TCL Industrial Park, and that the TCL Industrial Park has agreed to acquire the Assets and the Business and to assume all debts and liabilities in relation to the Assets and the Business incurred by TCL New Technology as at the cut-off date, at a consideration of RMB328,964,988.18 (equivalent to approximately HK$407,291,551.87). The Sale & Purchase Agreement has been completed on 28 June 2018 in accordance with its terms.

On 18 May 2018, TCL New Technology, a subsidiary of the Company entered into the capital increase agreement with Lerong Zhixin, Le Shi Internet Information and Technology Corp., Beijing and Tianjin Jiarui Huixin Corporate Management Co., Ltd, pursuant to which, among others, TCL New Technology agreed to make a capital contribution of RMB0.3 billion to Lerong Zhixin subject to the terms and conditions thereof. Upon completion of the capital increase, the Company's interest in Lerong Zhixin through TCL New Technology will be approximately 2.71%. The capital increase was not yet completed.

On 1 June 2018, TCL King Electrical and TCL New Technology ("Purchasers"), both are subsidiaries of the Company, TCL Corporation, Ningbo Yuanheng Juyuan Investment Partnership (Limited Partnership) and Huizhou Guanlian Industrial Investment Co., Ltd. ("Vendors") entered into the equity transfer agreement, pursuant to which the Purchasers conditionally agreed to acquire from the Vendors and the Vendors conditionally agreed to transfer to the Purchasers the equity interest in CI Tech at a consideration of RMB793,020,340.79. The equity transfer was completed on 1 August 2018.

On 20 July 2018, TCL King Electrical and TCL Intelligence Industry (Huizhou) Company Limited ("TCL Intelligence Industry") entered into the sale and purchase agreement pursuant to which, among others, TCL King Electrical shall purchase (i) moulds, equipment, tools, tooling fixtures, low value consumables, other office equipment for production of moulds; and (ii) relevant user instructions, user manuals and maintenance information of the assets mentioned in (i) above (the "Assigned Equipment") from TCL Intelligence Industry subject to and in accordance with the terms and conditions thereof. The consideration for the acquisition of the Assigned Equipment was RMB15,494,434.63 (equivalent to approximately HK$18,377,948.91).

On 21 September 2018, pursuant to the articles of association of the Gechuang Dongzhi Technology Co., Ltd.* (格創東智科技有限公司), a company established under the laws of the PRC with limited liability ("Joint Venture"), Shenzhen TCL Digital (a subsidiary of the Company), TCL Corporation, Ningbo Juge Yingrui Investment Partnership (Limited Partnership), Ningbo Xingxing Jiuli Investment Management Partnership (Limited Partnership), CSOT (a subsidiary of TCL Corporation) and Mr. HE Jun agreed to, among others, establish the Joint Venture and invest in the Joint Venture with a total capital of RMB100 million in the proportion of 20%,36%,14%,4%,20% and 6%, respectively.

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.73 of the Listing Rules) during the year ended 31 December 2018:

(a) Pursuant to the Master TCL Trademark License (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and TCL Corporation, TCL Group has agreed to grant to the Group an exclusive (subject to certain limited exceptions which are related to existing obligation or businesses of TCL Corporation), non-sub-licensable and non-transferable license to use certain of its registered trademarks including "TCL" for the manufacture, production, sale and distribution of electronic products including televisions, audio-visual products and commercial use display products. During the year, no payment has been made by the Group to TCL Group as royalties and reimbursement of branding advertising costs was paid by the Group to TCL Group amounting to HK$448,553,000.

(b) Pursuant to the Master Sale and Purchase (2017) Agreement dated 29 September 2017 entered into between the Company and TCL Corporation, the Group (i) purchased goods produced or manufactured in the PRC from TCL Group amounting to HK$12,892,395,000; and (ii) sold goods to TCL Group amounting to HK$5,566,381,000 during the year.

(c) Pursuant to the Master Sourcing (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and TCL Corporation, the Group (i) sold overseas materials to TCL Group amounting to HK$1,049,403,000; and (ii) purchased overseas materials from TCL Group amounting to HK$840,166,000 during the year.

(d) Pursuant to the Master Financial Services (2017 Renewal) Agreement dated 21 March 2017 entered into among the Company, TCL Corporation, TCL Finance Company Limited ("Finance Company", a non-wholly owned subsidiary of TCL Corporation) and TCL Finance (Hong Kong) Co., Limited, a subsidiary of TCL Corporation, the Group paid financial services charges for the other financial services thereunder amounting to HK$268,000 and received promotion fees amounting to HK$15,695,000 during the year. The maximum outstanding balance of deposits placed by the Group with Finance Company amounted to HK$5,127,463,000, the maximum outstanding balance of deposits (bank instruments, receivables, machinery or equipment etc.) as security placed by the Group with Finance Company amounting to HK$859,930,000 and the maximum facility provided to the Group by Finance Company with bank instruments, receivables, machinery or equipment etc. as security amounted to HK$859,930,000 during the year.

(e) Pursuant to the Master Logistics Service Supply (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and Speedex Logistics Co., Ltd. ("Speedex"), an associate of TCL Corporation, the Group may from time to time request Speedex for provision of certain logistics services. The Group paid HK$404,708,000 to Speedex for all the cost and expenses incurred by Speedex for provision of the logistics services during the year.

(f) Pursuant to the Master Subcontracting (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and TCL Corporation, the Group (i) did not pay any subcontracting fees to TCL Group; and (ii) received subcontracting fees from TCL Group amounting to HK$3,874,000 during the year.

The original annual cap for the year ended 31 December 2018 for subcontracting fees received from TCL Group under the Master Subcontracting (2017 Renewal) Agreement was HK$0, while the Company subsequently on 31 January 2018 revised such annual cap to HK$6,895,000. Under the Listing Rules, the Company has to re-comply with all the relevant disclosure requirements in relation to such revised annual cap, however, since all the applicable percentage ratios of such revised annual cap is less than 0.1%, the transaction contemplated under Master Subcontracting (2017 Renewal) Agreement remains fully exempt after revision of annual cap pursuant to Rule 14A.76(1)(a) of the Listing Rules.

(g) Pursuant to the Master Rental (2017) Agreement dated 29 September 2017 entered into between the Company and TCL Corporation, the Group (i) received rental income from TCL Group amounting to HK$20,209,000; and (ii) paid rental cost to TCL Group amounting to HK$18,000,000 during the year.

(h) Pursuant to the Master Service (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and TCL Corporation, no content income was shared by the Group in respect of the provision of value added services to end users; and no service fees was paid by the Group to TCL Group in respect of the provision of certain basic services during the year.

(i) Pursuant to the Master After Sale Service (2017) Agreement dated 29 September 2017 entered into between the Company and TCL Corporation, the Group (i) received service fees from TCL Group in connection with the provision of after sale service to TCL Group for commercial use display products sold by TCL Group in the PRC amounting to HK$55,080,000; and (ii) paid service fees to TCL Group in connection with its provision of after sale service to the Group for television sets products and their accessories and ancillary products manufactured by the Group amounting to HK$255,954,000 during the year.

(j) Pursuant to the Master Strategic Cooperation (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and TCL Corporation, the Group (i) paid service fee to TCL Group for the Joint Laboratory Project amounting to HK$23,876,000; and (ii) paid service fee to TCL Group for the Strategic Mutual Research and Mid-to-Long-Term Planning Project amounting to HK$57,706,000 during the year.

(k) Pursuant to the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and Shenzhen Qianhai Sailing Supply Chain Management Co. Ltd. ("Qianhai Sailing"), an associate of TCL Corporation, the Group purchased goods required for the manufacturing or production of the products of the Group from Qianhai Sailing and its subsidiaries amounting to HK$552,510,000 during the year.

(l) Pursuant to the Sourcing Framework Agreement (2016) dated 20 May 2016 entered into between the Company and Lerong Zhixin, the Group did not supply the Products to Lerong Zhixin during the year.

(m) Pursuant to the Key Component Sourcing Contract (2016) dated 20 May 2016 entered into between the Company and Lerong Zhixin, Lerong Zhixin did not supply key materials required to produce the Products to the Group during the year.

(n) Pursuant to the Licence Agreement (Hong Kong Science Park) dated 1 November 2016 entered into between the Company as licensee and TCL Corporate Research (Hong Kong) Co., Limited ("TCL Corporate Research"), a wholly-owned subsidiary of TCL Corporation as licensor, the Group (i) paid licence fee to TCL Corporate Research amounting to HK$5,235,000; and (ii) maximum balance of deposit to be maintained amounted to HK$1,357,000 during the year.

(o) Pursuant to the 2018 Master Services Agreement dated 31 October 2018 entered into between the Company and TCL Corporation, the Group (i) paid platform services fees to TCL Group amounting to HK$5,358,000; (ii) paid IT and other services fees to TCL Group amounting to HK$2,430,000; (iii) received platform services income from TCL Group amounting to HK$8,047,000; and (iv) received other services income from TCL Group amounting to HK$28,050,000 during the year.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

All the related parties transactions set out in note 40 to the financial statements (except for the transactions with joint ventures and certain associates of the Group and TCL Corporation included in note 40(a) to the financial statements) constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive Directors have confirmed that the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 49 to 82 in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a model code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard as set out in the Model Code. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

AUDIT COMMITTEE

The Company has an audit committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will offer themselves for reappointment as auditors of the Company at the forthcoming AGM.

EQUITY-LINKED AGREEMENTS

References are made to the prospectus (the "Prospectus") of the Company in relation to the rights issue dated 28 December 2017 and the announcements dated 28 November 2017, 9 January 2018, 18 January 2018 and 25 January 2018 of the Company in relation to allotting and issuing 582,544,371 rights shares (the "Rights Shares") at the subscription price of HK$3.46 per Rights Share on the basis of one Rights Share for every three ordinary shares held on the 27 December 2017 (the "Rights Issue"). As at 4:00 p.m. on Friday, 12 January 2018, being the latest time for acceptance of applications for the Rights Shares as set out in the Prospectus, in aggregate, a total of 179 valid acceptance and applications in respect of 1,656,946,129 Rights Shares had been received, representing approximately 284.43% of the total number of 582,544,371 Rights Shares available under the Rights Issue. Accordingly, the Rights Issue was over-subscribed by 1,074,401,758 Rights Shares. On 26 January 2018, the Company allotted and issued 582,544,371 Rights Shares as ordinary shares of the Company.

In accordance with the terms of the underwriting agreement (the "Underwriting Agreement") dated 28 November 2017 entered into between the Company and BNP Paribas Securities (Asia) Limited as the underwriter and given the over-subscription for the Rights Shares, the obligations of the underwriter in respect of the Rights Shares not taken up had been fully discharged and the underwriter was not required to take up any Rights Shares pursuant to the Underwriting Agreement. For details, please refer to the Prospectus and the announcements dated 28 November 2017, 9 January 2018, 18 January 2018 and 25 January 2018 of the Company.

Other than the share option scheme and the Award Scheme as disclosed above and in note 33 to the financial statements respectively and the grant letters issued pursuant to the schemes and the Underwriting Agreement, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

THE USE OF PROCEEDS FROM THE SUBSCRIPTION COMPLETED ON 11 MAY 2016

The gross proceeds from the subscription by Lerong Zhixin pursuant to a subscription agreement entered into between the Company and Lerong Zhixin on 11 December 2015 were approximately HK$2,267,525,000. The net proceeds from the subscription, after deduction of expenses and professional fees, amounted to approximately HK$2,260,000,000 (the "Subscription Proceeds") amongst which approximately HK$1,437,520,000 had been utilised as at 22 September 2017.

The Board had on 22 September 2017 resolved to reallocate and utilise the unutilised Subscription Proceeds in the total sum of approximately HK$822,480,000.

As disclosed in the Interim Report 2018 of the Company, the unutilised Subscription Proceeds in the total sum of approximately HK$822,480,000 had been fully utilised as at 30 June 2018. Please refer to the Interim Report 2018 of the Company for further details.

THE USE OF PROCEEDS FROM THE RIGHTS ISSUE

Reference is made to the Prospectus published by the Company dated 28 December 2017 in respect of the Rights Issue in the proportion of one Rights Share for every three then existing shares held by the Qualifying Shareholders on the record date of 27 December 2017. Unless otherwise specified, terms used in this section shall have the same meanings as those defined in the Prospectus.

As disclosed in the Prospectus, the net proceeds from the Rights Issue after deduction of expenses and professional fees amounted to approximately HK$2,000 million ("Rights Issue Proceeds").

The breakdown of the Company's proposed use of the Rights Issue Proceeds as disclosed in the Prospectus and its actual use of the Rights Issue Proceeds from the date of completion of the Rights Issue to 31 December 2018 were as follows:

Intended use:	**Proposed use of the Rights Issue Proceeds as disclosed in the Prospectus** HK$ million (approximately)	**Actual use of the Rights Issue Proceeds from the date of completion of the Rights Issue to 31 December 2018** HK$ million (approximately)	**Balance of the unutilised Rights Issue Proceeds as of 31 December 2018** HK$ million (approximately)
Future joint ventures and M&A opportunities	750	750	–
Phase I of the Tonghu Project	350	20	330
R&D	350	350	–
General working capital	550	550	–
Total	**2,000**	**1,670**	**330**

PERMITTED INDEMNITY PROVISION

The Articles provides that the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all losses or liabilities which they incur or sustain as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted.

The Company has taken out and maintained Directors' liability insurance which provides appropriate cover for the Directors and directors of the subsidiaries of the Group.

ON BEHALF OF THE BOARD

LI Dongsheng
Chairman

Hong Kong
18 March 2019

EY 安永

To the shareholders of TCL Electronics Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of TCL Electronics Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 124 to 281, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Acquisition of the equity interest in TCL Commercial Information Technology (Huizhou) Limited ("CI Tech")	
On 31 July 2018, the Group completed the acquisition of 100% equity interest of CI Tech at a consideration of RMB793,020,000. This transaction was accounted using acquisition method and the purchase price was allocated to the identifiable assets acquired and liabilities assumed. The Group engaged external appraisers to evaluate the fair value of the identifiable assets and liabilities of the acquiree. The process involved management's judgement and estimates in particular those used in the determination of the fair value of the acquired customer relationship such as budgeted revenue, rate of revenue contribution, attrition rate and discount rates. The intangible assets identified in this acquisition amounted to approximately HK$96,499,000 and the purchase price allocation resulted in goodwill of approximately HK$655,206,000. The accounting policies and disclosures in respect of acquisitions are included in notes 2.4, 3 and 36 to the Group's consolidated financial statements.	Our audit procedures included: • examined purchase agreements, the resolutions of shareholders' meeting and the board of directors meeting related to this acquisition, the purchase price bank payment slips and other relevant documents; • involved our internal specialist to assist us in evaluating the methodologies, assumptions and parameters used in valuation reports, in particular those relating to budgeted revenue, rate of revenue contribution and attrition rate of customer relationship, and discount rate. We also evaluated the external appraisers' qualifications, professional competence and independence; • obtained and examined the valuation report from the external appraisers and the acquiree's financial statements at the acquisition date. We also assessed the reasonableness of the allocation of purchase price to all identifiable assets acquired and liabilities assumed, and reviewed the accounting treatment of business combination; and • assessed the disclosures made in the Group's consolidated financial statements.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment of goodwill</td></tr>
<tr><td>As at 31 December 2018, the Group had goodwill of HK$781,962,000 which was allocated to three cash-generating units ("CGUs") including PRC television products with the TCL brand, commercial display products and smart home products.

The determination of recoverable amount, being the higher of fair value less costs of disposal and value-in-use, requires judgement on the part of management in both identifying and then valuing the relevant CGU. Recoverable amounts were based on management's estimates of variables such as budgeted revenue/gross margins, growth rates and the most appropriate discount rates.

The accounting policies and disclosures in respect of goodwill are included in notes 2.4, 3 and 16 to the Group's consolidated financial statements.</td><td>Our audit procedures included:

• evaluated the methodologies, assumptions and parameters used by management, in particular those relating to the budgeted revenue/gross margin, growth rates and pre-tax discount rates, by comparing the cash flow forecast to historical trend analyses and referring to the industry discount rate;

• assessed the historical accuracy of management's estimates and evaluation of business plans by referring to the market situation as at 31 December 2018;

• involved our internal valuation expert to assist us with our assessment of methodology and the discount rate used to determine the recoverable amounts and assessed the results of their work as part of our audit; and

• assessed the disclosures made in the Group's consolidated financial statements.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade and other receivables	
As at 31 December 2018, the Group had trade receivables and other receivables of HK$4,881,560,000 and HK$2,900,251,000, respectively, represented around 20.4% and 12.1% of current assets of the Group, respectively. Management developed expected credit loss models to assess the impairment allowance of trade and other receivables at each end of the reporting period. The expected credit loss model of trade and other receivables involves judgement and subjective estimations such as the staging, groupings of the debtor segments and estimated loss rates. The accounting policies and disclosures in respect of trade and other receivables are included in notes 2.4, 3, 22, 24 and 42 to the Group's consolidated financial statements.	In evaluating management's impairment assessment, our audit procedures included: • assessed the methodologies, assumptions and estimates used by management, checked historical repayment pattern and identified any events of default or disputes with the debtors; • evaluated the data inputs by management which included the ageing of trade and other receivables as at 31 December 2018 and historical observed loss rates; and • assessed the disclosures made in the Group's consolidated financial statements.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Tjen, Michael.

Ernst & Young
Certified Public Accountants
Hong Kong
18 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
TURNOVER	5	**45,581,970**	40,822,357
Cost of sales		**(38,629,813)**	(34,521,113)
Gross profit		**6,952,157**	6,301,244
Other income and gains	5	**771,240**	820,555
Selling and distribution expenses		**(4,476,731)**	(4,057,165)
Administrative expenses		**(1,302,314)**	(1,281,132)
Impairment on financial assets, net		**(13,258)**	–
Research and development costs		**(722,290)**	(632,401)
Other operating expenses		**(20,939)**	(100,909)
		1,187,865	1,050,192
Finance costs	6	**(97,728)**	(229,175)
Share of profits and losses of:			
Joint ventures		**2,426**	(7,468)
Associates		**69,065**	119,615
PROFIT BEFORE TAX	7	**1,161,628**	933,164
Income tax	10	**(226,778)**	(136,303)
PROFIT FOR THE YEAR		**934,850**	796,861

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedge:		
Effective portion of changes in fair value of the hedging instruments arising during the year	**43,028**	(43,940)
Reclassification adjustments for (gains)/losses included in the consolidated statement of profit or loss	**(32,314)**	11,243
	10,714	(32,697)
Exchange differences:		
Translation of foreign operations	**(383,456)**	351,727
Reclassification adjustments for foreign operations disposed of or liquidated during the year	**16,622**	495
Reclassification adjustments for deemed partial disposal or liquidation of associates during the year	**–**	306
	(366,834)	352,528
Financial assets at fair value through other comprehensive income:		
Changes in fair value, net of income tax	**19,852**	–
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(336,268)**	319,831
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value, net of income tax	**9,088**	–
Share of other comprehensive income of associates	**12,370**	8,127
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**21,458**	8,127

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Note	**2018** **HK$'000**	2017 HK$'000
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(314,810)**	327,958
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**620,040**	1,124,819
Profit/(loss) attributable to:			
Owners of the parent		**944,235**	814,639
Non-controlling interests		**(9,385)**	(17,778)
		934,850	796,861
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**631,559**	1,137,835
Non-controlling interests		**(11,519)**	(13,016)
		620,040	1,124,819
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK42.63 cents**	HK47.43 cents
Diluted		**HK41.58 cents**	HK46.55 cents

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,347,073**	1,675,998
Prepaid land lease payments	14	**154,123**	125,801
Investment properties	15	**128,079**	130,329
Goodwill	16	**781,962**	119,638
Other intangible assets	17	**111,102**	129
Investments in joint ventures	18	**18,801**	14,291
Investments in associates	19	**1,412,601**	1,106,911
Equity investments designated at fair value through other comprehensive income	20	**128,770**	–
Available-for-sale investments	20	**–**	107,835
Deferred tax assets	32	**101,737**	72,589
Other deferred assets		**46,011**	–
Total non-current assets		**4,230,259**	3,353,521
CURRENT ASSETS			
Inventories	21	**6,982,733**	5,058,597
Trade receivables	22	**4,881,560**	6,466,171
Bills receivable	23	**2,360,909**	3,793,118
Prepayments, other receivables and other assets	24	**2,900,251**	1,249,468
Tax recoverable		**74,802**	29,266
Derivative financial instruments	25	**7,268**	202,970
Cash and bank balances	26	**6,741,976**	5,910,235
		23,949,499	22,709,825
Non-current assets classified as held for sale	19	**21,445**	–
Total current assets		**23,970,944**	22,709,825
CURRENT LIABILITIES			
Trade payables	27	**9,801,922**	9,753,201
Bills payable		**1,613,794**	306,879
Other payables and accruals	28	**5,151,507**	4,555,367
Interest-bearing bank and other borrowings	29	**1,093,987**	2,905,253
Tax payable		**56,423**	136,599
Derivative financial instruments	25	**22,177**	194,826
Provisions	31	**589,091**	477,920
Total current liabilities		**18,328,901**	18,330,045
NET CURRENT ASSETS		**5,642,043**	4,379,780
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,872,302**	7,733,301

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,872,302**	7,733,301
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**20,540**	21,537
Deferred tax liabilities	32	**44,472**	15,247
Other long-term payables		**27,725**	–
Total non-current liabilities		**92,737**	36,784
Net assets		**9,779,565**	7,696,517
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	**2,335,494**	1,747,633
Reserves	34	**7,443,827**	5,881,091
		9,779,321	7,628,724
Non-controlling interests		**244**	67,793
Total equity		**9,779,565**	7,696,517

LI Dongsheng
Director

WANG Cheng Kevin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent														
	Issued capital HK$'000 (Note 33)	Share premium account HK$'000 (Note 33)	Share option reserve HK$'000 (Note 34(i))	Capital reserve HK$'000 (Note 34(ii))	Reserve funds HK$'000 (Note 34(iii))	Cash flow hedge reserve HK$'000 (Note 34(v))	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Shares held for the Award Scheme HK$'000 (Note 33)	Awarded share reserve HK$'000 (Note 34(iv))	Fair value reserve HK$'000	Retained profits/ accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017	1,747,633	4,611,230*	207,570*	57,762*	913,403*	(8,941)*	123,906*	10,541*	(208,197)*	105,975*	-	67,842*	7,628,724	67,793	7,696,517
Effect of adoption of HKFRS 9	-	-	-	-	-	-	-	-	-	-	(36,607)	(9,266)	(45,873)	-	(45,873)
At 1 January 2018 (restated)	1,747,633	4,611,230*	207,570*	57,762*	913,403*	(8,941)*	123,906*	10,541*	(208,197)*	105,975	(36,607)	58,576	7,582,851	67,793	7,650,644
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	-	944,235	944,235	(9,385)	934,850
Other comprehensive income for the year:															
Cash flow hedge	-	-	-	-	-	10,714	-	-	-	-	-	-	10,714	-	10,714
Exchange differences related to:															
Translation of foreign operations	-	-	-	-	-	-	(381,322)	-	-	-	-	-	(381,322)	(2,134)	(383,456)
Reclassification adjustments for foreign operations disposed of during the year	-	-	-	-	-	-	16,622	-	-	-	-	-	16,622	-	16,622
Share of other comprehensive income of an associate	-	-	-	-	-	-	-	12,370	-	-	-	-	12,370	-	12,370
Change in fair value of debt instruments at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	-	19,852	-	19,852	-	19,852
Change in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	-	9,088	-	9,088	-	9,088
Total comprehensive income/(loss) for the year	-	-	-	-	-	10,714	(364,700)	12,370	-	-	28,940	944,235	631,559	(11,519)	620,040
Equity-settled share option arrangements	-	-	89,832	-	-	-	-	-	-	-	-	-	89,832	-	89,832
Issue of shares upon exercise of share options (note 33)	5,316	20,414	(7,602)	-	-	-	-	-	-	-	-	-	18,128	-	18,128
Forfeiture of share options during the year	-	-	(12,569)	-	-	-	-	-	-	-	-	12,569	-	-	-
Subscription of Rights Issue shares (note 33)	582,545	1,418,399	-	-	-	-	-	-	-	-	-	-	2,000,944	-	2,000,944
Liquidation distribution of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,250)	(26,250)
Employee share-based compensation benefits under the Award Scheme (note 33)	-	-	-	-	-	-	-	-	-	72,589	-	-	72,589	-	72,589
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	-	11,863	(20,243)	-	-	(8,380)	-	(8,380)
Purchase of shares for the Award Scheme	-	-	-	-	-	-	-	-	(46,935)	-	-	-	(46,935)	-	(46,935)
2018 interim dividend paid	-	(220,894)	-	-	-	-	-	-	-	-	-	-	(220,894)	-	(220,894)
2017 final dividend paid	-	(340,373)	-	-	-	-	-	-	-	-	-	-	(340,373)	-	(340,373)
Transfer from retained profits	-	-	-	26,513	(2,768)	-	-	-	-	-	-	(23,745)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(29,780)	(29,780)
At 31 December 2018	2,335,494	5,488,776*	277,231*	84,275*	910,635*	1,773*	(240,794)*	22,911*	(243,269)*	158,321*	(7,667)*	991,635*	9,779,321	244	9,779,565

* These reserve accounts comprise the consolidated reserves of HK$7,443,827,000 (2017: HK$5,881,091,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent													
	Issued capital HK$'000 (Note 33)	Share premium account HK$'000 (Note 33)	Share option reserve HK$'000 (Note 34(i))	Capital reserve HK$'000 (Note 34(ii))	Reserve funds HK$'000 (Note 34(iii))	Cash flow hedging hedge HK$'000 (Note 34(v))	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Shares held for the Award Scheme HK$'000 (Note 33)	Awarded share reserve HK$'000 (Note 34(iv))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	1,736,446	4,633,314	176,300	57,762	913,945	23,756	(223,860)	(6,168)	(218,314)	112,137	(752,873)	6,452,445	103,900	6,556,345
Profit/(loss) for the year	–	–	–	–	–	–	–	–	–	–	814,639	814,639	(17,778)	796,861
Other comprehensive income/ (loss) for the year:														
Cash flow hedge	–	–	–	–	–	(32,697)	–	–	–	–	–	(32,697)	–	(32,697)
Exchange differences related to:														
Translation of foreign operations	–	–	–	–	–	–	344,109	–	–	–	–	344,109	7,618	351,727
Reclassification adjustments for foreign operations disposed of during the year	–	–	–	–	–	–	3,351	–	–	–	–	3,351	(2,856)	495
Release upon deemed partial disposal of an associate	–	–	–	–	–	–	306	–	–	–	–	306	–	306
Share of other comprehensive income of an associate	–	–	–	–	–	–	–	8,127	–	–	–	8,127	–	8,127
Total comprehensive income/(loss) for the year	–	–	–	–	–	(32,697)	347,766	8,127	–	–	814,639	1,137,835	(13,016)	1,124,819
Equity-settled share option arrangements	–	–	53,438	–	–	–	–	–	–	–	–	53,438	–	53,438
Issue of shares upon exercise of share options (note 33)	11,187	42,965	(16,634)	–	–	–	–	–	–	–	–	37,518	–	37,518
Forfeiture of share options during the year	–	–	(5,534)	–	–	–	–	–	–	–	5,534	–	–	–
Disposal of a subsidiary (note 37(a))	–	–	–	–	(1,194)	–	–	–	–	–	1,194	–	(22,543)	(22,543)
Capital injection from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	712	712
Employee share-based compensation benefits under the Award Scheme (note 33)	–	–	–	–	–	–	–	–	–	14,168	–	14,168	–	14,168
Vesting of shares under the Award Scheme	–	–	–	–	–	–	–	–	10,117	(20,330)	–	(10,213)	–	(10,213)
Share of other reserve of an associate	–	–	–	–	–	–	–	8,582	–	–	–	8,582	–	8,582
Transfer from retained profits	–	–	–	–	652	–	–	–	–	–	(652)	–	–	–
2017 interim dividend paid	–	(65,049)	–	–	–	–	–	–	–	–	–	(65,049)	–	(65,049)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(1,260)	(1,260)
At 31 December 2017	1,747,633	4,611,230*	207,570*	57,762*	913,403*	(8,941)*	123,906*	10,541*	(208,197)*	105,975*	67,842*	7,628,724	67,793	7,696,517

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,161,628	933,164
Adjustments for:			
Finance costs	6	97,728	229,175
Share of profits and losses of joint ventures and associates		(71,491)	(112,147)
Impairment of goodwill	7	–	15,295
(Gain)/loss on disposal of items of property, plant and equipment, net	7	(167,708)	30,374
Loss on disposal of a subsidiary	7	–	1,012
Gain on liquidation of subsidiaries	7	(6,944)	–
Gain on liquidation of an associate	7	(43)	–
Impairment of an investment in a joint venture	7	–	19,377
Interest income	7	(62,299)	(30,724)
Fair value (gain)/losses, net:			
Derivative instruments – transactions not qualifying as hedges	7	(1,043)	(22,411)
Ineffectiveness of cash flow hedges	7	(1,727)	2,742
Gain on deemed partial disposal of an associate	7	–	(220,047)
Depreciation of property, plant and equipment	7	207,809	222,400
Depreciation of investment properties	7	2,886	308
Amortisation of other intangible assets	7	5,069	141
Amortisation of prepaid land lease payments	7	3,098	3,131
Equity-settled share option expenses	7	82,045	51,024
Employee share-based compensation benefits under the Award Scheme	7	64,691	11,928
		1,313,699	1,134,742
Increase in inventories		(1,991,420)	(434,792)
Decrease/(increase) in trade receivables		1,659,477	(1,279,008)
Decrease/(increase) in bills receivable		1,305,672	(765,033)
Increase in other deferred assets		(46,011)	–
(Increase)/decrease in prepayments, other receivables and other assets		(1,629,779)	64,200
(Decrease)/increase in trade payables		(160,554)	2,051,514
Increase/(decrease) in bills payable		1,354,148	(761,744)
Increase in other payables and accruals		578,163	772,538
Increase in provisions		119,644	127,779
Increase in other long-term payables		27,725	–
Cash generated from operations		2,530,764	910,196
Interest paid		(64,448)	(47,418)
Interest element of finance lease rental payments		(90)	(823)
Income taxes paid		(393,534)	(116,291)
Net cash flows from operating activities		2,072,692	745,664

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Net cash flows from operating activities		**2,072,692**	745,664
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**62,299**	30,724
Dividend received		**15,513**	6,971
Purchases of items of property, plant and equipment		**(129,027)**	(157,717)
Prepayment of land lease payments		**(37,583)**	–
Proceeds from disposal of items of property, plant and equipment		**396,473**	22,872
Acquisition of subsidiaries	36	**(522,280)**	–
Investments in joint ventures		**–**	(3,909)
Investments in associates		**(340,238)**	(128,777)
Disposal of subsidiaries	37	**–**	(1,160)
Advance receipts from expected disposal of non-current assets classified as held for sale		**10,074**	–
Purchase of equity investments designated at fair value through other comprehensive income		**(3,380)**	–
Net cash flows used in investing activities		**(548,149)**	(230,996)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options		**18,128**	37,518
Interest paid		**(33,190)**	(180,934)
Purchase of shares for the Award Scheme		**(46,935)**	–
New bank and other loans		**3,478,611**	6,189,654
Repayment of bank and other loans		**(5,290,300)**	(4,659,434)
Capital element of finance lease rental payments		**–**	(3,648)
Proceeds from issue of Rights Issue shares		**2,000,944**	–
Capital contribution from a non-controlling shareholder		**–**	712
Dividend paid		**(561,267)**	(51,442)
Liquidation distribution to non-controlling shareholders of a subsidiary		**(26,250)**	–
Dividends paid to non-controlling shareholders		**(29,780)**	(1,260)
Net cash flows (used in)/from financing activities		**(490,039)**	1,331,166
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,034,504**	1,845,834
Cash and cash equivalents at beginning of year		**5,910,235**	3,882,361
Effect of foreign exchange rate changes, net		**(202,763)**	182,040
CASH AND CASH EQUIVALENTS AT END OF YEAR		**6,741,976**	5,910,235
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**6,741,976**	5,910,235

31 December 2018

1. CORPORATE AND GROUP INFORMATION

TCL Electronics Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is located at 7th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

Pursuant to a special resolution passed at the annual general meeting of the Company held on 23 May 2018 and approved by the Registry of Companies in the Cayman Islands, the name of the Company was changed from "TCL Multimedia Technology Holdings Limited" to "TCL Electronics Holdings Limited".

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were mainly involved in the manufacture and sale of colour television sets, Smart audio-visual ("Smart AV") and Smart home products.

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a company incorporated in Hong Kong, is the immediate holding company of the Company and the ultimate holding company of the Company is TCL Corporation ("TCL Corporation"), which was registered in the People's Republic of China (the "PRC").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	% of equity attributable to the Company 2018	% of equity attributable to the Company 2017	Principal activities
CI Tech*/#	PRC/ Mainland China	RMB100,000,000	**100**	–	Trading of commercial display products
Guangzhou Kuyu Network Technology Co., Ltd.*/#	PRC/ Mainland China	RMB100,000,000	**100**	–	Trading of of television products
TCL Smart Home Technologies Co., Limited ("TCL Smart Home")	Hong Kong	RMB121,970,000	**100**	30	Investment holding
Guangzhou Digital Rowa Technology Co., Ltd.**/#	PRC/ Mainland China	RMB120,000,000	**70**	70	Manufacture of television products

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	% of equity attributable to the Company 2018	2017	Principal activities
Manufacturas Avanzadas, S. A. de. C.V.	Mexico	US$15,866,637	100	100	Manufacture of television products
TTE Corporation@	British Virgin Islands ("BVI")/ Hong Kong	US$10,000	100	100	Investment holding
Shenzhen TCL New Technology Company Limited ("TCL New Technology") **/#	PRC/ Mainland China	RMB10,608,600	100	100	Manufacture and sale of television products
TCL (Vietnam) Corporation Limited	Vietnam	VND141,635,000,000	100	100	Manufacture and sale of television products
TCL Electrical Appliances Sales Co., Ltd.**/#	PRC/ Mainland China	RMB30,000,000	100	100	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited	Hong Kong	HK$30,000,000	100	100	Trading of television products and components
TCL Electronics (Thailand) Co., Limited	Thailand	THB255,000,000	100	100	Trading of television products and components
TCL Holdings (BVI) Limited	BVI/Hong Kong	US$25,000	100	100	Investment holding

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1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	% of equity attributable to the Company 2018	% of equity attributable to the Company 2017	Principal activities
TCL Belgium S.A.	Belgium	EUR29,897,500	100	100	Investment holding
TCL International Electronics (BVI) Limited@	BVI/Hong Kong	US$1	100	100	Investment holding
TTE (North America) Holdings Limited	BVI/Hong Kong	US$1	100	100	Investment holding
TCL Information Technology Industrial (Group) Co., Ltd.@	BVI/Hong Kong	RMB37,460,700	100	100	Investment holding
TCL King Electrical Appliances (Chengdu) Company Limited**/#	PRC/ Mainland China	RMB100,880,000	100	100	Manufacture of television products
TCL King Electrical Appliances (Huizhou) Company Limited ("TCL King Electrical") */#	PRC/ Mainland China	RMB492,627,185	100	100	Manufacture and sale of television products and trading of components
TCL King Electrical Appliances (Nanchang) Company Limited**/#	PRC/ Mainland China	RMB21,400,000	100	100	Manufacture of television products
TCL Overseas Electronics (Huizhou) Limited*/#	PRC/ Mainland China	RMB217,699,156	100	100	Manufacture of television products
TCL Overseas Holdings Limited	BVI/Hong Kong	US$1	100	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	% of equity attributable to the Company 2018	2017	Principal activities
TCL Overseas Marketing Limited	BVI/Hong Kong	US$1	100	100	Trading of television products and components
TCL Moka, S. de R.L. de C.V.	Mexico	MXN3,000	100	100	Property holding
TTE Technology Inc.	USA	US$129,433,108	100	100	Trading of television products and components
TCL Operations Polska SP. ZO.O.	Poland	PLN126,716,500	100	100	Manufacture of television products
TCL Optoelectronics Technology (Huizhou) Co., Ltd.@/#	PRC/ Mainland China	RMB576,000,000	100	100	Manufacture and sale of television products and trading of components
Huizhou TCL Coretronic Co., Ltd.#	PRC/ Mainland China	RMB32,000,000	100	100	Manufacture of television components
Toshiba Visual Products (China) Co., Ltd.**/#	PRC/ Mainland China	RMB50,000,000	70	70	Trading of television products and components
TCL Moka Manufacturing, S. A. de C.V.	Mexico	MXN50,000	100	100	Manufacture and sale of television products
Chengdu TCL Xinan Electrical Appliance Sales Co., Ltd.#	PRC/ Mainland China	RMB10,000,000	100	100	Operation of a distribution network in the PRC

@ Direct subsidiaries of the Company
* Registered as wholly-foreign-owned enterprises under the PRC law
** Registered as Sino-foreign joint ventures under the PRC law
\# The English names of these companies are not official and are the direct translation from their Chinese names for identification purposes only

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1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

None of the above subsidiaries has debt securities.

During the year, the Company completed acquisitions of equity interests of CI Tech and TCL Smart Home from TCL Corporation and its subsidiaries. Further details of these acquisitions are included in notes 36, 40(b)(vi) and 40(b)(ix) to the financial statements.

Details of subsidiaries liquidated during the year are set out in note 37(b) to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, materially contributed to the net income of the Group or formed a material portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and certain financial assets which have been measured at fair value. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to the transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments*: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement					HKFRS 9 measurement	
	Notes	Category	Amount HK$'000	Re-classification HK$'000	ECL HK$'000	Fair value measurement HK$'000	Amount HK$'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	107,835	–	14,887	122,722	FVOCI[1] (equity)
From: Available-for-sale investments	(i)			107,835	–	–		
Available-for-sale investments		AFS[2]	107,835	(107,835)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)			(107,835)	–	–		
Trade receivables	(ii)	L&R[3]	6,466,171	–	(2,271)	–	6,463,900	AC[4]/FVPL[5]
Bills receivable	(iii)	L&R	3,793,118	–	–	(49,016)	3,744,102	FVPL/FVOCI (debt)
Financial assets included in prepayments, other receivables and other assets		L&R	326,049	–	(6,995)	–	319,054	AC
Derivative financial instruments		FVPL	202,970	–	–	–	202,970	FVPL
Cash and bank balances		L&R	5,910,235	–	–	–	5,910,235	AC
			16,806,378	–	(9,266)	(34,129)	16,762,983	
Total assets			26,063,346	–	(9,266)	(34,129)	26,019,951	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (Continued)

Classification and measurement (Continued)

	HKAS 39 measurement		Re-classification	ECL	Fair value measurement	HKFRS 9 measurement	
	Category	Amount HK$'000	HK$'000	HK$'000	HK$'000	Amount HK$'000	Category
Financial liabilities							
Trade payables	AC	9,753,201	–	–	–	9,753,201	AC
Bills payable	AC	306,879	–	–	–	306,879	AC
Financial liabilities included in other payables and accruals	AC	3,353,369	–	–	–	3,353,369	AC
Interest-bearing bank and other borrowings	AC	2,926,790	–	–	–	2,926,790	AC
Derivative financial instruments	FVPL	194,826	–	–	–	194,826	FVPL
		16,535,065	–	–	–	16,535,065	
Other liabilities							
Deferred tax liabilities		15,247	–	–	2,478	17,725	
Total liabilities		18,366,829	–	–	2,478	18,369,307	

[1] FVOCI: Financial assets at fair value through other comprehensive income
[2] AFS: Available-for-sale investments
[3] L&R: Loans and receivables
[4] AC: Financial assets or financial liabilities at amortised cost
[5] FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments designated at fair value through other comprehensive income.

(ii) The Group has classified its certain trade receivables previously classified as loans and receivables as financial assets measured at fair value through profit or loss as these trade receivables did not pass the contractual cash flow characteristics test in HKFRS 9.

(iii) The Group has classified its bills receivable previously classified as loans and receivables as financial assets measured at fair value through profit or loss or financial assets measured at fair value through other comprehensive income. Further details are disclosed in the note 23 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 22 and 24 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 HK$'000	Re-measurement HK$'000	ECL allowances under HKFRS 9 at 1 January 2018 HK$'000
Trade receivables	(234,376)	(2,271)	(236,647)
Financial assets included in prepayments, other receivables and other assets	(283,752)	(6,995)	(290,747)
	(518,128)	(9,266)	(527,394)

Hedge accounting

The Group has applied hedge accounting under HKFRS 9 prospectively. At the date of initial application of HKFRS 9, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of HKFRS 9, the Group designated the change in fair value of the entire foreign currency swap contracts in its cash flow hedge relationships. Upon adoption of HKFRS 9, the Group continues to designate the entire foreign currency swap contracts in the cash flow hedge relationships. Under HKAS 39, all gains and losses recorded in the cash flow hedge reserve were eligible to be subsequently reclassified to the profit or loss when the hedged items affected profit or loss. However, under HKFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change was only applied prospectively from the date of initial application of HKFRS 9 and has had no impact on the presentation of comparative figures. Other than the cash flow hedges of forecast purchases of non-financial assets, the adoption of the hedge accounting requirements of HKFRS 9 has had no impact on the Group's financial statements.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits HK$'000
Fair value reserve under HKFRS 9	
Balance as at 31 December 2017 under HKAS 39	–
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	12,409
Remeasurement of financial assets designated at fair value through other comprehensive income previously measured at cost under HKAS 39	(49,016)
Balance as at 1 January 2018 under HKFRS 9	(36,607)
Retained profits	
Balance as at 31 December 2017 under HKAS 39	67,842
Recognition of ECLs for trade receivables under HKFRS 9	(2,271)
Recognition of ECLs for financial assets included in prepayments, other receivables and other assets under HKFRS 9	(6,995)
Balance as at 1 January 2018 under HKFRS 9	58,576

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3, 5 and 28(b) to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The Group mainly engages in the businesses of manufacture and sale of television sets, commercial display products, Smart AV products, smart home products and other related products. The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The warranties provided by the Group are assurance-type warranties which are not a separate performance obligation from the manufacture and sale of products. Therefore, the adoption of HKFRS 15 did not have a material impact on the timing and amount of revenue recognition.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (continued)

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$431,178,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$430,351,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of television products.

(d) Amendments to HKAS 40, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$177,745,000 and lease liabilities of HK$175,019,000 will be recognised at 1 January 2019.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of non-current assets classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Leasehold land under finance leases	Over the lease terms
Buildings	2% – 5%
Leasehold improvements	20% – 50%
Plant and machinery	9% – 20%
Furniture, fixtures and equipment	18% – 33.3%
Motor vehicles	18% – 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction and plant and machinery in the process of installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and installation and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the year of the retirement or disposal.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licences

Purchased patents and licences with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 4 to 10 years.

Trademarks

Purchased trademarks with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Customer relationships

Purchased customer relationships with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 9.5 years.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Financial assets at fair value through profit or loss (continued)

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in the profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its costs.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to T.C.L. Industries, derivative financial instruments and interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Loans and borrowings

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Loans and borrowings (continued)

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instrument and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instrument and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instruments is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Cash flow hedges (continued)

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e. the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Treasury shares

Own equity instruments which are reacquired and held by the Company (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

The Group provides for warranties in relation to the sale of certain television products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is deducted from the related expense on systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is deducted in arriving at the carrying amount of the relevant asset and is released to profit or loss over the expected useful life of the depreciated asset by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

Sale of television products

Revenue from the sale of television products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the television products.

Some contracts for the sale of television products provide customers with volume rebates which give rise to variable consideration.

(i) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

The Company operates a share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of equity-settled award is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Certain subsidiaries outside Hong Kong are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to profit or loss as they become payable in accordance with the rules of the pension schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgement, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgement that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the method to estimate variable consideration and assessing the constraint for the sale of television products

Certain contracts for the sale of television products include volume rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of television products with volume rebates, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sale of television products with volume rebates, the Group determined that using a combination of the most likely amount method and the expected value method is appropriate. The selected method that better predicts the amount of variable consideration related to volume rebates is primarily driven by the number of volume thresholds contained in the contract. The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Judgement (continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration for volume rebates

The Group estimates variable consideration to be included in the transaction price for the sale of television products with volume rebates.

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

The Group applied a statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebate entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of volume rebates monthly and the rebate allowances are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding rebate entitlements may not be representative of customers' actual rebate entitlements in the future. As at 31 December 2018, the amount recognised as rebate allowance was HK$846,378,000 for the expected rebates.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was HK$781,962,000 (2017: HK$119,638,000). Further details are given in note 16 to the financial statements.

Provision for expected credit losses on trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various debtors' segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of debtor's actual default in the future. The information about the ECLs on the Group's trade receivables and other receivables is disclosed in notes 22 and 24 to the financial statements, respectively.

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3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 32 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 41 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. Further details are included in note 20 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Useful lives and impairment of property, plant and equipment

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of the reporting period.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

Warranty provisions

As further explained in note 31 to the financial statements, the Group makes provisions for the warranties it gives on the sale of its products taking into account the Group's current sales levels and past experience of the level of repairs and returns. As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years.

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3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

PRC corporate income tax

The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureaus, objective estimates and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their geographical television segments and other product types and has four reportable operating segments as follows:

(a) Television segment – manufacture and sale of television sets in:
- the PRC market
- the overseas markets;

(b) Smart AV segment – manufacture and sale of Smart AV products;

(c) Smart home products segment – sale of smart home solutions and products; and

(d) Others segment – comprises information technology, Internet service and other businesses, including manufacture and sale of television related components, sale of white goods, mobile phones and air conditioners.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that finance costs, interest income, share of profits and losses of joint ventures and associates as well as head office and corporate income and expenses are excluded from such measurement.

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

	Television – PRC market		Television – overseas markets		Smart AV		Smart home products		Others		Total		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue: (note 5)																
Sales to external customers	18,370,619	19,774,485	26,601,509	20,948,681	–	–	3,087	–	606,755	99,191	45,581,970	40,822,357	–	–	45,581,970	40,822,357
Intersegment sales	1,881,706	1,772,011	1,354,226	1,130,427	–	–	–	–	154,868	44,309	3,390,800	2,946,747	(3,390,800)	(2,946,747)	–	–
Total	20,252,325	21,546,496	27,955,735	22,079,108	–	–	3,087	–	761,623	143,500	48,972,770	43,769,104	(3,390,800)	(2,946,747)	45,581,970	40,822,357
Segment results	175,149	466,291	1,122,994	479,579	(32,253)	–	(7,996)	–	51,786	(37,677)	1,309,680	908,193	–	–	1,309,680	908,193
Corporate income/(expenses), net											(184,114)	111,275			(184,114)	111,275
Finance costs											(97,728)	(229,175)			(97,728)	(229,175)
Interest income											62,299	30,724			62,299	30,724
Share of profits and losses of:																
Joint ventures	–	–	2,426	4,078	–	–	–	–	–	(11,546)	2,426	(7,468)			2,426	(7,468)
Associates	21,494	5,551	13,512	72,865	–	–	(482)	–	34,541	41,199	69,065	119,615			69,065	119,615
Profit before tax											1,161,628	933,164			1,161,628	933,164
Income tax											(226,778)	(136,303)			(226,778)	(136,303)
Profit for the year											934,850	796,861			934,850	796,861
Other segment information:																
Depreciation and amortisation	175,466	186,588	24,222	14,194	34	–	774	–	18,366	25,198	218,862	225,980	–	–	218,862	225,980
Investments in joint ventures	2,606	–	16,195	14,291	–	–	–	–	–	–	18,801	14,291	–	–	18,801	14,291
Investments in associates	204,926	177,326	530,460	274,657	–	–	8,305	–	668,910	654,928	1,412,601	1,106,911	–	–	1,412,601	1,106,911

Geographical information

	PRC		Europe		North America		Others		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	18,920,054	19,827,842	2,059,384	1,296,437	10,232,343	7,010,264	14,370,189	12,687,814	45,581,970	40,822,357
Non-current assets	3,167,605	2,648,398	137,907	120,900	178,762	176,307	644,248	335,327	4,128,522	3,280,932

The revenue information of continuing operations above is based on the locations of the customers. The non-current asset information of continuing operations above is based on the locations of the assets and excludes deferred tax assets.

Information about a major customer

Revenue from continuing operations of approximately HK$5,222,040,000 (2017: HK$3,847,572,000) was derived from sales by the Television – PRC market segment to a single customer.

5. TURNOVER, OTHER INCOME AND GAINS

Turnover

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
Sale of goods	45,581,970	40,822,357

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Television products HK$'000
Type of goods	
Sale of goods	45,581,970
Geographical markets	
Mainland China	18,920,054
Europe	2,059,384
North America	10,232,343
Emerging Markets	6,172,501
Others	8,197,688
Total revenue from contracts with customers	45,581,970
Timing of revenue recognition	
Goods transferred at a point in time	45,581,970

5. TURNOVER, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	Television products HK$'000
Revenue from contracts with customers	
External customers	45,581,970
Intersegment sales	3,390,800
	48,972,770
Intersegment adjustments and eliminations	(3,390,800)
Total revenue from contracts with customers	45,581,970

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of television products

The performance obligation is satisfied upon delivery of the television products and payment is generally due within 180 days from delivery. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

5. TURNOVER, OTHER INCOME AND GAINS (CONTINUED)

Other income and gains

	Note	2018 HK$'000	2017 HK$'000
Other income			
Bank interest income		62,299	30,724
Sales of scrap materials		12,864	9,437
Sales of raw materials		15,743	27,589
Government grants		210,839	187,314
Foreign exchange differences, net		137,535	166,825
Value-added service income		20,649	16,614
Promotion income		15,146	31,477
Compensation income		–	21,127
Write-off of balances due to creditors		19,521	17,027
Rental income, net		28,442	18,021
Others		64,420	44,243
		587,458	570,398
Gains			
Gain on disposal of items of property, plant and equipment		167,708	–
Fair value gains/(loss), net:			
Derivative instruments – transactions not qualifying as hedges		1,043	22,411
Ineffectiveness of cash flow hedges		1,727	(2,742)
Gain on liquidation of subsidiaries	37	6,944	–
Gain on deemed partial disposal of an associate		–	220,047
Gain on liquidation of an associate		43	–
Others		6,317	10,441
		183,782	250,157
		771,240	820,555

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on:		
Bank and other loans	**84,359**	205,467
Loans from the ultimate holding company – TCL Corporation	**108**	–
Loans from an immediate holding company – T.C.L. Industries	**638**	–
Discounted bills receivable from an associate	**12,533**	22,821
Loans from an associate	**–**	64
Finance leases	**90**	823
	97,728	229,175

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		**38,629,813**	34,521,113
Depreciation of property, plant and equipment	13	**207,809**	222,400
Depreciation of investment properties	15	**2,886**	308
Research and development costs		**722,290**	632,401
Amortisation of other intangible assets	17	**5,069**	141
Amortisation of prepaid land lease payments	14	**3,098**	3,131
Minimum lease payments under operating leases in respect of land and buildings		**121,635**	78,672
Auditor's remuneration		**9,600**	9,600
Employee benefit expenses (including directors' remuneration):	8		
Wages and salaries		**2,406,972**	2,252,544
Equity-settled share option expenses		**82,045**	51,024
Employee share-based compensation benefits under the Award Scheme		**64,691**	11,928
Defined contribution expenses		**255,169**	241,189
		2,808,877	2,556,685

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7. PROFIT BEFORE TAX (CONTINUED)

The Group's profit before tax is arrived at after charging/(crediting): (continued)

	Notes	**2018 HK$'000**	2017 HK$'000
Foreign exchange differences, net		**(137,535)**	(166,825)
Impairment of financial assets:			
Impairment of trade receivables, net	22	**19,546**	34,689**
Reversal of impairment of other receivables, net	24	**(6,288)**	–
Impairment of goodwill	16	**–**	15,295**
Impairment of investment in a joint venture	18	**–**	19,377**
Write-down of inventories to net realisable value		**71,564**	55,502
Realised loss on settlement of derivative financial instruments		**28,170**	100,617
Rental income, net		**(28,442)**	(18,021)
Interest income		**(62,299)**	(30,724)
Government grants*:			
Credited to other income and gains		**(210,839)**	(187,314)
Deducted from costs of sales and relevant expenses		**(38,252)**	(43,513)
		(249,091)	(230,827)
Fair value (gain)/losses, net:			
Derivative instruments – transactions not qualifying as hedges		**(1,043)**	(22,411)
Ineffectiveness of cash flow hedges		**(1,727)**	2,742**
		(2,770)	(19,669)
(Gain)/loss on disposal of items of property, plant and equipment, net		**(167,708)**	30,374**
Loss on disposal of a subsidiary	37	**–**	1,012**
Gain on liquidation of subsidiaries	37	**(6,944)**	–
Gain on deemed partial disposal of an associate		**–**	(220,047)
Gain on liquidation of an associate		**(43)**	–
Restructuring costs provision, net**		**1,035**	161
Product warranty provision:	31		
Additional provision		**565,735**	330,945
Reversal of unutilised provision		**(64,533)**	(20,758)
		501,202	310,187

Notes:

* Various government grants have been received related to the Group's day-to-day activities. Government grants including VAT refund and national patent subsidies are recorded in "other income and gains" in the profit or loss. There are no unfulfilled conditions or contingencies relating to these grants.

** These items are included in "Other operating expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefit of Directors) Regulation, is as follows:

	2018 HK$'000	2017 HK$'000
Fees	**1,495**	1,542
Other emoluments:		
Salaries, allowances and benefits in kind	**3,296**	2,749
Discretionary performance related bonuses	**4,473**	889
Equity-settled share option benefits	**7,326**	3,671
Employee share-based compensation benefits under the Award Scheme	**5,967**	1,037
Pension scheme contributions	**252**	144
	21,314	8,490
	22,809	10,032

8. DIRECTORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The remuneration paid to independent non-executive directors during the year was as follows:

	2018				2017			
	Fees HK$'000	Equity-settled share option benefits HK$'000	Employee share-based compensation benefits under the Award Scheme HK$'000	Total remuneration HK$'000	Fees HK$'000	Equity-settled share option benefits HK$'000	Employee share-based compensation benefits under the Award Scheme HK$'000	Total remuneration HK$'000
Mr. Robert Maarten WESTERHOF	300	90	76	466	300	49	–	349
Dr. TSENG Shieng-chang Carter (note (i))	–	–	–	–	–	–	–	–
Professor SO Wai Man Raymond (note (ii))	–	–	–	–	219	15	–	234
Professor WANG Yijiang	300	90	76	466	300	86	–	386
Mr. LAU Siu Ki (note (iii))	300	191	76	567	48	–	–	48
	900	371	228	1,499	867	150	–	1,017

No other emoluments were payable to the independent non-executive directors during the year (2017: Nil).

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

The remuneration paid to executive directors and non-executive directors during the year was as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary performance related bonuses HK$'000	Equity-settled share option benefits HK$'000	Employee share-based compensation benefits under the Award Scheme HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2018							
Executive directors:							
Mr. LI Dongsheng (note (iv))	–	540	1,533	1,350	1,172	25	4,620
Mr. BO Lianming (note (v))	–	180	–	79	44	–	303
Mr. WANG Cheng Kevin (note (vi))	–	1,212	1,094	3,545	2,752	122	8,725
Mr. YAN Xiaolin	–	–	553	153	76	–	782
Mr. WANG Yi Michael (note vi))	–	1,364	731	1,723	1,619	105	5,542
	–	3,296	3,911	6,850	5,663	252	19,972
Non-executive directors:							
Mr. Albert Thomas DA ROSA, Junior	225	–	–	90	76	–	391
Mr. HUANG Xubin	–	–	562	15	–	–	577
Mr. ZHANG Zhiwei (note (vii))	145	–	–	–	–	–	145
Mr. LIU Hong (note (viii))	145	–	–	–	–	–	145
Mr. LI Yuhao (note (ix))	80	–	–	–	–	–	80
	595	–	562	105	76	–	1,338
	595	3,296	4,473	6,955	5,739	252	21,310

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8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary performance related bonuses HK$'000	Equity-settled share option benefits HK$'000	Employee share-based compensation benefits under the Award Scheme HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017							
Executive directors:							
Mr. LI Dongsheng (note (iv))	–	471	–	544	–	22	1,037
Mr. BO Lianming (note v)	–	1,221	–	1,505	570	–	3,296
Mr. WANG Cheng Kevin (note (vi))	–	274	–	222	55	35	586
Mr. YAN Xiaolin	–	–	411	246	–	–	657
Mr. WANG Yi Michael (note (vi))	–	345	–	249	119	30	743
Ms. XU Fang (note (x))	–	438	48	615	293	57	1,451
	–	2,749	459	3,381	1,037	144	7,770
Non-executive directors:							
Mr. Albert Thomas DA ROSA, Junior	225	–	–	49	–	–	274
Mr. HUANG Xubin	–	–	430	49	–	–	479
Mr. ZHANG Zhiwei (note (vii))	25	–	–	–	–	–	25
Mr. LIU Hong (note (viii))	166	–	–	42	–	–	208
Mr. LIANG Jun (note (xi))	37	–	–	–	–	–	37
Mr. Abulikemu ABULIMITI (note (xii))	163	–	–	–	–	–	163
Mr. Winston Shao-min CHENG (note (xiii))	59	–	–	–	–	–	59
	675	–	430	140	–	–	1,245
	675	2,749	889	3,521	1,037	144	9,015

Note: The discretionary bonus is determined with reference to the financial performance of the Group and the performance of the individual Director.

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8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors (continued)

Notes:

(i) Dr. TSENG Shieng-chang Carter agreed to waive his remuneration as director for the year ended 31 December 2018 of HK$300,000 (2017: HK$300,000) and such remuneration will be donated by the Company for charity use;

(ii) Professor SO Wai Man Raymond resigned as an independent non-executive director of the Company with effect from 25 September 2017;

(iii) Mr. LAU Siu Ki was appointed as an independent non-executive director of the Company with effect from 3 November 2017;

(iv) Mr. LI Dongsheng resigned as an executive director of the Company with effect from 22 September 2017 and was re-appointed with effect from 2 March 2018;

(v) Mr. BO Lianming resigned as an executive director of the Company with effect from 2 March 2018;

(vi) Mr. WANG Yi Michael and Mr. WANG Cheng Kevin were appointed as executive directors of the Company with effect from 22 September 2017;

(vii) Mr. ZHANG Zhiwei was appointed as a non-executive director of the Company with effect from 21 November 2017 and resigned with effect from 24 August 2018;

(viii) Mr. LIU Hong was appointed as a non-executive director of the Company with effect from 7 April 2017 and resigned with effect from 24 August 2018;

(ix) Mr. LI Yuhao was appointed as a non-executive director of the Company with effect from 24 August 2018;

(x) Ms. XU Fang resigned as an executive director of the Company with effect from 22 September 2017;

(xi) Mr. LIANG Jun was appointed as a non-executive director of the Company with effect from 22 September 2017 and resigned with effect from 21 November 2017;

(xii) Mr. Abulikemu ABULIMITI resigned as a non-executive director of the Company with effect from 22 September 2017;

(xiii) Mr. Winston Shao-min CHENG resigned as a non-executive director of the Company with effect from 7 April 2017.

Save as disclosed in note (i) above, there was no other arrangement under which a director returned, waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2017: two), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2017: three) non-director, highest paid employees for the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	2,025	3,203
Discretionary performance related bonuses	4,926	1,406
Equity-settled share option benefits	3,901	1,800
Employee share-based compensation benefits under the Award Scheme	2,778	453
Pension scheme contributions	350	255
	13,980	7,117

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
HK$2,000,001 to HK$2,500,000	–	2
HK$2,500,001 to HK$3,000,000	–	1
HK$3,000,001 to HK$3,500,000	1	–
HK$5,000,001 to HK$5,500,000	1	–
HK$5,500,001 to HK$6,000,000	1	–
	3	3

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2018	2017
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**6,703**	4,230
Overprovision in prior years	**(2,384)**	(100)
Current – Elsewhere		
Charge for the year	**223,789**	169,054
Underprovision in prior years	**35,767**	2,354
Deferred (note 32)	**(37,097)**	(39,235)
Total tax charge for the year	**226,778**	136,303

10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2018 **HK$'000**	2017 HK$'000
Profit before tax	**1,161,628**	933,164
Tax at the statutory/applicable tax rates of different countries/jurisdictions	**332,782**	87,539
Lower tax rates for specific provinces or enacted by local authority	**(120,513)**	(78,269)
Adjustments in respect of current tax of previous periods	**33,383**	2,254
Effect of withholding tax at 10% on the distribution upon liquidation of a subsidiary	**6,703**	–
Effect of withholding tax at 10% on the purchase of additional shares in an associate	**3,218**	–
Profits and losses attributable to joint ventures and associates	**(17,456)**	(28,036)
Income not subject to tax	**(97,663)**	(9,554)
Super deduction of research and development expenditures	**(24,927)**	(19,408)
Expenses not deductible for tax	**151,977**	165,416
Tax losses utilised from previous periods	**(127,358)**	(32,991)
Tax losses not recognised	**86,632**	49,352
Tax charge at the Group's effective rate	**226,778**	136,303

The share of tax attributable to joint ventures and associates amounting to tax credit of HK$1,282,000 (2017: tax charge of HK$1,239,000) and tax credit of HK$16,174,000 (2017: tax credit of HK$29,275,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss and other comprehensive income.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Group's PRC subsidiaries enjoy a preferential corporate income tax rate of 15%. Also, certain subsidiaries of the Group in the PRC enjoy a total exemption of corporate income tax for two years and a half reduction of corporate income tax for the following next three years.

11. DIVIDENDS

	Notes	2018 HK$'000	2017 HK$'000
Interim dividend – HK9.80 cents (2017: HK3.90 cents) per ordinary share	(a)	228,672	67,986
Proposed final dividend – HK9.38 cents (2017: HK15.07 cents) per ordinary share	(b)	219,916	351,442
		448,588	419,428

(a) The interim dividend was HK9.80 cents (2017: HK3.90 cents) per ordinary share and the total amounts declared and paid are HK$228,672,000 and HK$220,894,000 (2017: HK$67,986,000 and HK$65,049,000), respectively.

(b) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM"). These consolidated financial statements do not reflect this dividend payable.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,215,171,107 (2017: 1,717,592,405) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted earnings per share for the years ended 31 December 2018 and 2017 have been adjusted retrospectively to reflect the impact of the Rights Issue completed on 25 January 2018.

The calculations of the basic and diluted earnings per share are based on:

	2018	2017
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**944,235**	814,639

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue less shares held for Award Scheme during the year used in the basic earnings per share calculation	**2,215,171,107**	1,717,592,405
Effect of dilution – weighted average number of ordinary shares:		
Share options	**6,649,181**	10,662,462
Awarded shares	**48,904,820**	21,684,311
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**2,270,725,108**	1,749,939,178

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	1,736,277	213,428	1,095,889	292,039	20,914	18,549	3,377,096
Accumulated depreciation and impairment	(562,450)	(180,598)	(687,817)	(254,086)	(16,147)	–	(1,701,098)
Net carrying amount	1,173,827	32,830	408,072	37,953	4,767	18,549	1,675,998
At 1 January 2018, net of accumulated depreciation and impairment	1,173,827	32,830	408,072	37,953	4,767	18,549	1,675,998
Additions	105	6,703	23,653	27,149	231	71,186	129,027
Acquisition of subsidiaries (note 36)	33,851	–	566	1,415	–	–	35,832
Disposals	(223,799)	(1,199)	(2,438)	(1,076)	(253)	–	(228,765)
Transfers	30,644	7,819	5,317	15,635	(186)	(59,229)	–
Depreciation provided during the year (note 7)	(71,799)	(15,720)	(69,152)	(48,857)	(2,281)	–	(207,809)
Exchange realignment	(38,225)	(1,515)	(11,289)	(4,669)	(474)	(1,038)	(57,210)
At 31 December 2018, net of accumulated depreciation and impairment	904,604	28,918	354,729	27,550	1,804	29,468	1,347,073
At 31 December 2018:							
Cost	1,509,581	191,960	1,056,884	402,048	17,298	29,468	3,207,239
Accumulated depreciation and impairment	(604,977)	(163,042)	(702,155)	(374,498)	(15,494)	–	(1,860,166)
Net carrying amount	904,604	28,918	354,729	27,550	1,804	29,468	1,347,073

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	1,750,149	261,392	1,079,494	261,749	41,426	28,931	3,423,141
Accumulated depreciation and impairment	(451,045)	(200,585)	(689,701)	(222,661)	(27,525)	(12,472)	(1,603,989)
Net carrying amount	1,299,104	60,807	389,793	39,088	13,901	16,459	1,819,152
At 1 January 2017, net of accumulated depreciation and impairment	1,299,104	60,807	389,793	39,088	13,901	16,459	1,819,152
Additions	11,575	8,070	29,437	37,375	404	70,856	157,717
Disposal of a subsidiary (note 37(a))	–	–	(3)	(4)	–	–	(7)
Disposals	–	(560)	(41,190)	(4,410)	(7,086)	–	(53,246)
Depreciation provided during the year (note 7)	(73,100)	(22,217)	(74,319)	(49,275)	(3,489)	–	(222,400)
Transfer to investment properties (note 15)	(123,212)	(5,915)	–	–	–	(1,163)	(130,290)
Transfers	15,156	(10,213)	55,744	8,174	–	(68,861)	–
Exchange realignment	44,304	2,858	48,610	7,005	1,037	1,258	105,072
At 31 December 2017, net of accumulated depreciation and impairment	1,173,827	32,830	408,072	37,953	4,767	18,549	1,675,998
At 31 December 2017:							
Cost	1,736,277	213,428	1,095,889	292,039	20,914	18,549	3,377,096
Accumulated depreciation and impairment	(562,450)	(180,598)	(687,817)	(254,086)	(16,147)	–	(1,701,098)
Net carrying amount	1,173,827	32,830	408,072	37,953	4,767	18,549	1,675,998

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note: As at 31 December 2018, certain buildings of the Group situated in Hohhot, the PRC, with an aggregate carrying amount of HK$116,530,000 (2017: HK$130,588,000), did not have the building ownership certificates registered under the names of the respective subsidiaries of the Group. Moreover, the land transfer procedures of the land on which the relevant buildings were constructed have not been completed and the related land premium has not been finalised with the Ministry of Land and Resources of the PRC.

In the opinion of the directors, the risk of the Group not being able to obtain the legal titles for the relevant land and buildings is low and the Group will continue to pursue and discuss with the Ministry of Land and Resources of the PRC for the final settlement and complete the ownership registration of the land and buildings.

The net carrying amounts of the Group's fixed assets held under finance leases included in the total amounts of furniture, fixtures and equipment and motor vehicles as at 31 December 2018 were HK$1,826,000 (2017:HK$2,967,000) and HK$1,103,000 (2017:HK$1,791,000), respectively.

14. PREPAID LAND LEASE PAYMENTS

	2018 **HK$'000**	2017 HK$'000
Carrying amount at 1 January	**128,078**	123,415
Additions	**37,583**	–
Amortised during the year (note 7)	**(3,098)**	(3,131)
Exchange realignment	**(5,418)**	7,794
Carrying amount at 31 December	**157,145**	128,078
Current portion included in other receivables (note 24)	**(3,022)**	(2,277)
Non-current portion	**154,123**	125,801

15. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**130,329**	–
Transfer from property, plant and equipment (note 13)	**–**	130,290
Transfer from construction in progress	**430**	–
Depreciation provided during the year (note 7)	**(2,886)**	(308)
Exchange realignment	**206**	347
Carrying amount at 31 December	**128,079**	130,329

The Group's investment properties mainly consist of two industrial properties located in Hong Kong and North America with the carrying amounts of HK$11,477,000 (2017: HK$11,847,000) and HK$116,602,000 (2017: HK$118,482,000), respectively, and are held under operating lease arrangements.

According to the valuation results provided by independent third parties, the fair values of the investment properties located in Hong Kong and North America approximate to HK$113,800,000 (2017: HK$106,000,000) and HK$212,667,000 (2017: HK$215,739,000), respectively.

16. GOODWILL

	HK$'000
At 1 January 2017:	
Cost	170,621
Accumulated impairment	(35,688)
Net carrying amount	134,933
Cost at 1 January 2017, net of accumulated impairment	134,933
Impairment during the year	(15,295)
At 31 December 2017	119,638
At 31 December 2017:	
Cost	170,621
Accumulated impairment	(50,983)
Net carrying amount	119,638
Cost at 1 January 2018, net of accumulated impairment	119,638
Acquisition of subsidiaries (note 36)	668,186
Exchange realignment	(5,862)
Cost and net carrying amount at 31 December 2018	781,962
At 31 December 2018:	
Cost	832,945
Accumulated impairment	(50,983)
Net carrying amount	781,962

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

- PRC television products with the TCL brand ("TCL Brand CGU")
- PRC commercial display products ("Commercial Display Products CGU")
- PRC Smart home products ("Smart Home Products CGU")

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16. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

TCL Brand CGU

The recoverable amount of the TCL Brand CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15% (2017: 19%). The growth rate used to extrapolate the cash flows of the television products unit beyond the five-year period is 3% (2017: 0%).

Commercial Display Products CGU

The recoverable amount of the Commercial Display Products CGU was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 12% and cash flows beyond the five-year period were extrapolated using a growth rate of 2%.

Smart Home Products CGU

The recoverable amount of the Smart Home Products CGU was determined based on a value in use calculation using cash flow projections based on financial budgets covering a six-year period approved by senior management. The discount rate applied to the cash flow projections was 16% and cash flows beyond the six-year period were extrapolated using a growth rate of 2%.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	TCL Brand CGU HK$'000	Commercial Display Products CGU HK$'000	Smart Home Products CGU HK$'000	Total HK$'000
As at 31 December 2017	119,638	–	–	119,638
As at 31 December 2018	**119,638**	**649,344**	**12,980**	**781,962**

Assumptions were used in the value in use calculation of the TCL brand, Commercial Display Products and Smart Home Products cash-generating units for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

17. OTHER INTANGIBLE ASSETS

	Patents and licences HK$'000	Trademarks HK$'000	Customer relationships HK$'000	Total HK$'000
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation and impairment	–	–	129	129
Acquisition of subsidiaries (note 36)	20,248	–	96,499	116,747
Amortisation provided during the year (note 7)	(620)	–	(4,449)	(5,069)
Exchange realignment	–	–	(705)	(705)
At 31 December 2018	19,628	–	91,474	111,102
At 31 December 2018:				
Cost	20,476	1,369	96,122	117,967
Accumulated amortisation and impairment	(848)	(1,369)	(4,648)	(6,865)
Net carrying amount	19,628	–	91,474	111,102
31 December 2017				
Cost at 1 January 2017, net of accumulated amortisation and impairment	–	881	213	1,094
Amortisation provided during the year (note 7)	–	(40)	(101)	(141)
Disposal of a subsidiary (note 37(a))	–	(849)	–	(849)
Exchange realignment	–	8	17	25
At 31 December 2017	–	–	129	129
At 31 December 2017:				
Cost	16,172	2,631	484	19,287
Accumulated amortisation and impairment	(16,172)	(2,631)	(355)	(19,158)
Net carrying amount	–	–	129	129

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18. INVESTMENTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Share of net assets	26,513	22,003
Loans to a joint venture	11,665	11,665
	38,178	33,668
Provision for impairment	(19,377)	(19,377)
	18,801	14,291

The Group's trade receivables due from joint ventures are disclosed in note 22 to the financial statements.

The following table illustrates the aggregate summarised financial information of the Group's joint ventures that are not individually material:

	2018 HK$'000	2017 HK$'000
Share of the joint ventures' profit/(loss) for the year	2,426	(7,468)
Share of the joint ventures' total comprehensive income/(loss) for the year	2,426	(7,468)
Aggregate carrying amount of the Group's investments in the joint ventures	18,801	14,291

The Group has discontinued the recognition of its share of losses of a joint venture TCL-IMAX Entertainment Co., Ltd. because the share of losses of the joint venture exceeded the Group's interest in the relevant joint venture and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of the joint venture for the current year and cumulatively was nil (2017: HK$13,506,000). An impairment of HK$11,665,000 was recognised related to loans to TCL-IMAX Entertainment Co., Ltd. during the year ended 31 December 2017.

19. INVESTMENTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of net assets	**1,373,669**	1,068,046
Goodwill on acquisition	**38,932**	38,865
	1,412,601	1,106,911

Particulars of the Group's material associates are as follows:

Name	Particulars of registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
TCL Finance Co., Ltd.* ("Finance Company")	RMB1,500,000,000	PRC/ Mainland China	14	Note(a)
Shenzhen Falcon Network Technology Co., Ltd.* ("Falcon Network Technology")	RMB121,621,621	PRC/ Mainland China	44.45	Note(b)
SEMP TCL Industrial Commercial Electronical S.A.* ("SEMP")	BRL420,200,000	Brazil	40	Note(c)

* The English names of the companies are not official and are the direct translation from their Chinese or Brazilian names for identification purpose only

All the associates have been accounted for using the equity method in these financial statements. The accounting year end of the associates is coterminous with that of the Group.

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19. INVESTMENTS IN ASSOCIATES (CONTINUED)

Notes:

(a) Finance Company

Finance Company, which is considered as a material associate of the Group, is a strategic partner of the Group engaged in the provision of financial services and is accounted for using the equity method.

The Group's shareholding in Finance Company is held through a wholly-owned subsidiary of the Company. Although the Group holds less than 20% of the voting power of Finance Company, in the opinion of the directors, the Group is in a position to exercise significant influence over Finance Company through its representation in the board of directors and its participation in policy-making processes of Finance Company.

The following table illustrates the summarised financial information of Finance Company, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	Finance Company	
	2018	2017
	HK$'000	HK$'000
Current assets	**16,515,380**	24,267,657
Non-current assets	**13,698,981**	14,480,108
Current liabilities	**(28,012,100)**	(36,352,027)
Net assets	**2,202,261**	2,395,738
Reconciliation to the Group's interest in the associate:		
Percentage of the Group's interest	**14%**	14%
Group's share of net assets of the associate and carrying amount of the investment	**308,317**	335,403
Revenue	**568,387**	725,336
Profit for the year	**24,954**	209,464
Other comprehensive income	**20**	–
Total comprehensive income for the year	**24,974**	209,464
Dividend received	**110,718**	30,371

19. INVESTMENTS IN ASSOCIATES (CONTINUED)

Notes: (continued)

(b) Falcon Network Technology

Falcon Network Technology is an investment holding company incorporated in May 2017 which holds three subsidiaries in PRC and one subsidiary in Hong Kong (collectively referred as to the "Falcon Group"). The Falcon Group principally engaged in research and development, manufacture and trading of Internet smart TVs under the brand "Falcon" in the PRC.

The following table illustrates the summarised financial information of Falcon Group, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	Falcon Group	
	2018	2017
	HK$'000	HK$'000
Current assets	**845,630**	335,399
Non-current assets	**26,959**	425,212
Current liabilities	**(152,720)**	(93,854)
Net assets	**719,869**	666,757
Reconciliation to the Group's interest in the associate:		
Percentage of the Group's interest	**44.45%**	44.45%
Group's share of net assets of the associate and carrying amount of the investment	**319,950**	296,344
Revenue	**387,809**	124,813
Profit/(loss) for the year	**87,947**	(10,156)
Other comprehensive loss	**(196)**	–
Total comprehensive income/(loss) for the year	**87,751**	(10,156)

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19. INVESTMENTS IN ASSOCIATES (CONTINUED)

Notes: (continued)

(c) SEMP

SEMP, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the trading of television products and is accounted for using the equity method.

The following table illustrates the summarised financial information of SEMP, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	SEMP	
	2018	2017
	HK$'000	HK$'000
Current assets	**2,366,941**	1,470,462
Non-current assets	**216,175**	64,036
Current liabilities	**(1,574,585)**	(847,857)
Net assets	**1,008,531**	686,641
Reconciliation to the Group's interest in the associate:		
Percentage of the Group's interest	**40%**	40%
Group's share of net assets of the associate and carrying amount of the investment	**403,413**	274,657
Revenue	**3,295,038**	2,227,625
Profit for the year	**18,653**	182,162
Total comprehensive income for the year	**18,653**	182,162
Dividend received	**–**	9,430

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19. INVESTMENTS IN ASSOCIATES (CONTINUED)

Notes: (continued)

The following table illustrates the aggregate summarised financial information of the Group's associates that are not individually material:

	2018 HK$'000	2017 HK$'000
Share of the associates' profit for the year	**19,021**	21,939
Share of the associates' other comprehensive income for the year	**12,546**	8,127
Share of the associates' total comprehensive income for the year	**31,567**	30,066
Aggregate carrying amount of the Group's investments in these associates	**380,921**	200,507

On 28 May 2018, the Group entered into a subscription agreement with Radio Victoria Fueguina S.A. ("RVF"), Sontec TCL Argentina S.A. ("Sontec"), Radio Victoria Technology S.A. and JWG S.A., pursuant to which the Group would purchase 15% of the issued shares in RVF and 15% of the issued shares in Sontec. The transaction was completed in June 2019. The Group recorded the provisional amounts of the investments in RVF and Sontec because the valuation of the fair value of the identifiable assets and liabilities in RVF and Sontec has not been finalised by date of approval of these financial statements.

Non-current assets classified as held for sale

In December 2018, the Company decided to dispose its investments in an associate Million China International Holdings Limited ("Million China"). Million China mainly engages in investment holding. The disposal of Million China is due to be completed in March 2019. As at 31 December 2018, final negotiations for the sale were in progress and Million China was classified as non-current assets held for sale.

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20. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 **HK$'000**	2017 HK$'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Shenzhen Digital TV National Engineering Laboratory Co., Ltd.*	**10,270**	–
Shanghai Digital TV National Engineering Research Center Co., Ltd.*	**4,522**	–
Shenzhen Zhongcailian Technology Co., Ltd.*	**5,733**	–
Huizhou Kuyou Network Technology Co., Ltd.*	**107,095**	–
Henan Meile Warner Electronics Co., Ltd.*	**1,150**	–
	128,770	–
Available-for-sale investments		
Unlisted equity investments, at cost	**–**	109,517
Accumulated impairment	**–**	(1,682)
	–	107,835

* The English names of the companies are not official and are the direct translation from their Chinese names for identification purpose only

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments are strategic in nature.

As at 31 December 2017, certain unlisted equity investments with a carrying amount of HK$109,517,000 were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

21. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	1,860,468	1,583,275
Work in progress	380,975	231,703
Finished goods	4,741,290	3,243,619
	6,982,733	5,058,597

22. TRADE RECEIVABLES

	Note	2018 HK$'000	2017 HK$'000
Due from third parties		3,729,782	5,408,510
Due from related parties:			
Companies controlled by TCL Corporation	(a)	995,518	993,073
Associates of TCL Corporation	(a)	61,922	1,129
Joint ventures	(a)	55,548	70,392
Associates	(a)	219,692	227,443
		1,332,680	1,292,037
Impairment allowance		(180,902)	(234,376)
		4,881,560	6,466,171

(a) As at 31 December 2018 and 2017, the amounts were interest-free, unsecured and repayable within one year.

The majority of the Group's sales in the PRC are conducted on a cash-on-delivery basis or on commercial bills guaranteed by banks within credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 90 to 180 days. Sales to certain long term strategic customers were made on the open-account basis with credit terms of no more than 180 days.

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22. TRADE RECEIVABLES (CONTINUED)

Save for those amounts due from the related parties, in view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collaterals or other credit enhancements over its trade receivables. Trade receivables are non-interest-bearing.

Classification of trade receivables under HKFRS 9 for the year ended 31 December 2018

Included in the Group's trade receivables are receivables to be factored of HK$126,162,000, which are classified as financial assets at fair value through profit or loss. The remaining trade receivables with gross carrying amount of HK$4,936,300,000 are measured at amortised cost.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Current to 90 days	**4,399,290**	5,682,717
91 to 180 days	**237,704**	498,541
181 to 365 days	**69,285**	135,189
Over 365 days	**356,183**	384,100
	5,062,462	6,700,547
Impairment allowance	**(180,902)**	(234,376)
	4,881,560	6,466,171

22. TRADE RECEIVABLES (CONTINUED)

Classification of trade receivables under HKFRS 9 for the year ended 31 December 2018 (continued)

The movements in the impairment allowance of trade receivables are as follows:

	Note	**2018 HK$'000**	2017 HK$'000
At beginning of year		**234,376**	199,925
Effect of adoption of HKFRS 9		**2,271**	–
At beginning of year (restated)		**236,647**	199,925
Impairment losses recognised	7	**29,338**	49,859
Impairment losses reversed	7	**(9,792)**	(15,170)
Acquisition of subsidiaries		**4,942**	–
Amount written off as uncollectible		**(71,822)**	(8,092)
Exchange realignment		**(8,411)**	7,854
At end of year		**180,902**	234,376

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

22. TRADE RECEIVABLES (CONTINUED)

Impairment under HKFRS 9 for the year ended 31 December 2018 (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables measured at amortised cost using a provision matrix:

As at 31 December 2018

		Past due				
	Current	Less than 180 days	181 days to 1 year	1 year to 2 years	Over 2 years	Total
Expected credit loss rate	0.16%	0.21%	2.77%	41.25%	74.17%	3.66%
Gross carrying amount (HK$'000)	3,966,717	645,631	39,633	118,107	166,212	4,936,300
Expected credit losses (HK$'000)	6,423	1,373	1,096	48,725	123,285	180,902

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above impairment allowance of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of HK$234,376,000 with a carrying amount before provision of HK$462,142,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

22. TRADE RECEIVABLES (CONTINUED)

Impairment under HKAS 39 for the year ended 31 December 2017 (continued)

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	5,578,742
Less than 91 days past due	577,724
91 to 180 days past due	85,449
Over 180 days past due	224,256
	6,466,171

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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23. BILLS RECEIVABLE

	2018 HK$'000	2017 HK$'000
Classification under HKAS 39		
Loans and receivables	–	3,793,118
Classification under HKFRS 9		
Financial assets at fair value through other comprehensive income	2,151,443	–
Financial assets at fair value through profit or loss	209,466	–
	2,360,909	3,793,118

24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2018 HK$'000	2017 HK$'000
Prepayments and deposits		276,351	231,840
Other receivables		1,546,148	603,814
VAT receivables		1,303,662	689,302
Prepaid land lease payments	14	3,022	2,277
Dividend receivables		106	106
Due from companies controlled by TCL Corporation	(a)	34,179	5,881
Due from associates of TCL Corporation	(a)	3,736	–
Due from associates	(a)	290	–
		3,167,494	1,533,220
Impairment allowance		(267,243)	(283,752)
		2,900,251	1,249,468

24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (CONTINUED)

(a) As at 31 December 2018 and 2017, the amounts were interest-free, unsecured and repayable within one year.

Expected credit losses are estimated for other receivables, deposits, dividend receivables and amounts due from related parties by applying a loss rate approach with reference to the historical loss records of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful". Set out below is the information about the credit risk exposure on the Group's financial assets included in prepayments, other receivables and other assets:

As at 31 December 2018

	Normal	Doubtful	Total
Expected credit loss rate	0.10%	77.69%	16.87%
Gross carrying amount (HK$'000)	1,241,971	342,382	1,584,353
Expected credit losses (HK$'000)	1,242	266,001	267,243

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24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (CONTINUED)

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to the receivables for which there was no recent history of default.

The movements in the impairment allowance of financial assets included in prepayments, other receivables and other assets are as follows:

	Note	2018 HK$'000	2017 HK$'000
At beginning of year		283,752	275,195
Effect of adoption of HKFRS 9		6,995	–
At beginning of year (restated)		290,747	275,195
Impairment losses recognised	7	765	–
Impairment losses reversed	7	(7,053)	–
Amount written off as uncollectible		(7,158)	–
Exchange realignment		(10,058)	8,557
At end of year		267,243	283,752

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
Option contracts	–	–	–	6,487
Forward currency contracts	7,268	22,177	202,970	188,339
	7,268	22,177	202,970	194,826

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge under HKFRS 9 – Foreign currency risk

Foreign currency forward contracts are designated as hedging instruments in cash flow hedges of forecast sales in PLN and forecast purchases in USD. These forecast transactions are highly probable, and they comprise about 61.00% of the Group's total expected sales in PLN and about 54.00% of its total expected purchases in USD. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward match the terms of the expected highly probable forecast transactions and the secured bank loan (i.e., notional amount and expected payment date). To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the forecasted sales and purchases and the hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge under HKFRS 9 – Foreign currency risk (continued)

The Group holds the following foreign exchange forward contracts:

	Maturity					
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	Total
As at 31 December 2018						
Foreign currency forward contracts (highly probable forecast sales)						
Notional amount (in HK$'000)	35,874	33,375	–	–	–	69,249
Average forward rate (PLN/HKD)	2.1339	2.1337	–	–	–	
Foreign currency forward contracts (highly probable forecast purchases)						
Notional amount (in HK$'000)	365,457	229,350	–	–	–	594,807
Average forward rate (USD/HKD)	8.0068	8.0081	–	–	–	

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount HK$'000	Carrying amount HK$'000	Line item in the statement of financial position
As at 31 December 2018			
Foreign currency forward contracts (highly probable forecast sales)	33,618	85	Derivative financial instruments (assets)
Foreign currency forward contracts (highly probable forecast sales)	35,631	(179)	Derivative financial instruments (liabilities)
Foreign currency forward contracts (highly probable forecast purchases)	352,994	4,394	Derivative financial instruments (assets)
Foreign currency forward contracts (highly probable forecast purchases)	241,813	(704)	Derivative financial instruments (liabilities)

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge under HKFRS 9 – Foreign currency risk (continued)

The effects of the cash flow hedge on the statement of profit or loss and the statement of comprehensive income are as follows:

	Total hedging gain/(loss) recognised in other comprehensive income		
	Gross effect HK$'000	Tax amount HK$'000	Total HK$'000
Year ended 31 December 2018			
Highly probable forecast sales	(94)	–	(94)
Highly probable forecast purchases	3,690	–	3,690

Non-hedging currency derivatives

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures. They are not designated for hedge purposes and are measured at fair value through profit or loss. Net gains of HK$2,770,000 (2017: net gains of HK$19,669,000) as a result of the changes in the fair value of these non-hedging derivative financial contracts were recognised in profit or loss for the year ended 31 December 2018.

26. CASH AND BANK BALANCES

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Included in the Group's cash and bank balances are deposits of HK$3,531,772,000 (2017: HK$4,483,394,000) placed with Finance Company, a financial institution approved by the People's Bank of China. The interest rates for these deposits ranged from 0.42% to 2.10% (2017: from 0.42% to 1.38%) per annum, which were determined with reference to the savings rates offered by the People's Bank of China. Further details of the interest sits with Finance Company are set out in note 40 to the financial statements.

27. TRADE PAYABLES

	Notes	2018 HK$'000	2017 HK$'000
Due to third parties		**7,224,819**	6,533,721
Due to related parties:			
Companies controlled by TCL Corporation	(a)	**2,059,796**	2,903,794
Associates of TCL Corporation	(a)	**499,932**	153,381
Associates	(a)	**16,043**	138,423
A substantial shareholder	(a)	**1,332**	23,882
		2,577,103	3,219,480
		9,801,922	9,753,201

(a) As at 31 December 2018 and 2017, the amounts were interest-free, unsecured and repayable within one year.

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Current to 90 days	**6,622,392**	9,321,020
91 to 180 days	**2,789,680**	247,831
181 to 365 days	**287,580**	101,423
Over 365 days	**102,270**	82,927
	9,801,922	9,753,201

The trade payables are non-interest-bearing and are normally settled within credit periods ranging from 30 to 120 days.

28. OTHER PAYABLES AND ACCRUALS

	Notes	2018 HK$'000	2017 HK$'000
Other payables	(a)	**3,898,146**	3,248,708
Accruals		**720,917**	757,209
Dividend payables		**13**	13,611
Receipts in advance		**–**	431,178
Contract liabilities	(b)	**430,351**	–
Due to companies controlled by TCL Corporation	(c)	**100,040**	104,661
Due to an associate of TCL Corporation	(c)	**2,032**	–
Due to an associate	(c)	**8**	–
		5,151,507	4,555,367

Notes:

(a) The other payables are non-interest-bearing and are expected to be settled within one year.

(b) Contract liabilities include short-term advances received to deliver goods. Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers		
Sale of goods	**430,351**	431,178
Total contract liabilities	**430,351**	431,178

(c) As at 31 December 2018 and 2017, the amounts were interest-free, unsecured and repayable within one year.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Contractual interest rate (%)	Maturity	HK$'000	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	2.83 to 3.36	2019	610,864	2.65 to 3.93	2018	2,300,114
Trust receipt loans – unsecured	LIBOR + 0.80 to LIBOR + 1.00	2019	483,123	LIBOR + 0.80	2018	603,036
Finance lease payables (note 30)	14.60	2018	–	14.60	2018	2,103
			1,093,987			2,905,253
Non-current						
Other loans-unsecured	0.80	2020	20,540	0.80	2020	21,537
			1,114,527			2,926,790

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank and other loans repayable:		
Within one year or on demand	1,093,987	2,903,150
In the second year	20,540	–
In the third year	–	21,537
	1,114,527	2,924,687
Finance lease repayable:		
Within one year (note 30)	–	2,103
	1,114,527	2,926,790

Notes:

(a) As at 31 December 2018 and 2017, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(b) TCL Corporation has guaranteed certain of the Group's bank loans up to HK$20,540,000 (2017: HK$691,577,000) as at the end of the reporting period.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Included in bank and other loans are the following amounts denominated in currencies other than the functional currencies of the entities to which they relate:

	2018 HK$'000	2017 HK$'000
United States dollar	1,093,987	2,719,335
Renminbi	20,540	–
	1,114,527	2,719,335

30. FINANCE LEASE PAYABLES

The Group leases certain of its furniture, fixtures and equipment and motor vehicles for business use. These leases are classified as finance leases.

At 31 December, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Amounts payable:				
Within one year	–	2,193	–	2,103
Total minimum finance lease payments	–	2,193	–	2,103
Future finance charges	–	(90)		
Total net finance lease payables	–	2,103		
Portion classified as current liabilities (note 29)	–	(2,103)		
Non-current portion	–	–		

31. PROVISIONS

	Notes	Restructuring costs HK$'000	Warranties HK$'000	Total HK$'000
At 1 January 2018		1,619	476,301	477,920
Additional provision	7	1,035	565,735	566,770
Acquisition of a subsidiary	36	–	280	280
Amount utilised during the year		(1,100)	(381,493)	(382,593)
Reversal of unutilised amounts	7	–	(64,533)	(64,533)
Exchange realignment		3	(8,756)	(8,753)
At 31 December 2018		1,557	587,534	589,091

Warranties

The Group provides warranties ranging from one to three years to its customers on certain of its electronic products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Restructuring costs

The restructuring costs were mainly related to the redundancy costs incurred for a streamlined business model.

32. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Notes	Depreciation allowance in excess of related depreciation HK$'000	Changes in fair value HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2017		4,289	–	14,397	18,686
Deferred tax charged/(credited) to profit or loss during the year	10	(1,071)	876	(3,345)	(3,540)
Exchange realignment		25	30	46	101
Gross deferred tax liabilities at 31 December 2017 and 1 January 2018		3,243	906	11,098	15,247
Effect of adoption of HKFRS 9		–	2,478	–	2,478
At 1 January 2018 (restated)		3,243	3,384	11,098	17,725
Acquisition of subsidiaries	36	–	–	31,795	31,795
Deferred tax credited to profit or loss during the year	10	(1,112)	(895)	(5,068)	(7,075)
Deferred tax charged to other comprehensive income during the year		–	2,713	–	2,713
Exchange realignment		5	(10)	(681)	(686)
Gross deferred tax liabilities at 31 December 2018		2,136	5,192	37,144	44,472

32. DEFERRED TAX (CONTINUED)

The movements in deferred tax liabilities and assets during the year are as follows: (continued)

Deferred tax assets

	Note	Elimination of unrealised profits arising from intra-group transactions HK$'000	Accruals and other provisions HK$'000	Losses available for offsetting against future taxable profits HK$'000	Changes in fair value HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2017		16,000	11,174	1,526	–	6,029	34,729
Deferred tax credited/(charged) to profit or loss during the year	10	(5,377)	(1,522)	(4)	42,943	(345)	35,695
Exchange realignment		56	99	166	1,479	365	2,165
Gross deferred tax assets at 31 December 2017 and 1 January 2018		10,679	9,751	1,688	44,422	6,049	72,589
Deferred tax credited/(charged) to profit or loss during the year	10	21,321	7,464	35,376	(33,798)	(341)	30,022
Exchange realignment		–	(48)	(16)	(847)	37	(874)
Gross deferred tax assets at 31 December 2018		32,000	17,167	37,048	9,777	5,745	101,737

The Group has tax losses of HK$4,150,101,000 (2017: HK$4,862,482,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

32. DEFERRED TAX (CONTINUED)

Deferred tax assets have not been recognised in respect of the following items:

	2018 HK$'000	2017 HK$'000
Tax losses	**4,150,101**	4,862,482
Deductible temporary differences	**1,164,207**	878,481
	5,314,308	5,740,963

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

As at 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately HK$5,375,783,000 as at 31 December 2018 (2017: HK$4,162,749,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. SHARE CAPITAL

Shares

	2018 HK$'000	2017 HK$'000
Authorised:		
3,000,000,000 (2017: 2,200,000,000) shares of HK$1.00 each	3,000,000	2,200,000
Issued and fully paid:		
2,335,493,874 (2017: 1,747,633,114) shares of HK$1.00 each	2,335,494	1,747,633

A summary of movements in the Company's issued share capital and share premium account is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2017		1,736,446,305	1,736,446	4,633,314	6,369,760
Dividend paid to shareholders	11	–	–	(65,049)	(65,049)
Issue of shares upon exercise of share options	(b)	11,186,809	11,187	42,965	54,152
At 31 December 2017 and 1 January 2018		1,747,633,114	1,747,633	4,611,230	6,358,863
Dividend paid to shareholders	11	–	–	(561,267)	(561,267)
Rights issue	(a)	582,544,371	582,545	1,418,399	2,000,944
Issue of shares upon exercise of share options	(b)	5,316,389	5,316	20,414	25,730
At 31 December 2018		2,335,493,874	2,335,494	5,488,776	7,824,270

33. SHARE CAPITAL (CONTINUED)

Shares (continued)

Notes:

(a) The Rights Issue of one rights share for every three existing shares held by members on the register of members on 27 December 2017 was made at an issue price of HK$3.46 per rights share, resulting in the issue of 582,544,371 shares for a total consideration, before expenses, of HK$2,015,604,000. The Rights Issue was completed on 25 January 2018.

(b) During the year ended 31 December 2018, the subscription rights attached to 4,469,078, 676,652, 32,000, 7,261 and 131,398 share options were exercised at the subscription prices of HK$3.3918, HK$3.4800, HK$3.7329, HK$3.8300 and HK$3.5700 per share, respectively, resulting in the issue of an aggregate of 5,316,389 shares of HK$1.0000 each for a total cash consideration of HK$18,128,000, before expenses. An amount of HK$7,602,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

During the year ended 31 December 2017, the subscription rights attached to 4,786,288, 20,000, 6,333,447 and 47,074 share options were exercised at the subscription prices of HK$3.1700, HK$4.6000, HK$3.4800 and HK$4.5000 per share, respectively, resulting in the issue of an aggregate of 11,186,809 shares of HK$1.0000 each for a total cash consideration of HK$37,518,000, before expenses. An amount of HK$16,634,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Share options

The Company adopted the share option scheme on 15 February 2007 (“2007 Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. By a shareholders’ resolution passed in the annual general meeting held on 18 May 2016, the new share option scheme (“2016 Scheme”) was adopted and the 2007 Scheme was terminated. As a result, the Company can no longer grant any further options under the 2007 Scheme but all options granted prior to the termination of the 2007 Scheme will remain in full force and effect. Eligible participants of the 2007 Scheme include the Company’s directors, including independent non-executive directors, other employees of the Group, advisers, consultants, agents, contractors, suppliers of goods or services to the Group, customers of the Group, the Company’s shareholders, any non-controlling shareholder in the Company’s subsidiaries and any other person whom the Board at its sole discretion considers may contribute or have contributed to the Group. The 2016 Scheme mainly refined the definition of “any other person” in the eligible participants of the 2007 Scheme to employees and officers of TCL Corporation and its affiliated companies. The 2016 Scheme became effective on 18 May 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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33. SHARE CAPITAL (CONTINUED)

Share options (continued)

The directors have estimated the values of the share options granted, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

The following share options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price per share HK$	**Number of options '000**	Weighted average exercise price per share HK$	Number of options '000
At 1 January	**3.8380**	**153,243**	3.8080	171,050
Granted during the year	**4.0870**	**115,872**	3.8300	17,576
Forfeited during the year	**3.9620**	**(25,418)**	3.8410	(24,196)
Exercised during the year	**3.4100**	**(5,316)**	3.3540	(11,187)
Adjustment made to reflect the impact of the Rights Issue	**3.7420**	**3,906**	–	–
At 31 December	**3.8910**	**242,287**	3.8380	153,243

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2018 was HK$3.7820 per share (2017: HK$4.8410 per share).

33. SHARE CAPITAL (CONTINUED)

Share options (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Number of options '000	Exercise price per share* HK$	Exercise period
29,162	**4.4834**	**Note 1**
82,461	**3.3918**	**Note 2**
10,080	**4.3860**	**Note 3**
14,639	**3.7329**	**Note 4**
94,923	**4.1520**	**Note 5**
11,022	**3.5700**	**Note 6**
242,287		

2017

Number of options '000	Exercise price per share* HK$	Exercise period
33,122	4.6000	Note 1
91,748	3.4800	Note 2
11,805	4.5000	Note 3
16,568	3.8300	Note 4
153,243		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

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33. SHARE CAPITAL (CONTINUED)

Share options (continued)

Note 1: One-third of such share options are exercisable commencing from 9 January 2017, a further one-third are exercisable commencing from 9 January 2018, and the remaining one-third are exercisable commencing from 9 January 2019, up to 8 March 2021.

Note 2: For share options granted to the employees of the Group, approximately one-third of such share options are exercisable commencing from 9 January 2017, a further approximately one-third are exercisable commencing from 9 January 2018, and the remaining approximately one-third are exercisable commencing from 9 January 2019, up to 30 August 2021.

For share options granted to the employees of TCL Corporation on its behalf, approximately one-third of such share options are exercisable commencing from 31 December 2015, a further approximately one-third are exercisable commencing from 31 December 2016, and the remaining approximately one-third are exercisable commencing from 31 December 2017, up to 30 August 2021.

Note 3: For share options granted to the employees of the Group, approximately 13% of such share options are exercisable commencing from 9 January 2017, a further approximately 43% are exercisable commencing from 9 January 2018, and the remaining approximately 44% are exercisable commencing from 9 January 2019, up to 1 June 2022.

For share options granted to the employees of TCL Corporation, approximately one-third of such share options are exercisable commencing from 31 December 2016, a further approximately one-third are exercisable commencing from 31 December 2017, and the remaining approximately one-third are exercisable commencing from 31 December 2018, up to 1 June 2022.

Note 4: Subject to fulfilment of the performance targets for the year ended 31 December 2016, approximately 21% of the share options are exercisable commencing from 9 January 2018 to 11 May 2023; and subject to fulfilment of the performance targets for the year ending 31 December 2017, approximately 79% of the share options are exercisable commencing from 9 January 2019 to 11 May 2023.

Note 5: Subject to fulfilment of the performance targets for the year ended 31 December 2018, up to about one-sixth of the share options are exercisable commencing from 18 May 2019 to 22 January 2024 and up to another about one-sixth of share options are exercisable commencing from 9 January 2020 to 22 January 2024; and subject to fulfilment of the performance targets for the year ending 31 December 2019, up to about one-sixth of the share options are exercisable commencing from 18 May 2020 to 22 January 2024 and up to another about one-sixth of share options are exercisable commencing from 9 January 2021 to 22 January 2024; and subject to fulfilment of the performance targets for the year ending 31 December 2020, up to about one-sixth of the share options are exercisable commencing from 18 May 2021 to 22 January 2024 and up to another about one-sixth of share options are exercisable commencing from 9 January 2022 to 22 January 2024.

Note 6: Subject to fulfilment of the conditions for exercise of share options that the relevant option grantee (i) has paid the costs incurred or to be incurred by the Company for the relevant part of the share options and (ii) remains to be an employee of TCL Corporation Group on 15 June 2018, 15 June 2019 and 15 June 2020 (as the case may be) respectively: approximately one-third of the share options are exercisable commencing from 15 June 2018 to 24 April 2024; another approximately one-third of the share options are exercisable commencing from 15 June 2019 to 24 April 2024; and the remaining approximately one-third of the share options are exercisable commencing from 15 June 2020 to 24 April 2024.

33. SHARE CAPITAL (CONTINUED)

Share options (continued)

The fair value of the share options granted during the year was HK$172,442,000 (approximately HK$1.4900 each) (the fair value of the share options granted during 2017 was HK$25,838,000 (approximately HK$1.4700 each)), of which the Group recognised a share option expense of HK$58,773,000 (2017: HK$11,846,000) in respect of the share options granted to employees of the Group and recognised other receivables of HK$7,189,000 (2017: Nil) in respect of the share options granted to the employees of TCL Corporation on its behalf, during the year ended 31 December 2018.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2018 and 2017:

	2018		2017
Exercise price (HK$)	**3.5700**	**4.1520**	3.8300
Dividend yield (%)	**5.3140**	**0.9700**	0.0000
Expected volatility (%)	**44.8330**	**47.2540**	46.9700
Risk-free interest rate (%)	**2.8300**	**2.2960**	1.8300
Expected life of options (year)	**6**	**6**	6

The expected life of the options is based on the historical data over the past five years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The 5,316,389 share options exercised during the year resulted in the issue of 5,316,389 ordinary shares of the Company and additional share capital of HK$5,316,000 and share premium of HK$20,414,000.

At the end of the reporting period, the Company had 242,287,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 242,287,000 additional ordinary shares of the Company and additional share capital and share premium amounts of approximately HK$242,287,000 and HK$700,475,000, respectively.

33. SHARE CAPITAL (CONTINUED)

Restricted share award scheme

A restricted share award scheme was adopted by Company on 6 February 2008 (the "Adoption Date") (as amended on 11 August 2015, 13 June 2016, 24 November 2017 and 23 May 2018) (the "Award Scheme") to recognise and motivate the contribution of certain participants and to provide incentives and help the Group in retaining its existing employees and recruiting suitable personnel as additional employees to further the operation and development of the Group and to provide them with a direct economic interest in attaining the long-term business objectives of the Group. The Award Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules and is a discretionary scheme of the Company.

As at 31 December 2018, the Award Scheme comprises (i) the trust for management for the benefit of selected persons including, among others, connected persons of the Company and senior management of the Group and (ii) the trust for employees and others for the benefit of selected persons who are not connected persons of the Company. The Company has appointed BOCI-Prudential Trustee Limited (the "Trustee") for administration of each of the trusts under the Award Scheme.

Pursuant to the terms of the Award Scheme:

1. The Board may, from time to time, at its sole and absolute discretion designate any award to be made to any selected participant ("Selected Person(s)"). Participants cover (i) employees, advisers, consultants, agents, contractors, clients or suppliers of any member of the Group; and (ii) employees or officers of the affiliated companies whom the Board in its sole discretion considers may contribute or have contributed to the Group (collectively the "Selected Persons" and each a "Selected Person").

2. Award may be satisfied by existing shares to be acquired by the Trustee from the market or new shares to be allotted and issued to the Trustee by the Company (collectively "Awarded Shares") to be held on trust by the Trustee for the Selected Persons until the end of each vesting period subject to fulfilment of the vesting condition(s). The Board has the discretion to decide whether the Awarded Shares are the existing shares or new shares.

3. The Selected Persons shall also be entitled to the related distribution derived from the relevant Awarded Shares, which mainly covers dividend paid by the Company in respect of the Awarded Shares concerned distributed during the period from the grant date to the vesting date of the Awarded Shares. The Awarded Shares shall however only be vested on the relevant Selected Persons on the vesting date subject to fulfilment of the vesting conditions.

4. The Company may be obliged to pay the taxes and levies on behalf of the Selected Persons at the time when the liabilities arise and has the discretion to deduct from such number of Awarded Shares entitled by the relevant Selected Persons certain number of the Awarded Shares which is sufficient to cover the relevant liabilities of such taxes and levies as reimbursement. The Awarded Shares so deducted will become returned shares, which will be held by the Trustee and may be awarded as Awarded Shares pursuant to the Award Scheme.

33. SHARE CAPITAL (CONTINUED)

Restricted share award scheme (continued)

Pursuant to the terms of the Award Scheme: (continued)

5. The maximum aggregate number of shares awarded by the Board under the Award Scheme is ten percent (10%) of number of issued shares of the Company as at 11 August 2015 (the "Amendment Date"), excluding all the shares awarded under the rules of the pre-amended Award Scheme up to the Amendment Date.

6. The duration of the Award Scheme is 15 years from the Adoption Date, i.e., continue in force until 2023.

7. The Board may, at its sole and absolute discretion, accelerate the vesting of awarded shares add/or waive and/or alter any or all of the vesting conditions attached to the Awarded Shares.

The following Awarded Shares were outstanding during the year:

	2018 Number of Awarded Shares '000	2017 Number of Awarded Shares '000
At 1 January		
– Number of Awarded Shares held by the Trustee	**75,784**	83,380
– Number of Awarded Shares granted but not vested	**14,848**	31,215
– Number of Awarded Shares available for grant	**101,859**	95,843
At 31 December		
– Number of Awarded Shares held by the Trustee	**81,072**	75,784
– Number of Awarded Shares granted but not vested	**46,374**	14,848
– Number of Awarded Shares available for grant	**61,150**	101,859
Granted during the year (note a)	**47,833**	255
– Grant using existing shares	**47,833**	255
Lapsed during the year	**7,124**	6,271
Vested during the year	**9,183**	10,350
Purchased during the year (note b)	**12,334**	–
Allotted and issued during the year (note c)	**–**	–
Individual income tax paid on behalf of the Selected Persons during the year (note d)	**2,137**	2,754

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33. SHARE CAPITAL (CONTINUED)

Restricted share award scheme (continued)

Notes:

(a) For the year ended 31 December 2018, 45,084,960 (2017: 255,129) Awarded Shares were granted to the Selected Employees and 2,748,044 (2017: Nil) Awarded Shares were granted to the Selected Persons of TCL Corporation on its behalf. The fair values of the Awarded Shares on the date of grant were HK$178,147,000 (HK$4.0200 per share) and HK$12,558,000 (HK$3.5700 per share) (2017: HK$949,000 (HK$3.7200 per share)), of which the Group recognised employee share-based compensation benefits under the Award Scheme of HK$68,934,000 (2017: HK$449,000) in respect of the Awarded Shares granted to the Selected Employees and recognised other receivables of HK$5,743,000 (2017: Nil) in respect of the Awarded Shares granted to the Selected Persons of TCL Corporation on its behalf.

(b) For the year ended 31 December 2018, the Trustee purchased 12,334,000 Awarded Shares at a total cost (including transaction costs) of HK$46,935,000.

(c) No Awarded Shares were allotted and issued to the Trustee at par value for the years ended 31 December 2018 and 2017.

(d) For the year ended 31 December 2018, tax has been paid by the Group on behalf of certain Selected Persons whose rights were vested in the Awarded Shares and 2,137,014 (2017: 2,753,960) Awarded Shares were deducted from the total number of Awarded Shares entitled to be vested to those Selected Persons as the settlement for the Individual Income Tax paid by the Group on their behalf.

34. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 129 and 130.

(i) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire after the vesting period.

(ii) Capital reserve

The Group's capital reserve represented the excess of the nominal value of the shares of the subsidiaries acquired prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor as well as the difference between the amounts of consideration and the carrying values of non-controlling interests acquired or disposed of.

34. RESERVES (CONTINUED)

(iii) Reserve funds

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to the reserve funds which are restricted to use.

(iv) Awarded share reserve

The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Employees at the date of award.

(v) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

35. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are derecognised in their entirety

Factoring trade receivables

At 31 December 2018, the Group has entered into certain receivables purchase agreements with financial institutions for the factoring of trade receivables due from certain specified customers with an aggregate carrying amount of HK$1,877,765,000 (2017: HK$449,359,000). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the factored trade receivables. Accordingly, it has derecognised the full carrying amounts of the factored trade receivables. The maximum exposures to loss from the Group's continuing involvement in the factored trade receivables and the undiscounted cash flows to repurchase these factored trade receivables are equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the factored trade receivables are not significant.

During the years ended 31 December 2018 and 2017, no gains or losses were recognised on the date of transfer of the factored trade receivables. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

35. TRANSFERS OF FINANCIAL ASSETS (CONTINUED)

Financial assets that are derecognised in their entirety (continued)

Bills discounted

At 31 December 2018, certain bills receivable were discounted by banks and an associate in the PRC and banks in Hong Kong with a carrying amount of HK$3,147,271,000 (2017: HK$8,646,482,000). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the discounted bills. Accordingly, it has derecognised the full carrying amounts of the discounted bills. The maximum exposures to loss from the Group's continuing involvement in the discounted bills and the undiscounted cash flows to repurchase these discounted bills are equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the discounted bills are not significant.

During the year ended 31 December 2018 and 2017, no gains or losses was recognised on the date of transfer of the discounted bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

Endorsed bills

At 31 December 2018, certain subsidiaries of the Group endorsed certain bills receivable accepted by banks in the PRC (the "derecognised bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of HK$1,412,192,000 (2017: HK$316,486,000). The derecognised bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the derecognised bills have a right of recourse against the Group if the PRC banks default. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the derecognised bills and the associated trade payables. The maximum exposures to loss from the Group's continuing involvement in the derecognised bills and the undiscounted cash flows to repurchase these derecognised bills are equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the derecognised bills are not significant.

During the years ended 31 December 2018 and 2017, no gains or losses were recognised on the date of transfer of the derecognised bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

36. BUSINESS COMBINATION

Acquisition of equity interest in CI Tech

On 31 July 2018, the Group acquired 100% interest in CI Tech from TCL Corporation, Ningbo Yuanheng Juyuan Investment Partnership (Limited Partnership) and Huizhou Guanlian Industrial Investment Co., Ltd. at a consideration of RMB793,020,000 (equivalent to approximately HK$913,084,000). CI Tech is engaged in the trading of commercial display products. The acquisition was made as part of the Group's strategy to enter in Business to Business industry in the Mainland China. The purchase consideration for the acquisition was in the form of cash, and paid at the acquisition date.

The fair values of the identifiable assets and liabilities of CI Tech as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	13	35,184
Other intangible assets	17	96,499
Interest in a joint venture		2,763
Cash and bank balances		348,362
Inventories		119,840
Bills receivable		20,001
Trade receivables		173,278
Prepayments, deposits and other receivables		19,840
Tax recoverable		610
Bills payable		(34,394)
Trade payables		(411,045)
Tax payable		(1,324)
Other payables and accruals		(84,723)
Provision	31	(280)
Deferred tax liabilities	32	(26,733)
Total identifiable net assets at fair value		257,878
Goodwill on acquisition	16	655,206
Satisfied by cash		913,084

36. BUSINESS COMBINATION (CONTINUED)

Acquisition of equity interest in CI Tech (continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$173,278,000 and HK$6,733,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$177,828,000 and HK$6,736,000, respectively, of which trade receivables of HK$4,550,000 and other receivables of HK$3,000 are expected to be uncollectible.

Included in the goodwill of HK$655,206,000 recognised above is mainly expected synergies which are not recognised separately. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(913,084)
Cash and bank balances acquired	348,362
Net outflow of cash and cash equivalents included in cash flows from investing activities	(564,722)
	(564,722)

Since the acquisition, CI Tech contributed HK$287,807,000 to the Group's revenue and HK$101,957,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the consolidated profit of the Group for the year would have been HK$621,956,000 and HK$23,541,000, respectively.

36. BUSINESS COMBINATION (CONTINUED)

Acquisition of equity interest in TCL Smart Home

On 9 October 2018, the Group acquired 100% interest in TCL Smart Home from Crown Capital Enterprises Limited and Prosper Fortune Enterprises Limited, subsidiaries of TCL Corporation, at a consideration of HK$1,460,000. TCL Smart Home is engaged in the trading of smart home products. The acquisition was made as part of the Group's strategy to expand its market share of smart products. The purchase consideration for the acquisition was in the form of cash, and paid at the acquisition date.

The fair values of the identifiable assets and liabilities of TCL Smart Home as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	13	**648**
Other intangible assets	17	**20,248**
Cash and bank balances		**43,902**
Inventories		**2,501**
Trade receivables		**1,875**
Prepayments, deposits and other receivables		**3,390**
Trade payables		**(2,426)**
Other payables and accruals		**(43,348)**
Amount due to TCL Corporation		**(33,248)**
Deferred tax liabilities	32	**(5,062)**
Total identifiable net assets at fair value		**(11,520)**
Goodwill on acquisition	16	**12,980**
Satisfied by cash		**1,460**

36. BUSINESS COMBINATION (CONTINUED)

Acquisition of equity interest in TCL Smart Home (continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$1,875,000 and HK$1,316,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$2,266,000 and HK$4,469,000, respectively, of which trade receivables of HK$391,000 and other receivables of HK$3,153,000 are expected to be uncollectible.

Included in the goodwill of HK$12,980,000 recognised above is a customer list, which is not recognised separately. Because the list is subject to a confidentiality agreement, it is not separable and therefore it does not meet the criteria for recognition as an intangible asset under HKAS 38 Intangible Assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(1,460)
Cash and bank balances acquired	43,902
Net inflow of cash and cash equivalents included in cash flows from investing activities	42,442
	42,442

Since the acquisition, TCL Smart Home contributed HK$3,087,000 to the Group's revenue and HK$5,973,000 to the consolidated loss for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the consolidated loss of the Group for the year would have been HK$11,968,000 and HK$44,534,000, respectively.

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37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of a subsidiary

Year ended 31 December 2017

On 12 May 2017, the Group, Henan Prairie Fire Electronic Co., Ltd. and Huizhou Renren Ju Industrial Co., Ltd. (the latter both being independent third parties), entered an agreement to reduce their capital injection to Henan Melody Huana Electronics Co. Ltd. ("Melody"), a subsidiary of the Group. As a result, the Group reduced the investment cost of approximately RMB10,450,000 (equivalent to approximately HK$11,795,000), which resulted in its proportion of shareholding reducing to 5%. Accordingly, the Group reclassified its remaining interest in Melody as an available-for-sale investment.

	Notes	2017 HK$'000
Net assets disposed of:		
Property, plant and equipment	13	7
Other intangible assets	17	849
Inventories		17,111
Cash and bank balances		1,160
Trade and bills receivables		17,745
Other receivables		6,562
Trade and bills payables		(817)
Other payables and accruals		(7,115)
Non-controlling interests		(22,544)
		12,958
Release of exchange fluctuation reserve		495
Loss on disposal of a subsidiary		(1,012)
		12,441
Satisfied by:		
Other receivables		11,795
Fair value of the remaining interest in Melody		646
		12,441

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37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(a) Disposal of a subsidiary (continued)

Year ended 31 December 2017 (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017 HK$'000
Cash and bank balances disposed of	(1,160)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(1,160)

(b) Liquidation of subsidiaries

Year ended 31 December 2018

Shenzhen ASIC Micro-Electronics Co., Ltd., a wholly-owned subsidiary and TCL King Electrical Appliances (Wuxi) Co., Ltd., a 70% owned subsidiary of the Group, were wound-up voluntarily during the year.

	Note	**2018 HK$'000**
Release of exchange fluctuation reserve upon liquidation		**6,944**
Gain on liquidation of subsidiaries	7	**(6,944)**
Net outflow of cash and cash equivalents in respect of the liquidation of subsidiaries		**–**

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Changes in liabilities arising from financing activities

	Bank loans and other borrowings HK$'000	**Finance lease payables HK$'000**	**Dividend payable included in other payables HK$'000**	**Total HK$'000**
At 1 January 2018	**2,924,687**	**2,103**	**13,611**	**2,940,401**
Changes from financing cash flows	**(1,809,607)**	**(2,080)**	**–**	**(1,811,687)**
Exchange adjustments	**(553)**	**(23)**	**–**	**(576)**
Dividends payable	**–**	**–**	**(13,598)**	**(13,598)**
At 31 December 2018	**1,114,527**	**–**	**13**	**1,114,540**

	Bank loans and other borrowings HK$'000	Finance lease payables HK$'000	Dividend payable included in other payables HK$'000	Total HK$'000
At 1 January 2017	1,350,151	5,492	–	1,355,643
Changes from financing cash flows	1,530,220	(3,648)	–	1,526,572
Exchange adjustments	44,316	259	–	44,575
2017 interim dividends payable	–	–	13,611	13,611
At 31 December 2017	2,924,687	2,103	13,611	2,940,401

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38. OPERATING LEASE ARRANGEMENTS

As lessor

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	3,679	–
In the second to fifth years, inclusive	4,007	–
	7,686	–

As lessee

The Group leases certain of its office properties and factories under operating lease arrangements. These leases are negotiated for terms ranging from one to ten years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	90,536	38,023
In the second to fifth years, inclusive	115,179	63,418
After five years	451	–
	206,166	101,441

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Capital expenditure	**342,330**	33,341
Capital contribution payable to joint ventures	**15,253**	251,055
Capital contribution payable to associates	**159,146**	–
	516,729	284,396
Authorised, but not contracted for:		
Land and buildings	**255,202**	269,823
	771,931	554,219

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40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2018 HK$'000	2017 HK$'000
Joint ventures:			
Sales of finished goods	(i)	**323,083**	305,258
After-sales service income	(ii)	**1,162**	655
T.C.L. Industries:			
Interest expense	(iii)	**638**	–
Associates:			
Interest income	(vi)	**51,068**	25,173
Interest expense	(v)	**12,533**	22,885
Other finance service fees	(iv)	**268**	134
Purchase of raw materials	(x)	**117,384**	84,854
Purchase of finished goods	(x)	**3,973**	-
Sales of finished goods	(i)	**1,089,890**	861,843
IT and other service fees	(vii)	**2,430**	–
Companies controlled by TCL Corporation:			
Sales of raw materials	(viii)	**105,234**	57,720
Sales of finished goods	(i)	**5,280,592**	4,441,984
Purchases of raw materials	(x)	**12,021,809**	12,022,198
Purchases of finished goods	(x)	**422,792**	460,414
Subcontracting fee expense	(ix)	**–**	4,960
Subcontracting income	(xi)	**3,874**	651
Rental, maintenance income and facilities usage income	(xii)	**18,433**	16,336
Rental expense and licence fee	(xiii)	**23,235**	8,818
Reimbursement of brand advertising costs	(xiv)	**448,553**	173,217
Reimbursement of research and development and rental expenses	(xvii)	**81,582**	49,648
After-sales service income	(ii)	**35,596**	7,526
After-sales service fee	(xviii)	**255,954**	291,024
Internet television service income	(xix)	**–**	2,527
Payment gateway service fee	(xx)	**–**	101
Promotion fee income	(xvi)	**15,695**	32,507
Platform service fee	(vii)	**5,358**	–
Platform service income	(xxii)	**8,047**	–
Other service income	(xxii)	**28,050**	–

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

	Notes	2018 HK$'000	2017 HK$'000
Associates of TCL Corporation:			
Purchases of raw materials	(x)	**1,620,406**	604,774
Sales of raw materials	(viii)	**41,341**	280
Sales of finished goods	(i)	**179,338**	1,617
Logistics service fee expense	(xv)	**404,708**	352,789
After-sales service fee	(xviii)	**164**	–
Rental income	(xii)	**1,780**	1,480
Service fee expense	(xxi)	**–**	17,041
Content income	(xxi)	**–**	6,508
A substantial shareholder and its affiliates:			
Sales of finished goods	(i)	**–**	565,121
Purchases of raw materials	(x)	**–**	152,339
After-sales service income	(ii)	**19,484**	–

Notes:

(i) The sales of finished goods were made by reference to the prevailing market prices.

(ii) The after-sales service income was determined with reference to the rates of other similar services and the amount of general after-sales service expenses of the Group in the past.

(iii) The interest was charged at a rate of 3.09% per annum for the year ended 31 December 2018.

(iv) The other finance service fees were determined with reference to the rates of other similar services provided by third party companies.

(v) The interest was charged at rates ranging from 3.25% to 4.00% (2017: 5.00%) per annum.

(vi) The interest was charged at rates ranging from 0.42% to 2.10% (2017: from 0.42% to 1.38%) per annum, which were determined with reference to the savings rates quoted by the People's Bank of China.

(vii) The platform and IT and other service fee was determined with reference to service expenses charged by third party companies offering similar services.

(viii) The sales of raw materials were made at gross margins average from 3.28% to 44.13% (2017: 5.40% to 43.37%).

(ix) The subcontracting fee expense was determined with reference to subcontracting fees charged by third party companies offering similar services.

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40. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

Notes: (continued)

(x) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers or the acquisition price plus a mark-up of 0.30%.

(xi) The subcontracting income was determined with reference to the rates of similar services provided to other third party companies.

(xii) The rental, maintenance income and facilities usage income were determined with reference to the rates of other similar premises.

(xiii) The rental expense was charged at rates ranging from RMB31 to RMB135 (2017: from RMB27 to RMB67) per square metre. The licence fee was charged at rates HK$28 (2017: HK$28) per square feet.

(xiv) Reimbursement of brand advertising costs incurred by TCL Corporation was made based on 1.52% (2017: 1.21%) of the aggregate net sales of TV products using TCL A brand and TCL B brand and at 0.25% (2017: 0.10%) of the aggregate net sales of TV products of OEM brands, as defined in the Master TCL Trademark License (2017 Renewal) Agreement.

(xv) The logistics service fee was determined with reference to the rates of other similar services provided by other third-party companies.

(xvi) The promotion fee income was determined with reference to the percentage charged by other active market participants in providing similar promotion services.

(xvii) Reimbursement of research and development expenses represent human resource costs allocated to the Group in respect of personnel of companies controlled by TCL Corporation. Reimbursement of rental expenses were determined with reference to the rates of other similar premises.

(xviii) The after-sales service fee was calculated and charged at a percentage of the sales revenue (capped at 2.00%) of certain TV products in the PRC market.

(xix) The internet television service income was calculated and charged at a rate of 15.00% of net income of video-on-demand services of live televisions or at rates ranging from 5.00% to 30.00% of an aggregate unit price of video-on-demand services of movies for the year ended 31 December 2017.

(xx) The payment gateway service fee was charged within the range of 0.38% to 0.78% of the amount of payment made by the end customers to the Group or nil to RMB26, whichever is lower, for each electronic payment process handled by the related party for the year ended 31 December 2017.

(xxi) The service fee expense of the internet television software was charged at agreed rates between the parties and at rates ranging from RMB3 to RMB12 for each internet television in the PRC for the year ended 31 December 2017. Content income was shared equally between the Group and the related party.

(xxii) The platform and other service income was determined with reference to the rates of similar services provided to other third party companies.

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other material transactions with related parties:

(i) On 23 March 2018, TTE Corporation, a wholly – owned subsidiary of the Company, entered into a subscription agreement with TCL Ventures Inc., as a general partner, pursuant to which TTE Corporation agreed to make a capital commitment of USD15,000,000 (equivalent to approximately HK$117,000,000) into TCL Ventures Fund L.P., constituting approximately 20% of its total capital commitment. The Group made capital contribution of USD1,500,000 during the current year.

(ii) On 23 March 2018, TCL New Technology (a subsidiary of the Company) entered into a partnership agreement (the "PRC Partnership Agreement") with Huizhou TCL Kaichuang Enterprise Management Co., Ltd. as general partner and TCL Corporation and Shenzhen China Star Optoelectronics Technology Co., Ltd. ("CSOT") as limited partners, in relation to the establishment of the PRC Investment Fund. Pursuant to the PRC Partnership Agreement, TCL New Technology agreed to make a capital commitment of RMB40,000,000 (equivalent to approximately HK$49,000,000) into the Shenzhen TCL Strategic Share Investment Fund Limited Partnership (Limited Partnership), constituting approximately 19.9% of its total capital commitment. The Group made capital contribution of RMB10,000,000 during the current year.

(iii) On 18 May 2018, TCL New Technology entered into the capital increase agreement with Lerong Zhixin Electronic Technology (Tianjin) Co., Limited ("Lerong Zhixin") , Leshi Internet Information and Technology Corp., Beijing and Tianjin Jiarui Huixin Corporate Management Co., Ltd., pursuant to which, among others, TCL New Technology agreed to make a capital contribution of RMB300,000,000 to Lerong Zhixin subject to the terms and conditions thereof. Upon completion of the capital increase, the Company's interest in Lerong Zhixin through TCL New Technology is approximately 2.71%.

(iv) On 28 June 2018, TCL New Technology completed transfer of certain assets to TCL Technology Industrial Park (Shenzhen) Co., Ltd. ("TCL Industrial Park", a subsidiary of TCL Corporation) at a consideration of RMB328,965,000 (equivalent to approximately HK$407,292,000). A gain from disposal of items of property, plant and equipment of HK$165,594,000 was recognised in profit or loss.

(v) On 20 July 2018, TCL King Electrical and TCL Intelligence Industry (Huizhou) Company Limited ("TCL Intelligence Industry", a wholly-owned subsidiary of TCL Corporation) entered into the sale and purchase agreement pursuant to which, among others, TCL King Electrical shall purchase the assigned equipment from TCL Intelligence Industry at a consideration of RMB15,494,000 (equivalent to approximately HK$18,378,000).

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40. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other material transactions with related parties: (continued)

(vi) On 31 July 2018, the Group acquired 100% interest in CI Tech from TCL Corporation, Ningbo Yuanheng Juyuan Investment Partnership (Limited Partnership) and Huizhou Guanlian Industrial Investment Co., Ltd. at a consideration of RMB793,020,000 (equivalent to approximately HK$913,084,000). Further details are set out in note 36 to the financial statement.

(vii) On 16 August 2018, the Group and Sunshine 100 China Holdings Limited ("Sunshine 100 China") entered into the Platform Cooperation Agreement, pursuant to which the Group and Sunshine 100 China agreed to jointly establish a joint venture in the Mainland China as a management platform for sharing intelligentized operational network, and enter into the field of smart apartment sharing operation through the joint venture. According to the terms of the agreement, the registered capital of the joint venture would be RMB50,000,000, in which RMB25,500,000 (51% of the total registered capital) would be contributed by Sunshine 100 China and RMB24,500,000 (49% of the total registered capital) would be contributed by the Group. The Group made capital contribution of RMB7,686,000 during the current year.

(viii) On 21 September 2018, Shenzhen TCL Digital Technology Co., Ltd. ("Shenzhen TCL Digital", a subsidiary of the Company), TCL Corporation, Ningbo Juge Yingrui Investment Partnership (Limited Partnership), Ningbo Xingxing Jiuli Investment Management Partnership (Limited Partnership), CSOT (a subsidiary of TCL Corporation) and Mr. He Jun entered into the articles, pursuant to which the parties thereto agreed to establish a joint venture. Shenzhen TCL Digital agrees to make a capital commitment of RMB20,000,000 (equivalent to approximately HK$22,822,000), constituting 20% of the total capital commitment. The Group made capital contribution of RMB20,000,000 during the current year.

(ix) On 9 October 2018, the Group acquired 100% interest in TCL Smart Home from Crown Capital Enterprises Limited and Prosper Fortune Enterprises Limited, subsidiaries of TCL Corporation, at a consideration of HK$1,460,000. Further details are set out in note 36 to the financial statement.

(x) On 8 February 2017, the Group entered into factoring contracts with a company controlled by a substantial shareholder for a factoring arrangement on trade receivables with an aggregated amount of RMB63,459,000 (equivalent to HK$76,151,000).

(c) Details of compensation of key management personnel of the Group are set out in notes 8 and 9 to the financial statements.

Except for the transactions with joint ventures and certain associates of the Group included in note 40(a), all the above transactions in note 40 also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**128,770**	–	**128,770**	–
Available-for-sale investments	**–**	107,835	**–**	N/A
Accounts receivable classified as financial assets at fair value through profit or loss	**126,162**	–	**126,162**	–
Bills receivable	**2,360,909**	–	**2,360,909**	–
Derivative financial instruments	**7,268**	202,970	**7,268**	202,970
	2,623,109	310,805	**2,623,109**	202,970
Financial liabilities				
Derivative financial instruments	**22,177**	194,826	**22,177**	194,826
Interest-bearing bank borrowings	**1,114,527**	2,926,790	**1,104,989**	2,903,572
Other long-term payables	**27,725**	–	**24,309**	–
	1,164,429	3,121,616	**1,151,475**	3,098,398

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, amount due to the ultimate holding company and loans from associates approximate to their carrying amounts largely due to the short term maturities of these instruments.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the finance lease payables, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payables, and interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including forward currency contracts, foreign currency swaps and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts, foreign currency swaps and interest rate swaps are the same as their fair values.

As at 31 December 2018, the marked to market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average EV/EBIT multiple of peers	2018: 3.2x to 6.0x	5% increase in multiple would result in increase in fair value by HK$5,355,000
		Average EV/S multiple of peers	2018: 0.3x to 6.8x	5% increase in multiple would result in increase in fair value by HK$344,000
		Average P/S multiple of peers	2018: 1.4x to 4.1x	5% increase in multiple would result in increase in fair value by HK$226,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Equity investments designated at fair value through other comprehensive income	**–**	**–**	**128,770**	**128,770**
Accounts receivable classified as financial assets at fair value through profit or loss	**–**	**126,162**	**–**	**126,162**
Bills receivable	**–**	**2,360,909**	**–**	**2,360,909**
Derivative financial instruments	**–**	**7,268**	**–**	**7,268**
	–	**2,494,339**	**128,770**	**2,623,109**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	–	202,970	–	202,970

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 HK$'000
Equity investments at fair value through other comprehensive income/available for sale investments - unlisted	
At 1 January	107,835
Effect of adoption of HKFRS9	14,973
At 1 January (restated)	122,808
Total gains recognised in other comprehensive income	9,088
Income tax effect	2,713
Exchange realignment	(5,839)
	128,770

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	–	22,177	–	22,177

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	–	194,826	–	194,826

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

Liabilities for which fair value are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Interest-bearing bank borrowings	**–**	**1,104,989**	**–**	**1,104,989**
Other long-term payables	**–**	**24,309**	**–**	**24,309**
	–	**1,129,298**	**–**	**1,129,298**

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank borrowings	–	2,903,572	–	2,903,572

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing borrowings, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet the borrowing needs of all subsidiaries. In some cases, subsidiaries may borrow directly from local banks upon approval from the Group Treasury in advance. At subsidiary level, financing is generally done on a short term floating rate basis. Long term financing is normally done at Group level.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in United States dollar interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000
2018		
United States dollar	**(25)**	**1,208**
United States dollar	**25**	**(1,208)**
2017		
United States dollar	(25)	1,508
United States dollar	25	(1,508)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. In addition, certain bank loans were denominated in currencies other than the functional currencies of the entities to which they relate. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incurs, so as to alleviate the impact on business due to exchange rate fluctuations. The Group uses foreign currency forward contracts to reduce the foreign currency exposures.

It is the Group's policy to negotiate the terms of the hedging instruments to match the terms of the hedged items to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK$'000
2018		
If Hong Kong dollar weakens against United States dollar	**5**	**(27,415)**
If Hong Kong dollar weakens against European dollar	**5**	**544**
If Hong Kong dollar weakens against Renminbi	**5**	**(7,163)**
If Renminbi weakens against United States dollar	**5**	**(3,954)**
If European dollar weakens against Polish Zloty	**5**	**0.2**
If United States dollar weakens against European dollar	**5**	**(0.3)**
If United States dollar weakens against Polish Zloty	**5**	**(8)**
If Hong Kong dollar strengthens against United States dollar	**(5)**	**27,415**
If Hong Kong dollar strengthens against European dollar	**(5)**	**(544)**
If Hong Kong dollar strengthens against Renminbi	**(5)**	**7,163**
If Renminbi strengthens against United States dollar	**(5)**	**3,954**
If European dollar strengthens against Polish Zloty	**(5)**	**(0.2)**
If United States dollar strengthens against European dollar	**(5)**	**0.3**
If United States dollar strengthens against Polish Zloty	**(5)**	**8**
2017		
If Hong Kong dollar weakens against United States dollar	5	(70,277)
If Hong Kong dollar weakens against European dollar	5	638
If Hong Kong dollar weakens against Renminbi	5	3
If Renminbi weakens against United States dollar	5	(79,984)
If European dollar weakens against United States dollar	5	(26)
If European dollar weakens against Polish Zloty	5	9
If United States dollar weakens against European dollar	5	2
If United States dollar weakens against Polish Zloty	5	(172)
If Hong Kong dollar strengthens against United States dollar	(5)	70,277
If Hong Kong dollar strengthens against European dollar	(5)	(638)
If Hong Kong dollar strengthens against Renminbi	(5)	(3)
If Renminbi strengthens against United States dollar	(5)	79,984
If European dollar strengthens against United States dollar	(5)	26
If European dollar strengthens against Polish Zloty	(5)	(9)
If United States dollar strengthens against European dollar	(5)	(2)
If United States dollar strengthens against Polish Zloty	(5)	172

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades only with recognised and creditworthy third parties and related parties. There is no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables measured at amortised cost*	–	–	–	4,936,300	4,936,300
Financial assets included in prepayments, other receivables and other assets**					
– Normal	1,242,077	–	–	–	1,242,077
– Doubtful	–	–	342,382	–	342,382
Cash and cash equivalents					
– Not yet past due	6,741,976	–	–	–	6,741,976
	7,984,053	–	342,382	4,936,300	13,262,735

* For trade receivables and financial assets included in prepayments, other receivables and other assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 22 and 24 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure as at 31 December 2017

The Group trades only with recognised and creditworthy third parties and related parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit checking procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties and related parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty or by geographical region. There is no significant concentration of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 22 and 24, respectively, to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2018			
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**1,095,089**	**20,608**	**–**	**1,115,697**
Trade payables	**9,801,922**	**–**	**–**	**9,801,922**
Bills payable	**1,613,794**	**–**	**–**	**1,613,794**
Derivative financial instruments	**22,177**	**–**	**–**	**22,177**
Other payables	**3,964,191**	**–**	**–**	**3,964,191**
	16,497,173	**20,608**	**–**	**16,517,781**

	2017			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	2,928,112	–	21,949	2,950,061
Finance lease payables	2,193	–	–	2,193
Trade payables	9,753,201	–	–	9,753,201
Bills payable	306,879	–	–	306,879
Derivative financial instruments	194,826	–	–	194,826
Other payables	3,353,369	–	–	3,353,369
	16,538,580	–	21,949	16,560,529

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Net debt is calculated as a total of interest-bearing bank and other borrowings, less cash and bank balances. Total capital refers to equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	Note	**2018** **HK$'000**	2017 HK$'000
Interest-bearing bank and other borrowings	29	**1,114,527**	2,926,790
Less:Cash and bank balances		**(6,741,976)**	(5,910,235)
Net debt		**(5,627,449)**	(2,983,445)
Equity attributable to owners of the parent		**9,779,321**	7,628,724
Gearing ratio		**N/A**	N/A

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investment in an associate	–	23,099
Investments in subsidiaries	**1,661,517**	1,519,003
	1,661,517	1,542,102
CURRENT ASSETS		
Due from related parties	**4,921,281**	3,594,249
Other receivables	**64,648**	34,573
Cash and bank balances	**21,975**	18,530
	5,007,904	3,647,352
Non-current assets classified as held for sale	**23,099**	–
Total current assets	**5,031,003**	3,647,352
CURRENT LIABILITIES		
Due to related parties	**131,717**	149,113
Other payables and accruals	**17,787**	22,566
Total current liabilities	**149,504**	171,679
NET CURRENT ASSETS	**4,881,499**	3,475,673
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,543,016**	5,017,775
Net assets	**6,543,016**	5,017,775
EQUITY		
Issued capital	**2,335,494**	1,747,633
Reserves	**4,207,522**	3,270,142
Total equity	**6,543,016**	5,017,775

LI Dongsheng
Director

WANG Cheng Kevin
Director

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Share option reserve[Δ] HK$'000	Capital reserve[#] HK$'000	Shares held for the Award Scheme HK$'000	Awarded share reserve* HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	4,633,314	176,300	738,936	(218,314)	112,137	(2,220,211)	3,222,162
Total comprehensive income for the year	–	–	–	–	–	29,305	29,305
Equity-settled share option arrangements	–	53,438	–	–	–	–	53,438
Issue of shares upon exercise of share options (note 33)	42,965	(16,634)	–	–	–	–	26,331
Employee share-based compensation benefits under the Award Scheme (note 33)	–	–	–	–	14,168	–	14,168
Vesting of shares under the Award Scheme	–	–	–	10,117	(20,330)	–	(10,213)
2017 interim dividend paid	(65,049)	–	–	–	–	–	(65,049)
At 31 December 2017 and 1 January 2018	4,611,230	213,104	738,936	(208,197)	105,975	(2,190,906)	3,270,142
Total comprehensive profit for the year	–	–	–	–	–	(39,670)	(39,670)
Equity-settled share option arrangements	–	89,832	–	–	–	–	89,832
Rights issue (note 33)	1,418,399	–	–	–	–	–	1,418,399
Issue of shares upon exercise of share options (note 33)	20,414	(7,602)	–	–	–	–	12,812
Employee share-based compensation benefits under the Award Scheme (note 33)	–	–	–	–	72,589	–	72,589
Purchase of shares for the Award Scheme (note 33)	–	–	–	(46,935)	–	–	(46,935)
Vesting of shares under the Award Scheme	–	–	–	11,863	(20,243)	–	(8,380)
Profit distribution to owners	(561,267)	–	–	–	–	–	(561,267)
At 31 December 2018	5,488,776	295,334	738,936	(243,269)	158,321	(2,230,576)	4,207,522

Δ The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire after the vesting period.

The capital reserve arose as a result of the Group reorganisation in 1999 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

* The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Persons at the date of award.

31 December 2018

44. EVENT AFTER THE REPORTING PERIOD

On 23 January 2019, the Company announced that TCL King Electrical, a subsidiary of the Group and Shenzhen Qianhai Fende Investment Co., Ltd. ("Qianhai Fende") entered into a sale and purchase agreement, pursuant to which Qianhai Fende agreed to sell and King Electrical agreed to acquire approximately 15.56% of the total equity interest in Falcon Network Technology at a consideration of RMB420.12 million.

Before sale and purchase agreement was entered into, the Group held approximately 44.44% of the total equity interest in Falcon Network Technology. Immediately after completion of this transaction, the Group would hold in aggregate approximately 60.00% of the total equity interest in Falcon Network Technology through both FFalcon Technology Holding Limited and TCL King Electrical and thus Falcon Network Technology would become a subsidiary of the Group. The purchase consideration of RMB420.12 million for the acquisition was in the form of cash and has been paid.

Because the acquisition of Falcon Network Technology has not been completed by the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 18 March 2019.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified/re-presented as appropriate, is set out below.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
TURNOVER	**45,581,970**	40,822,357	33,361,250	34,016,833	33,526,265
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**1,161,628**	933,164	201,206	37,179	393,459
Income tax	**(226,778)**	(136,303)	(24,428)	(27,039)	(147,126)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS AND PROFIT FOR THE YEAR	**934,850**	796,861	176,778	10,140	246,333
Profit/(loss) attributable to:					
Owners of the parent	**944,235**	814,639	182,764	25,811	234,499
Non-controlling interests	**(9,385)**	(17,778)	(5,986)	(15,671)	11,834
	934,850	796,861	176,778	10,140	246,333

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**28,201,203**	26,063,346	20,309,390	18,178,191	21,482,316
Total liabilities	**(18,421,638)**	(18,366,829)	(13,753,045)	(13,769,461)	(16,876,138)
Non-controlling interests	**(244)**	(67,793)	(103,900)	(112,144)	(137,049)
	9,779,321	7,628,724	6,452,445	4,296,586	4,469,129

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