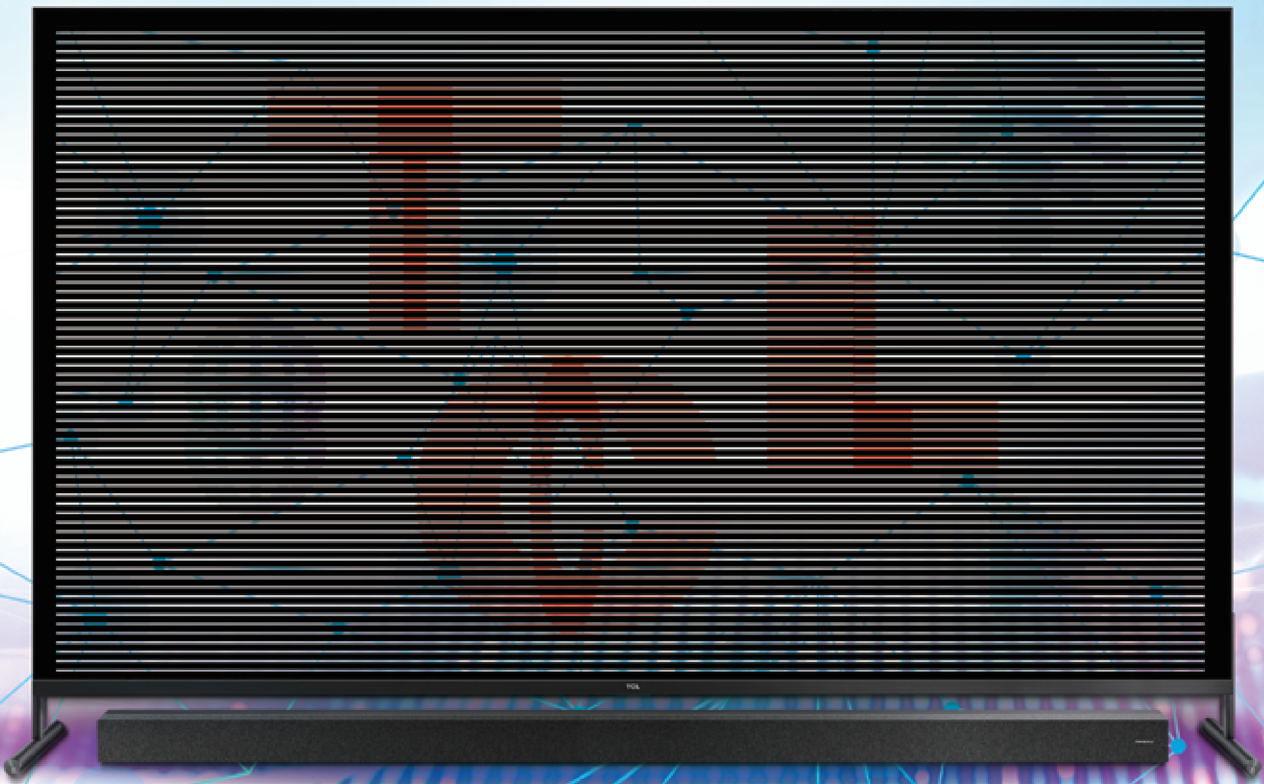
创意感动生活
The Creative Life

TCL ELECTRONICS HOLDINGS LIMITED

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



THE CREATIVE LIFE

ANNUAL REPORT 2019

Contents

Corporate Profile

TCL Electronics Holdings Limited is the world's leading consumer electronics company. Headquartered in the PRC, it is engaged in the R&D, 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 an 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.

January

- Won four honorable awards from IDG at CES 2019, Las Vegas, the United States, including "2018-2019 CE Brands Top 10", "2018-2019 Global CE Brands Top 50", "2018-2019 Global TV Brands Top 10", and the new product TCL X10 QLED 8K TV won an prestigious award "2018-2019 8K TV Gold Award of the Year"
- Obtained "Most Socially Responsible Listed Company" in the "Golden Hong Kong Equities Awards Ceremony", co-organised by Zhitong Finance and Tonghuashun Finance
- Mr. HUANG Xubin resigned as a non-executive Director and Mr. YANG Anming was appointed as a non-executive Director both with effect from 10 January 2019

March

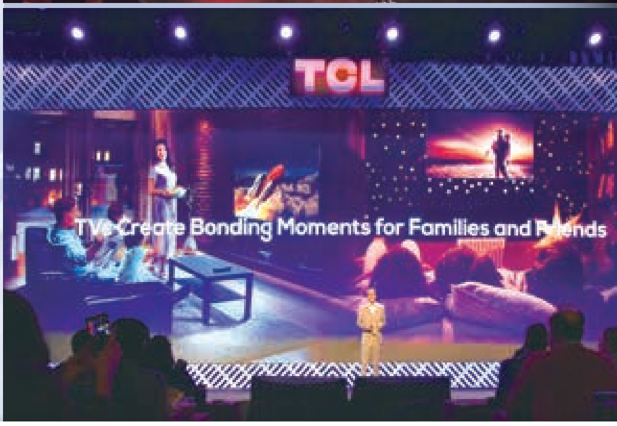
- Proposed the payment of 2018 final dividend of HK9.38 cents per share, and full year dividend per share amounted to HK19.18 cents, translating into a full year dividend payout ratio of 45%
- Increased its equity interest to 60% in Falcon Network Technology after completion of the acquisition

February

- Mr. HU Lihua was appointed as the chief financial officer of the Company
- At official press conference of TCL & CONMEBOL Copa America, Brazil 2019 held in Sao Paulo, announced that it would become the official partner of the CONMEBOL Copa America Brazil 2019

April

- Sales volume in the first quarter of 2019 hit a historical high for a single quarter



May

- Won "Hong Kong Listed Companies - Best IR Team Award" from Gelonghui

July

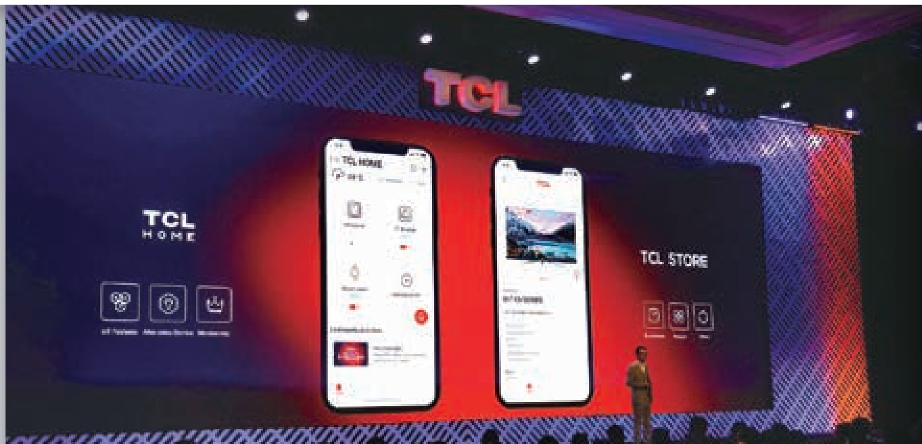
- Sales volume of TCL brand TVs in the US market ranked first

October

- Renewed the global cooperation agreement with Netflix and further increased the Company's revenue of overseas Internet business

November

- Held a new products exhibition with the theme of "Welcome to Large-screen Era" and showcased 14 types of ultra-large TV products covering 4K and 8K resolution with the sizes between 75-inch and 100-inch
- Shipment of the first 3 quarters in 2019 ranked No. 2 globally



August

- The Company issued a positive profit alert announcement in respect of its interim results of 2019
- Unveiled the first rotatable large smart screen in the PRC, the TCL·XESS Smart Screen, featuring three properties including "Super VUI, Huge Screen Phone and AI function"
- Declared an interim dividend of HK10.56 cents per share, implying a dividend payout ratio of 45% based on profit attributable to owners of the parent after deducting one-time non-operating gain

September

- Became a constituent member of the Hang Seng Corporate Sustainability Benchmark Index
- Flagship Mini LED X10 TV of the Company received the “Home Theater Gold Award” by 2019 IFA and IDG at 2019 IFA in Berlin, Germany

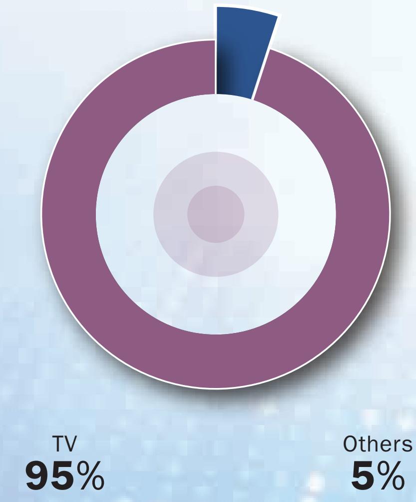
December

- Won the “Listed Company Awards of Excellence 2019” from the Hong Kong Economic Journal, one of the most authoritative and credible financial media in Hong Kong
- Completed the general offer
- Won “Readers’ Choice Awards” from PCMAG.COM

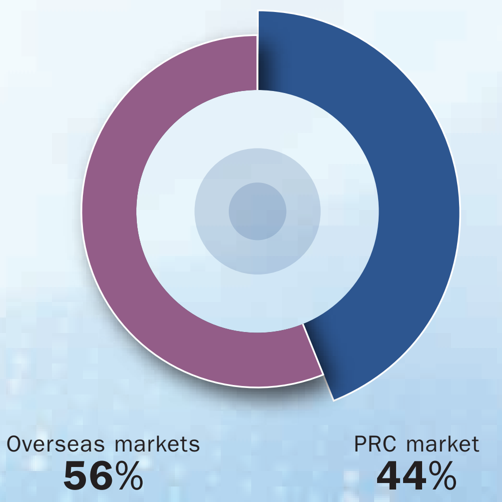
Financial Performance

(HK$ Million)	2019	2018 (restated)
Turnover	46,991	45,582
Gross profit	8,170	6,952
Gross profit margin (%)	17.4	15.3
Profit attributable to owners of the parent	2,279	1,041
Basic earnings per share (HK cents)	100.06	46.99

TURNOVER BREAKDOWN BY PRODUCTS



TV TURNOVER BREAKDOWN BY REGIONAL BUSINESS CENTRES



Financial Position

(HK$ Million)	2019	2018 (restated)
Property, plant and equipment	1,531	1,347
Cash and cash equivalents	8,195	6,742
Total assets	33,323	28,303
Total liabilities	21,386	18,427
Interest-bearing borrowings	1,738	1,115
Net assets	11,937	9,876

Operation Indicators

	2019	2018 (restated)
Return on equity (%)	20	11
Inventory turnover (days)[1]	46	44
Trade receivables turnover (days)[1]	42	46
Trade payables turnover (days)[1]	77	79
Current ratio	1.3	1.3
Gearing ratio (%)[2]	0	0

Notes:

1. The above turnover days are calculated on average balance for a 12-month period

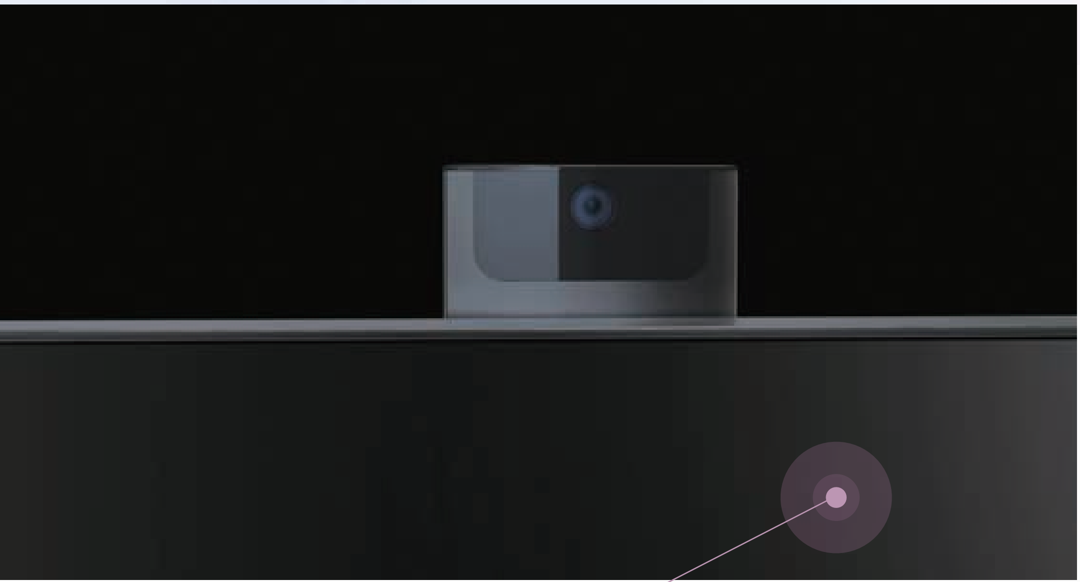
2. Gearing ratio was calculated by net borrowings (i.e. total interest-bearing bank and other borrowings, and lease liabilities, less cash and bank and restricted cash), divided by equity attributable to owners of the parent

Mr. LI Dongsheng
Chairman

DEAR SHAREHOLDERS,

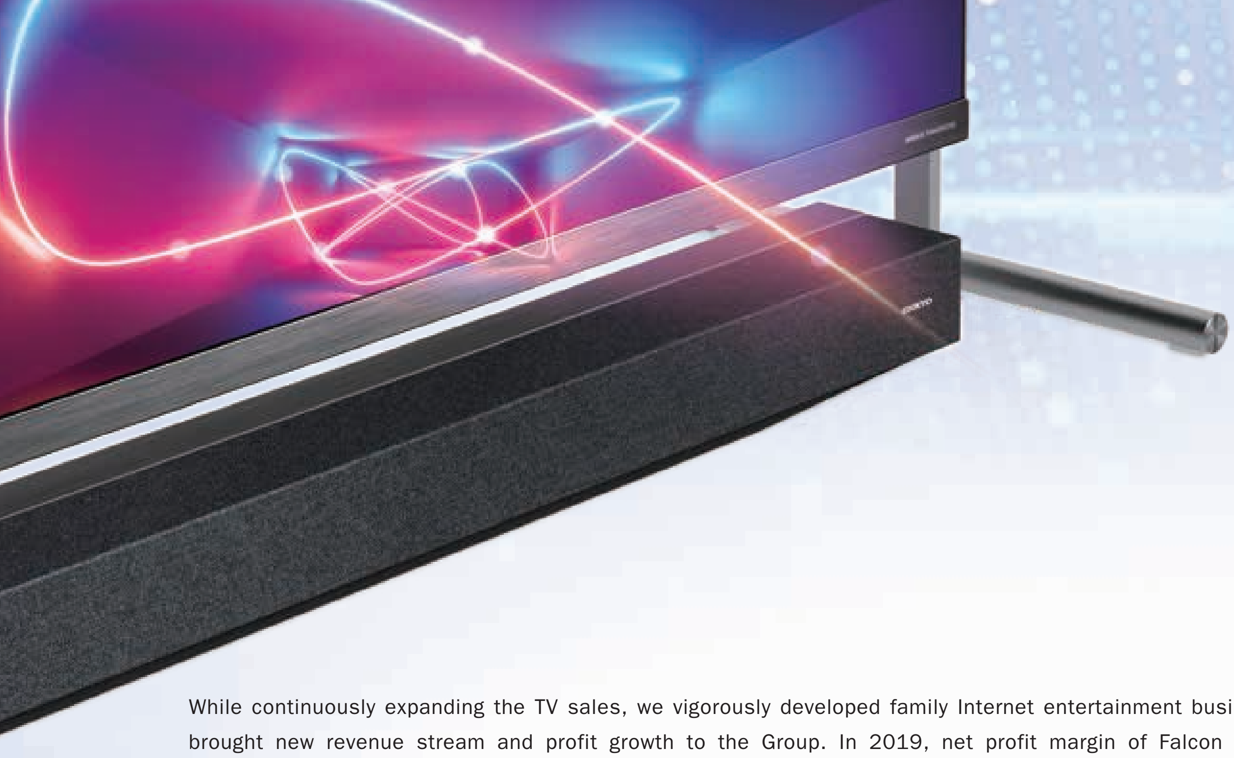
The advanced display, Internet and "AI x IoT" technology have shown great progress, which promoted the trend of home electronics intelligentisation. Meanwhile, great opportunity for value-added family Internet service has appeared with the increasing proportion of smart interactive products. In addition, the PRC's industrial chain of display panel and full set has grown, which established a solid foundation for the development of the consumer electronics industry in the PRC. TCL Electronics focuses on the smart display industry, by adhering to the core concept of leading technology and product innovation, and continuously launching cutting-edge intelligent products and services, its market shares continuously increased in the past three years, with its business growth outperformed the industry.

In 2019, by committing to R&D innovation, as well as promotion of globalisation and "AI x IoT" strategy, we improved product competitiveness and brand power, along with stable increase of operation efficiency. Annual TV sales volume of TCL Electronics reached 32.00 million sets, up by 11.9% year-on-year, remained at top 2 in the global TV market in terms of TV shipment. Among which the sales volume of TCL brand TV reached 20.64 million sets, with global market share reached 9.2%. Annual turnover increased to HK$46.99 billion with a year-on-year increase of 3.1%, with an expense ratio of 13.8%. With significantly enhanced profitability, profit attributable to owners of the parent increased by 118.9% year-on-year to HK$2.28 billion. Profit attributable to owners of the parent after deducting one-time non-operating gain was HK$1.07 billion with an increase of 35.0% over the same period of last year. Basic earnings per share was HK100.06 cents. The Board proposed a final dividend of HK10.60 cents per share for the year ended 31 December 2019, with full year dividend totaling HK21.16 cents per share, representing a dividend payout ratio of 45% based on profit attributable to owners of the parent after deducting one-time non-operating gain.



Since its reform and transformation in 2016, the Group has achieved growth in sales volume, revenue and profit over the years. In 2019, TCL Electronics took a huge step towards its transformation to a smart technology company, and achieved steady and high-quality business growth, which was mainly driven by its leading position in overseas markets, the continuous growth of intelligent Internet application business and its improved product competitiveness and brand power.

By exploring the overseas markets for 20 years and taking the lead in global strategic layout, our competitiveness advantages in overseas have become more apparent. In 2019, sales volume of TCL Electronics in several foreign regions maintained a strong growth, with 13.46 million TCL brand TVs sets sold in overseas markets, up by 26.1% year-on-year. Among them, the leading position in the North American markets was consolidated, the European markets expansion forged ahead with a steady pace, a strong growth momentum was perfectly kept in emerging markets, and new markets with great potential have been successfully explored, such as the restart in Indian market, in which its ranking in terms of sales volume rapidly increased to top 5, and sales volume in Argentina surged by 121% year-on-year. Meanwhile, the Company continues deepening its global production capacity layout. Apart from the PRC, we have also established factories in Mexico, Vietnam, Poland, India and South America. The overseas production capacity layout reached 15 million sets per year, which is sufficient to meet its shipment demand in overseas markets. In 2019, turnover of TCL brand TV in overseas markets amounted to HK$21.00 billion, increased by 14.1% year-on-year, with the operating result significantly increased by 42.3% year-on-year to HK$880 million.



While continuously expanding the TV sales, we vigorously developed family Internet entertainment business globally, which brought new revenue stream and profit growth to the Group. In 2019, net profit margin of Falcon Network Technology Group increased by 11.7 percentage points year-on-year to 32.0%, demonstrating its enhanced profitability. Furthermore, we deepened cooperation with Roku, Google and Netflix in terms of Internet business in overseas markets, thereby further exploring overseas Internet business. In 2019, the Group's global Internet business revenue doubled and reached HK$756 million year-on-year, including a sustainable revenue of HK$210 million from overseas Internet business for the first time. As a result, the Group has become the first Chinese enterprise in the industry to have relatively large-scale and sustainable overseas Internet business revenue.

Since market competition changes rapidly, our core competitiveness rests on technological innovation, and being a front-runner in scientific reform will be the driving force for corporate development. In 2019, we increased R&D input in cutting-edge technologies such as QD, Mini LED, and 8K, and launched various mid-to-high end products. The Group's innovative R&D capability was highly recognised in the global industry with 8K Mini LED X10 TV receiving "Home Theater Gold Award" by 2019 IFA and IDG and TCL X9 8K QLED TV receiving "8K QLED TV Gold Award 2019-2020" by IDG. Also, TCL Electronics was elected as one of the constituent stocks of Hang Seng Corporate Sustainability Index in 2019, and its promising growth potential was highly recognised by the capital market.

In 2019, we took the lead in "AI x IoT" strategic layout and were dedicated to realising the interconnection of hardware, software and IoT in various scenarios. The Group took the lead in establishing an open AI technological framework in the TV industry. The new generation smart engine has been adopted in smart products, which has expanded user experience from TV, film, music, and encyclopedia to daily services, adding more diversified functions. The Group expanded the application of AI technology by integrating the ecology of Google and Amazon and became the first Chinese company to use far-field voice technology on overseas Android TV platform. Meanwhile, with smart home as its core, TCL Electronics has developed cloud platform which enabled control over smart devices of different categories. In addition, we greatly broadened the scope of the ecosystem via connection with the cloud platform and have expanded connection with products of different brands.

The Group is committed to becoming a global leading intelligent technology enterprise in the smart display industry, achieving No. 1 sales volume of smart TV brand in the world, and the proportion of profit from value-added Internet services exceeding 50%. The Group will forge ahead to deepen its transformation in 2020. Adhering to the strategic orientation of "Reform and Make Breakthroughs, Prioritise Quality and Efficiency for Global Leadership", the Group will:

— Continuously leverage on its advantages in the synergy of the vertically integrated industrial chain and increase R&D input to continuously develop industry-leading high-end display technologies such as QD, Mini LED and 8K and improve core competitiveness in AI, big data, 5G and intelligent manufacturing.

— Consolidate and enhance business competitiveness in the PRC market, actively promote digital transformation, create a user-oriented, retail-driven and Internet-enabled marketing platform, and build the top 2 digital marketing capability in home electronics industry, so as to achieve fully digital upgrade in channels, services and marketing, as well as develop an intelligent management system with extreme efficiency integrated by research, production and marketing.

— Promote global operation strategy in a firm and fast manner to increase TCL Electronics' global market share and brand power. Utilise its first-mover advantage in globalisation to step up competitiveness in North America, Europe and Southeast Asia, and accelerate exploration of emerging markets such as Russia and India. In addition, simultaneously improve the global supply chain layout to form a global industrial system with greater flexibility and reasonable geographic distribution.

— Accelerate the development of global Internet business, while vigorously improving the operating capability and profitability of Falcon Network Technology, further deepen its strategic cooperation with overseas Internet business partners and enhance the integration of domestic and overseas content resources, so as to continuously improve the operating capability and profitability of its global Internet business. In addition, vigorously propel the "AI x IoT" strategy, by effectively combining user needs, functions of IoT devices and AI capability, and using smart display as its core, build a full scene of intelligent life with "AI x IoT", in order to drive global development of the whole category business.

— Continuously increase input in smart display business by focusing on mainstream scenarios such as telecommuting, intelligent conference, education, business, scheduling, medical care and traffic, integrating TCL's industrial advantage and external ecological resources, forming the "1+1+N" (hardware platform + software platform + segmentation application) business model, and completing the "user-centered" agile development and delivery system, so as to build a commercial display integrated solution platform and become a commercial display platform enterprise with around 10-billion RMB revenue.

In the 5G era that we have entered, Internet technologies are developing rapidly while the global economic landscape is undergoing restructuring, and the development of COVID-19 epidemic in overseas brings uncertainty, TV industry witnesses both opportunities and challenges. TCL Electronics will focus on the strategic theme of "leading technology, highly efficiency, marketing breakthrough, global leadership", via its leading position in global industry layout and the advantages in the synergy of the vertically integrated industrial chain, deepen implementation of the development strategy for intelligentisation and globalisation, continuously increase input in R&D and product innovation, actively promote the digital transformation, expand revenue from value-added Internet services and maintain sales growth throughout the year. We have confidence and determination to continue to march towards global leading position, to provide global users with smart display related products and services, and to deliver long-term growth and returns to Shareholders.

On behalf of the Board, I would like to express my sincere gratitude for the continuing support and trust from all our Shareholders and investors as well as the dedication and contribution of the Group's Directors, management team and staff over the years!

LI Dongsheng
Chairman
28 March 2020

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2019

In 2019, the Group proactively promoted intelligentisation, globalisation, R&D innovation, and “AI x IoT” strategic transformation. Taking the advantage of its leading position in the industry, the Group also focused on developing smart TV, Internet services, smart home and commercial display systems based on household and commercial scenarios. The Group will continuously increase its investment in R&D to develop advanced display technologies such as QD, Mini LED and 8K, so as to further enhance its product competitiveness while strengthening and improving its existing TV business. At the same time, in order to become a fast-growing intelligent technology enterprise with constant revenue generated from user operation, the Group endeavours to develop its business in the field of intelligent IoT through a household TV-centered IoT ecosystem. In 2019, the business of the Group scaled up steadily with a breakthrough growth in annual operating results and the Company’s competitive edge in the industry was further enhanced.

Global Business Scale Continued to Expand and Sales Volume Continued to Rank Second in the Global TV Market

In 2019, the Group’s global TV sales continued to increase and sales volume achieved its annual target of 32.00 million sets, up by 11.9% year-on-year, representing a market share of 13.0% in shipment which continued to rank second in the global TV market (data source: Sigmaintell). Among other things, sales volume of TCL brand TV increased by 16.5% year-on-year to 20.64 million sets, with its market share ranking third in the global TV market (data source: IHS), further showing the global competitive advantage of TCL brand. There was also an obvious trend that TCL brand TV being recognised as high-end products, compared to that in the preceding year, sales volume of super-large TVs of over 65 inches doubled and sales volume of QD TV increased by 66.4% year-on-year.

Profitability Continued to be Improved, Proposed Final Dividend of HK10.60 Cents Per Share

As of 31 December 2019, on a year-on-year basis, the Group’s turnover hit a new record high of HK$46.99 billion, up by 3.1%. Annual gross profit increased year-on-year by 17.5% to HK$8.17 billion. As a result of product mix optimisation, annual gross profit margin increased by 2.1 percentage points to 17.4% compared to the same period last year and annual expense ratio was 13.8%. The Group’s net profit after tax in 2019 was HK$2.33 billion, increasing by 125.5% year-on-year. Profit attributable to owners of the parent was HK$2.28 billion, representing a steep increase of 141.4% when compared with that of 2018 before restatement. Due to the finalisation of the fair value assessment on the transactions of acquisition of equity interest in associates in 2018 of this year, profit attributable to owners of the parent in 2018 increased to HK$1.04 billion, and as such profit attributable to owners of the parent showed an increase of 118.9% over that of the preceding year after restatement. Profit attributable to owners of the parent after deducting one-time non-operating item was HK$1.07 billion, up by 35.0% year-on-year. Basic earnings per share was HK100.06 cents and basic earnings per share after deducting one-time non-operating gain was HK46.77 cents. The Board proposed, subject to Shareholders' approval, a final dividend of HK10.60 cents per share for the year ended 31 December 2019. The full year dividend was HK21.16 cents per share, representing a dividend payout ratio of 45% based on profit attributable to owners of the parent after deducting one-time non-operating gain.

Highly Integrated Industrial Chain Improved Operation Efficiency and Facilitated Business Expansion

Through synergy of panel and full set business between the Group and CSOT, mutual benefits of improved operation efficiency and expansion of global business were achieved. In respect of products, benefiting from synergetic R&D advantages on both sides, the Group took the lead in mass production and launching of 8K high-end products for households, demonstrating its outstanding capability of product innovation in the industry. In respect of leading display technologies, the Group cooperated with CSOT to develop latest display technologies such as Vidrian Mini LED, Mini LED and inkjet printing OLED. In respect of vertical integration of industrial chain, the Group established the Intelligent Manufacturing Industrial Park in Tonghu in the Mainland China and India together with CSOT to realise integration of module and full set production, which further improved production efficiency. Meanwhile, in order to improve its operation efficiency, the Group efficiently adjusted its inventory level by synchronising upstream supplies and downstream demands. In respect of market expansion, the Group developed highly potential markets such as USA and India by accurate prediction of domestic and overseas market demands and taking advantage of the synergy of upstream and downstream integration.

The Group's TV sales volume by region and the number of TCL Internet TV users during the year were as follows:

TV sales volume

	2019 ('000 sets)	2018 ('000 sets)	**Change**
Total	**31,997**	28,606	+11.9%
– TCL brand TV in overseas markets	**13,463**	10,680	+26.1%
– TCL brand TV in the PRC market	**7,179**	7,034	+2.1%
– ODM business	**11,355**	10,892	+4.3%
Among which: TCL brand smart TVs	**17,614**	14,779	+19.2%
TCL brand 4K TVs	**10,538**	8,033	+31.2%

	Accumulated number as of 31 December 2019	**2019**	2018	**Change**
Number of global accumulative activated users [1]	**42,338,651**	**10,431,231**	8,370,898	+24.6%
Average daily number of global active users [2] [3]	**N/A**	**20,793,359**	15,282,347	+36.1%

Notes:

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

(2) The number of unrepeated individual users who used Internet TV services within seven days

(3) Data as of December 2019


TCL電子控股有限公司
TCL ELECTRONICS HOLDINGS LIMITED
於開曼群島註冊成立之有限公司
(股份代號 stock code: 1070.HK)
二零一九年度業績發佈會
TCL


TCL
Making Life Intelligent
热烈祝贺
TCL电视销量全球第二
TCL
AI×IoT

PRODUCTS BUSINESS

– TCL Brand Business in Overseas Markets

Leading Advantage in Overseas Markets, Excellent Growth in Both Sales Volume and Profit

The Group has 20 years of experience in overseas markets, during which the Group has always been following its globalised brand strategy through accelerating business layout in key overseas markets, improving product competitiveness, and optimising product mix and sales channels. In 2019, sales volume of TCL brand TV in several foreign regions maintained a strong growth and the Group's market share increased continuously:

- The Group continued to consolidate its leading position in North American markets with sales volume rising by 14.3% year-on-year. According to NPD report, in 2019, TCL's annual sales volume ranked second in the US market and in July the rank was No.1 (data source: NPD, US Retail Tracking Service, LCD TV, based on unit sales, Jan-Dec 2019 combined and Jul 2019);

- The Group maintained a strong growth momentum in emerging markets, with an increase in sales volume of 40.8% year-on-year. Especially in the fourth quarter of 2019, the sales volume increased by 56.5% year-on-year. In fast-growing markets such as India, Argentina, Australia and Russia, year-on-year increases in sales volume of 151%, 121%, 79% and 46% respectively were shown. In 2019, the Group's market share in terms of sales volume ranked second in the Philippines, Myanmar and Saudi Arabia, third in Australia and Pakistan, fourth in Vietnam, Thailand and United Arab Emirates, and fifth in India (data source: GfK); and

- In 2019, year-on-year growth rate in terms of sales volume was 35.0% in the European markets, with year-on-year growth rate in terms of sales volume reaching 54.5% in the fourth quarter. Among these markets, Spanish, the United Kingdom, Italian, French, and German markets recorded the most remarkable growth rates, reaching 264%, 262%, 203%, 126% and 82% respectively. In 2019, the market share in terms of sales volume of the Group ranked third in France (data source: GfK).

Significant Increase in Both Sales Volume and Turnover: With the Group's persistent efforts to expand and penetrate key overseas markets, sales volume of TCL brand TV in overseas markets recorded a growth of 26.1% year-on-year, reaching 13.46 million sets in 2019. The turnover of TCL brand TV in overseas markets increased by 14.1% year-on-year to HK$21.00 billion.

Continuous Increase in Gross Profit Margin: Benefiting from optimised product mix and economies of scale, the gross profit margin of the Group's TCL brand TV in overseas markets rose by 0.8 percentage point to 15.5% over the corresponding period of the preceding year.

- The proportion of smart TV sales volume increased from 84.4% in 2018 to 86.6% in 2019;
- The proportion of 4K TV sales volume increased from 39.6% in 2018 to 46.3% in 2019;
- The sales volume of big screen TVs of over 55 inches increased by 35.4% compared to 2018;
- The sales volume of super big screen TVs of over 65 inches increased by over 100% compared to 2018; and
- The average screen size of TVs sold increased from 42.2 inches in 2018 to 43.1 inches in 2019.

Outstanding Operating Results: With the benefits of continuous optimised product mix, economies of scale, and the synergy of vertically integrated industrial chain, the operating results of the Group's TCL brand TV in overseas markets rose significantly by 42.3% to HK$0.88 billion, showing remarkable increase in profitability.

Accelerated Global Capacity Layout and Mitigated Potential Risks

In order to deepen its global production capacity layout and search for new growth opportunities, the Group has also established factories in Mexico, Vietnam, Poland, India and South America apart from the PRC. In particular, the Group jointly established TCL India Intelligent Manufacturing Industrial Park with CSOT, of which an annual production capacity of 6 million TV sets is expected upon completion. Moreover, the Group's total overseas production capacity of 15 million TV sets per year, which is sufficient to meet its shipment demand in the North American markets and can effectively mitigate potential risks. At the same time, the Group further implemented cost reduction and improved operation efficiency to support the rapid development of its overseas business.

– TCL Brand Business in the PRC Market

Annual Sales Volume Increased against Downward Trend with Increased Gross Profit Margin

Increase in Annual Sales Volume against Industry Downward Trend: Adhering to its premium products strategy and continuously optimising its product mix and sales channels, the Group maintained sales growth momentum in TCL brand TV in the PRC market despite the downward trend in the industry. CMM's omni-channel data shows that the overall TV sales volume of 2019 in the PRC market decreased by 2.6% over the preceding year. In 2019, however, the Group's sales volume of TCL brand TV went up by 2.1% over the preceding year to 7.18 million sets. Turnover decreased to HK$12.99 billion year-on-year due to the decline in panel price and exchange fluctuation.

Constant Increased Proportion of Online Sales: Constant input in online channels increased the online sales proportion of the Group's TCL brand TV in the PRC market by 5.8 percentage points to 43.0%, compared to 37.2% over the same period of the preceding year.

Steady Increase in Gross Profit Margin: As a result of optimised product mix and sales channels, the gross profit margin of TCL brand TV in the PRC market increased by 2.7 percentage points to 24.8% over the corresponding period of the preceding year.

The Group's product mix of TCL brand TV in the PRC market continued to optimise in 2019:

- The proportion of smart TV sales volume increased from 82.0% in 2018 to 82.9% in 2019;
- The proportion of 4K TV sales volume increased from 54.1% in 2018 to 59.9% in 2019;
- The proportion of TV sales volume with big screen of 55 inches or above increased from 43.1% in 2018 to 45.7% in 2019;
- The sales volume of super big screen TVs of over 65 inches increased by 263.5% when compared with 2018;
- The average screen size of TVs sold increased from 47.2 inches in 2018 to 48.1 inches in 2019;
- The market share of curved TVs of the Group reached 35.9%, continuing to rank first in the PRC market (data source: CMM's omni-channel data); and
- The Brand Price Index of TCL was 103, ranking second in the PRC market (data source: CMM's omni-channel data).

The fierce competition brought operating results of the Group's TCL brand TV business in the PRC market slightly down in 2019. In 2020, the Group will persist in developing mid-to-high end products via optimising product mix and sales channels, in order to increase its gross profit margin and improve its business performance by increasing operation efficiency and industrial competitiveness.

– ODM Business

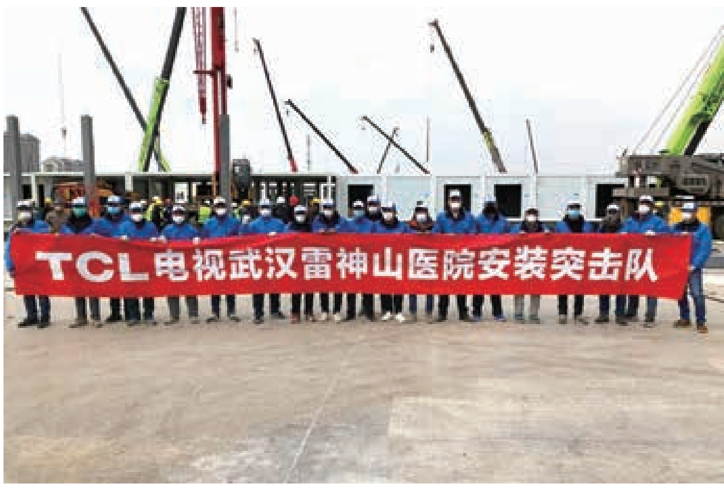
In recent years, the Group's ODM business has been developing steadily with its shipment ranking among the top ones in the global market and renowned clients all over the world. In 2019, the shipment of the Company's ODM business ranked third in the global market (data source: DISCIEN).

With the benefit of research-production-sales integration, the Group's ODM business has remarkable R&D and industrial capacity as well as well-established quality control system, which ensure high delivery satisfaction. In addition, with its integrated industrial chain, improved product quality and brand influence, the Group's ODM business is highly recognised by domestic and overseas clients. Moreover, featuring digitalisation, network connection, and intelligentisation, the Group's ODM business achieved high efficiency, low cost and stable production, which further improved operation efficiency.

Based on its solid foundation in manufacturing and efficient supply chain system, the Group increases its capacity utilisation while developing its ODM business in a stable manner. In 2019, the Group had a remarkable development in its ODM business in spite of adverse situations. The annual shipment amounted to 11.36 million TV sets, with a year-on-year increase of 4.3%, and the annual turnover reached HK$10.50 billion.

– Product R&D

In 2019, the Group continued to increase research investment in cutting-edge technologies such as QD, Mini LED, and 8K and launched several mid-to-high end products in order to meet various demands from different users. To offer better and customised experience, the Group kept enhancing its product competitiveness.



In terms of product, as the first coloured-TV entity to mass produce Mini LED TV around the world, the Group launched 8K Mini LED X10 smart TV in the PRC market in May 2019. Powered by TCL's AI Visual Engine and Q-Audio Engine, this TV is characterised by 8K+QLED display technology, Mini LED backlight, Local Dimming smart control, and Dolby Vision, which manifest the Group's strong R&D capability. In August 2019, the Group launched the first rotatable large screen smart TV, TCL-XESS smart TV in the PRC, and upgraded the interactions between smart TV and smart phone, which enabled connections to various smart home devices. In November 2019, the Group launched TCL X9 8K QLED TV, the first consumer 8K TV in the PRC. This TV model embodied all-rounded upgrade in hardware, and is equipped with ever-complete 8K solutions, double screens and AI camera. At the same time, the Group showcased a new generation of Mini LED display technology – Vidrian Mini LED technology for the first time in CES in early 2020. The high-performance backlight technology arising from the combination of Vidrian Mini LED and 8K LCD panel allows customers to enjoy an immersive experience in different light conditions, realising innovation in TV functions.

The Group's innovative R&D capability is widely recognised in the global industry. 8K Mini LED X10 TV received "Private Theatre Flagship Product Golden Award" by 2019 IFA and IDG and TCL X9 8K QLED TV received "8K QLED TV Gold Award 2019-2020" by IDG. The Group's C7 Theatre TV of high visual and audio quality and its young-generation targeted P-series TV were also highly received within the industry. Additionally, by carrying Mini LED and QLED, the Q82 series together with QLED R62 series were highly regarded by several professional bodies after its debut in the USA. Moreover, the Company was awarded "2019-2020 Top 10 CE Brands", "2019-2020 Global CE Brands Top 50", and "2019-2020 Global TV Brands Top 10" by IDG, which spotlighted the Group's product competitiveness and innovation capability.

APPLICATION SERVICES

– Internet Business

In 2019, the Group accelerated its promotion of the new business model of "Intelligence + Internet", which led to rapid growth in its global Internet business. The Group built a smart TV ecosystem with increasingly enhanced TV-human interaction through deepening mutually beneficial cooperation with its partners across the globe. This unleashed the potential of Internet value-added service in innumerable homes. During 2019, the Group first recorded revenue from overseas Internet business. In addition, the profitability of the Internet business platform operated through Falcon Network Technology is continuously enhanced, showing an increase in competitive advantage.

Internet Revenue of the Group Surged by 108.7% to HK$756 Million

In 2019, the Group's Internet business developed rapidly. The Group continued to promote the "1+1+N" strategic cooperation model and deepen strategic cooperation with domestic and overseas partners to build a smart TV ecosystem, thereby continuing to improve its business operation capability. In 2019, the accumulated revenue from Internet business reached HK$756 million, remarkably up by 108.7% year-on-year. For the first time, the revenue from overseas Internet business was included in the Internet revenue of the Group, further enhancing the commercial monetisation of the Group's Internet business. Falcon Network Technology has been consolidated into the Group since April 2019 and the consolidated total revenue of Internet business of the Group in 2019 recorded HK$626 million; the operating profit of the Group's Internet business reached HK$317 million in 2019, accounting for 19.8% of the Group's overall operating profit.

Sustainable Revenue from Overseas Internet Business Reached HK$210 Million and Profit Margin of the Group Will Be Widened

In 2019, the Group deepened its cooperation with Roku in the US market and with Google in the European and South American markets, and extended global cooperation with Netflix, thereby succeeding in expanding overseas Internet business. In 2019, overseas Internet business contributed sustainable revenue of HK$210 million for the first time, accounting for 27.8% of the total annual revenue of the Internet business of the Group. As a result, the Group has become the first Chinese enterprise in the industry to have relatively large-scale and sustainable overseas Internet business revenue. With the rapid development of the global OTT industry and the fast growth in the Group's overseas TV sales volume, it is expected that overseas Internet business will further enhance the Group's overall profitability in the future.

Enhanced Profitability of Falcon Network Technology Group and Steady Growth of Internet Users with Annual Net Profit Margin of 32.0%

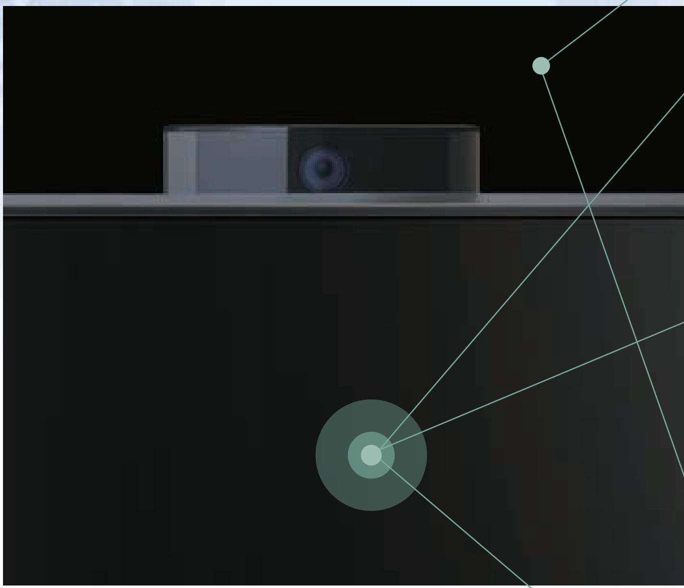
In 2019, Falcon Network Technology, the Internet business operating platform of the Group that is mainly active in the PRC market and some overseas emerging markets, continued to enrich platform content, strengthen user operations and improve user experience. During 2019, Falcon Network Technology also bolstered cooperation in Internet ecology and continued to deepen the "1+1+N" strategic cooperation with Tencent, South New Media and other partners and integrate more content resources so as to provide high-quality content and services to users. By introducing auto-payment membership, the penetration rate of Falcon Network Technology's membership has increased significantly and its business has demonstrated vigorous momentum. In addition, in overseas markets, Falcon Network Technology has successfully launched TCL Channel in Vietnam, India, Japan, Brazil and Russia in 2019, providing rich local content and resources for overseas users.

In 2019, the revenue of Falcon Network Technology Group reached HK$546 million, increasing remarkably by 50.7% year-on-year, among which revenue from video-on-demand and membership increased by 43.0%, revenue from advertising business grew by 34.1%, and revenue from value-added business rose by 107.4%. ARPU reached HK$34.9. The annual net profit reached HK$175 million, significantly up by 137.8% and the net profit margin was as high as 32.0%, which was 11.7 percentage points higher than that in the preceding year. The profitability of Falcon Network Technology Group has increased notably, further enhancing the Group's profitability.

In terms of user operations, the Group has been improving TCL membership system as well as refining the operation of content so as to enhance user loyalty. In 2019, the average daily time spent on TV per user steadily grew to 5.7 hours. As of 31 December 2019, the Group's total number of global activated users increased by 32.7% year-on-year, exceeding 40 million and reaching 42.34 million. In December 2019, the average number of global daily active users of the Group's Internet business worldwide reached 20.79 million, up by 36.1% year-on-year. User base of Internet TV business continued to grow considerably.

– AI x IoT Business

In 2019, the Group continued to adopt "AI x IoT" strategy and focused on the development of smart TV, Internet service, smart home and commercial system. By vigorously exploring the field of intelligent IoT and building a comprehensive smart TV ecosystem, the Group is devoted to developing TV as the IoT centre of future households.



Regarding AI, the Company has established a joint AI design centre with TCL Research to accelerate the application of AI technology to products. The Group took the lead in establishing an open AI technological framework in the TV industry, which can connect to various businesses. In 2019, the Group launched its self-developed open integration control platform which enables 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 devices. 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 added more diversified functions, such as navigation, searching for popular tourist attractions, gourmet recommendations and ticketing service, on top of existing multi-turn dialogue, celebrity identification and natural language interaction functions. Besides, the new AI scenario and facial recognition functions based on the latest AI technology enables intelligent adjustment of display effects based on the scenarios. Meanwhile, it can also provide smart and customised services to users via automatically recommending content that users are interested in. In the future, the Group will further enrich AI services and content to enhance AI scenario experience and application service abilities.

In terms of IoT technology, the IoT ecosystem with smart home at its core experienced further expansion in service and system. The self-developed cloud platform of the Group enabled TV-centered control over smart devices of different categories and stable connection with a wider range and larger number of IoT products. The Company greatly broadened the scope of the ecosystem via connection with the cloud platform and has realised cloud connection with Huawei and JD.com, thereby expanding connection with products of different brands. Moreover, the standardised IoT module developed by the Company is applicable to products of all categories, which will accelerate intelligentisation of products.

In terms of overseas markets, the Group proactively expanded the application of AI technology by integrating with the ecology of Google and Amazon for smart connection of various contents and scenarios, and provided consumers with a simple and personalised life experience using TV as a large screen smart speaker for families. The Group also builds in far-field voice module in various overseas product series and is the first Chinese company to use far-field voice technology on overseas Android TV platform. In addition, with rich R&D experience and effective execution, the Group has taken the lead in meeting with the digital and network authentication and technology requirements in major countries and markets, thereby quickly driving the Group's globalisation and product competitiveness in the local markets. In 2019, the Group has become the first Chinese TV brand to sell smart TV products with self-developed built-in digital middleware and software system in Japan. The Group's self-developed TV middleware system then realised global coverage of digital technology and its leading technology in the overseas market grew more prominently.

OUTLOOK

Adhering to the strategic orientation of "Reform and Make Breakthroughs, Prioritise Quality and Efficiency for Global Leadership", the Group will continue to consolidate its leading position in the global layout, leverage on the advantages in vertical integration of industrial chain, and deepen the implementation of intelligentisation and globalisation in 2020. The Group will also build a smart home ecosystem featuring "AI x IoT", improve the profitability of the Internet business and propel digital transformation in order to expand new profit growth opportunities and create greater value for Shareholders.

I. Leveraging on the Advantages in Vertical Integration of Industrial Chain to Improve Product Competitiveness

The Group will continue to focus on TCL brand TV business and adhere to the philosophy of taking technological innovation and product leadership as its core. The Group is committed to providing users with even more remarkably realistic watching experience. Looking forward, the Group will fully leverage on its advantages in the synergy of the vertically integrated industrial chain to continuously develop industry-leading high-end display technologies such as QD, Mini LED and 8K to accelerate the launch of mid-to-high end products with the support of CSOT's advanced panel production line. At the same time, the Group will further strengthen the synergy among product technology, industrial chain, brand promotion and international business. With the advantages of its comprehensive global network and sales channel as well as its competitiveness in the overseas markets, the Group is dedicated to building TCL into a world-leading brand of consumer and household electronics.

II. Expanding First-mover Advantage in Overseas Markets, Consolidating Global Strategic Layout

The Group will continue to enhance the business competitiveness in the PRC market and promote global operation strategy in a steady and fast manner to grasp the opportunities in the changing global economic landscape. The Group will utilise its first-mover advantage in globalisation to strengthen its competitiveness in regions such as North America, Europe and Southeast Asia, and accelerate exploration of emerging markets such as Russia and India and endeavour to become the leaders of more markets, with a view to further increase the Group's global market share and brand power. Moreover, the Group will simultaneously improve its global supply chain layout to form a global industrial system with greater flexibility and reasonable geographic distribution.

III. Accelerating the Development of Global Internet Business, Strengthening Operational Capability and Serving Global Users

Adhering to the "double +" strategy of "products + services, intelligence + Internet", the Group will comprehensively enrich the content of the Internet business and further enhance the user experience, thus expanding the user base, enhancing the user loyalty, strengthening the operational capability and improving the monetisation of Internet business. The Group will further deepen its strategic cooperation with overseas Internet business partners while vigorously improving the operation and profitability of Falcon Network Technology in order to strengthen consolidation of domestic and overseas content resources, establish a global Internet business user system and continuously improve the global Internet business operation and profitability by leveraging on competitive advantages in overseas markets in order to further enhance the Group's profitability.

IV. Pursuing Higher Quality and Efficiency, Improving Corporate Operation Efficiency

The Group will improve its overall corporate operation and management quality, establish a global R&D system and management structure, and prioritise strategic planning and implementation. By building close connections with users and markets, the Group seeks all-rounded improvement in aspects such as product competitiveness, quality of service, managing, assets and talents. The Group will also innovate business models to adapt to changes in market environment and keep abreast of latest product technology. Despite its rapid development, the Group will also pay attention to its operational and financial risks to ensure the healthy and sustainable development of the Group.

V. Boosting R&D Innovation, Advancing "AI x IoT" Strategy

On the basis of consolidating and improving its existing TV business, the Group will further expand into new business fields including smart home and commercial display to enhance its overall profitability. As the development of 5G technology continued to accelerate, smart home has entered a phase of rapid growth. The Group, driven by customer demand, will enhance capability of building "AI x IoT" and endeavour to expand smart home market. Driven by the leading "AI x IoT" strategic layout, products in the new era will be featured with integrating hardware, software and IoT into various scenarios, effectively combining users' need, functions of IoT devices and AI capability to create rich scenarios that will grow exponentially, propelling the transformation of the Company into a global leading smart technology company.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

On 23 January 2019, TCL King Electrical and Qianhai Fende entered into a sale & purchase agreement, pursuant to which Qianhai Fende agreed to sell and TCL King Electrical agreed to acquire approximately 15.56% of the total equity interest of Falcon Network Technology at the consideration of RMB420.12 million (equivalent to approximately HK$489.78 million). The aforesaid transaction has been completed on 22 March 2019. Immediately after such completion, the Group held in aggregate of approximately 60.00% of the total equity interest of Falcon Network Technology. For details, please refer to the Company's announcement dated 23 January 2019.

On 23 July 2019 (after trading hours), Falcon Network Technology entered into the VIE Agreements with the OPCO and/or the PRC Equity Owners and/or their spouses. Through the VIE Agreements, Falcon Network Technology would have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. Upon the entering into of the VIE Agreements, the financial results of the OPCO have been consolidated into the consolidated financial statements of the Group and the OPCO would become an indirect non wholly-owned subsidiary of the Company. For details, please refer to the Company's announcement dated 23 July 2019.

On 12 August 2019 (after trading hours), TCL King (Chengdu) entered into a sale and purchase agreement with CSOT, pursuant to which, CSOT has conditionally agreed to acquire and TCL King (Chengdu) (as the seller) has conditionally agreed to sell the 14.00% equity interest in Finance Company held by TCL King (Chengdu) at the consideration of approximately RMB255.00 million (equivalent to approximately HK$290.00 million). The aforesaid transaction has been completed as at the date of this annual report. For details, please refer to the Company's announcement dated 12 August 2019.

On 1 November 2019, TCL Electronics (Huizhou) entered into a sale and purchase agreement with TCL Technology, pursuant to which TCL Technology agreed to sell, and TCL Electronics (Huizhou) agreed to acquire 100% equity interest in Shenzhen Hawk Internet Company Limited* (深圳豪客互聯網有限公司) at the consideration of RMB200.11 million (equivalent to approximately HK$222.32 million). The transaction was completed on 1 November 2019.

On 18 December 2019, TCL Overseas Electronics entered into an equity transfer agreement with an independent third party, pursuant to which TCL Overseas Electronics agreed to sell, and the independent third party agreed to acquire 100% equity interest in Huizhou Moka Electronics Technology Co., Ltd.* (惠州市茂佳電子科技有限公司) at the consideration of RMB273.21 million (equivalent to approximately HK$304.96 million). The transaction was completed on 26 December 2019.

Save as disclosed above, the Group had no other significant investment, acquisition and disposal during the year ended 31 December 2019.

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 2019 amounted to approximately HK$8,194,743,000, of which 0.7% in HK$, 40.6% in US dollars, 52.2% in RMB, 1.5% in Euros and 5.0% in other currencies for the overseas operations.

There was no material change in the available credit facilities of the Group when compared with those for the year ended 31 December 2018.

As at 31 December 2019, the Group's gearing ratio was 0% since the Group's cash and bank balances of approximately HK$8,194,743,000 were higher than the total interest-bearing borrowings of approximately HK$1,737,898,000. Gearing ratio was calculated by net borrowings (i.e. total interest-bearing bank and other borrowings, and lease liabilities, less cash and bank balances and restricted cash), divided by equity attributable to owners of the parent. The maturity profile of the borrowings ranged from on demand to within five years.

Pledge of Assets

As at 31 December 2019 and 2018, 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:

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for	**139,356**	516,729
Authorised, but not contracted for	**247,115**	255,202
	386,471	771,931

As at 31 December 2019, 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 2019.

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 2019, the Group had a total of 28,374 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. The remuneration policy of the Group 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 Shareholders, share options were granted to relevant grantees, including employees of the Group, under the Company's Share Option Scheme. Share options carrying rights to subscribe for a total number of 184,451,754 Shares remained outstanding at the end of the reporting period.

The Company also adopted the Award Scheme on 6 February 2008 which was amended on 11 August 2015, 13 June 2016, 24 November 2017 and 4 May 2018 respectively. Pursuant to the Award Scheme, existing Shares may be purchased from the market or new Shares may be subscribed for by the designated trustee out of cash contributed by the Company, and would be held on trust by the designated trustee for the relevant selected persons until such Shares are vested with the relevant selected persons in accordance with the rules of the Award Scheme.






MR. LI DONGSHENG

EXECUTIVE DIRECTOR

Aged 62, the founder, the chairman, an executive Director and the chairman of the Strategy Committee. He is currently the chairman and chief executive officer of TCL Technology (000100.SZ) and a director of TCL Holdings. Mr. LI is also: (i) the chairman and the legal representative of CSOT; (ii) an independent non-executive director of Tencent Holdings Limited (00700.HK); (iii) a non-executive director of Fantasia Holdings Group Co., Limited (01777.HK). He held the position of a director of TCL communication from September 2004 to September 2016 and 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 Labour 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 such 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 and Guangdong Household Electrical Appliance Chamber of Commerce, 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 LEGIOND'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 the PRC" by Forbes magazine. In 2018, Mr. LI was awarded the title of "Reform Pioneer" at the 40th anniversary of the PRC's reform and opening up policy.

MR. WANG CHENG KEVIN

EXECUTIVE DIRECTOR

Aged 45, an executive Director, the CEO and a member of the Strategy Committee. He is also the chief executive officer of TCL Holdings. He joined the Company in July 1997. During 1997 to 2006, he held various positions in Human Resources Department of the Company's Sales Centre and Europe Channel Customer Department of Strategic OEM Business Center of TTE Corporation. From 2006 to 2015, he successively worked as general manager of TCL (Vietnam) Corporation Limited, general manager of Overseas Business Centre and vice president of the Company. From June 2015 to July 2016, Mr. WANG was assigned as human resources director and general manager of Human Resource Management Centre of TCL Technology. From August 2016 to November 2017, Mr. WANG was the general manager of Supply Chain Management Centre and chief operating officer of the Company. Mr. WANG is currently the chairman of Huizhou Electronic Information Industry Association. 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.

MR. YAN XIAOLIN

EXECUTIVE DIRECTOR

Aged 53, an executive Director and a member of the Strategy Committee. Mr. YAN joined the Company in 2001 and is currently the chief technology officer, a member of executive committee and senior vice president of TCL Technology, the president of TCL Research, a director and chief scientist of CSOT, the chairman of Guangdong Juhua Printing Display Technology Co., Ltd., the chairman of Guangdong Huarui Optronic Material Co., Ltd., a director of Amlogic Semiconductor (Shanghai) Co., Ltd. (stock code: 688099. SH) and a director of US Kateeva Corporation. Mr. YAN joined TCL Technology 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 R&D Centre of the Company. From December 2004 to October 2005, he was the chief technology officer of Components Strategic Business Unit of TCL Technology and the deputy principal and acting principal of TCL Research. From October 2005 to present, he is the president of TCL Research. From May 2008 to November 2012, Mr. YAN was a vice president of TCL Technology. Mr. 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", the vice chairman and president (Asia) of Society For Information Display and chairman of TC 110 of International Electrotechnical Commission. Mr. 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. Mr. YAN is currently a professor-level senior engineer and a concurrent professor in the Department of Information Engineering, Peking University. Mr. 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 Organisation 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, Mr. 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. HU LIHUA

EXECUTIVE DIRECTOR

Aged 47, an executive Director and the chief financial officer of the Company, a member of the Remuneration Committee and the Nomination Committee. Mr. HU became an executive Director with effect from 28 February 2020. He graduated from the Central Radio and TV University (currently known as Open University of China) and 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 PRC. 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 participated in the successful construction of 6 semi-conductor display panel factories and the evolution of 3 factories into reaching world-leading operational efficiency, and was a member of the core management team of CSOT and its subsidiaries.

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

NON-EXECUTIVE DIRECTOR

Aged 66, a non-executive Director. He has been a Director 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 (00190.HK), and the company secretary of Y.T. Realty Group Limited (00075.HK), both of which are companies listed on the Hong Kong Stock Exchange. Mr. DA ROSA serves as a member of the Standing Committee on Standards and Development of The Law Society of Hong Kong. He held the following positions: member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission of Hong Kong from 2003 to 2009; member, deputy tribunal convenor and ultimately the tribunal convenor of the Solicitors Disciplinary Tribunal Panel from 1998 to 2014; chairman of the Appeal Tribunal (Buildings) Panel from 2009 to 2017; and member, Deputy Chairman and finally the Chairman of the Board of Review (Inland Revenue Ordinance) Panel from 2006 to 2020.

MR. SUN LI

NON-EXECUTIVE DIRECTOR

Aged 42, a non-executive Director and the chief technology officer of TCL Holdings. Mr. SUN became a non-executive Director with effect from 28 February 2020. He graduated from Shanghai Jiao Tong University with a Master's Degree in Engineering. With extensive experience in the communications industry, Mr. SUN has been deeply involved in AI for many years. Mr. SUN worked at the mobile phone R&D department of Alcatel from March 2001 to 2004. Since joining TCL Communication in 2004, he had served as R&D department manager, pre-research department manager, director of software at global R&D centre and deputy general manager of global R&D centre and established a team engaged in smart phone software, a management system of global operators' technological needs and a software platform for global operators from 2004 to July 2017. From August 2017 to June 2019, he was a vice president of Thunder Software Technology Co., Ltd. (shares of which are listed on the Shenzhen Stock Exchange with the stock code 300496.SZ). During this period, Mr. SUN established the intelligent vision business group, focusing on camera technology, computer vision algorithms and AI algorithms which were applied to mobile phones, IoT, automotive and industrial fields, and opened up new businesses for industrial visual detection based on deep learning.

MR. LI YUHAO

NON-EXECUTIVE DIRECTOR

Aged 38, a non-executive Director. Mr. LI became a non-executive Director in August 2018 and 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 Corp., 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 76, an independent non-executive Director. He has become an independent non-executive Director since September 2006. 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, and his last positions in Philips were chief executive officer of Philips Asia (based in Hong Kong and Shanghai) and chief executive officer 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, information and communication technology 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 director of Cardi-Link, a health and safety company. 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 71, an independent non-executive Director, the chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee. Dr. TSENG became an independent non-executive Director in July 2011. He also served as an independent director of TCL Technology 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 US-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 40 years of experience in the high-tech industry. While in the US, 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 66, an independent non-executive Director, the chairman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee. Professor WANG became an independent non-executive Director in February 2016. 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 (00908.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.

MR. LAU SIU KI

INDEPENDENT NON-EXECUTIVE DIRECTOR

Aged 61, an independent non-executive Director, the chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee. Mr. LAU became an independent non-executive Director in November 2017. He graduated from The Hong Kong Polytechnic University 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 fellow member of both of ACCA and 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 (02886.HK), Comba Telecom Systems Holdings Limited (02342.HK), IVD Medical Holdings Limited (01931.HK), Embry Holdings Limited (01388.HK), Samson Holding Ltd. (00531.HK) and FIH Mobile Limited (02038.HK), all being listed companies on the Hong Kong Stock Exchange. He is also the company secretary of Hung Fook Tong Group Holdings Limited (01446.HK), Yeebo (International Holdings) Limited (00259.HK) and Expert Systems Holdings Limited (08319.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 (01468.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 (00694.HK). From June 2004 to December 2018, he served as an independent non-executive director of China Medical & HealthCare Group Limited (00383.HK).

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng (Chairman)
Mr. WANG Cheng Kevin (CEO)
Mr. YAN Xiaolin
Mr. HU Lihua (appointed as an executive Director with effect from 28 February 2020)
Mr. WANG Yi Michael (resigned as an executive Director with effect from 28 February 2020)

Non-executive Directors

Mr. Albert Thomas DA ROSA, Junior
Mr. SUN Li (appointed as a non-executive Director with effect from 28 February 2020)
Mr. LI Yuhao
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; and subsequently resigned as a non-executive Director with effect from 28 February 2020)

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 54, 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

Hong Kong Zhixin Financial News Agency Limited
Suite 2402, Kingkey Timemark
No. 9289 Binhe Road
Futian District, Shenzhen
the PRC

INTRODUCTION

The Board aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of the Group becoming the leading smart technology company. The Group's ultimate goal is to maximise values for its Shareholders and customers, and to provide opportunities for its 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 relationships with its employees, business partners, Shareholders and investors.

On 13 August 2013, the Company has adopted a corporate governance code prepared based on the Code Provisions 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 the Company has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2019, 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. Albert Thomas DA ROSA, Junior, being a non-executive Director, Mr. HUANG Xubin, being a then non-executive Director (who subsequently resigned from such position with effect from 10 January 2019), Mr. Robert Maarten WESTERHOF and Dr. TSENG Shieng-chang Carter, both being independent non-executive Directors. As all of them have been serving as Directors for a considerable period of time, and as such 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 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 by each of them, Mr. LI Dongsheng, being the chairman of the Board and an executive Director, and Professor WANG Yijiang, being the chairman of the Nomination Committee and an independent non-executive Director were not present at the 2019 AGM. However, Dr. TSENG Shieng-chang Carter, being the chairman of the Remuneration 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 2019 AGM to maintain an ongoing dialogue and communicate 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, Ms. CHOY being a practising solicitor in Hong Kong and a partner of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors, is not an employee of the Company. During the period from 1 January 2019 up to 18 March 2019, the Company had assigned Mr. WANG Yi Michael, the then executive Director and chief financial officer of the Company (who subsequently resigned as an executive Director with effect from 28 February 2020 and as the chief financial officer of the Company with effect from 21 February 2019), as the contact person with Ms. CHOY, and with effect from 18 March 2019 onwards, Mr. HU Lihua (appointed as an executive Director with effect from 28 February 2020), the current executive Director and the chief financial officer of the Company, replaced Mr. WANG Yi Michael, as the assigned contact 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 person 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 an 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 2020 up to the date of publication of this annual report, the Company has continued to comply with the Code Provisions except Code Provision D.1.4 and Code Provision F.1.1. The reasons for such deviations remain the same as those stated above.

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received two confirmations from TCL Technology and T.C.L. Industries (H.K.) (collectively the "Convenantors") signed by them confirming that for the period from 1 January 2019 to 31 December 2019 and up to the date of signing the confirmations by the relevant Convenantors, they have fully complied with the deed of non-competition executed by the Convenantors in favour of the Group on 15 November 1999 as amended from time to time.

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 ended 31 December 2019.

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 2019 and as at the date of this annual report comprises the following Directors:

Executive Directors
Mr. LI Dongsheng
Mr. WANG Cheng Kevin
Mr. YAN Xiaolin
Mr. HU Lihua (appointed as an executive Director with effect from 28 February 2020)
Mr. WANG Yi Michael (resigned as an executive Director with effect from 28 February 2020)

Non-executive Directors

Mr. Albert Thomas DA ROSA, Junior
Mr. SUN Li (appointed as a non-executive Director with effect from 28 February 2020)
Mr. LI Yuhao
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 and resigned as a non-executive Director with effect from 28 February 2020)

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 roles and functions 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" of this annual report at pages 34 to 46.

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 and the Group as a whole. Throughout the year of 2019, the 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 2019

During the year of 2019, the Board held 4 regular meetings at about quarterly intervals and 9 additional meetings. As regards general meetings, the Company held the 2019 AGM and the EGM on 8 July 2019 during the year, to consider the matters regarding, inter alia, (i) the seeking of scheme mandate to issue Shares under the Award Scheme; and (ii) the entering into of the Master Sale and Purchase (2019-2021) Agreement, the Master Services (2019-2021) Agreement and the Master Brand Promotion (2019-2021) Agreement. A table summary in regard to 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 6)	General Meetings
Executive Directors							
LI Dongsheng	3/4	0/9	N/A	N/A	N/A	2/3	0/2
WANG Cheng Kevin	4/4	7/9	N/A	N/A	N/A	3/3	1/2
YAN Xiaolin	2/4	3/9	N/A	N/A	N/A	2/3	0/2
HU Lihua (Note 1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
WANG Yi Michael (Note 2)	4/4	5/9	N/A	3/3	1/2	N/A	0/2
Non-executive Directors							
Albert Thomas DA ROSA, Junior	4/4	9/9	N/A	N/A	N/A	N/A	2/2
SUN Li (Note 3)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
LI Yuhao	4/4	7/9	N/A	N/A	N/A	N/A	0/2
HUANG Xubin (Note 4)	N/A	0/1	N/A	N/A	N/A	N/A	N/A
YANG Anming (Note 5)	4/4	5/8	3/3	N/A	N/A	N/A	0/2
Independent Non-executive Directors							
Robert Maarten WESTERHOF	4/4	9/9	N/A	N/A	N/A	N/A	0/2
TSENG Shieng-chang Carter	2/4	8/9	3/3	3/3	2/2	N/A	2/2
WANG Yijiang	3/4	9/9	3/3	2/3	2/2	N/A	1/2
LAU Siu Ki	3/4	8/9	3/3	3/3	2/2	N/A	2/2

Notes:

1. Mr. HU Lihua was appointed as an executive Director with effect from 28 February 2020.

2. Mr. WANG Yi Michael resigned as an executive Director with effect from 28 February 2020.

3. Mr. SUN Li was appointed as a non-executive Director with effect from 28 February 2020.

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

5. Mr. YANG Anming was appointed as a non-executive Director with effect from 10 January 2019 and subsequently resigned as a non-executive Director with effect from 28 February 2020.

6. The Strategy Committee was established on 22 September 2017 and during the year ended 31 December 2019 and as at the date of this annual report, it comprises Mr. LI Dongsheng as the chairman and Mr. WANG Cheng Kevin and Mr. YAN Xiaolin as the members.

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 2019 to 31 December 2019, and up to the date of this annual report, the position of the Chairman is held by Mr. LI Dongsheng while the position of CEO is held by Mr. WANG Cheng Kevin.

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 promoting the constructive relations between executive and non-executive Directors;

- meeting at least annually with the independent non-executive Directors without the presence of other Directors. 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 three years while those retiring Directors shall be eligible for re-election. Any Director who has not been subject to retirement by rotation in the three years preceding the AGM shall retire by rotation at such AGM.

Pursuant to A.4.1 of Code Provisions as set out in Appendix 14 to the Listing Rules, non-executive Directors should be appointed for a specific term, subject to re-election. Further, pursuant to A.4.2 of Code Provisions as set out in Appendix 14 to the Listing Rules, Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Accordingly, at the 2019 AGM, Mr. WANG Cheng Kevin, Mr. WANG Yi Michael, Mr. Robert Maarten WESTERHOF and Mr. LAU Siu Ki retired from office by rotation pursuant to article 116 of the Articles, and were re-elected as Directors thereat, while Mr. LI Yuhao and Mr. YANG Anming were 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 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.

Pursuant to A.4.3 of the Code Provisions, if an independent non-executive Director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by Shareholders. 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 experiences 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. As aforementioned, Mr. Robert Maarten WESTERHOF was re-elected as an independent non-executive Director at the 2019 AGM and would hold office until the conclusion of the AGM in 2022.

Non-executive Directors

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

Accordingly, at the 2019 AGM, Mr. Robert Maarten WESTERHOF and Mr. LAU Siu Ki were re-elected as independent non-executive Directors until the conclusion of the AGM in 2022, while Mr. LI Yuhao and Mr. YANG Anming were elected as non-executive Directors until the conclusion of AGM in 2022. At the AGM held on 23 May 2018, Mr. Albert Thomas DA ROSA, Junior, Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang were re-elected until the conclusion of the AGM in 2021.

Nomination of Directors

The Board has established 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 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 (Cap. 622 of the laws of Hong Kong) 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 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 judgement at the Board meetings, taking the lead where potential conflicts of interest arise, scrutinising the Company's performance and providing constructive and informed advice on the business strategy, policy, 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 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 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 2019 to 31 December 2019:

Directors	Read materials	Attend seminars/briefings
Executive Directors		
Mr. LI Dongsheng	✓	✓
Mr. WANG Cheng Kevin	✓	✓
Mr. YAN Xiaolin	✓	✓
Mr. HU Lihua (Note 1)	N/A	N/A
Mr. WANG Yi Michael (resigned) (Note 2)	✓	✓
Non-executive Directors		
Mr. Albert Thomas DA ROSA, Junior	✓	✓
Mr. SUN Li (Note 3)	N/A	N/A
Mr. LI Yuhao	✓	✓
Mr. HUANG Xubin (resigned) (Note 4)	N/A	N/A
Mr. YANG Anming (resigned) (Note 5)	✓	✓
Independent Non-executive Directors		
Mr. Robert Maarten WESTERHOF	✓	✓
Dr. TSENG Shieng-chang Carter	✓	✓
Professor WANG Yijiang	✓	✓
Mr. LAU Siu Ki	✓	✓

Notes:

1. Mr. HU Lihua was appointed as an executive Director with effect from 28 February 2020.
2. Mr. WANG Yi Michael resigned as an executive Director with effect from 28 February 2020.
3. Mr. SUN Li was appointed as a non-executive Director with effect from 28 February 2020.
4. Mr. HUANG Xubin resigned as a non-executive Director with effect from 10 January 2019.
5. Mr. YANG Anming was appointed as a non-executive Director with effect from 10 January 2019 and resigned as a non-executive Director with effect from 28 February 2020.

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 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 2019, 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 within the meaning of Part XV of the SFO as at 31 December 2019 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 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 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.

In order to facilitate the strategic development of the Company and enhance its operation decision-making efficiency, the Board resolved on 22 September 2017 to dissolve the Strategy Executive Committee and to establish the 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 then executive Directors 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 an executive Director with effect from 2 March 2018 and hence ceasing to be the chairman of the Strategy Committee with effect from then, the Strategy Committee currently comprises Mr. LI Dongsheng (chairman), Mr. WANG Cheng Kevin and Mr. YAN Xiaolin.

Board Committees

Throughout 2019, the Board had four Board Committees. The four committees under the Board are the Audit Committee, the Remuneration 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 Committees at the meetings of the committees in 2019 is set out on page 52 of this annual report:

Nomination Committee

The Nomination Committee currently comprises four members, namely Mr. HU Lihua, 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 the year of 2019. Mr. WANG Yi Michael was a member of the Nomination Committee until his resignation as an executive Director with effect from 28 February 2020.

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 performance, 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;

- consider Board succession planning and conduct periodical reviews of the plan;

- review the Board Diversity Policy;

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

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

The work performed by the Nomination Committee during 2019 included:

- considering the nomination of Mr. YANG Anming as a non-executive Director with effect from 10 January 2019;

- considering the nomination of Mr. YAN Xiaolin, Mr. Albert Thomas DA ROSA, Junior, Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang to be re-elected as Directors at the AGM in 2020;

- reviewing policy for diversity and nomination of Directors;

- reviewing the current Board structure, diversity, size and composition;

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

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

The Nomination Committee has performed all these main duties in 2019.

The Company has adopted the Nomination Policy on 20 December 2018 (with effect from 1 January 2019), which sets out the Company's policy in relation to nomination of Directors 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 to 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 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 organisation, 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 judgment

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 are 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 or more, are eligible for nomination by the Board to stand for re-election at a general meeting. Any independent non-executive Director who has served such role for a period of 9 consecutive years or more 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 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; and

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 to 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 independent 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" of the Company shall apply in respect of the nomination by Shareholders of person for election as a Director.

16. A candidate is allowed to withdraw his/her 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/her 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 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 has 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 recognises 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. HU Lihua, 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 held three meetings during the year of 2019. Mr. WANG Yi Michael was a member of the Remuneration Committee until his resignation as an executive Director with effect from 28 February 2020.

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 2019, the Remuneration Committee accomplished the following:

- making recommendations to the Board on the remuneration of non-executive Directors;
- 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;
- determining the remuneration packages of executive Directors and 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, and a 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 depending on 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 and Shares under the Award Scheme respectively. Please refer to pages 244 to 247 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 by band and senior management are set out in note 9 to the financial statements.

DIVIDEND POLICY

The Company has confirmed and consolidated its 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, 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 above), 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;

 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 meetings 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 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 three members, namely Mr. LAU Siu Ki, Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang. Mr. LAU Siu Ki is the chairman of the Audit Committee. Mr. HUANG Xubin and Mr. YANG Anming were members of the Audit Committee until Mr. HUANG Xubin's resignation with effect from 10 January 2019 and Mr. YANG Anming's resignation with effect from 28 February 2020 respectively.

The Audit Committee usually meets 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 held three meetings during the year of 2019.

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 2019 included consideration of the following matters:

- the completeness and accuracy of the 2018 annual and 2019 interim financial statements and reports;
- the Company's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Company;
- review of the financial and accounting policies and practices of the Group;
- review of the effectiveness of the systems of financial controls, internal audit function, 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 auditor;
- the audit fees payable to external auditor, the scope and timetable of the audit for year 2019;
- review of the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standards;
- recommendations to the Board, for the approval by Shareholders, for the reappointment of Messrs. Ernst & Young as the external auditor, which the Board agreed and accepted; and
- review of the financial reporting system of 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, which the Board agreed and accepted, that subject to Shareholders' approval at the forthcoming AGM, Messrs. Ernst & Young be re-appointed as the Company's external auditor for 2020.

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 Committee for making certain decisions for the management of the Company. In accordance with their terms of reference, members of the Strategy Committee shall be appointed by the Board from the executive Directors only.

As at the date of this annual report, 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 60.

The work completed by the Strategy Committee during 2019 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 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 2019 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 292 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 strategy for delivering its objectives are explained in the "Management Discussion and Analysis" set out in pages 16 to 33 in this report.

The management of the Company 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 of the Company 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.

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 and risk management, 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 2019, 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 and the Board are satisfied with the adequacy and effectiveness of the internal control and risk management 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 SFO 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 ended 31 December 2019 are set out in the Report of the Directors in this annual report.

Senior Management's Remuneration

For the year ended 31 December 2019, senior management of the Company comprised three individuals. The senior management's remuneration during the year ended 31 December 2019 falls within the followings bands:

Remuneration (per annum) (Note)	**Number of Individuals**
HK$3,000,001 to HK$3,500,000	1
HK$5,000,001 to HK$5,500,000	1
HK$8,000,001 to HK$8,500,000	1

Note: The remuneration included salaries, allowances, benefits in kind, discretionary performance related bonuses, long-term incentives and pension scheme contributions.

Auditor's Remuneration

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

Statutory audit services	HK$$9,950,000
Non-audit services (which include taxation compliance and agreed upon procedures)	HK$13,117,800
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 the chief financial officer of the Company (currently Mr. HU Lihua, who is also an executive Director, and Mr. WANG Yi Michael prior to 18 March 2019 who was also an executive Director at that time). 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 2019. She has fulfiled the requirement during the year under review.

INVESTOR RELATIONS PROGRAMS

Key Investor Relations Events in 2019

Date	Event	Location
January	Participated in investor conference (organised by Nomura)	Las Vegas
	Participated in investor conference (organised by UBS)	Shanghai
	Participated in investor conference (organised by Credit Suisse)	Hong Kong
	Hosted a non-deal road show (organised by Jefferies)	Boston
	Hosted a non-deal road show (organised by Jefferies)	New York
	Hosted a non-deal road show (organised by Industrial Securities)	New York
March	2018 annual results announcement (press conference and analyst/investor briefing)	Hong Kong
	Hosted a non-deal road show (organised by CICC)	Hong Kong
	Hosted a non-deal road show (organised by CICC)	Shanghai
	Hosted a non-deal road show (organised by Changjiang Securities)	Shanghai
	Hosted a non-deal road show (organised by Industrial Securities)	Beijing
	Hosted a non-deal road show (organised by CLSA)	Beijing
April	Participated in investor conference (organised by Industrial Securities)	Shenzhen
	Participated in investor conference (organised by Industrial Securities)	Shanghai
	Participated in investor conference (organised by Haitong Securities)	Hangzhou
May	Hosted company visit for investors (organised by CICC)	Shenzhen
	Participated in investor conference (organised by China Everbright)	Shanghai
	Participated in investor conference (organised by JP Morgan)	Hong Kong
	Hosted a non-deal road show (organised by Haitong Securities)	Shanghai
	Hosted a non-deal road show (organised by Industrial Securities)	Beijing
	Participated in investor conference (organised by Guotai Junan International)	Shanghai
	Participated in investor conference (organised by Essence International)	Xiamen
June	Participated in investor conference (organised by UBS)	Hong Kong
	Hosted a non-deal road show (organised by Credit Suisse)	Hong Kong
	Participated in investor conference (organised by Industrial Securities)	Shanghai
	Participated in investor conference (organised by Credit Suisse)	Hong Kong
	Hosted a non-deal road show (organised by SWS)	Singapore
	Hosted a non-deal road show (organised by Cathay Securities)	Taipei

Date	Event	Location
July	Hosted a non-deal road show (organised by Haitong Securities)	Seoul
	Hosted a non-deal road show (organised by Okasan Securities)	Tokyo
August	2019 interim results announcement (press conference and analyst/investor briefing)	Hong Kong
	Hosted a non-deal road show (organised by Credit Suisse)	Hong Kong
	Hosted an investor conference call (organised by CICC)	N/A
	Hosted an investor conference call (organised by Cathay Securities)	N/A
September	Hosted an investor conference call (organised by Industrial Securities)	N/A
	Hosted an investor conference call (organised by Haitong Securities)	N/A
	Participated in investor conference (organised by Credit Suisse)	Taipei
	Participated in investor conference (organised by UBS)	Hong Kong
October	Hosted a non-deal road show (organised by Okasan Securities)	Hong Kong
November	Hosted a non-deal road show (organised by Morgan Stanley)	New York
	Participated in investor conference (organised by HSBC)	New York
	Participated in investor conference (organised by Citi)	Shenzhen
	Participated in investor conference (organised by Goldman Sachs)	Shenzhen
	Hosted Vietnam plant visit (organised by Goldman Sachs)	Vietnam
	Participated in investor conference (organised by Industrial Securities)	Shanghai
	Participated in investor conference (organised by China Merchants Securities)	Beijing
	Participated in investor conference (organised by Haitong Securities)	Shanghai
	Participated in investor conference (organised by Citic Securities)	Shenzhen
	Participated in investor conference (organised by Essence International)	Shenzhen
	Hosted company visit for investors (organised by Okasan Securities)	Shenzhen
December	Hosted a non-deal road show (organised by Essence International)	Beijing
	Hosted a non-deal road show (organised by Industrial Securities)	Beijing
	Hosted a non-deal road show (organised by First Shanghai)	Hong Kong

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 ir@tclhk.com or hk.ir@tcl.com or directly by raising questions at the Shareholders' 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, the 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 auditor's 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 of the Company 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 holding 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 Shareholders' meetings to the Board or senior management.

Investors can submit enquiries to management of the Company by sending emails to ir@tclhk.com or 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.

Constitutional Documents

In 2019, there is no amendment on the Company's constitutional documents.

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 at http://electronics.tcl.com. Enquiries and proposals to be put forward at Shareholders' meetings can also be sent to the Board or senior management by contacting the Investor relations department via e-mail to ir@tclhk.com or hk.ir@tcl.com, or directly through the questions and answers session at Shareholders' meetings or press conference.

HUMAN RESOURCES

In 2019, the Group continued to focus on the theme of "Help Strengthening Capabilities of the Organisation to Reach New Heights" and carried out a series of human resource management initiatives to provide direct and effective support for the Group's strategy, enhancement of organisational performance and employee development.

1. Basic Profile of Human Resources

As at 31 December 2019, the total number of employees was 28,374. The distribution is as follows:

Employees by Geographic Region as of 31 December 2019:

Mainland China	24,871
Regions other than Mainland China (including Hong Kong and Australia)	3,503

Employees by Age as of 31 December 2019:

Employees aged below 30	13,246
Employees aged between 30 to 49	14,437
Employees aged 50 or above	691

The male-to-female ratio was 1.59:1. The overall turnover rate was approximately 7.8%.

2. Major Accomplishments in Human Resources

In order to support the development strategy of the Company, the Group endeavored to optimise its talent structure and increase the efficiency of its talents continuously. Adhering to the theme of "Help Strengthening Capabilities of the Organisation to Reach New Heights", 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 optimise the comprehensive remuneration and incentives system. While continuously strengthening the linkage between the Company's overall performance and employees' incentives at various levels to facilitate the achievement of business objectives, the Group continued to focus resources on key areas of incentives. Through insisting on the implementation of performance bonus schemes based on business streams, the integration of incentives for both frontline and back office support were further strengthened. The Group also continued to focus its resources on sales incentives and incentives for innovations and technologies, in order to support the Company's improvements in retail capabilities, product competitiveness and technological innovation capabilities. In terms of long-term incentives, the Group developed and implemented a long-term profit-sharing scheme for senior management and key employees which helped achieve the incentive orientation of responsibility-sharing and profit-sharing and strengthen the retention and motivation of outstanding talents.

In 2019, the Group continued to promote and improve the performance management system and processes, and adhered to the approach of performance orientation for the improvement of the Company's results and achievement of the operating goals with concerted efforts of all employees.

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 2019, more than 1,000 external talents were recruited in areas including products, R&D, smart manufacturing, Internet management and domestic and overseas marketing. With the focus on the need arising from strategical development, the Group focused on top talent recruitment in the AI x IoT sector, laying a good foundation for a talent pool geared toward the Company's transformation into smart home business and expansion into the international market.

In respect of talent nurturing and development, the Group continued to carry out reviews on the organisation and talents, actively and boldly appointed outstanding young talents to take up important roles, strongly 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, product, 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 organising and participating in educational support, public charity activities and school-enterprise cooperation.

Educational Support

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 2019, Huameng Foundation contributed a total of approximately RMB5,564,000 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. Shenzhen 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 three public welfare undertakings, including basic education assistance, major disaster relief and care for special groups. In 2019, the expenditure on public welfare undertakings of Shenzhen TCL Foundation amounted to approximately RMB27,976,000 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 caring for others, 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 organisation 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, the Mutual Aid Fund for Employees has been rendering assistance to employees who suffered hardship with a total donation amount of approximately RMB478,000 in 2019.

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 approximately RMB1,110,000. 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 (of Sichuan Province). 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 approximately RMB127,000. These activities will continue on an on-going basis.

School-enterprise Cooperation

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

Through establishing TCL Club and organising TCL Innovation Contest and TCL Open Day activities, the Group promoted school-enterprise cooperation and interacted and communicated with teachers and management team of universities, who were invited to participate in the activities through touring and seminars. Meanwhile, the activities aimed to encourage and support students to gain project experience and internship in the Company. According to the business needs of the Company, the Group also 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 domestic and overseas universities 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 customised 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 2019 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 2019.

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.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 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 292.

The Board has proposed a final dividend for the year ended 31 December 2019 of HK10.60 cents in cash per share (31 December 2018: HK9.38 cents) out of the share premium account of the Company.

Subject to (i) Shareholders' approval at the forthcoming AGM to be held on 2 June 2020, 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 17 July 2020, Friday to Shareholders whose names appear on the register of members of the Company on 8 June 2020, Monday.

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 293. 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 Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 27 May 2020, Wednesday for registration. Members of the Company whose names are recorded in the register of members of the Company on 27 May 2020, 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 8 June 2020, Monday. 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 branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 8 June 2020, Monday. The Hong Kong register of members of the Company will be closed from 9 June 2020, Tuesday to 10 June 2020, Wednesday (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 2019 is set out in the section headed "Management Discussion and Analysis" on pages 16 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 (Cap. 622 of the laws of Hong Kong), 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, particulars of important events affecting the Group that have occurred since the year ended 31 December 2019 to the date of this annual report, and an indication of the outlook and future development 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 PRC, the Production Safety Law of the PRC and the Law of the PRC 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 automatisation 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 PRC. The Group carries out supervision mainly by the following methods: regular commissioning of professional institutions to implement the indicator(s) which monitor(s) pollution discharge so as to meet the national standard; reasonable storage and isolation of dangerous materials; as well as strict selection of suppliers to source and prioritise materials that meet the EU REACH and ROHS standards.

As at 31 December 2019 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 2019, 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 R&D to broaden its product and technology platforms and enhance its product competitiveness, which enable the Group to extend its reach to different devices 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 with multiple industries of TCL Technology Group and leverage the advantages from the long-term relationship with CSOT (which is a major panel supplier in the PRC) from integrated industrial chain 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 commercial display 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 44 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 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND AWARD SCHEME

Details of movements in the Company's share capital (including issue of Shares), share options and Award Scheme during the year, together with the reasons thereof are set out in note 34 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or 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 by the Company, or any of its subsidiaries, of its Shares for the year ended 31 December 2019.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had an aggregate of HK$5,142,127,000 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 the issue of Shares, 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$5,881,063,000.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2019, the Group made charitable contributions totaling HK$148,000.

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	31%
– the five largest suppliers combined	52%

Sales

– the largest customer	10%
– the five largest customers combined	33%

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 time.

Major Customers

The Group's major customers are all from consumer TV products industry, which is characterised by its cycle 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 23 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.

One of the five largest customers of the Group is a subsidiary of TCL Holdings. As at 31 December 2019, Mr. LI Dongsheng was indirectly interested in 2,149,980,000 shares in TCL Holdings (approximately 33.33% of share capital of TCL Holdings). Save as aforesaid, 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.

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this annual report were:

Executive Directors:
Mr. LI Dongsheng
Mr. WANG Cheng Kevin
Mr. YAN Xiaolin
Mr. HU Lihua (appointed as an executive Director with effect from 28 February 2020)
Mr. WANG Yi Michael (resigned as an executive Director with effect from 28 February 2020)

Non-executive Directors:
Mr. Albert Thomas DA ROSA, Junior
Mr. SUN Li (appointed as a non-executive Director with effect from 28 February 2020)
Mr. LI Yuhao
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 and subsequently resigned as a non-executive Director with effect from 28 February 2020)

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 AGM, 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. YAN Xiaolin, Mr. Albert Thomas DA ROSA, Junior, Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang shall retire from office by rotation at the conclusion of the forthcoming 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 9 and 10 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 48 to 81 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' BIOGRAPHIES

Biographical details of the Directors are set out on pages 34 to 46 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 TRANSACTIONS, ARRANGEMENT AND CONTRACTS

None of the Directors or their associates had a material interest, either directly or indirectly, in any transactions, arrangements and 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 ended 31 December 2019.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of 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 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 Directors	Personal interests	Spouse personal interests	Other interests (Note 1)	Personal interests	Spouse interests	Total	Approximate percentage of the number of issued Shares (Note 2)
LI Dongsheng	55,394,385	2,429,752	868,655	7,312,235	504,895	66,509,922	2.81%
WANG Cheng Kevin	862,695	–	1,378,385	7,262,284	–	9,503,364	0.40%
YAN Xiaolin	200,306	–	88,919	1,970,324	–	2,259,549	0.10%
WANG Yi Michael*	2,058,728	–	689,192	5,509,395	–	8,257,315	0.35%
Albert Thomas DA ROSA, Junior	70,796	–	37,315	315,907	–	424,018	0.02%
LI Yuhao	24,000	–	–	–	–	24,000	0.001%
YANG Anming**	45,983	–	18,088	270,922	–	334,993	0.01%
Robert Maarten WESTERHOF	7,463	–	37,315	315,907	–	360,685	0.02%
WANG Yijiang	7,230	–	37,315	242,260	–	286,805	0.01%
LAU Siu Ki	7,463	–	37,315	236,301	–	281,079	0.01%

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

(i) TCL Holdings (Note 3)

Name of Director	Number of ordinary shares held	Approximate percentage of the number of issued shares of TCL Holdings (Note 4)
LI Dongsheng (Note 5)	2,149,980,000	33.33%

(ii) Tonly Electronics (Note 6)

	Number of ordinary shares held			Number of underlying shares held under equity derivatives			
Name of Directors	Personal interests	Spouse personal interests	Other interests (Note 8)	Personal interests	Spouse interests	Total	Approximate percentage of the number of issued shares of Tonly Electronics (Note 7)
LI Dongsheng	684,590	35,929	41,049	1,214,852	178,868	2,155,288	0.79%
WANG Cheng Kevin	9,684	–	–	33,463	–	43,147	0.02%
YAN Xiaolin	38,612	–	11,803	226,098	–	276,513	0.10%
YANG Anming**	12,395	–	4,134	68,323	–	84,852	0.03%

Notes:

1. These interests are restricted shares that have been granted to the relevant Directors under the Award Scheme and were not vested as at 31 December 2019. Further, the restricted shares that have been granted to the spouse of the relevant Directors under the Award Scheme are included.

2. The percentages are calculated based on the number of issued Shares as at 31 December 2019, i.e. 2,363,224,646 Shares.

3. TCL Holdings, a joint stock company established under the laws of the PRC, is the ultimate controlling Shareholder of the Company.

4. The percentages are calculated based on the number of issued shares of TCL Holdings as at 31 December 2019, being 6,450,000,000 shares in issue, as informed by TCL Holdings.

5. As at 31 December 2019, Mr. LI Dongsheng was deemed to be interested in TCL Holdings via:

   (a) Lida Tiancheng, which has a 3.1005% shareholding in TCL Holdings. Mr. LI Dongsheng owns more than 50% of equity interest in Lida Tiancheng; and

   (b) Lida Zhihui, which has a 30.2326% shareholding in TCL Holdings. Lida Zhihui is a limited partnership and Mr. LI Dongsheng owns more than 50% economic interest in Lida Zhihui as a limited partner. The general partner of Lida Zhihui is Lida Tiancheng, in which Mr. LI Dongsheng owns more than 50% equity interest as set out in (a) above.

6. Tonly Electronics is a subsidiary of TCL Holdings and hence an associated corporation of the Company under Part XV of the SFO.

7. The percentages are calculated based on the number of issued shares of Tonly Electronics as at 31 December 2019, being 272,459,165 shares in issue, as disclosed by Tonly Electronics on the website of the Hong Kong Stock Exchange.

8. These interests are awarded shares that have been granted to the relevant Directors under the award scheme of Tonly Electronics and were not vested as at 31 December 2019. Further, the awarded shares that have been granted to the spouse of the relevant Directors under the award scheme of Tonly Electronics are included.

* Mr. WANG Yi Michael resigned as an executive Director with effect from 28 February 2020.

** Mr. YANG Anming was appointed as a non-executive Director with effect from 10 January 2019 and subsequently resigned as a non-executive Director with effect from 28 February 2020.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company 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 2019, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares 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

Shareholders	Capacity	Number of shares held	Percentage of the number of issued Shares (Note 1)
TCL Holdings (Note 2)	Interest of controlled corporation	1,260,358,288 (Note 3)	53.33%
WANG Jingbo	Interest of controlled corporation	348,850,000 (Note 4)	14.76%
ZENG Edward Qiang	Interest of controlled corporation	348,850,000 (Note 4)	14.76%
Noah Holdings Limited	Interest of controlled corporation	348,850,000 (Note 5)	14.76%
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)	14.76%
諾亞正行基金銷售有限公司	Interest of controlled corporation	348,850,000 (Note 5)	14.76%
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)	14.76%
歌斐創世鑫根併購一號投資基金	Interest of controlled corporation	348,850,000 (Note 4)	14.76%

Shareholders	Capacity	Number of shares held	Percentage of the number of issued Shares (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)	14.76%
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)	14.76%
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)	14.76%
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)	14.76%
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)	14.76%
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)	14.76%

Notes:

1. The percentage in respect of the interest of the relevant substantial Shareholder was calculated based on the number of Shares and underlying Shares in which such substantial Shareholder was interested as notified to the Company and disclosed on the website of the Hong Kong Stock Exchange against the number of issued Shares as at 31 December 2019, being 2,363,224,646 Shares in issue.

2. As at 31 December 2019, the following Directors were directors/employees of a company who had an interest or short position in the Shares and underlying Shares 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 was also a director of TCL Holdings and T.C.L. Industries (H.K.), a direct wholly-owned subsidiary of TCL Holdings;

   (b) Mr. WANG Cheng Kevin was also the chief executive officer of TCL Holdings; and

   (c) Mr. WANG Yi Michael (subsequently resigned as an executive Director on 28 February 2020) was also a vice-president of TCL Holdings.

3. TCL Holdings was deemed to be interested in 1,260,358,288 Shares held by T.C.L. Industries (H.K.).

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 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 2019, 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 that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures", "Share Option Schemes", "Award Scheme" in this Report of the Directors, at no time during the year ended 31 December 2019 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 2007 Scheme on 15 February 2007 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 AGM held on 18 May 2016, the 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 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 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 Technology (as the then ultimate beneficial owner of the Company) 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 total number of Shares which may be issued upon exercise of all share options to be granted under the 2016 Scheme of the Company must not in aggregate exceed 10% of the Shares in issue on the date of approval of each of the Share Option Scheme. The 10% limit may be refreshed with the approval by ordinary resolution of the Shareholders. The maximum number of Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2016 Scheme of the Company must not exceed 30% of the Shares in issue from time to time. The maximum number of Shares issued or to be issued upon exercise of share options granted to any one participant in a 12-month period shall not exceed 1% (or 0.1% for any substantive Shareholder of the Company, independent non-executive Director or other associates, see below) of the issued Shares.

Share options granted to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial Shareholder of the Company or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the price of the Shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a non-refundable nominal consideration of HK$1.00 by each grantee. The 2016 Scheme does not specify any minimum holding period but the Board has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised. The exercise period of the share options granted is determinable by the Directors, and commences on a specified date and ends on a date which is not later than ten years from the date of grant of the relevant share option.

The exercise price of a share option to subscribe for Shares is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Shares on the Hong Kong Stock Exchange on the date of grant; (ii) the average closing price of the Shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to receive dividends or to vote at general meetings of the Company.

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 maximum entitlement of each participant of the 2016 Scheme is 1% of the issued Shares from time to time within any 12-month period up to the date of the latest grant.

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.

At the AGM 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 as at the date on which the resolution was passed. For details, please also refer to the circular of the Company dated 20 April 2018.

As at 31 December 2019, the number of Shares 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 184,451,754 and 233,261,356, respectively, which represented about 7.81% and 9.87% of the total number of issued Shares as at 31 December 2019, 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 ended 31 December 2019:

Name or category of participants	Number of share options: At 1 January 2019	Reclassification	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2019	Date of grant of share options	Exercise price of share options 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	3,078,650	–	–	–	–	3,078,650	09-Mar-15	4.4834	Note 1	4.40	N/A
	277,645	–	–	–	–	277,645	31-Aug-15	3.3918	Note 2	3.54	N/A
	205,337	–	–	–	–	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
	7,312,235	–	–	–	–	7,312,235					
WANG Cheng Kevin	670,261	–	–	–	–	670,261	09-Mar-15	4.4834	Note 1	4.40	N/A
	1,449,817	–	–	–	–	1,449,817	31-Aug-15	3.3918	Note 2	3.54	N/A
	158,282	–	–	–	–	158,282	02-Jun-16	4.3860	Note 3	4.49	N/A
	291,063	–	–	–	–	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
	7,262,284	–	–	–	–	7,262,284					
YAN Xiaolin	1,005,391	–	–	–	–	1,005,391	09-Mar-15	4.4834	Note 1	4.40	N/A
	156,621	–	–	–	–	156,621	31-Aug-15	3.3918	Note 2	3.54	N/A
	153,478	–	–	–	–	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
	1,970,324	–	–	–	–	1,970,324					
WANG Yi Michael*	1,005,391	–	–	–	–	1,005,391	09-Mar-15	4.4834	Note 1	4.40	N/A
	2,174,725	–	–	–	–	2,174,725	31-Aug-15	3.3918	Note 2	3.54	N/A
	178,579	–	–	–	–	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
	5,509,395	–	–	–	–	5,509,395					
	22,054,238	**–**	**–**	**–**	**–**	**22,054,238**					

Name or category of participants	Number of share options						Date of grant of share options	Exercise price of share options 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$
	At 1 January 2019	Reclassification	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2019					
Non-executive Directors											
Albert Thomas DA ROSA, Junior	199,465	–	–	–	–	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
	315,907	–	–	–	–	315,907					
HUANG Xubin**	199,465	(199,465)	–	–	–	–	09-Mar-15	4.4834	Note 1	4.40	N/A
	245,314	(245,314)	–	–	–	–	31-Aug-15	3.3918	Note 2	3.54	N/A
	160,525	(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
	1,260,138	(1,260,138)	–	–	–	–					
YANG Anming***	–	48,628	–	–	–	48,628	31-Aug-15	3.3918	Note 2	3.54	N/A
	–	33,579	–	–	–	33,579	02-Jun-16	4.3860	Note 3	4.49	N/A
	–	188,715	–	–	–	188,715	25-Apr-18	3.5700	Note 6	3.55	N/A
	–	270,922	–	–	–	270,922					
Independent Non-executive Directors											
Robert Maarten WESTERHOF	199,465	–	–	–	–	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
	315,907	–	–	–	–	315,907					
WANG Yijiang	125,818	–	–	–	–	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
	242,260	–	–	–	–	242,260					
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					
	2,370,513	**(989,216)**	**–**	**–**	**–**	**1,381,297**					

Name or category of participants	Number of share options: At 1 January 2019	Reclassification	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2019	Date of grant of share options	Exercise price of share options 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$
Associate(s) of Director(s)											
ICHIKAWA Yuki	105,098	–	–	–	–	105,098	31-Aug-15	3.3918	Note 2	3.54	N/A
(WEI Xue) (Spouse of	127,329	–	–	–	–	127,329	02-Jun-16	4.3860	Note 3	4.49	N/A
Mr. LI Dongsheng)	272,468	–	–	–	–	272,468	25-Apr-18	3.5700	Note 6	3.55	N/A
	504,895	**-**	**-**	**-**	**-**	**504,895**					
Other employees of the Group	16,646,471	199,465	–	(253,806)	(3,806,138)	12,785,992	09-Mar-15	4.4834	Note 1	4.40	4.50
	74,655,803	870,491	–	(23,695,460)	(4,094,359)	47,736,475	31-Aug-15	3.3918	Note 2	3.54	4.29
	6,189,793	804,294	–	(50,907)	(1,037,436)	5,905,744	02-Jun-16	4.3860	Note 3	4.49	4.58
	14,348,980	–	–	(3,000,260)	(776,618)	10,572,102	12-May-17	3.7329	Note 4	3.70	4.37
	81,319,881	116,442	–	–	(14,970,039)	66,466,284	23-Jan-18	4.1520	Note 5	3.91	N/A
	193,160,928	**1,990,692**	**-**	**(27,000,433)**	**(24,684,590)**	**143,466,597**					
Other employees and those who have contributed or may contribute to the Group****	6,157,301	–	–	–	–	6,157,301	09-Mar-15	4.4834	Note 1	4.40	N/A
	3,395,490	(673,805)	–	(339,795)	(25,098)	2,356,792	31-Aug-15	3.3918	Note 2	3.54	4.29
	2,780,735	(677,348)	–	(59,115)	(68,592)	1,975,680	02-Jun-16	4.3860	Note 3	4.49	4.58
	7,561,490	349,677	–	(331,429)	(1,024,784)	6,554,954	25-Apr-18	3.5700	Note 6	3.55	4.09
	4,301,397	–	–	–	(4,301,397)	–	23-Jan-18	4.1520	Note 5	3.91	N/A
	24,196,413	**(1,001,476)**	**-**	**(730,339)**	**(5,419,871)**	**17,044,727**					
	242,286,987	**-**	**-**	**(27,730,772)**	**(30,104,461)**	**184,451,754**					

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 Technology Group (excluding the Group), 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 Technology Group (excluding the Group), 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 Technology Group (excluding the Group), 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. WANG Yi Michael resigned as an executive Director with effect from 28 February 2020.

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

*** Mr. YANG Anming was appointed as a non-executive Director with effect from 10 January 2019 and resigned as a non-executive Director with effect from 28 February 2020.

**** The number of share options held by Director(s) who resigned during 2018 is included in the number of share options held by "other employees and those who have contributed or may contribute to the Group" as at 1 January 2019.

This category of participants comprises grantees who were employees and/or officers of TCL Technology and/or its affiliated companies as of the date of grant, some of them have become employees and/or officers of TCL Holdings and/or its affiliated companies as a result of the Restructuring of TCL Technology. For details of the Restructuring, please refer to the circular of the Company dated 19 June 2019.

AWARD SCHEME

The Company adopted the Award Scheme on 6 February 2008. By a Shareholders' resolution passed in the EGM 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, among others, introduce a refreshment mechanism that allowed for refreshment of the scheme limit subject to fulfilment of certain conditions, as well as an annual specific mandate be granted to the Directors, subject to Shareholders' approval, to allot and issue new Shares under the Award Scheme for not exceeding 3% of the number of Shares in issue as at the date on which the resolution was passed, and make other consequential amendments to the Award Scheme (collectively "2018 Amendments"). For further details of the 2017 Amendments and the 2018 Amendments, please refer to the circular of the Company dated 7 May 2018. On 23 May 2018, ordinary resolutions were passed by the Shareholders to approve the amended Award Scheme with the 2018 Amendments incorporated, as well as the Specific Mandate.

The current Specific Mandate was passed by the Shareholders at 2019 AGM. As at 28 May 2019, the number of issued Shares was 2,360,552,850 Shares and the maximum number of new Shares which could be issued as approved under the said Specific Mandate was therefore 70,816,585 Shares. No Shares had been awarded under the said Specific Mandate thereafter as at 31 December 2019. The Specific Mandate would expire at the forthcoming AGM and the Company would seek its Shareholders' approval for a new Specific Mandate at the forthcoming AGM.

The Company has appointed 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 34 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 TCL Technology Group (excluding the Group and for the purpose of this section, including associates of TCL Technology), and TCL Holdings Group (excluding the Group and for the purpose of this section, includes associates of TCL Holdings). As disclosed in the circular of the Company dated 19 June 2019, in the first quarter of 2019, the Restructuring which involved certain then subsidiaries and associates of TCL Technology occurred, whereby TCL Technology spun off, among others, all its equity interests in T.C.L. Industries (H.K.), together with its equity interests in its various associates to TCL Holdings. As the spin-off by TCL Technology of all its ownership interest in, among others, T.C.L. Industries (H.K.) to TCL Holdings had been completed by 31 March 2019, TCL Technology ceased to be a connected person of the Company since then. Accordingly, the transactions between the Group and TCL Technology Group (including those disclosed below) ceased to be continuing connected transactions since then.

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 2019:

On 23 July 2019 (after trading hours), Falcon Network Technology entered into the VIE Agreements with the OPCO and/or the PRC Equity Owners and/or their spouses. Each of the PRC Equity Owners and hence the OPCO (being an associate of the PRC Equity Owners) is a connected person at subsidiary level of the Company. Through the VIE Agreements, Falcon Network Technology will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. Upon the entering into of the VIE Agreements, the financial results of the OPCO would be consolidated into the consolidated financial statements of the Group and the OPCO would become an indirect subsidiary of the Company.

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 2019:

(a) Pursuant to the Master TCL Trademark License (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and TCL Technology, TCL Technology 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 Technology), 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 TVs, audio-visual products and commercial display products. During the year, no payment has been made by the Group to TCL Technology Group as royalties, while reimbursement of branding advertising costs was paid by the Group to TCL Technology Group amounting to HK$110,103,000.

(b) Pursuant to the Master Sale and Purchase (2017) Agreement dated 29 September 2017 entered into between the Company and TCL Technology, the Group (i) purchased goods produced or manufactured in the PRC from TCL Technology Group amounting to HK$2,319,126,000; and (ii) sold goods to TCL Technology Group amounting to HK$1,045,736,000 during the year.

(c) Pursuant to the Master Sourcing (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and TCL Technology, the Group (i) sold overseas materials to TCL Technology Group amounting to HK$99,714,000; and (ii) purchased overseas materials from TCL Technology Group amounting to HK$153,940,000 during the year.

(d) Pursuant to the Master Financial Services (2017 Renewal) Agreement dated 21 March 2017 entered into among the Company, TCL Technology, Finance Company and TCL Finance (Hong Kong) Co., Limited (a then subsidiary of TCL Technology prior to completion of the Restructuring), the Group paid financial services charges for the other financial services thereunder amounting to HK$30,000 and received promotion fees amounting to HK$921,000 during the year. The maximum outstanding balance of deposits placed by the Group with Finance Company amounting to HK$4,276,081,000, 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$924,457,000 and the maximum facility provided to the Group by Finance Company with bank instruments, receivables, machinery or equipment etc. as security amounting to HK$924,457,000 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, the Group may from time to time request Speedex for provision of certain logistics services. The Group paid HK$126,459,000 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 Technology, the Group (i) did not pay any subcontracting fees to TCL Technology Group; and (ii) received subcontracting fees from TCL Technology Group amounting to HK$6,000 during the year. The original annual cap for the year ended 31 December 2019 for subcontracting fees received from TCL Technology Group under the Master Subcontracting (2017 Renewal) Agreement was set at HK$0. The Company subsequently on 31 January 2018 revised such annual cap for the year ended 31 December 2019 to HK$7,661,000. 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%, such 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 Technology, the Group (i) received rental income from TCL Technology Group amounting to HK$4,923,000; and (ii) paid rental cost to TCL Technology Group amounting to HK$8,341,000 during the year.

(h) Pursuant to the Master Service (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and TCL Technology, 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 Technology 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 Technology, the Group (i) received service fees from TCL Technology Group in connection with the provision of after sale service to TCL Technology Group for commercial use display products sold by TCL Technology Group in the PRC amounting to HK$12,384,000; and (ii) paid service fees to TCL Technology Group in connection with the provision of after sale service for TV sets products and their accessories and ancillary products manufactured by the Group amounting to HK$71,582,000 during the year.

(j) Pursuant to the Master Strategic Cooperation (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and TCL Technology, the Group (i) paid service fee to TCL Technology Group for the Joint Laboratory Project amounting to HK$6,477,000; and (ii) paid service fee to TCL Technology Group for the Strategic Mutual Research and Mid-to-Long-Term Planning Project amounting to HK$16,411,000 during the year.

(k) Pursuant to the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement dated 29 September 2017 entered into between the Company and Qianhai Sailing, 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$65,132,000 during the year.

(l) Pursuant to the 2018 Master Services Agreement dated 31 October 2018 entered into between the Company and TCL Technology, the Group (i) paid platform services fees to TCL Technology Group amounting to HK$326,000; (ii) paid IT and other services fees to TCL Technology Group amounting to HK$6,618,000; (iii) received platform services income from TCL Technology Group amounting to HK$1,818,000; and (iv) received other services income from TCL Technology Group amounting to HK$15,471,000 during the year.

(m) Pursuant to the Master Sale and Purchase (2019) Agreement dated 10 April 2019 entered into between the Company, T.C.L. Industries (H.K.), Huizhou TCL Home Appliance, TCL Home Appliance (Hefei), Huizhou Kuyu and TCL Intelligence Industry (Huizhou), the Group (i) purchased goods from T.C.L. Industries (H.K.) and its various associates amounting to HK$98,820,000; and (ii) sold goods to T.C.L. Industries (H.K.) and its various associates amounting to HK$487,126,000 during the year.

(n) Pursuant to the Master Rental (2019) Agreement dated 10 April 2019 entered into between the Company, T.C.L. Industries (H.K.), TCL Intelligence Industry (Huizhou), TCL Technology Industrial Park Co., Ltd* (TCL科技產業園有限公司), Huizhou Keyin and Huizhou Kuyu, the Group (i) received rental income from T.C.L. Industries (H.K.) and its various associates amounting to HK$1,908,000; and (ii) paid rental cost to T.C.L. Industries (H.K.) and its various associates amounting to HK$4,978,000 during the year.

(o) Pursuant to the Master Services (2019) Agreement dated 10 April 2019 entered into between the Company, T.C.L. Industries (H.K.), Huizhou TCL Home Appliance, TCL Home Appliance (Hefei), Huizhou Kuyu, TCL Intelligence Industry (Huizhou), Gechuang Dongzhi Technology Co., Ltd* (格創東智科技有限公司) and Huizhou Keyin, the Group (i) received/paid after sale service fees from/to TCL Holdings and its various associates in connection with the after sale service to/from TCL Holdings and its various associates for commercial use display products amounting to HK$81,985,000; (ii) paid HK$67,067,000 to TCL Holdings and its various associates for all the cost and expenses incurred by TCL Holdings and its various associates for provision of the logistics services; and (iii) paid/received operation and sales enhancement services fees to/from TCL Holdings and its various associates amounting to HK$10,278,000 during the year.

(p) Pursuant to the Master Rental (2019-2021) Agreement dated 14 June 2019 entered into between the Company and TCL Holdings, the Group (i) received rental income from TCL Holdings and its various associates amounting to HK$11,745,000; and (ii) paid rental cost to TCL Holdings and its various associates amounting to HK$4,978,000 during the year; and (iii) the total value of the right-of-use assets for TCL Holdings and its various associates to be leased by the Group amounting to HK$69,883,000.

(q) Pursuant to the Master Sale and Purchase (2019-2021) Agreement dated 14 June 2019 entered into between the Company and TCL Holdings, the Group (i) purchased goods from TCL Holdings and its various associates amounting to HK$1,204,898,000; and (ii) sold goods to TCL Holdings and its various associates amounting to HK$3,517,773,000 during the year.

(r) Pursuant to the Master Services (2019-2021) Agreement dated 14 June 2019 entered into between the Company and TCL Holdings, the Group (i) paid service fees to TCL Holdings and its various associates amounting to HK$543,140,000 during the year; and (ii) received services income from TCL Holdings and its various associates amounting to HK$16,565,000 during the year.

(s) Pursuant to the Master Brand Promotion (2019-2021) Agreement dated 14 June 2019 entered into between the Company and TCL Holdings, the Group would be entitled to share the rights of use of certain registered trademarks of TCL Technology. During the year, the Group paid brand promotion fee to TCL Holdings amounting to HK$219,732,000.

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 42 to the financial statements (except for the transactions with joint ventures, certain associates of the Group, addition of right-of-use assets, depreciation of right-of-use assets, interest expense on lease liabilities and TCL Technology (after completion of the Restructuring) included in note 42(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 auditor was 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 Listing Rules issued by the HKICPA. Ernst & Young has 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 auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

VIE Structure

Reference is made to the VIE Announcement. Unless otherwise defined, all capitalised terms and abbreviations under this section shall have the same meanings as those defined in the VIE Announcement.

On 23 July 2019, Falcon Network Technology entered into the VIE Agreements with the OPCO and/or the PRC Equity Owners and/or their spouses. Through the VIE Agreements, Falcon Network Technology has effective control over the finance and operation of the OPCO and enjoys the entire economic interests and benefits generated by the OPCO. Upon the entering into of the VIE Agreements, the financial results of the OPCO has been consolidated into the consolidated financial statements of the Group and the OPCO has become an indirect subsidiary of the Company. The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) setting a fixed term for each of the VIE Agreements pursuant to Rule 14A.52 of the Listing Rules, and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to Falcon Network Technology under the Exclusive Business Co-operation Agreement.

Particulars of the OPCO and major terms of the VIE Agreements

For the particulars of the OPCO, as well as a summary of the major terms of the VIE Agreements, please refer to the VIE Announcement. For the period from 23 July 2019 (being the date of establishment of the VIE Structure) to 31 December 2019, there was no material change in the particulars of the OPCO, the VIE Structure and/or the circumstances under which they were adopted, and none of the VIE Agreements has been unwound as none of the restrictions that led to the adoption of the VIE Structure has been removed.

Financial information, business activities of the OPCO and their significance to the Group

For the period from 23 July 2019 to 31 December 2019, the major business activities of the OPCO were to conduct valued-added telecommunications business and Internet cultural business in the PRC (i.e. the Subject Business). As at 31 December 2019, the registered owners of the OPCO were Mr. WANG Hao and Ms. ZHU Xiaojiang, and each of them respectively owned 50% equity interests of the OPCO. The OPCO's significance to the Group is that it holds relevant licences to provide valued-added telecommunications business and Internet cultural business in the PRC. The revenue of the OPCO amounted to approximately HK$80,056,000 for the period from 23 July 2019 to 31 December 2019, whilst the net asset value of the OPCO was approximately HK$11,399,000 as at 31 December 2019.

Reasons for adopting the VIE Structure

The primary purpose for the Group to adopt the VIE Structure was to enable the Group to engage in the value-added telecommunications business and Internet cultural business in the PRC, thereby deepening the Group's reach to those business segments as well as widening the Group's customer base. Nevertheless, pursuant to various laws and regulations of the PRC currently in force, the value-added telecommunications business and Internet cultural business operated by the OPCO are regarded as restricted foreign investment business. As a wholly foreign owned enterprise, Falcon Network Technology is not entitled to obtain licences to provide value-added telecommunications business and Internet cultural business in the PRC. In order to comply with the PRC laws, the VIE Agreements were entered into among Falcon Network Technology, the OPCO and the PRC Equity Owners. Through the VIE Agreements, Falcon Network Technology will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

Risk factors and mitigation actions in relation to the VIE Structure

The risk factors and mitigation actions in relation to the VIE Structure are summarised below. Please also refer to the VIE Announcement for more details.

As the primary beneficiary of the OPCO, the Group will bear economic risks which may arise from difficulties in the operation of their businesses. Falcon Network Technology will have to provide financial support in the event of financial difficulty of the OPCO. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the OPCO and the need to provide financial support to the OPCO. Since the Group conducts business through the OPCO and the financial results of the OPCO are consolidated into the financial statements of the Group, any losses suffered by the OPCO would be reflected in the Group's consolidated financial statements and the Group's consolidated financial position such as the consolidated earnings and profits will be adversely affected.

Moreover, there is no assurance that the VIE Agreements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the VIE Agreements do not comply with applicable regulations. The VIE Agreements may also not be as effective as direct ownership in providing control over the OPCO, especially in the event there was conflict of interests between the Group and the PRC Equity Owners. There may be limitations in acquiring ownership in the equity interests of the OPCO by the Group.

Further, certain terms of the VIE Agreements may not be enforceable under the PRC laws. The PRC government may determine that the VIE Agreements do not comply with the applicable regulations. The VIE Agreements may also be subject to scrutiny of the PRC tax authorities and additional tax may be imposed. Up to 31 December 2019, The Group did not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder.

In order to mitigate the aforementioned risks, as well as to safeguarding the assets of the OPCO, the VIE Agreements provided that the PRC Equity Owners shall not sell, transfer, mortgage or otherwise dispose of any of their interests in the OPCO or be allowed to create any encumbrances on them without the prior written consent of Falcon Network Technology. Moreover, Falcon Network Technology has the right to request for the OPCO's financial information to ascertain its consolidated profit before tax from time to time.

In addition, as internal control measures, the seals, chops, incorporation documents of the OPCO are kept at the office of Falcon Network Technology to the extent permitted by the PRC laws. Falcon Network Technology is involved in assessing material financial matters, as well as making corporate strategy, business plan and budgets of the OPCO. Terms of appointment of senior management of the OPCO are also subject to review by Falcon Network Technology.

The independent non-executive Directors has reviewed the VIE Agreements and confirmed for the period from 23 July 2019 to 31 December 2019 that: (i) the transactions carried out during the period have been entered into in accordance with the relevant provisions of the VIE Agreements, and have been operated so that the profit generated by the OPCO has been substantially retained by the Group; (ii) no dividends or other distributions have been made by the OPCO to the PRC Equity Owners which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO during the relevant financial period are fair and reasonable, or advantageous to the Shareholders of the Company, so far as the Group is concerned and in the interests of the Shareholders of the Company as a whole. To this extent, no new VIE agreements or contractual arrangements were entered into between the Group and the OPCO during the period from 23 July 2019 to 31 December 2019.

The Company's auditors has carried out review procedures for the period from 23 July 2019 to 31 December 2019 on the transactions carried out pursuant to the VIE Agreements and has confirmed that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant VIE Agreements and that no dividends or other distributions have been made by the OPCO to the PRC Equity Owners which are not otherwise subsequently assigned or transferred to the Group.

The adoption of the VIE Structure was not related to any requirements other than the foreign ownership restriction in the PRC. As at the date of this annual report, as advised by the PRC legal advisers to the Company, the VIE Structure does not contravene the prevailing laws and regulations in the PRC, and the VIE Agreements are binding on each of the contracting party save as disclosed in the VIE Announcement. The Company will monitor the relevant PRC laws and regulations relevant to the VIE Structure and will take all necessary actions to protect the Company's interest in the OPCO.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 48 to 81 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.

AUDITOR

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

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme and the Award Scheme as disclosed above and in note 34 to the financial statements respectively and the grant letters issued pursuant to the schemes, 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 RIGHTS ISSUE

Reference is made to the prospectus published by the Company dated 28 December 2017 in respect of the Rights Issue. 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.

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 2019 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 2019** HK$ million (approximately)	**Balance of the unutilised Rights Issue Proceeds as of 31 December 2019** HK$ million (approximately)
Future joint ventures and M&A opportunities	750	750	–
Phase I of the Tonghu Project	350	109	241
R&D	350	350	–
General working capital	550	550	–
Total	**2,000**	**1,759**	**241**

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
28 March 2020

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 292, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

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 Shenzhen Falcon Network Technology Co., Ltd. ("Falcon Network Technology")	
On 22 March 2019, the Group completed the acquisition of an additional 15.56% equity interest of Falcon Network Technology, a former 44.44% owned associate of the Group, at a consideration of RMB420,120,000. Falcon Network Technology and its subsidiaries (collectively, "Falcon Network Technology Group") have become 60% owned subsidiaries of the Group. This equity transfer was considered as a business combination achieved in stages. This transaction was accounted for using the 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 judgements and estimates, in particular those used in the determination of the fair value of the acquired customer relationship such as budgeted revenue/gross margin, contributory asset charge, attrition rate and discount rate. The intangible assets identified in this acquisition amounted to approximately HK$73,011,000 and the purchase price allocation resulted in goodwill amounted to approximately HK$1,121,537,000. The accounting policies and disclosures in respect of acquisitions are included in notes 2.4, 3 and 38 to the Group's consolidated financial statements.	Our audit procedures included: • we 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; • we 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/gross margin, contributory asset charge, attrition rate and discount rate. We also evaluated the external appraisers' qualifications, professional competence and independence; • we 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 re-measurement of previously held equity interest and business combination achieved in stages; and • we assessed the disclosures made in the Group's consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
As at 31 December 2019, the Group had goodwill of HK$1,867,990,000 which was allocated to five cash-generating units ("CGUs"), including PRC TV products with the TCL brand, commercial display products, smart home products, Falcon Internet business and Hawk Internet business. The determination of the 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 17 to the Group's consolidated financial statements.	Our audit procedures included: • we evaluated the methodologies, assumptions and parameters used by management, in particular those relating to budgeted revenue/gross margins, growth rates and pre-tax discount rates, by comparing the cash flow forecast to historical trend analyses and referring to the industry discount rate; • we assessed the historical accuracy of management's estimates and evaluation of business plans by referring to the market situation as at 31 December 2019; • we evaluated the sensitivity analysis performed by management in respect of the growth rates and pre-tax discount rates to assess the extent of impact on the calculations of the value-in-use; • we 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 • we assessed the disclosures made in the Group's consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade and other receivables	
As at 31 December 2019, the Group had trade receivables and other receivables of HK$5,993,843,000 and HK$1,300,780,000, respectively, representing around 21.7% and 4.7% of current assets of the Group, respectively. Management develops expected credit loss models to assess the impairment allowance of trade and other receivables at the end of each 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, 23, 25 and 44 to the Group's consolidated financial statements.	In evaluating management's impairment assessment, our audit procedures included: • we assessed the methodologies, assumptions and estimates used by management, checked historical repayment pattern and identified any events of default or disputes with the debtors; • we evaluated the data inputs by management which included the ageing of trade and other receivables as at 31 December 2019 and historical observed loss rates; and • we 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.

- 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
28 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (restated)
TURNOVER	6	**46,991,139**	45,581,970
Cost of sales		**(38,821,075)**	(38,629,813)
Gross profit		**8,170,064**	6,952,157
Other revenue and gains	6	**1,951,769**	888,432
Selling and distribution expenses		**(4,938,685)**	(4,476,731)
Administrative expenses		**(1,525,189)**	(1,322,550)
Research and development costs		**(987,149)**	(722,290)
Other operating expenses		**(19,027)**	(20,939)
Impairment losses on financial assets, net		**(27,468)**	(13,258)
		2,624,315	1,284,821
Finance costs	7	**(138,155)**	(97,728)
Share of profits and losses of:			
Joint ventures		**13,041**	2,426
Associates		**25,180**	68,693
PROFIT BEFORE TAX	8	**2,524,381**	1,258,212
Income tax	11	**(199,288)**	(226,778)
PROFIT FOR THE YEAR		**2,325,093**	1,031,434

Year ended 31 December 2019

	2019 HK$'000	2018 HK$'000 (restated)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of the hedging instruments arising during the year	**(7,857)**	43,028
Reclassification adjustments for gains included in profit or loss	**(3,621)**	(32,314)
	(11,478)	10,714
Exchange differences:		
Translation of foreign operations	**(254,647)**	(383,669)
Reclassification adjustments for foreign operations disposed of or liquidated during the year	**(7,848)**	16,622
Reclassification adjustments for deemed partial disposal or disposed of associates during the year	**353**	–
	(262,142)	(367,047)
Financial assets at fair value through other comprehensive income:		
Changes in fair value, net of income tax	**3,490**	19,852
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(270,130)**	(336,481)
Other comprehensive income/(loss) 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	**(7,525)**	9,088
Share of other comprehensive income of associates	**1,110**	12,370
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**(6,415)**	21,458

Year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000 (restated)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(276,545)	(315,023)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,048,548	716,411
Profit/(loss) attributable to:			
Owners of the parent		2,279,426	1,040,819
Non-controlling interests		45,667	(9,385)
		2,325,093	1,031,434
Total comprehensive income/(loss) attributable to:			
Owners of the parent		2,017,394	727,930
Non-controlling interests		31,154	(11,519)
		2,048,548	716,411
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		(restated)
Basic		HK100.06 cents	HK46.99 cents
Diluted		HK98.24 cents	HK45.84 cents

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,531,460**	1,347,073
Investment properties	15	**127,908**	128,079
Right-of-use assets	16(b)	**285,569**	–
Prepaid land lease payments	16(a)	**–**	154,123
Goodwill	17	**1,867,990**	781,962
Other intangible assets	18	**156,166**	111,102
Investments in joint ventures	19	**31,323**	18,801
Investments in associates	20	**1,398,627**	1,419,662
Equity investments designated at fair value through other comprehensive income	21	**143,920**	128,770
Deferred tax assets	33	**85,584**	101,737
Other deferred assets		**44,430**	46,011
Restricted cash	27	**3,396**	–
Total non-current assets		**5,676,373**	4,237,320
CURRENT ASSETS			
Inventories	22	**5,401,416**	6,982,733
Trade receivables	23	**5,993,843**	4,881,560
Bills receivable	24	**4,167,798**	2,360,909
Prepayments, other receivables and other assets	25	**2,743,731**	2,900,251
Tax recoverable		**41,180**	74,802
Financial assets at fair value through profit or loss	26	**961,576**	–
Derivative financial instruments	30	**139,480**	101,914
Restricted cash	27	**2,431**	–
Cash and cash equivalents	27	**8,194,743**	6,741,976
		27,646,198	24,044,145
Non-current assets classified as held for sale		**–**	21,445
Total current assets		**27,646,198**	24,065,590
CURRENT LIABILITIES			
Trade payables	28	**9,396,398**	9,801,922
Bills payable		**2,683,814**	1,613,794
Other payables and accruals	29	**6,477,884**	5,151,507
Interest-bearing bank and other borrowings	31	**1,648,612**	1,093,987
Lease liabilities	16(c)	**80,808**	–
Tax payable		**134,708**	56,423
Derivative financial instruments	30	**44,086**	22,177
Provisions	32	**689,597**	589,091
Total current liabilities		**21,155,907**	18,328,901
NET CURRENT ASSETS		**6,490,291**	5,736,689
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,166,664**	9,974,009

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,166,664**	9,974,009
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**89,286**	20,540
Lease liabilities	16(c)	**59,621**	–
Deferred tax liabilities	33	**46,840**	44,472
Other long-term payables		**27,252**	27,725
Derivative financial instruments	30	**6,899**	5,336
Total non-current liabilities		**229,898**	98,073
Net assets		**11,936,766**	9,875,936
EQUITY			
Equity attributable to owners of the parent			
Issued capital	34	**2,363,225**	2,335,494
Reserves	35	**9,216,765**	7,540,198
		11,579,990	9,875,692
Non-controlling interests		**356,776**	244
Total equity		**11,936,766**	9,875,936

LI Dongsheng
Director

WANG Cheng Kevin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent														
	Issued capital HK$'000 (Note 34)	Share premium account HK$'000 (Note 34)	Share option reserve HK$'000 (Note 35(i))	Capital reserve HK$'000 (Note 35(ii))	Reserve funds HK$'000 (Note 35(iii))	Cash flow hedge reserve HK$'000 (Note 35(v))	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Shares held for the Award Scheme HK$'000 (Note 34)	Awarded share reserve HK$'000 (Note 35(iv))	Fair value reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2019 (restated)	2,335,494	5,488,776*	277,231*	84,275*	910,635*	1,773*	(241,007)*	22,911*	(243,269)*	158,321*	(7,667)*	1,088,219*	9,875,692	244	9,875,936
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	2,279,426	2,279,426	45,667	2,325,093
Other comprehensive income/(loss) for the year:															
Cash flow hedge	-	-	-	-	-	(11,478)	-	-	-	-	-	-	(11,478)	-	(11,478)
Exchange differences related to:															
Translation of foreign operations	-	-	-	-	-	-	(240,134)	-	-	-	-	-	(240,134)	(14,513)	(254,647)
Reclassification adjustments for foreign operations disposed of or liquidated during the year	-	-	-	-	-	-	(7,848)	-	-	-	-	-	(7,848)	-	(7,848)
Reclassification adjustments for deemed partial disposal or disposed of associates during the year	-	-	-	-	-	-	353	-	-	-	-	-	353	-	353
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	-	3,490	-	3,490	-	3,490
Change in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	-	(7,525)	-	(7,525)	-	(7,525)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	1,110	-	-	-	-	1,110	-	1,110
Total comprehensive income/(loss) for the year	-	-	-	-	-	(11,478)	(247,629)	1,110	-	-	(4,035)	2,279,426	2,017,394	31,154	2,048,548
Acquisition of subsidiaries	-	-	-	-	-	-	-	(8,613)	-	-	-	-	(8,613)	324,864	316,251
Capital injection from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	8,413	8,413
Acquisition of non-controlling interests	-	-	-	(54)	-	-	-	-	-	-	-	-	(54)	(5,490)	(5,544)
Long term incentive plans of subsidiaries	-	-	-	-	-	-	-	(3,615)	-	-	-	-	(3,615)	(2,409)	(6,024)
Equity-settled share option arrangements	-	-	38,367	-	-	-	-	-	-	-	-	-	38,367	-	38,367
Issue of shares upon exercise of share options (note 34)	27,731	108,845	(41,050)	-	-	-	-	-	-	-	-	-	95,526	-	95,526
Forfeiture of share options during the year	-	-	(24,632)	-	-	-	-	-	-	-	-	24,632	-	-	-
Employee share-based compensation benefits under the Award Scheme (note 34)	-	-	-	-	-	-	-	-	-	35,822	-	-	35,822	-	35,822
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	-	23,720	(29,108)	-	-	(5,388)	-	(5,388)
Purchase of shares for the Award Scheme	-	-	-	-	-	-	-	-	(9,647)	-	-	-	(9,647)	-	(9,647)
2019 interim dividend paid	-	(241,374)	-	-	-	-	-	-	-	-	-	-	(241,374)	-	(241,374)
2018 final dividend paid	-	(214,120)	-	-	-	-	-	-	-	-	-	-	(214,120)	-	(214,120)
Transfer from retained profits	-	-	-	(80)	33,517	-	-	-	-	-	-	(33,437)	-	-	-
At 31 December 2019	2,363,225	5,142,127*	249,916*	84,141*	944,152*	(9,705)*	(488,636)*	11,793*	(229,196)*	165,035*	(11,702)*	3,358,840*	11,579,990	356,776	11,936,766

* These reserve accounts comprise the consolidated reserves of HK$9,216,765,000 (2018 (restated): HK$7,540,198,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent														
	Issued capital HK$'000 (Note 34)	Share premium account HK$'000 (Note 34)	Share option reserve HK$'000 (Note 35(i))	Capital reserve HK$'000 (Note 35(ii))	Reserve funds HK$'000 (Note 35(iii))	Cash flow hedge reserve HK$'000 (Note 35(v))	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Shares held for the Award Scheme HK$'000 (Note 34)	Awarded share reserve HK$'000 (Note 35(iv))	Fair value reserve HK$'000	Retained profits HK$'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 (restated)	-	-	-	-	-	-	-	-	-	-	-	1,040,819	1,040,819	(9,385)	1,031,434
Other comprehensive income/(loss) for the year (restated):															
Cash flow hedge	-	-	-	-	-	10,714	-	-	-	-	-	-	10,714	-	10,714
Exchange differences related to:															
Translation of foreign operations (restated)	-	-	-	-	-	-	(381,535)	-	-	-	-	-	(381,535)	(2,134)	(383,669)
Reclassification adjustments for foreign operations disposed of or liquidated during the year	-	-	-	-	-	-	16,622	-	-	-	-	-	16,622	-	16,622
Change in fair value of financial assets 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
Share of other comprehensive income of associates	-	-	-	-	-	-	-	12,370	-	-	-	-	12,370	-	12,370
Total comprehensive income/(loss) for the year (restated)	-	-	-	-	-	10,714	(364,913)	12,370	-	-	28,940	1,040,819	727,930	(11,519)	716,411
Equity-settled share option arrangements	-	-	89,832	-	-	-	-	-	-	-	-	-	89,832	-	89,832
Issue of shares upon exercise of share options (note 34)	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 34)	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 34)	-	-	-	-	-	-	-	-	-	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 (restated)	2,335,494	5,488,776*	277,231*	84,275*	910,635*	1,773*	(241,007)*	22,911*	(243,269)*	158,321*	(7,667)*	1,088,219*	9,875,692	244	9,875,936

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,524,381**	1,258,212
Adjustments for:			
Finance costs	7	**138,155**	97,728
Share of profits and losses of joint ventures and associates		**(38,221)**	(71,119)
Gain on bargain purchase of associates	8	**–**	(119,962)
Gain on liquidation of an associate	8	**–**	(43)
Gain on disposal of associates	8	**(38,782)**	–
Deemed gain on partial disposal of an associate	8	**(152,658)**	–
Fair value gain of an investment in associates	8	**(787,394)**	–
Impairment of investment in an associate	8	**68**	–
Gain on disposal of a subsidiary	8	**(274,804)**	–
(Gain)/loss on liquidation of subsidiaries	8	**1,464**	(6,944)
Gain on bargain purchase of a subsidiary	8	**(8,224)**	–
Interest income	8	**(121,850)**	(62,299)
Fair value (gain)/loss, net:			
Derivatives instruments – transaction not qualifying as hedges	8	**(22,147)**	21,963
Ineffectiveness of cash flow hedges	8	**–**	(1,727)
Financial assets at fair value through profit or loss	8	**(13,044)**	–
(Gain)/loss on disposal of items of property, plant and equipment, net	8	**2,964**	(167,708)
Depreciation of property, plant and equipment	14	**193,420**	207,809
Impairment of items of property, plant and equipment	14	**4,935**	–
Depreciation of investment properties	15	**3,374**	2,886
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	16	**86,740**	3,098
Amortisation of other intangible assets	18	**23,223**	5,069
Equity-settled share option expenses	8	**35,560**	82,045
Employee share-based compensation benefits under the Award Scheme	8	**33,108**	64,691
		1,590,268	1,313,699
Decrease/(increase) in inventories		**1,461,170**	(1,991,420)
(Increase)/decrease in trade receivables		**(795,515)**	1,659,477
(Increase)/decrease in bills receivable		**(1,846,753)**	1,305,672
Decrease/(increase) in other deferred assets		**1,581**	(46,011)
Decrease/(increase) in prepayments, other receivables and other assets		**90,463**	(1,629,779)
Decrease in trade payables		**(575,583)**	(160,554)
Increase in bills payable		**1,112,356**	1,354,148
Increase in other payables and accruals		**1,249,825**	578,163
Increase in provisions		**112,152**	119,644
Increase in other long-term payables		**–**	27,725
Cash generated from operations		**2,399,964**	2,530,764
Interest paid		**(100,579)**	(64,448)
Interest element of lease payments		**(7,252)**	(90)
Income taxes paid		**(74,502)**	(393,534)
Net cash flows from operating activities		**2,217,631**	2,072,692

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (restated)
Net cash flows from operating activities		**2,217,631**	2,072,692
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**121,850**	62,299
Dividends received		**37,745**	15,513
Purchases of items of property, plant and equipment		**(454,022)**	(129,027)
Prepayment of right-of-use assets		**(5,224)**	–
Prepayment of land lease payments		**–**	(37,583)
Proceeds from disposal of items of property, plant and equipment		**19,551**	396,473
Purchase of financial assets at fair value through profit or loss, net		**(909,262)**	–
Purchase of equity investments designated at fair value through other comprehensive income		**–**	(3,380)
Acquisition of subsidiaries	38	**304,163**	(522,280)
Investments in associates		**(15,535)**	(340,238)
Capital distribution from an associate		**2,941**	–
Disposal of subsidiaries	39	**44,887**	–
Proceeds from disposal of associates		**46,819**	10,074
Net cash flows used in investing activities		**(806,087)**	(548,149)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options		**95,526**	18,128
Interest paid		**(30,324)**	(33,190)
Principal portion of lease payments		**(74,671)**	(2,080)
Purchase of shares for the Award Scheme		**(9,647)**	(46,935)
Acquisition of non-controlling interests		**(511)**	–
New bank and other loans		**4,487,121**	3,478,611
Repayment of bank and other loans		**(3,839,238)**	(5,288,220)
Proceeds from issue of Rights Issue shares		**–**	2,000,944
Capital injection from a non-controlling interest		**2,273**	–
Dividend paid		**(455,494)**	(561,267)
Liquidation distribution to non-controlling shareholders of a subsidiary		**–**	(26,250)
Dividends paid to non-controlling shareholders		**–**	(29,780)
Increase in restricted cash		**(5,827)**	–
Net cash flows from/(used in) financing activities		**169,208**	(490,039)

Year ended 31 December 2019

	Note	**2019** **HK$'000**	2018 HK$'000 (restated)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,580,752**	1,034,504
Cash and cash equivalents at beginning of year		**6,741,976**	5,910,235
Effect of foreign exchange rate changes, net		**(127,985)**	(202,763)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**8,194,743**	6,741,976
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**8,200,570**	6,741,976
Less: Restricted cash	27	**(5,827)**	–
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**8,194,743**	6,741,976

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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.

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

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries (H.K.)"), a company incorporated in Hong Kong, is the immediate holding company of the Company. In the first quarter of 2019, a restructuring occurred whereby TCL Technology Group Corporation ("TCL Technology", formerly known as TCL Corporation) spun off, among others, all its equity interests in T.C.L. Industries (H.K.) transferred to TCL Industries Holdings Co., Limited ("TCL Holdings"), a limited liability company registered in the People's Republic of China (the "PRC"). Accordingly, the ultimate holding company of the Company has changed to TCL Holdings following completion of such restructuring. As the major shareholders of TCL Holdings are the key management of TCL Technology, TCL Technology remained a related party of the Group.

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 2019	2018	Principal activities
TCL Commercial Information Technology (Huizhou) Limited ("CI Tech")#	PRC/ Mainland China	RMB100,000,000	**100**	100	Trading of commercial display products
Guangzhou Kuyu Network Technology Co., Ltd.#	PRC/Mainland China	RMB100,000,000	**100**	100	Trading of TV products
TCL Smart Home Technologies Co., Limited ("TCL Smart Home")	Hong Kong	HK$121,970,000	**100**	100	Investment holding
Guangzhou Digital Rowa Technology Co., Ltd.**/#	PRC/Mainland China	RMB120,000,000	**70**	70	Manufacture of TV products

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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 2019	2018	Principal activities
Manufacturas Avanzadas, S.A. de. C.V.	Mexico	US$15,866,637	**100**	100	Manufacture of TV products
TTE Corporation@	British Virgin Islands ("BVI")/ Hong Kong	US$10,000	**100**	100	Investment holding
Shenzhen TCL New Technology Company Limited**/#	PRC/ Mainland China	RMB10,608,600	**100**	100	Manufacture and sale of TV products
TCL (Vietnam) Corporation Limited	Vietnam	VND141,635,000,000	**100**	100	Manufacture and sale of TV 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 TV products and components
TCL Electronics (Thailand) Co., Limited	Thailand	THB255,000,000	**100**	100	Trading of TV products and components
TCL Holdings (BVI) Limited@	BVI/Hong Kong	US$25,000	**100**	100	Investment holding
TCL Belgium S.A.	Belgium	EUR66,928,368	**100**	100	Investment holding
TCL International Electronics (BVI) Limited@	BVI/Hong Kong	US$1	**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		Principal activities
			2019	2018	
TTE (North America) Holdings Limited	BVI/Hong Kong	US$1	**100**	100	Investment holding
TCL Information Technology Industrial (Group) Co., Ltd.@	BVI/Hong Kong	US$4,500,000	**100**	100	Investment holding
TCL King Electrical Appliances (Chengdu) Company Limited ("TCL King (Chengdu)")*/#	PRC/ Mainland China	RMB100,880,000	**100**	100	Manufacture of TV products
TCL King Electrical Appliances (Huizhou) Company Limited ("TCL King Electrical")*/#	PRC/ Mainland China	RMB492,627,185	**100**	100	Manufacture and sale of TV products and trading of components
TCL King Electrical Appliances (Nanchang) Company Limited**/#	PRC/ Mainland China	RMB21,400,000	**100**	100	Manufacture of TV products
TCL Overseas Electronics (Huizhou) Limited*/#	PRC/ Mainland China	RMB217,699,156	**100**	100	Manufacture of TV products
TCL Overseas Holdings Limited	BVI/Hong Kong	US$1	**100**	100	Investment holding
TCL Overseas Marketing Limited	BVI/Hong Kong	US$1	**100**	100	Trading of TV products and components
TCL Moka, S. de R.L. de C.V.	Mexico	MXN3,000	**100**	100	Property 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 2019	2018	Principal activities
TTE Technology Inc.	USA	US$129,433,108	**100**	100	Trading of TV products and components
TCL Operations Polska SP. ZO.O	Poland	PLN126,716,500	**100**	100	Manufacture of TV products
TCL Optoelectronics Technology (Huizhou) Co., Ltd.@/#	PRC/ Mainland China	RMB576,000,000	**100**	100	Manufacture and sale of TV products and trading of components
Toshiba Visual Products (China) Co., Ltd.**/#	PRC/ Mainland China	RMB50,000,000	**70**	70	Trading of TV products and components
TCL Moka Manufacturing, S.A. de C.V.	Mexico	MXN50,000	**100**	100	Manufacture and sale of TV 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
TCL Intelligent Technology (Ningbo) Co., Ltd.**/#	PRC/ Mainland China	RMB62,500,000	**80**	–	Trading of TV products and components and white goods

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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 2019	% of equity attributable to the Company 2018	Principal activities
Falcon Network Technology**/#	PRC/ Mainland China	RMB121,621,621	**60**	44.44	R&D of software on smart TV devices and Internet platform operation
Shenzhen Falcon Network Media Company Limited#	PRC/ Mainland China	RMB15,000,000	**60**	44.44	R&D of software on smart TV devices and Internet platform operation
Moka International Limited@	BVI/Hong Kong	US$1	**100**	100	Investment holding
Shenzhen Hawk Internet Company Limited ("Shenzhen Hawk Internet")#	PRC/ Mainland China	RMB528,103,044	**100**	–	R&D of software on smart TV devices, mobile devices and Internet platform operation

@ 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 purpose 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 Group completed acquisitions of equity interests of Falcon Network Technology from Shenzhen Qianhai Fende Industries Investment Company Limited ("Qianhai Fende"), and Shenzhen Hawk Internet from TCL Technology. Further details of these acquisitions are included in notes 38 and 42(b)(iii) 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 2019. 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).

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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 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 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the Amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 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) 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land, plant and properties, motor vehicles and other equipments. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate ("IBR") at 1 January 2019. The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019
- Excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK$'000
Assets	
Increase in right-of-use assets	334,890
Decrease in prepaid land lease payments	(157,145)
Decrease in prepayments, other receivables and other assets	(2,726)
Increase in total assets	175,019
Liabilities	
Increase in lease liabilities	175,019
Increase in total liabilities	175,019

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 were as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	206,166
Less: Value-added tax ("VAT") recognised in commitments	(7,694)
Operating lease commitments excluded VAT as at 31 December 2018	198,472
Weighted average IBR as at 1 January 2019	4.72%
Discounted operating lease commitments as at 1 January 2019	186,443
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(11,424)
Lease liabilities as at 1 January 2019	175,019

(b) 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 assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

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*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 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.

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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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

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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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

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*.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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 CGUs, or groups of CGUs, 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.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) 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 CGU (or group of CGUs) 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 CGU retained.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Group measures its certain financial assets, 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.

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.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, financial assets and non-current assets/non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or CGU'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 CGU 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 a 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.

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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	Over the lease terms
Buildings	2% - 5%
Leasehold improvements	20% - 50% or over the lease terms whichever is shorter
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.

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.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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 property held as a right-of-use asset (2018: leasehold property under an operating lease) 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 and stated at cost, including transaction costs, less accumulated depreciation and any impairment losses.

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

Buildings	2% - 3.67%
Leasehold land	Over the lease terms

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

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 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, investment properties and intangible assets classified as held for sale are not depreciated or amortised.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40 to 70 years
Plant and properties	2 to 68 years
Motor vehicles and others	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

The Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its IBR at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g. a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are separately disclosed in the consolidated statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

The Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Leases (applicable before 1 January 2019)

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.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable before 1 January 2019) (continued)

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 recognised on the straight-line basis over the lease terms.

Investments and other financial assets

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" 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in 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 profit or loss.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Subsequent measurement (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 profit or loss. Dividends are recognised as other revenue in 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 are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

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 revenue in 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 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("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.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

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.

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

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

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.

Financial liabilities

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 payables, bills payable, derivative financial instruments, lease liabilities, interest-bearing bank and other borrowings and financial liabilities included in other payables and accruals and other long-term payable.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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 profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement (continued)

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

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 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 profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (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.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

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.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting

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.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKFRS 9 is recognised in profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

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 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.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (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.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

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 TV and other 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.

31 December 2019

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, and 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.

31 December 2019

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 a 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 relevant asset by way of a reduced depreciation charge.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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 with 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.

(a) Sale of TV and other products

Revenue from the sale of TV and other products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the TV and other products.

Some contracts for the sale of TV and other products provide customers with volume rebates which give rise to variable consideration.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of TV and other products (continued)

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.

(b) Video-on-demand services

Video-on-demand services primarily offer customers to assess certain videos on the Internet platform. Revenue from video-on-demand services is recognised over the validity period on a straight-line basis.

(c) Advertising, value-added and other services

Revenue from advertising, value-added and other services is recognised at the point in time when the services are rendered.

Other revenue

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.

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract liabilities

A contract liability is recognised when a payment is received or the payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e. transfers control of the related goods or services to the customer).

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 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.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

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.

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 outstanding 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.

The employees of the Group’s subsidiaries which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. Certain subsidiaries are required to contribute a certain percentage of their payroll costs to the pension schemes at the applicable rates based on the amounts stipulated by the local governmental organisations. 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 HK$, 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.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into HK$ 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 HK$ 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 HK$ 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 HK$ at the weighted average exchange rates for the year.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements 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 TV and other products

Certain contracts for the sale of TV and other 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 TV and other products with volume rebates, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sale of TV and other 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.

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Property lease classification – the 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, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for operating leases.

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 TV and other 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.

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Variable consideration for volume rebates (continued)

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 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 2019, the amount recognised as rebate allowance was HK$1,446,113,000 (2018: HK$846,378,000) for the expected rebates.

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 CGUs 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 CGUs 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 2019 was HK$1,867,990,000 (2018: HK$781,962,000). Further details are given in note 17 to the financial statements.

Provision for ECLs 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 customer 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 product) 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.

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Provision for ECLs on trade and other receivables (continued)

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 a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and other receivables is disclosed in notes 23 and 25 to the financial statements, respectively.

Leases – Estimating the IBR

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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 CGU 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 CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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 33 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 43 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. The fair value of the unlisted equity investments at 31 December 2019 was HK$143,920,000 (2018: HK$128,770,000). Further details are included in note 21 to the financial statements.

Fair value of financial instruments determined using valuation techniques

Fair value of financial instruments, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks, associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in note 43 to the financial statements.

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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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 32 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.

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 judgements 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.

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4. ADJUSTMENTS ARISING FROM PRIOR YEAR PROVISIONAL ACCOUNTING

During the year, the Group has finalised the fair value assessments of the acquisition of 15% equity interest of Radio Victoria TCL Argentina S.A. ("RVF") and Sontec TCL Argentina S.A. ("Sontec") (the "RVF and Sontec Acquisition") respectively. On completion of the fair value assessments, retrospective adjustments were made to the provisional calculation of identifiable assets and liabilities as of 29 June 2018, being the closing day of the RVF and Sontec Acquisition. Consequently, the Group's consolidated statement of financial position as at 31 December 2018, 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 ended 31 December 2018, and certain explanatory notes have been restated to reflect these restatements.

The effects of the adjustments arising from completion of the RVF and Sontec Acquisition described above on the profit or loss for the year ended 31 December 2018 by line items presented in the consolidated statement of profit or loss and other comprehensive income were as follows:

	2018 HK$'000
Impact on profit for the year	
Adjustment arising from completion of the RVF and Sontec Acquisition:	
Increase in other revenue and gains	117,192
Increase in administrative expenses	(20,236)
Decrease in share of profits and losses of associates	(372)
Net increase in profit for the year	96,584
Net increase in profit attributable to:	
Owners of the parent	96,584
Impact on other comprehensive income for the year	
Adjustment arising from completion of the RVF and Sontec Acquisition:	
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:	
Exchange differences:	
Translation of foreign operations	(213)
Net decrease in other comprehensive income for the year	(213)
Net increase in total comprehensive income attributable to:	
Owners of the parent	96,371

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4. ADJUSTMENT ARISING FROM PRIOR YEAR PROVISIONAL ACCOUNTING (CONTINUED)

The effects of the adjustments arising from completion of the RVF and Sontec Acquisition described above on the financial position as at 31 December 2018 by line items presented in the consolidated statement of financial position were as follows:

	31 December 2018 HK$'000 (originally stated)	Adjustments arising from completion of the RVF and Sontec Acquisition HK$'000	31 December 2018 HK$'000 (restated)
Non-current assets			
Investments in associates	1,412,601	7,061	1,419,662
Current assets			
Derivative financial instruments	7,268	94,646	101,914
Non-current liabilities			
Derivative financial instruments	–	(5,336)	(5,336)
Total effects on net assets	9,779,565	96,371	9,875,936
Equity			
Retained profits	991,635	96,584	1,088,219
Exchange fluctuation reserve	(240,794)	(213)	(241,007)
Total effect on total equity	9,779,565	96,371	9,875,936

Impact on basic earnings per share

	2018
Basic earnings per share before adjustments	HK42.63 cents
Adjustments arising from completion of the RVF and Sontec Acquisition	HK4.36 cents
Restated basic earnings per share	HK46.99 cents

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4. ADJUSTMENT ARISING FROM PRIOR YEAR PROVISIONAL ACCOUNTING (CONTINUED)

Impact on diluted earnings per share

	2018
Diluted earnings per share before adjustments	HK41.58 cents
Adjustments arising from completion of the RVF and Sontec Acquisition	HK4.26 cents
Restated diluted earnings per share	HK45.84 cents

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their geographical TV segments and other product types and has three reportable operating segments as follows:

(a) TV segment - manufacture and sale of TV sets in:

- TCL brand - the PRC market;
- TCL brand - the overseas markets; and
- original design manufacturer ("ODM") business;

(b) Internet business segment - advertising, value-added, video-on-demand and membership cards; and

(c) Other segments - comprise Smart AV, smart home solutions and products and other businesses, including manufacture and sale of TV related components, sale of white goods, mobile phones and air conditioners.

The management of the Company 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.

Certain reportable operating segments have been restated as the management believes that the information regarding such restated segments would be useful to the users of these financial statements.

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5. OPERATING SEGMENT INFORMATION (CONTINUED)

	TV						Internet business		Others*		Total		Eliminations		Consolidated	
	TCL brand – the PRC market		TCL brand – overseas markets		ODM business											
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	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
		(restated)		(restated)		(restated)		(restated)		(restated)		(restated)		(restated)		(restated)
Segment revenue: (note 6)																
Sales to external customers	12,993,040	15,466,668	20,997,121	18,403,820	10,502,164	11,101,640	626,176	-	1,872,638	609,842	46,991,139	45,581,970	-	-	46,991,139	45,581,970
Intersegment sales	4,401,046	1,795,165	1,246,089	1,549,690	1,242,258	927,341	16,012	-	290,096	154,868	7,195,501	4,427,064	(7,195,501)	(4,427,064)	-	-
Total	17,394,086	17,261,833	22,243,210	19,953,510	11,744,422	12,028,981	642,188	-	2,162,734	764,710	54,186,640	50,009,034	(7,195,501)	(4,427,064)	46,991,139	45,581,970
Segment results	127,741	144,089	877,616	616,679	411,458	537,375	317,229	-	(131,538)	11,537	1,602,506	1,309,680	-	-	1,602,506	1,309,680
Corporate income/(expenses), net											899,959**	(87,158)			899,959**	(87,158)
Finance costs											(138,155)	(97,728)			(138,155)	(97,728)
Interest income											121,850	62,299			121,850	62,299
Share of profits and losses of:																
Joint ventures	(5)	-	13,022	2,426	-	-	24	-	-	-	13,041	2,426			13,041	2,426
Associates	15,079	21,494	(26,330)	13,140	-	-	39,627	39,089	(3,196)	(5,030)	25,180	68,693			25,180	68,693
Profit before tax											2,524,381	1,258,212			2,524,381	1,258,212
Income tax											(199,288)	(226,778)			(199,288)	(226,778)
Profit for the year											2,325,093	1,031,434			2,325,093	1,031,434
Other segment information:																
Depreciation and amortisation	199,436	161,551	18,372	4,506	41,618	33,631	17,480	-	29,851	19,174	306,757	218,862			306,757	218,862
Investments in joint ventures	2,545	2,606	26,020	16,195	-	-	2,758	-	-	-	31,323	18,801			31,323	18,801
Investments in associates	366,784	204,926	480,211	537,521	-	-	226,449	319,950	325,183	357,265	1,398,627	1,419,662			1,398,627	1,419,662

* Smart AV and smart home products segments have been reclassified to others segment for better decision making of management of the Company.

** Included a one-off gain of HK$787 million on fair value remeasurement of 44.44% pre-existing equity interest in Falcon Network Technology Group.

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5. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

	PRC		Europe		North America		Others		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(restated)		(restated)		(restated)		(restated)		(restated)
Revenue from external customers	**18,043,166**	18,920,054	**2,826,222**	2,059,384	**11,011,042**	10,232,343	**15,110,709**	14,370,189	**46,991,139**	45,581,970
Non-current assets	**4,401,479**	3,167,605	**211,175**	137,907	**249,169**	178,762	**728,966**	651,309	**5,590,789**	4,135,583

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$4,566,862,000 (2018: HK$5,222,040,000) was derived from sales by the TCL brand TV – overseas markets segment (2018: TCL brand TV – PRC market segment) to a single customer.

6. TURNOVER, OTHER REVENUE AND GAINS

An analysis of revenue is as follows:

	2019	2018
	HK$'000	HK$'000
Revenue from contracts with customers	**46,991,139**	45,581,970

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6. TURNOVER, OTHER REVENUE AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	TV and other products HK$'000	Internet business HK$'000	Total HK$'000
Type of goods or services			
Sale of goods	46,364,963	28,696	46,393,659
Video-on-demand services	–	121,030	121,030
Advertising, value-added and other services	–	476,450	476,450
Total revenue from contracts with customers	46,364,963	626,176	46,991,139
Geographical markets			
Mainland China	17,627,030	416,136	18,043,166
Europe	2,826,222	–	2,826,222
North America	10,973,204	37,838	11,011,042
Emerging Markets	7,706,011	172,202	7,878,213
Others	7,232,496	–	7,232,496
Total revenue from contracts with customers	46,364,963	626,176	46,991,139
Timing of revenue recognition			
Goods transferred at a point in time	46,364,963	28,696	46,393,659
Services transferred over time	–	121,030	121,030
Services transferred at a point in time	–	476,450	476,450
Total revenue from contracts with customers	46,364,963	626,176	46,991,139

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6. TURNOVER, OTHER REVENUE AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	TV and other products HK$'000
Type of goods	
Sale of goods	45,581,970
Total revenue from contracts with customers	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
Total revenue from contracts with customers	45,581,970

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6. TURNOVER, OTHER REVENUE 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 to the amounts disclosed in the segment information:

For the year ended 31 December 2019

Segments	TV and other products HK$'000	Internet business HK$'000	Total HK$'000
Revenue from contracts with customers			
External customers	46,364,963	626,176	46,991,139
Intersegment sales	7,179,489	16,012	7,195,501
	53,544,452	642,188	54,186,640
Intersegment adjustments and eliminations	(7,179,489)	(16,012)	(7,195,501)
Total revenue from contracts with customers	46,364,963	626,176	46,991,139

For the year ended 31 December 2018

Segments	TV and other products HK$'000 (restated)
Revenue from contracts with customers	
External customers	45,581,970
Intersegment sales	4,427,064
	50,009,034
Intersegment adjustments and eliminations	(4,427,064)
Total revenue from contracts with customers	45,581,970

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6. TURNOVER, OTHER REVENUE AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(ii) Performance obligations

Information about the Group's performance obligations are summarised below:

Sale of TV and other products

The performance obligation is satisfied upon delivery of the TV and other 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.

Video-on-demand services

The performance obligation is satisfied over time as the services allow customers to assess certain videos on the Internet platform within the validity period, where payment in advance is normally required. The validity period ranging from a few hours to one year depending on the respective terms of the service contracts.

Advertising, value-added and other services

The performance obligation is satisfied upon rendering of the services and payment is generally due within 30 to 90 days from rendering.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 **HK$'000**	2018 HK$'000
Amounts expected to be recognised as revenue:		
Within one year	**472,516**	430,351

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include consideration which is constrained.

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6. TURNOVER, OTHER REVENUE AND GAINS (CONTINUED)

Other revenue and gains

	Notes	2019 HK$'000	2018 HK$'000 (restated)
Other revenue			
Interest income		121,850	62,299
Sales of scrap materials		15,149	12,864
Sales of raw materials		16,689	15,743
Government grants		206,882	210,839
Foreign exchange differences, net		94,708	137,535
Promotion income		1,448	15,146
Write-off of balances due to creditors		27,327	19,521
Gross rental income from investment property operating leases:		–	28,442
Variable lease payments that do not depend on an index or a rate		–	N/A
Other lease payments, including fixed payments		25,781	N/A
Others		44,744	85,069
		554,578	587,458
Gains			
Gain on disposal of items of property, plant and equipment		–	167,708
Fair value gains, net:			
Derivative instruments – transactions not qualifying as hedges		22,147	–
Financial assets at fair value through profit or loss		13,044	–
Realised gain on settlement of derivative financial instruments		34,455	–
Realised gain on settlement of financial assets at fair value through profit or loss		57,103	–
Fair value gain of an investment in associates	38	787,394	–
Gain on disposal of a subsidiary	39	274,804	–
Gain on liquidation of subsidiaries		–	6,944
Gain on disposal of associates		38,782	–
Deemed gain on partial disposal of an associate		152,658	–
Gain on liquidation of an associate		–	43
Gain on bargain purchase of a subsidiary	38	8,224	–
Gain on bargain purchase of associates		–	119,962
Others		8,580	6,317
		1,397,191	300,974
		1,951,769	888,432

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7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 HK$'000	2018 HK$'000
Interest on:		
Bank and other loans	**126,884**	84,359
Loans from TCL Technology	**–**	108
Loans from T.C.L. Industries (H.K.)	**121**	638
Discounted bills receivable from an associate	**3,898**	12,533
Finance lease	**–**	90
Interest expense on lease liabilities	**7,252**	–
	138,155	97,728

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 HK$'000	2018 HK$'000 (restated)
Cost of inventories sold		**38,821,075**	38,629,813
Depreciation of property, plant and equipment	14	**193,420**	207,809
Depreciation of investment properties	15	**3,374**	2,886
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	16	**86,740**	3,098
Research and development costs		**987,149**	722,290
Amortisation of other intangible assets	18	**23,223**	5,069
Minimum lease payments under operating leases in respect of land and buildings		**–**	121,635
Lease payments not included in the measurement of lease liabilities	16	**68,922**	–
Auditor's remuneration		**9,950**	9,600
Employee benefit expenses (including directors' remuneration):	9		
Wages and salaries		**3,069,333**	2,406,972
Equity-settled share option expenses		**35,560**	82,045
Employee share-based compensation benefits under the Award Scheme		**33,108**	64,691
Defined contribution expenses		**267,563**	255,169
		3,405,564	2,808,877

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8. PROFIT BEFORE TAX (CONTINUED)

The Group's profit before tax is arrived at after charging/(crediting): (continued)

	Notes	2019 HK$'000	2018 HK$'000 (restated)
Foreign exchange differences, net		(94,708)	(137,535)
Impairment losses of financial assets:			
Impairment of trade receivables, net	23	26,329	19,546
Impairment/(reversal) of other receivables, net	25	1,139	(6,288)
		27,468	13,258
Impairment of property, plant and equipment	14	4,935**	–
Write-down of inventories to net realisable value		254,722	71,564
Rental income, net		(25,781)	(28,442)
Interest income		(121,850)	(62,299)
Government grants*			
Credited to other revenue and gains		(206,882)	(210,839)
Deducted from costs of sales and relevant expenses		(52,030)	(38,252)
		(258,912)	(249,091)
Fair value (gain)/loss, net:			
Derivative instruments - transactions not qualifying as hedges		(22,147)	21,963
Ineffectiveness of cash flow hedges		–	(1,727)
Financial assets at fair value through profit or loss		(13,044)	–
Realised (gain)/loss on settlement of derivative financial instruments		(34,455)	28,170
Realised gain on settlement of financial assets at fair value through profit or loss		(57,103)	–
(Gain)/loss on disposal of items of property, plant and equipment, net		2,964**	(167,708)
(Gain)/loss on liquidation of subsidiaries		1,464**	(6,944)
Gain on disposal of a subsidiary	39	(274,804)	–
Deemed gain on partial disposal of an associate		(152,658)	–
Gain on disposal of associates		(38,782)	–
Fair value gain of an investment in associates	38	(787,394)	–
Impairment of investment in an associate		68**	–
Gain on liquidation of an associate		–	(43)
Gain on bargain purchase of associates		–	(119,962)
Gain on bargain purchase of a subsidiary	38	(8,224)	–
Restructuring costs provision, net	32	98	1,035**
Product warranty provision, net	32	587,120	501,202

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8. PROFIT BEFORE TAX (CONTINUED)

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 revenue and gains" in the consolidated statement of profit or loss and other comprehensive income. 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.

9. 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:

	2019 **HK$'000**	2018 HK$'000
Fees	**1,350**	1,495
Other emoluments:		
Salaries, allowances and benefits in kind	**3,530**	3,296
Discretionary performance related bonuses	**6,633**	4,473
Equity-settled share option benefits	**4,269**	7,326
Employee share-based compensation benefits under the Award Scheme	**3,477**	5,967
Pension scheme contributions	**210**	252
	18,119	21,314
	19,469	22,809

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9. DIRECTORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The remuneration paid to independent non-executive directors during the year were as follows:

	2019				2018			
	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	54	43	397	300	90	76	466
Dr. TSENG Shieng-chang Carter (note (i))	–	–	–	–	–	–	–	–
Professor WANG Yijiang	300	54	43	397	300	90	76	466
Mr. LAU Siu Ki	300	57	43	400	300	191	76	567
	900	165	129	1,194	900	371	228	1,499

No other emoluments were payable to the independent non-executive directors during the year (2018: Nil).

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9. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

The remuneration paid to executive directors and non-executive directors during the year were 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
2019							
Executive directors:							
Mr. LI Dongsheng (note (ii))	–	650	3,010	997	794	30	5,481
Mr. WANG Cheng Kevin	–	1,511	3,241	1,997	1,615	97	8,461
Mr. YAN Xiaolin	–	–	366	57	43	–	466
Mr. WANG Yi Michael (note (iii))	–	1,369	7	999	853	83	3,311
	–	3,530	6,624	4,050	3,305	210	17,719
Non-executive directors:							
Mr. Albert Thomas DA ROSA, Junior	225	–	–	54	43	–	322
Mr. HUANG Xubin (note (v))	–	–	9	–	–	–	9
Mr. YANG Anming (note (vi))	–	–	–	–	–	–	–
Mr. LI Yuhao (note (vii))	225	–	–	–	–	–	225
	450	–	9	54	43	–	556
	450	3,530	6,633	4,104	3,348	210	18,275

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9. 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
2018							
Executive directors:							
Mr. LI Dongsheng (note (ii))	–	540	1,533	1,350	1,172	25	4,620
Mr. BO Lianming (note (iv))	–	180	–	79	44	–	303
Mr. WANG Cheng Kevin	–	1,212	1,094	3,545	2,752	122	8,725
Mr. YAN Xiaolin	–	–	553	153	76	–	782
Mr. WANG Yi Michael (note (iii))	–	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 (note (v))	–	–	562	15	–	–	577
Mr. ZHANG Zhiwei (note (viii))	145	–	–	–	–	–	145
Mr. LIU Hong (note (ix))	145	–	–	–	–	–	145
Mr. LI Yuhao (note (vii))	80	–	–	–	–	–	80
	595	–	562	105	76	–	1,338
	595	3,296	4,473	6,955	5,739	252	21,310

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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9. DIRECTORS' REMUNERATION (CONTINUED)

Notes:

(i) Dr. TSENG Shieng-chang Carter agreed to waive his remuneration as a director for the year ended 31 December 2019 of HK$300,000 (2018: HK$300,000) and such remuneration will be donated by the Company for charity use;

(ii) Mr. LI Dongsheng was appointed as an executive director of the Company with effect from 2 March 2018;

(iii) Mr. WANG Yi Michael resigned as an executive director of the Company with effect from 28 February 2020;

(iv) Mr. BO Lianming resigned as an executive director of the Company with effect from 2 March 2018;

(v) Mr HUANG Xubin resigned as a non-executive director of the Company with effect from 10 January 2019;

(vi) Mr. YANG Anming was appointed as a non-executive director of the Company with effect from 10 January 2019 and subsequently resigned with effect from 28 February 2020;

(vii) Mr. LI Yuhao was appointed as a non-executive director of the Company with effect from 24 August 2018;

(viii) Mr. ZHANG Zhiwei resigned as a non-executive director of the Company with effect from 24 August 2018; and

(ix) Mr. LIU Hong resigned as a non-executive director of the Company with effect from 24 August 2018.

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.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2018: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2018: three) non-directors, highest paid employees for the year are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	**2,584**	2,025
Discretionary performance related bonuses	**10,812**	4,926
Equity-settled share option benefits	**1,245**	3,901
Employee share-based compensation benefits under the Award Scheme	**1,024**	2,778
Pension scheme contributions	**307**	350
	15,972	13,980

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10. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The number of non-directors, highest paid employees whose remuneration fell within the following bands are as follows:

	Number of employees 2019	2018
HK$3,000,001 to HK$3,500,000	–	1
HK$4,000,001 to HK$4,500,000	**1**	–
HK$5,000,001 to HK$5,500,000	–	1
HK$5,500,001 to HK$6,000,000	**2**	1
	3	3

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2019 HK$'000	2018 HK$'000
Current - Hong Kong		
Charge for the year	**5,178**	6,703
Overprovision in prior years	**(48)**	(2,384)
Current - Elsewhere		
Charge for the year	**181,188**	223,789
(Overprovision)/underprovision in prior years	**(8,982)**	35,767
Deferred (note 33)	**21,952**	(37,097)
Total tax charge for the year	**199,288**	226,778

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11. 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:

	2019 HK$'000	2018 HK$'000 (restated)
Profit before tax	**2,524,381**	1,258,212
Tax at the statutory/applicable tax rates of different countries/jurisdictions	**577,995**	348,718
Lower tax rates for specific provinces or enacted by local authority	**(115,714)**	(120,513)
Adjustments in respect of current tax of previous periods	**(9,030)**	33,383
Effect of withholding tax at 10% on the disposal of an associate	**4,007**	–
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	**(32,181)**	(17,456)
Income not subject to tax	**(308,646)**	(113,599)
Super deduction of R&D expenditures	**(75,979)**	(24,927)
Expenses not deductible for tax	**150,758**	151,977
Tax losses utilised from previous periods	**(71,211)**	(127,358)
Tax losses not recognised	**79,289**	86,632
Tax charge at the Group's effective rate	**199,288**	226,778

The share of tax attributable to joint ventures and associates amounting to tax credit of HK$5,833,000 (2018: tax credit of HK$1,282,000) and tax credit of HK$26,348,000 (2018: tax credit of HK$16,174,000), 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 subsidiaries in the PRC 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 the first two years and a half reduction of corporate income tax for the following three years.

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12. DIVIDENDS

	Notes	2019 HK$'000	2018 HK$'000
Interim dividend – HK10.56 cents (2018: HK9.80 cents) per ordinary share	(a)	249,275	228,672
Proposed final dividend – HK10.60 cents (2018: HK9.38 cents) per ordinary share	(b)	250,502	219,916
		499,777	448,588

(a) The interim dividend for the six months ended 30 June 2019 was HK10.56 cents (2018: HK9.80 cents) per ordinary share of the Company and the total amounts declared and paid are HK$249,275,000 and HK$241,374,000 (2018: HK$228,672,000 and HK$220,894,000) respectively.

(b) The above amount of proposed final dividend for the year ended 31 December 2019 was calculated based on the number of shares of the Company as at 31 December 2019 for illustration. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming AGM. These consolidated financial statements do not reflect this dividend payable.

13. 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 the Company of 2,278,121,477 (2018: 2,215,171,107) 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 of the Company 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.

The weighted average number of ordinary shares of the Company adopted in the calculation of the basic and diluted earnings per share for the year ended 31 December 2018 have been adjusted retrospectively to reflect the impact of the rights issue carried out by the Company which was completed on 25 January 2018.

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

The calculations of the basic and diluted earnings per share are based on:

	2019 HK$'000	2018 HK$'000 (restated)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	2,279,426	1,040,819

	Number of shares	
	2019	2018
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	2,278,121,477	2,215,171,107
Effect of dilution – weighted average number of ordinary shares:		
Share options	7,434,495	6,649,181
Awarded shares	34,735,766	48,904,820
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	2,320,291,738	2,270,725,108

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14. 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 2019							
At 1 January 2019:							
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
At 1 January 2019, net of accumulated depreciation and impairment	904,604	28,918	354,729	27,550	1,804	29,468	1,347,073
Additions	16,886	7,933	54,701	95,544	1,501	277,457	454,022
Acquisition of subsidiaries (note 38)	–	–	4	1,987	406	–	2,397
Disposal of a subsidiary (note 39)	(21,233)	(131)	–	(2)	–	–	(21,366)
Transfer to investment properties (note 15)	(3,269)	–	–	–	–	(645)	(3,914)
Disposals	(97)	(2,664)	(17,300)	(2,182)	(271)	–	(22,514)
Transfers	52,924	13,146	44,167	28,569	(7)	(138,799)	–
Depreciation provided during the year (note 8)	(67,081)	(17,314)	(55,312)	(51,866)	(1,847)	–	(193,420)
Impairment loss (note 8)	–	(613)	(3,847)	(475)	–	–	(4,935)
Exchange realignment	(14,412)	(721)	(5,100)	(2,841)	(122)	(2,687)	(25,883)
At 31 December 2019, net of accumulated depreciation and impairment	868,322	28,554	372,042	96,284	1,464	164,794	1,531,460
At 31 December 2019:							
Cost	1,312,571	200,208	1,023,947	507,674	15,575	164,794	3,224,769
Accumulated depreciation and impairment	(444,249)	(171,654)	(651,905)	(411,390)	(14,111)	–	(1,693,309)
Net carrying amount	868,322	28,554	372,042	96,284	1,464	164,794	1,531,460

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14. 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 2018							
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 38)	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 8)	(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

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14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note:

As at 31 December 2019, certain buildings of the Group situated in Hohhot, the PRC, with an aggregate carrying amount of HK$106,147,000 (2018: HK$116,530,000), 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 and HK$1,103,000, respectively.

15. INVESTMENT PROPERTIES

	2019 HK$'000	2018 HK$'000
Carrying amount at 1 January	**128,079**	130,329
Transfer from property, plant and equipment (note 14)	**3,269**	–
Transfer from construction in progress (note 14)	**645**	430
Depreciation provided during the year (note 8)	**(3,374)**	(2,886)
Exchange realignment	**(711)**	206
Carrying amount at 31 December	**127,908**	128,079

The Group's investment properties mainly consist of four commercial properties and one industrial property located in Hong Kong, the PRC and North America with the carrying amounts of HK$11,103,000 (2018: HK$11,477,000), HK$2,826,000 (2018: Nil) and HK$113,979,000 (2018: HK$116,602,000), 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, the PRC and North America approximate to HK$112,700,000 (2018: HK$113,800,000), HK$24,220,000 (2018: Nil) and HK$214,206,000 (2018: HK$212,667,000), respectively.

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16. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and properties, motor vehicles and other equipments used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 70 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and properties generally have lease terms between 2 and 68 years, while motor vehicles generally have lease terms between 2 and 5 years. Other equipments generally has lease terms of 12 months or less and/or is individually of low value. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(a) Prepaid land lease payments (before 1 January 2019)

	HK$'000
Carrying amount at 1 January 2018	128,078
Additions	37,583
Recognised in profit or loss during the year (note 8)	(3,098)
Exchange realignment	(5,418)
Carrying amount at 31 December 2018	157,145
Current portion included in other receivables (note 25)	(3,022)
Non-current portion	154,123

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land HK$'000	Plant and properties HK$'000	Motor vehicles HK$'000	Other equipments HK$'000	Total HK$'000
As at 1 January 2019	157,145	174,897	2,686	162	334,890
Additions	2,960	57,132	415	–	60,507
Depreciation charge (note 8)	(3,751)	(81,709)	(1,234)	(46)	(86,740)
Deductions as a result of disposal of a subsidiary (note 39)	(2,870)	–	–	–	(2,870)
Lease modification	–	(15,391)	83	22	(15,286)
Exchange realignment	(2,423)	(2,458)	(50)	(1)	(4,932)
As at 31 December 2019	151,061	132,471	1,900	137	285,569

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16. LEASES (CONTINUED)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities HK$'000	2018 Finance lease payables HK$'000
As at 1 January	**175,019**	2,103
New leases	**57,009**	–
Accretion of interest recognised during the year (note 7)	**7,252**	90
Payments	**(81,923)**	(2,170)
Lease modification	**(14,285)**	–
Exchange realignment	**(2,643)**	(23)
As at 31 December	**140,429**	–
Analysed into:		
Current portion		
Related parties	**46,270**	–
Third parties	**34,538**	–
Non-current portion		
Related parties	**8,326**	–
Third parties	**51,295**	–

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 44 to the financial statements.

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16. LEASES (CONTINUED)

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK$'000
Interest expense on lease liabilities (note 7)	7,252
Depreciation charge of right-of-use assets (note 8)	86,740
Expense relating to short-term leases, leases of low-value assets and other leases with remaining lease terms ended on or before 31 December 2019 (note 8)	68,922
Total amount recognised in profit or loss	162,914

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 40(c) and 41 respectively, to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 15) consisting of two commercial properties in Hong Kong, two commercial properties in the PRC and one industrial property in North America under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK$25,781,000 (2018: HK$28,442,000), details of which are included in note 6 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 HK$'000	2018 HK$'000
Within one year	10,789	3,679
After one year but within two years	7,163	3,705
After two years but within three years	7,199	302
After three years but within four years	4,041	–
After four years but within five years	67	–
	29,259	7,686

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17. GOODWILL

	HK$'000
At 1 January 2018:	
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 38)	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
Cost at 1 January 2019, net of accumulated impairment	781,962
Acquisition of subsidiaries (note 38)	1,147,913
Exchange realignment	(61,885)
Cost and net carrying amount at 31 December 2019	1,867,990
At 31 December 2019:	
Cost	1,918,973
Accumulated impairment	(50,983)
Net carrying amount	1,867,990

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following CGUs for impairment testing:

- PRC TV products with the TCL brand ("TCL Brand CGU")
- Commercial display products ("Commercial Display Products CGU")
- Smart home products ("Smart Home Products CGU")
- Falcon Internet business ("Falcon Internet Business CGU")
- Hawk Internet business ("Hawk Internet Business CGU")

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17. 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 14% (2018: 15%). The growth rate used to extrapolate the cash flows of the TV products unit beyond the five-year period is 2% (2018: 3%).

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% (2018: 12%) and cash flows beyond the five-year period were extrapolated using a growth rate of 2% (2018: 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 five-year period approved by senior management. The discount rate applied to the cash flow projections was 16% (2018: 16%) and cash flows beyond the five-year period were extrapolated using a growth rate of 2% (2018: 2%).

Falcon Internet Business CGU

The recoverable amount of the Falcon Internet Business 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%.

Hawk Internet Business CGU

On 1 November 2019, the Group entered into an agreement with TCL Technology to acquire 100% equity interest in Shenzhen Hawk Internet at a cash consideration of RMB200,110,000 (equivalent to approximately HK$222,322,000). The acquisition was accounted for using the acquisition method and completed on 1 November 2019. As of the date of approval of these financial statements, the fair value assessment of the identifiable assets and liabilities had not been finalised, and therefore, a provisional goodwill of HK$26,376,000 was recognised.

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17. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

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$'000	Falcon Internet Business CGU HK$'000	Hawk Internet Business CGU HK$'000	Total HK$'000
As at 31 December 2018	119,638	649,344	12,980	–	–	781,962
As at 31 December 2019	**119,638**	**635,175**	**12,980**	**1,073,821**	**26,376**	**1,867,990**

Assumptions were used in the value-in-use calculation of the TCL brand, Commercial Display Products, Smart Home Products, Falcon Internet Business and Hawk Internet Business CGUs for 31 December 2019 and 31 December 2018. 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.

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18. OTHER INTANGIBLE ASSETS

	Patents and licences HK$'000	Trademarks HK$'000	Customer relationships HK$'000	Total HK$'000
31 December 2019				
Cost at 1 January 2019, net of accumulated amortisation and impairment	19,628	–	91,474	111,102
Acquisition of subsidiaries (note 38)	–	–	73,011	73,011
Amortisation provided during the year (note 8)	(2,480)	–	(20,743)	(23,223)
Exchange realignment	–	–	(4,724)	(4,724)
At 31 December 2019	17,148	–	139,018	156,166
At 31 December 2019:				
Cost	20,471	1,339	163,955	185,765
Accumulated amortisation and impairment	(3,323)	(1,339)	(24,937)	(29,599)
Net carrying amount	17,148	–	139,018	156,166
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation and impairment	–	–	129	129
Acquisition of subsidiaries (note 38)	20,248	–	96,499	116,747
Amortisation provided during the year (note 8)	(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

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19. INVESTMENTS IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Share of net assets	**39,035**	26,513
Loans to a joint venture	**–**	11,665
	39,035	38,178
Provision for impairment	**(7,712)**	(19,377)
	31,323	18,801

The following table illustrates the aggregate summarised financial information of the Group's joint ventures that are not individually material:

	2019 HK$'000	2018 HK$'000
Share of the joint ventures' profit for the year	**13,041**	2,426
Share of the joint ventures' total comprehensive income for the year	**13,041**	2,426
Aggregate carrying amount of the Group's investments in the joint ventures	**31,323**	18,801

The Group has discontinued the recognition of its share of losses of a joint venture TCL-IMAX Entertainment Co., Ltd. ("TCL-IMAX") during the year ended 31 December 2017 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. Loans to TCL-IMAX of HK$11,665,000 and related provision for impairment were written off during the year ended 31 December 2019.

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20. INVESTMENTS IN ASSOCIATES

	2019 **HK$'000**	2018 HK$'000 (restated)
Share of net assets	**1,234,150**	1,380,730
Goodwill on acquisition	**164,477**	38,932
	1,398,627	1,419,662

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
Amlogic (Shanghai) Co., Ltd.* ("Amlogic")▲	RMB411,120,000	PRC/ Mainland China	10.16	Note(a)
SEMP TCL Industrial Commercial Electronical S.A.* ("SEMP")	BRL443,120,000	Brazil	40	Note(b)

* The English names of the companies are not official and are the direct translation from their Chinese or Brazilian names for identification purpose only

▲ Up to the approval date of these financial statements, Amlogic has not yet disclosed its annual financial statements for the year ended 31 December 2019. The numbers presented in the table below are extracted from financial information which was released and publicly disclosed by Amlogic, with some information not being disclosed.

All the associates have been accounted for using the equity method in these financial statements.

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20. INVESTMENTS IN ASSOCIATES (CONTINUED)

Notes:

(a) Amlogic

Amlogic, which is considered as a material associate of the Group, is a strategic partner of the Group engaged in manufacturing and trading of integrated circuits and other semiconductor services.

Although the Group holds less than 20% of the voting power of Amlogic, in the opinion of the directors, the Group is in a position to exercise significant influence over Amlogic through its representation in the board of directors and its participation in policy-making processes of Amlogic.

The following table illustrates the summarised financial information of Amlogic, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	Amlogic	
	2019	2018
	HK$'000	HK$'000
Net assets	**3,286,264**	1,509,211
Net assets, excluding goodwill	**3,249,644**	1,470,279
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**10.16%**	11.29%
Group's share of net assets of the associate, excluding goodwill	**330,164**	165,994
Goodwill on acquisition	**36,620**	38,932
Carrying amount of the investment	**366,784**	204,926
Revenue	**2,680,448**	2,803,557
Profit for the year	**150,207**	308,776

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20. INVESTMENTS IN ASSOCIATES (CONTINUED)

Notes: (continued)

(b) SEMP

SEMP, which is considered a material associate of the Group, is a strategic partner of the Group engaged in trading of TV products.

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	
	2019	2018
	HK$'000	HK$'000
Current assets	**2,259,361**	2,366,941
Non-current assets	**424,270**	216,175
Current liabilities	**(1,130,587)**	(1,574,585)
Non-current liabilities	**(602,336)**	–
Net assets	**950,708**	1,008,531
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**40%**	40%
Group's share of net assets of the associate and carrying amount of the investment	**380,283**	403,413
Revenue	**3,174,440**	3,295,038
Profit/(loss) for the year	**(17,996)**	18,653
Total comprehensive income/(loss) for the year	**(17,996)**	18,653

The following table illustrates the aggregate summarised financial information of the Group's associates that are not individually material:

	2019	2018
	HK$'000	HK$'000
		(restated)
Share of the associates' profit for the year	**17,405**	23,784
Share of the associates' other comprehensive income/(loss) for the year	**236**	(175)
Share of the associates' total comprehensive income for the year	**17,641**	23,609
Aggregate carrying amount of the Group's investments in these associates	**651,560**	811,323

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21. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK$'000	2018 HK$'000
Unlisted equity investments, at fair value		
Shenzhen Digital TV National Engineering Laboratory Co., Ltd.*	**9,798**	10,270
Shanghai Digital TV National Engineering Research Center Co., Ltd.*	**4,330**	4,522
Shenzhen Zhongcailian Technology Co., Ltd.*	**4,946**	5,733
Huizhou Kuyou Network Technology Co., Ltd.*	**96,631**	107,095
Henan Meile Warner Electronics Co., Ltd.*	**310**	1,150
Shanghai Guanmu Investment Management Partnership (Limited Partnership)*	**27,905**	–
	143,920	128,770

* 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 that these investments are strategic in nature.

22. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**1,762,195**	1,860,468
Work in progress	**349,109**	380,975
Finished goods	**3,290,112**	4,741,290
	5,401,416	6,982,733

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23. TRADE RECEIVABLES

	Note	**2019** HK$'000	2018 HK$'000
Due from third parties		**4,224,931**	3,729,782
Due from related parties:			
Companies controlled by TCL Holdings	(a)	**1,127,792**	–
Affiliates of TCL Holdings	(a)	**4,021**	–
Companies controlled by TCL Technology	(a)	**155,578**	995,518
Affiliates of TCL Technology	(a)	**4,612**	61,922
Joint ventures	(a)	**80,448**	55,548
Associates	(a)	**322,487**	219,692
Other related parties	(a)	**264,948**	–
		1,959,886	1,332,680
Impairment allowance		**(190,974)**	(180,902)
		5,993,843	4,881,560

Note:

(a) As at 31 December 2019 and 2018, 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.

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.

Included in the Group's trade receivables are receivables to be factored of HK$95,770,000 (2018: 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$6,089,047,000 (2018: HK$4,936,300,000) are measured at amortised cost.

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23. TRADE RECEIVABLES (CONTINUED)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 HK$'000	2018 HK$'000
Current to 90 days	**5,243,566**	4,399,290
91 to 180 days	**375,080**	237,704
181 to 365 days	**156,633**	69,285
Over 365 days	**409,538**	356,183
	6,184,817	5,062,462
Impairment allowance	**(190,974)**	(180,902)
	5,993,843	4,881,560

The movements in the loss allowance for impairment of trade receivables are as follows:

	Note	**2019 HK$'000**	2018 HK$'000
At beginning of year		**180,902**	236,647
Impairment losses, net	8	**26,329**	19,546
Acquisition of a subsidiary		**–**	4,942
Amount written off as uncollectible		**(13,103)**	(71,822)
Exchange realignment		**(3,154)**	(8,411)
At end of year		**190,974**	180,902

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. 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.

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23. TRADE RECEIVABLES (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 2019

	Current	Past due Less than 180 days	181 days to 1 year	1 year to 2 years	Over 2 years	Total
ECL rate	**0.09%**	**0.58%**	**4.31%**	**44.97%**	**62.83%**	**3.14%**
Gross carrying amount (HK$'000)	**4,740,784**	**979,592**	**69,884**	**53,602**	**245,185**	**6,089,047**
ECLs (HK$'000)	**4,146**	**5,667**	**3,010**	**24,105**	**154,046**	**190,974**

As at 31 December 2018

	Current	Past due Less than 180 days	181 days to 1 year	1 year to 2 years	Over 2 years	Total
ECL rate	0.16%	0.21%	2.77%	41.25%	74.17%	3.66%
Gross carrying amount (HK$'000)	3,966,717	645,631	39,633	118,107	166,212	4,936,300
ECLs (HK$'000)	6,423	1,373	1,096	48,725	123,285	180,902

24. BILLS RECEIVABLE

	2019 HK$'000	2018 HK$'000
Financial assets at fair value through other comprehensive income	**4,123,459**	2,151,443
Financial assets at fair value through profit or loss	**44,339**	209,466
	4,167,798	2,360,909

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25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2019 HK$'000	2018 HK$'000
Prepayments and deposits		**271,948**	276,351
Other receivables		**1,380,582**	1,546,148
VAT receivables		**1,163,794**	1,303,662
Prepaid land lease payments	16	**–**	3,022
Dividend receivable		**3,795**	106
Interest receivable		**3,414**	–
Due from companies controlled by TCL Holdings	(a)	**23,404**	–
Due from affiliates of TCL Holdings	(a)	**518**	–
Due from companies controlled by TCL Technology	(a)	**36,924**	34,179
Due from affiliates of TCL Technology	(a)	**86,833**	3,736
Due from associates	(a)	**208**	290
		2,971,420	3,167,494
Impairment allowance		**(227,689)**	(267,243)
		2,743,731	2,900,251

Note:

(a) As at 31 December 2019 and 2018, the amounts were interest-free, unsecured and repayable within one year.

ECLs are estimated for other receivables, deposits, dividend receivable, interest receivable and amounts due from related companies 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.

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25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (CONTINUED)

The credit quality of the financial assets included in the line items of 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 other receivables and amounts due from related companies:

As at 31 December 2019

	Normal	Doubtful	Total
ECL rate	0.10%	67.46%	14.90%
Gross carrying amount (HK$'000)	1,192,715	335,754	1,528,469
ECLs (HK$'000)	1,193	226,496	227,689

As at 31 December 2018

	Normal	Doubtful	Total
ECL rate	0.10%	77.69%	16.87%
Gross carrying amount (HK$'000)	1,241,971	342,382	1,584,353
ECLs (HK$'000)	1,242	266,001	267,243

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 loss allowance for impairment of financial assets included in prepayments, other receivables and other assets are as follows:

	Note	2019 HK$'000	2018 HK$'000
At beginning of year		267,243	290,747
Impairment losses, net	8	1,139	(6,288)
Amount written off as uncollectible		(35,417)	(7,158)
Exchange realignment		(5,276)	(10,058)
At end of year		227,689	267,243

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26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Trust products and financial products issued by commercial banks	**961,576**	–

27. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Note	2019 HK$'000	2018 HK$'000
Cash and bank balances		**8,200,570**	6,741,976
Less: Restricted cash for insurance of guarantees			
Current	(a)	**(2,431)**	–
Non-current	(a)	**(3,396)**	–
Cash and cash equivalents		**8,194,743**	6,741,976

Note:

(a) In respect of sales of electronic products in the PRC, the Group entered into agreements with certain banks in the PRC to arrange redemption guarantee on product quality to eligible customers of the Group and pursuant to which, the Group is required to place at designated bank accounts with equivalent amounts of respective redemption guarantees issued as guarantee deposits for faulty products. Such guarantee deposits will be released after the warranty period of respective products have been passed. The warranty period ranged from one to four years.

As at 31 December 2019, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$4,285,828,000 (2018: HK$3,812,874,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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 1 year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

As at 31 December 2019, included in the Group's cash and bank balances were deposits of HK$390,674,000 (2018: HK$3,531,772,000), placed with TCL Finance Co., Ltd. ("Finance Company"), an associate of the Group and a financial institution approved by the People's Bank of China. The interest rates for the deposits ranged from 0.35% to 2.72% (2018: 0.42% to 2.10%) per annum, being the savings rates offered by the People's Bank of China. Further details of the interest income from the deposits in Finance Company are set out in note 42 to the financial statements.

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28. TRADE PAYABLES

	Note	2019 HK$'000	2018 HK$'000
Due to third parties		**6,196,867**	7,224,819
Due to related parties:			
Companies controlled by TCL Holdings	(a)	**489,474**	–
Affiliates of TCL Holdings	(a)	**453,969**	–
Companies controlled by TCL Technology	(a)	**2,204,564**	2,059,796
Affiliates of TCL Technology	(a)	**30,734**	499,932
Joint ventures	(a)	**278**	–
Associates	(a)	**16,791**	16,043
Other related parties	(a)	**3,721**	–
A substantial shareholder of the Company	(a)	**–**	1,332
		3,199,531	2,577,103
		9,396,398	9,801,922

Note:

(a) As at 31 December 2019 and 2018, 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:

	2019 HK$'000	2018 HK$'000
Current to 90 days	**8,885,987**	6,622,392
91 to 180 days	**217,802**	2,789,680
181 to 365 days	**79,237**	287,580
Over 365 days	**213,372**	102,270
	9,396,398	9,801,922

The trade payables are non-interest-bearing and are normally settled within credit periods ranging from 30 to 120 days.

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29. OTHER PAYABLES AND ACCRUALS

	Notes	**2019 HK$'000**	2018 HK$'000
Other payables	(a)	**4,681,428**	3,898,146
Accruals		**1,055,448**	720,917
Dividend payable		**195**	13
Contract liabilities	(b)	**472,516**	430,351
Due to companies controlled by TCL Holdings	(c)	**14**	–
Due to affiliates of TCL Holdings	(c)	**83,370**	–
Due to companies controlled by TCL Technology	(c)	**97,950**	100,040
Due to affiliates of TCL Technology	(c)	**86,963**	2,032
Due to an associate	(c)	**–**	8
		6,477,884	5,151,507

Notes:

(a) The other payables are non-interest-bearing and are expected to be settled within one year.

(b) Details of contract liabilities are as follows:

	31 December 2019 HK$'000	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers			
Sale of goods	**427,701**	430,351	431,178
Video-on-demand services	**44,815**	–	–
Total contract liabilities	**472,516**	430,351	431,178

Contract liabilities include short-term advances received to deliver goods and video-on-demand services.

(c) As at 31 December 2019 and 2018, the amounts were interest-free, unsecured and repayable within one year.

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30. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 HK$'000	2018 HK$'000 (restated)
Current assets		
Forward currency contracts	**38,336**	7,268
Call options and put options	**101,144**	94,646
	139,480	101,914
Current liabilities		
Forward currency contracts	**44,086**	22,177
Non-current liabilities		
Call options	**6,899**	5,336

Cash flow hedge – Foreign currency risk

Foreign currency forward contracts are designated as hedging instruments in cash flow hedges of forecast sales in the Polish Zloty ("PLN") and forecast purchases in the United States dollar ("USD"). These forecast transactions are highly probable, and they comprise about 56.00% of the Group's total expected sales in PLN and about 53.00% 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.

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30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge – Foreign currency risk (continued)

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

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 2019						
Foreign currency forward contracts						
(highly probable forecast sales)						
Notional amount (in HK$'000)	35,999	33,643	–	–	–	69,642
Average forward rate (PLN/HKD)	2.0177	2.0277	–	–	–	
Foreign currency forward contracts						
(highly probable forecast purchases)						
Notional amount (in HK$'000)	446,097	303,922	–	–	–	750,019
Average forward rate (USD/HKD)	7.8653	7.8242	–	–	–	

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30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge – Foreign currency risk (continued)

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 2019			
Foreign currency forward contracts (highly probable forecast sales)	–	–	Derivative financial instruments (assets)
Foreign currency forward contracts (highly probable forecast sales)	69,642	(891)	Derivative financial instruments (liabilities)
Foreign currency forward contracts (highly probable forecast purchases)	64,584	308	Derivative financial instruments (assets)
Foreign currency forward contracts (highly probable forecast purchases)	685,435	(7,274)	Derivative financial instruments (liabilities)

The effects of the cash flow hedge on the statement of profit or loss and other comprehensive income are as follows:

	Total hedging gain/(loss) recognised in other comprehensive income			Amount reclassified from other comprehensive income to profit or loss			Line item (gross amount) in profit or loss
	Gross amount HK$'000	Tax effect HK$'000	Total HK$'000	Gross amount HK$'000	Tax effect HK$'000	Total HK$'000	
Year ended 31 December 2019							
Highly probable forecast sales	(891)	–	(891)	122	–	122	Revenue
Highly probable forecast purchases	(6,966)	–	(6,966)	(3,743)	–	(3,743)	Cost of sales

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$22,147,000 (2018: net loss of HK$20,236,000) 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 2019.

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30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Call options and put options

Pursuant to the RVF and Sontec shareholders' agreements, the Group was granted with:

– Call options ("TCL Call Options") whereby the Group has the discretion to acquire additional equity interest in RVF and/or Sontec, subject to the total shareholding of the Group not exceed 49% shareholding of RVF and/or Sontec at any time, at a consideration based on the net book value with reference to audited financial statements of RVF and Sontec respectively for the fiscal year immediately preceding the date of the exercise, which is exercisable at any time within 8 years after the RVF and Sontec Acquisition.

– Put options ("TCL Put Options") whereby the Group has the discretion to dispose all equity interest in RVF and/or Sontec at a consideration based on the net book value with reference to audited financial statements of RVF and Sontec respectively for the fiscal year immediately preceding the date of the exercise, which is exercisable at any time after 2 years and within 8 years of the RVF and Sontec Acquisition.

Pursuant to the RVF and Sontec shareholders' agreements, the Group granted call options ("RV Holdcos Call Options") to the sellers in the RVF and Sontec Acquisition (the "Sellers") whereby the Sellers has the discretion to acquire all equity interest in RVF and/or Sontec at a consideration based on:

– the higher of (i) the net book value with reference to audited financial statements of RVF and Sontec respectively for the fiscal year immediately preceding the date of the exercise and (ii) the investment cost of the Group plus a compounded annual rate of return as stipulated, which is exercisable within 180 days starting from 4 years after the RVF and Sontec Acquisition; or

– the higher of (i) the net book value with reference to audited financial statements of RVF and Sontec respectively for the fiscal year immediately preceding the date of the exercise and (ii) the fair market value of the equity interests of RVF and Sontec, which is exercisable within 60 days starting from the date on which the percentage of shareholding of the Group in RVF and Sontec falls below 5%.

As at 31 December 2019 and 2018, the fair values of options were determined by Asset Appraisal Limited based on the Black-Scholes Options Pricing Model. The key inputs into the model for the values of the options are as follows:

	TCL Call Options and Put Options		RV Holdcos Call Options	
	2019	2018	**2019**	2018
Maturity (year)	**6.5**	7.5	**3.0**	4.0
Risk-free rate (%)	**1.78**	2.64	**1.69**	2.57
Volatility (%)	**34.40**	33.89	**35.01**	34.06

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Contractual interest rate (%)	Maturity	HK$'000	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	2.20 to 4.80	2020	1,486,171	2.83 to 3.36	2019	610,864
Trust receipt loans – unsecured	LIBOR + 0.80	2020	142,349	LIBOR + 0.80 to LIBOR + 1.00	2019	483,123
Other loans – unsecured	0.80	2020	20,092	–	–	–
			1,648,612			1,093,987
Non-current						
Bank loans - unsecured	2.90 to 4.80	2021 to 2024	89,286	–	–	–
Other loans - unsecured	–	–	–	0.80	2020	20,540
			1,737,898			1,114,527

	2019 HK$'000	2018 HK$'000
Analysed into:		
Bank and other loans repayable:		
Within one year or on demand	1,648,612	1,093,987
In the second year	669	20,540
In the third to fifth years	88,617	–
	1,737,898	1,114,527

Notes:

(a) As at 31 December 2019 and 2018, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(b) TCL Holdings together with TCL Technology have guaranteed certain of the Group's bank loans up to HK$311,473,000 (2018: Nil) and TCL Technology has individually guaranteed certain of the Group's bank loans up to HK$399,207,000 (2018: HK$20,540,000) as at the end of the reporting period.

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31. 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:

	2019 HK$'000	2018 HK$'000
USD	**1,285,465**	1,093,987
RMB	**452,433**	20,540
	1,737,898	1,114,527

32. PROVISIONS

	Note	Restructuring costs HK$'000	Warranties HK$'000	Pending litigation HK$'000	Total HK$'000
At 1 January 2019		1,557	587,534	–	589,091
Additional provision	8	98	587,120	2,888	590,106
Amount utilised during the year		(300)	(477,654)	–	(477,954)
Exchange realignment		(8)	(11,585)	(53)	(11,646)
At 31 December 2019		1,347	685,415	2,835	689,597

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.

Pending litigation

Provision has been provided based on the best estimate of the litigation compensation.

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33. 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$'000	Right-of-use assets HK$'000	Total HK$'000
At 1 January 2018		3,243	3,384	11,098	–	17,725
Acquisition of subsidiaries	38	–	–	31,795	–	31,795
Deferred tax credited to profit or loss during the year	11	(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 and 1 January 2019		2,136	5,192	37,144	–	44,472
Acquisition of subsidiaries	38	–	–	8,200	–	8,200
Deferred tax (credited)/charged to profit or loss during the year	11	(1,114)	4,475	(5,488)	46	(2,081)
Deferred tax charged to other comprehensive income during the year		–	(2,604)	–	–	(2,604)
Exchange realignment		–	(330)	(818)	1	(1,147)
Gross deferred tax liabilities at 31 December 2019		1,022	6,733	39,038	47	46,840

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33. DEFERRED TAX (CONTINUED)

The movements in deferred tax liabilities and assets during the year are as follows: (continued)

Deferred tax assets

	Notes	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 2018		10,679	9,751	1,688	44,422	6,049	72,589
Deferred tax credited/(charged) to profit or loss during the year	11	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 and 1 January 2019		32,000	17,167	37,048	9,777	5,745	101,737
Acquisition of a subsidiary	38	–	–	8,451	–	–	8,451
Deferred tax credited/(charged) to profit or loss during the year	11	(20,000)	42,293	(36,245)	(9,742)	(339)	(24,033)
Deferred tax charged to other comprehensive income during the year		–	(6)	–	–	–	(6)
Exchange realignment		–	(207)	(509)	(35)	186	(565)
Gross deferred tax assets at 31 December 2019		12,000	59,247	8,745	–	5,592	85,584

The Group has tax losses of HK$4,239,168,000 (2018: HK$4,150,101,000) 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/jurisdictions 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.

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33. DEFERRED TAX (CONTINUED)

Deferred tax assets have not been recognised in respect of the following items:

	2019 HK$'000	2018 HK$'000
Tax losses	**4,239,168**	4,150,101
Deductible temporary differences	**939,420**	1,164,207
	5,178,588	5,314,308

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries/jurisdictions in which the Group operates. 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 2019, 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$5,932,306,000 as at 31 December 2019 (2018: HK$5,375,783,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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34. SHARE CAPITAL

Shares

	2019 HK$'000	2018 HK$'000
Authorised:		
3,000,000,000 (2018: 3,000,000,000) shares of HK$1.00 each	**3,000,000**	3,000,000
Issued and fully paid:		
2,363,224,646 (2018: 2,335,493,874) shares of HK$1.00 each	**2,363,225**	2,335,494

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 2018		1,747,633,114	1,747,633	4,611,230	6,358,863
Dividend paid to shareholders	12	–	–	(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 and 1 January 2019		2,335,493,874	2,335,494	5,488,776	7,824,270
Dividend paid to shareholders	12	–	–	(455,494)	(455,494)
Issue of shares upon exercise of share options	(b)	27,730,772	27,731	108,845	136,576
At 31 December 2019		2,363,224,646	2,363,225	5,142,127	7,505,352

31 December 2019

34. 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 2019, the subscription rights attached to 24,035,255, 3,000,260, 331,429, 110,022 and 253,806 share options were exercised at the subscription prices of HK$3.3918, HK$3.7329, HK$3.5700, HK$4.3860 and HK$4.4834 per share, respectively, resulting in the issue of an aggregate of 27,730,772 shares of HK$1.00 each for a total cash consideration of HK$95,526,000, before expenses. An amount of HK$41,050,000 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 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$1.00 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.

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 Technology 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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34. SHARE CAPITAL (CONTINUED)

Share options (continued)

The total number of shares of the Company which may be issued upon exercise of all share options to be granted under the share option scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of approval of each of the share option scheme. The 10% limit may be refreshed with the approval by ordinary resolution of the shareholders. The maximum number of shares of the Company which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the share option scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issued or to be issued upon exercise of share options granted to any one participant in a 12-month period shall not exceed 1% (or 0.1% for any substantive shareholder, independent non-executive director or other associates, see the paragraph below) of the issued shares of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a non-refundable nominal consideration of HK$1.00 by each grantee. The share option scheme does not specify any minimum holding period but the Board has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than ten years from the date of grant of the relevant share option.

The exercise price of a share option to subscribe for shares of the Company is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to receive dividends or to vote at general meetings of the Company.

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34. 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 share option scheme during the year:

	2019		2018	
	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	**3.8910**	**242,287**	3.8380	153,243
Granted during the year	**–**	**–**	4.0870	115,872
Forfeited during the year	**4.0678**	**(30,104)**	3.9620	(25,418)
Exercised during the year	**3.4448**	**(27,731)**	3.4100	(5,316)
Adjustment made to reflect the impact of the Rights Issue	**–**	**–**	3.7420	3,906
At 31 December	**3.9293**	**184,452**	3.8910	242,287

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2019 was HK$4.2813 per share (2018: HK$3.7820 per share).

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34. 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:

2019

Number of options '000	Exercise price per share* HK$	Exercise period
25,102	**4.4834**	**Note 1**
54,306	**3.3918**	**Note 2**
8,864	**4.3860**	**Note 3**
10,863	**3.7329**	**Note 4**
75,651	**4.1520**	**Note 5**
9,666	**3.5700**	**Note 6**
184,452		

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		

* 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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34. 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 Technology 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 Technology, 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 ended 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 ended 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 Technology or TCL Holdings 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.

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34. SHARE CAPITAL (CONTINUED)

Share options (continued)

There was no share option granted during 2019.

The fair value of the share options granted during 2018 was HK$172,442,000 (approximately HK$1.4900 each), of which the Group recognised a share option expense of HK$58,773,000 in respect of the share options granted to employees of the Group and recognised other receivables of HK$7,189,000 in respect of the share options granted to the employees of TCL Technology on its behalf, during the year ended 31 December 2018.

The fair value of equity-settled share options granted during the year ended 31 December 2018 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 year ended 31 December 2018:

	2018	
Exercise price (HK$)	3.5700	4.1520
Dividend yield (%)	5.3140	0.9700
Expected volatility (%)	44.8330	47.2540
Risk-free interest rate (%)	2.8300	2.2960
Expected life of options (year)	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 27,730,772 share options exercised during the year resulted in the issue of 27,730,772 ordinary shares of the Company and additional share capital of HK$27,731,000 and share premium of HK$108,845,000.

At the end of the reporting period, the Company had 184,452,000 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 184,452,000 additional ordinary shares of the Company and additional share capital and share premium amounts of approximately HK$184,452,000 and HK$540,323,000, respectively.

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34. SHARE CAPITAL (CONTINUED)

Restricted share award scheme

A restricted share award scheme was adopted by the Company on 6 February 2008 (the "Adoption Date") (as amended on 11 August 2015, 13 June 2016, 24 November 2017 and 4 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 extend 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 2019, the Award Scheme comprises (i) the trust for management for the benefit of selected persons including, among others, connected persons of the Company and the 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. An 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.

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34. SHARE CAPITAL (CONTINUED)

Restricted share award scheme (continued)

Pursuant to the terms of the Award Scheme: (continued)

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.

5. The maximum aggregate number of shares awarded by the Board under the Award Scheme is ten percent (10%) of the 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.

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34. SHARE CAPITAL (CONTINUED)

Restricted share award scheme (continued)

The following Awarded Shares were outstanding during the year:

	2019 Number of Awarded Shares '000	2018 Number of Awarded Shares '000
At 1 January		
– 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
At 31 December		
– Number of Awarded Shares held by the Trustee	74,135	81,072
– Number of Awarded Shares granted but not vested	(29,008)	46,374
– Number of Awarded Shares available for grant	14,570	61,150
Granted during the year (note a)	–	47,833
– Grant using existing shares	–	47,833
Lapsed during the year	8,229	7,124
Vested during the year	9,137	9,183
Purchased during the year (note b)	2,200	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)	1,477	2,137

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34. SHARE CAPITAL (CONTINUED)

Restricted share award scheme (continued)

Notes:

(a) For the year ended 31 December 2019, no Awarded Shares were granted to the Selected Employee and Selected Persons of TCL Technology on its behalf.

For the year ended 31 December 2018, 45,084,960 Awarded Shares were granted to the Selected Employees and 2,748,044 Awarded Shares were granted to the Selected Persons of TCL Technology 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), of which the Group recognised employee share-based compensation benefits under the Award Scheme of HK$68,934,000 in respect of the Awarded Shares granted to the Selected Employees and recognised other receivables of HK$5,743,000 in respect of the Awarded Shares granted to the Selected Persons of TCL Technology on its behalf.

(b) For the year ended 31 December 2019, the Trustee purchased 2,200,000 (2018: 12,334,000) Awarded Shares at a total cost (including transaction costs) of HK$9,647,000 (2018: HK$46,935,000).

(c) No Awarded Shares were allotted and issued to the Trustee at par value for the years ended 31 December 2019 and 2018.

(d) For the year ended 31 December 2019, tax has been paid by the Group on behalf of certain Selected Persons whose rights were vested in the Awarded Shares and 1,477,042 (2018: 2,137,014) 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.

35. 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.

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35. 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.

36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of Falcon Network Technology Group, the Group's subsidiaries that have material non-controlling interests are set out below:

	2019
Percentage of equity interest held by non-controlling interests	40%

	2019 HK$'000
Profit for the year allocated to non-controlling interests	61,581
Dividends paid to non-controlling interests	–
Accumulated balances of non-controlling interests at the reporting date	369,117

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36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following tables illustrate the summarised financial information of Falcon Network Technology Group. The amounts disclosed are before any inter-company eliminations:

	2019 (Consolidated) HK$'000
Revenue	435,032
Total expenses	(281,080)
Profit for the period	153,952
Total comprehensive income for the period	153,952
Current assets	1,018,845
Non-current assets	84,813
Current liabilities	(125,222)
Non-current liabilities	(55,644)
Net cash flows from operating activities	124,989
Net cash flows used in investing activities	(11,743)
Net cash flows from financing activities	4,403
Net increase in cash and cash equivalents	117,649

Falcon Network Technology Group have become 60% owned subsidiaries of the Group since 22 March 2019. The above consolidated financial information was prepared for the period from 22 March 2019 to 31 December 2019.

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37. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are derecognised in their entirety

Factoring trade receivables

At 31 December 2019, 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$1,910,700,000 (2018: HK$1,877,765,000). 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 2019 and 2018, 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.

Bills discounted

At 31 December 2019, certain bills receivable were discounted by banks in the PRC and banks in Hong Kong with a carrying amount of HK$1,183,790,000 (2018: HK$3,147,271,000). 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 years ended 31 December 2019 and 2018, 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.

31 December 2019

37. TRANSFERS OF FINANCIAL ASSETS (CONTINUED)

Financial assets that are derecognised in their entirety (continued)

Endorsed bills

At 31 December 2019, certain subsidiaries of the Group endorsed certain bills receivable accepted by banks and an associate 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$1,105,037,000 (2018: HK$1,412,192,000). 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 2019 and 2018, 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.

38. BUSINESS COMBINATION

Year ended 31 December 2019

Acquisition of equity interest in Falcon Network Technology Group

On 23 January 2019, the Group entered into a sale and purchase agreement with Qianhai Fende, an independent third party, pursuant to which the Group agreed to acquire an additional 15.56% equity interest in Falcon Network Technology, a former 44.44% owned associate of the Group, at the consideration of RMB420,120,000 (equivalent to approximately HK$489,776,000). Falcon Network Technology Group are principally engaged in R&D of software on smart TV devices and Internet platform operation. The transaction was completed on 22 March 2019 and Falcon Network Technology has become a 60% owned subsidiary of the Group since then.

This equity transfer was considered as a business combination achieved in stages. The Group accordingly remeasured the fair value of its previously held equity interest in Falcon Network Technology Group at the step acquisition date and recognised a gain of HK$787,394,000 in profit or loss for the year ended 31 December 2019.

The Group has elected to measure the non-controlling interests in Falcon Network Technology Group at the non-controlling interests' proportionate share of Falcon Network Technology Group's identifiable net assets.

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2019 (continued)

Acquisition of equity interest in Falcon Network Technology Group (continued)

The fair values of the identifiable assets and liabilities of Falcon Network Technology Group as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	842
Other intangible assets	18	73,011
Investment in a joint venture		2,856
Inventories		8,401
Trade receivables		128,077
Prepayments, other receivables and other assets		24,000
Cash and bank balances		700,895
Trade payables		(27,233)
Other payables and accruals		(81,378)
Tax payable		(9,113)
Deferred tax liabilities	33	(8,200)
Total identifiable net assets at fair value		812,158
Non-controlling interests		(324,864)
Fair value of 44.44% equity interest held immediately before the step acquisition		(1,119,055)
Goodwill on acquisition	17	1,121,537
		489,776
Satisfied by:		
Cash		199,109
Other receivables		290,667
		489,776

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2019 (continued)

Acquisition of equity interest in Falcon Network Technology Group (continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$128,077,000 and HK$8,155,000 respectively. The gross contractual amounts of trade receivables and other receivables were HK$128,077,000 and HK$8,155,000 respectively.

Included in the goodwill of HK$1,121,537,000 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	(199,109)
Cash and bank balances acquired	700,895
Net inflow of cash and cash equivalents included in cash flows from investing activities	501,786

Since the completion of the acquisition, Falcon Network Technology Group contributed HK$336,298,000 to the Group's revenue and HK$150,569,000 to the consolidated profit for the year ended 31 December 2019.

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$47,103,253,000 and HK$2,354,082,000 respectively.

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2019 (continued)

Acquisition of equity interest in Falcon Digital Entertainment Technology (Shenzhen) Limited (the "OPCO")

On 23 July 2019, Falcon Network Technology entered into the VIE agreements with the OPCO and the PRC Equity Owners, pursuant to which the Group agreed to acquire 100% equity interest in the OPCO, at the consideration of Nil. Through the VIE agreements, Falcon Network Technology obtained effective control over the finance and operation of the OPCO and enjoys the entire economic interests and benefits generated by the OPCO. The OPCO is principally engaged in the Internet cultural business operation. The transaction was completed on 23 July 2019 and the OPCO has become a 60% owned subsidiary of the Group since then.

The Group has elected to measure the non-controlling interest in the OPCO at the non-controlling interest's proportionate share of the OPCO's identifiable net assets.

The fair value of the identifiable assets and liabilities of the OPCO as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Deferred tax assets	33	**8,451**
Trade receivables		**79**
Prepayments and other receivables		**1,114**
Cash and bank balances		**16,450**
Trade payables		**(158)**
Other payables and accruals		**(17,712)**
Total identifiable net assets at fair value		**8,224**
Gain on bargain purchase recognised in other revenue and gains in profit or loss	8	**8,224**
Satisfied by cash		**–**

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$79,000 and HK$775,000 respectively. The gross contractual amounts of trade receivables and other receivables were HK$79,000 and HK$775,000 respectively.

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2019 (continued)

Acquisition of equity interest in Falcon Digital Entertainment Technology (Shenzhen) Limited (the "OPCO") (continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	–
Cash and bank balances acquired	16,450
Net inflow of cash and cash equivalents included in cash flows from investing activities	16,450

Since the completion of the acquisition, the OPCO contributed HK$80,056,000 to the Group's revenue and HK$3,384,000 to the consolidated profit for the year ended 31 December 2019.

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$46,991,197,000 and HK$2,325,132,000 respectively.

Acquisition of equity interest in Shenzhen Hawk Internet Group

On 1 November 2019, the Group entered into a sale and purchase agreement with TCL Technology, pursuant to which the Group agreed to acquire 100% equity interest in Shenzhen Hawk Internet, at the consideration of RMB200,110,000 (equivalent to approximately HK$222,322,000). Shenzhen Hawk Internet and its subsidiary (collectively, "Shenzhen Hawk Internet Group") are principally engaged in R&D of software on smart TV devices, mobile devices and Internet platform operation. The transaction was completed on 1 November 2019 and Shenzhen Hawk Internet has become a wholly-owned subsidiary of the Group since then.

During the year ended 31 December 2019, the fair value assessment of this acquisition has not been finalised by date of approval of these financial statements. In accordance with HKFRS 3, certain provisionally estimated fair value of assets and liabilities acquired on the acquisition of Shenzhen Hawk Internet Group were used for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2019.

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2019 (continued)

Acquisition of equity interest in Shenzhen Hawk Internet Group (continued)

The fair values of the identifiable assets and liabilities of Shenzhen Hawk Internet Group as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	1,555
Investment in an associate		199,625
Equity investments designated at fair value through other comprehensive income		27,775
Trade receivables		12,614
Prepayments, other receivables and other assets		21,730
Cash and bank balances		8,249
Trade payables		(26,620)
Other payables and accruals		(48,982)
Total identifiable net assets at fair value		195,946
Provisional goodwill on acquisition	17	26,376
Satisfied by cash		222,322

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$12,614,000 and HK$16,882,000 respectively. The gross contractual amounts of trade receivables and other receivables were HK$12,614,000 and HK$16,882,000 respectively.

Included in the goodwill of HK$26,376,000 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.

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2019 (continued)

Acquisition of equity interest in Shenzhen Hawk Internet Group (continued)

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(222,322)
Cash and bank balances acquired	8,249
Net outflow of cash and cash equivalents included in cash flows from investing activities	(214,073)

Since the completion of the acquisition, Shenzhen Hawk Internet Group contributed HK$13,625,000 to the Group's revenue and HK$29,966,000 to the consolidated profit for the year ended 31 December 2019.

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$47,061,277,000 and HK$2,333,973,000 respectively.

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2018

Acquisition of equity interest in CI Tech

On 31 July 2018, the Group acquired 100% interest in CI Tech from TCL Technology, 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 PRC. 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	14	35,184
Other intangible assets	18	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		(280)
Deferred tax liabilities	33	(26,733)
Total identifiable net assets at fair value		257,878
Goodwill on acquisition	17	655,206
Satisfied by cash		913,084

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2018 (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 been completed on 1 January 2018, the revenue from continuing operations of the Group and the consolidated profit of the Group for the year ended 31 December 2018 would have been HK$621,956,000 and HK$23,541,000, respectively.

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2018 (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 Technology, 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	14	648
Other intangible assets	18	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	33	(5,062)
Total identifiable net assets at fair value		(11,520)
Goodwill on acquisition	17	12,980
Satisfied by cash		1,460

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38. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2018 (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 been completed on 1 January 2018, the revenue from continuing operations of the Group and the consolidated loss of the Group for the year ended 31 December 2018 would have been HK$11,968,000 and HK$44,534,000, respectively.

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39. DISPOSAL OF A SUBSIDIARY

On 18 December 2019, the Group entered into an equity transfer agreement with an independent third party, pursuant to which the Group agreed to sell, and the independent third party agreed to acquire 100% equity interest in Huizhou Moka Electronics Technology Co., Ltd. at the consideration of RMB273,210,000 (equivalent to approximately HK$304,960,000). The transaction was completed on 26 December 2019.

	Notes	HK$'000
Net assets disposed of:		
Property, plant and equipment	14	**21,366**
Right-of-use assets	16(b)	**2,870**
Trade receivables		**13,618**
Prepayments and other receivables		**580**
Cash and bank balances		**1,735**
Other payables and accruals		**(524)**
Tax payable		**(177)**
		39,468
Release of exchange fluctuation reserve		**(9,312)**
		30,156
Gain on disposal of a subsidiary	6	**274,804**
		304,960
Satisfied by:		
Cash		**46,622**
Consideration receivable included in other receivables		**258,338**
		304,960

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39. DISPOSAL OF A SUBSIDIARY (CONTINUED)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	HK$'000
Cash consideration	**46,622**
Cash and bank balances disposed of	**(1,735)**
Net inflow of cash and cash equivalents included in cash flows from investing activities	**44,887**

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$60,507,000 and HK$57,009,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

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40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

	Bank loans and other borrowings HK$'000	Finance lease payables/ lease liabilities HK$'000	Dividend payable included in other payables HK$'000	Total HK$'000
At 31 December 2018	1,114,527	–	13	1,114,540
Effect of adoption of HKFRS 16	–	175,019	–	175,019
At 1 January 2019 (restated)	1,114,527	175,019	13	1,289,559
Changes from financing cash flows	647,883	(74,671)	(455,494)	117,718
New leases	–	57,009	–	57,009
Lease modification	–	(14,285)	–	(14,285)
Foreign exchange movement	(24,512)	(2,643)	–	(27,155)
Interest expenses	–	7,252	–	7,252
Interest paid classified as operating cash flows	–	(7,252)	–	(7,252)
Dividends payable	–	–	455,676	455,676
At 31 December 2019	1,737,898	140,429	195	1,878,522

	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	(1,809,609)	(2,080)	(591,047)	(2,402,736)
Exchange adjustments	(551)	(23)	–	(574)
Dividends payable	–	–	577,449	577,449
At 31 December 2018	1,114,527	–	13	1,114,540

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40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 **HK$'000**
Within operating activities	**76,174**
Within financing activities	**74,671**
	150,845

41. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 **HK$'000**	2018 HK$'000
Contracted, but not provided for:		
Capital expenditure	**–**	342,330
Capital contribution payable to joint ventures	**14,767**	15,253
Capital contribution payable to associates	**124,589**	159,146
	139,356	516,729
Authorised, but not contracted for:		
Land and buildings	**247,115**	255,202
	386,471	771,931

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41. COMMITMENTS (CONTINUED)

(b) Operating lease commitments as at 31 December 2018

The Group leased 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
Within one year	90,536
In the second to fifth years, inclusive	115,179
After five years	451
	206,166

(c) The Group has various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are HK$10,472,000 due within one year and HK$6,831,000 due in the second to fifth years, inclusive.

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42. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2019 HK$'000	2018 HK$'000
Joint ventures:			
Sales of finished goods	(i)	**394,611**	323,083
After-sales service income	(ii)	**1,866**	1,162
T.C.L. Industries (H.K.):			
Interest expense	(iii)	**121**	638
Associates:			
Interest income	(iv)	**19,625**	51,068
Interest expense	(v)	**3,898**	12,533
Other finance service fees	(vi)	**46**	268
Purchase of raw materials	(vii)	**122,843**	117,384
Purchase of finished goods	(vii)	**–**	3,973
Sales of finished goods	(i)	**1,847,005**	1,089,890
Sales of raw materials	(viii)	**1,474**	–
IT and other services	(ix)	**16,912**	2,430
Other service income	(xvii)	**16,226**	–
Companies controlled by TCL Technology:			
Sales of raw materials	(viii)	**50,798**	105,234
Sales of finished goods	(i)	**1,286,392**	5,280,592
Purchases of raw materials	(vii)	**8,566,088**	12,021,809
Purchases of finished goods	(vii)	**147,580**	422,792
Subcontracting income	(x)	**117**	3,874
Rental, maintenance income and facilities usage income	(xi)	**5,005**	18,433
Rental expense and licence fee	(xii)	**2,257**	23,235
Reimbursement of brand advertising costs	(xiii)	**94,000**	448,553
Reimbursement of R&D and rental expenses	(xiv)	**198,621**	81,582
After-sales service income	(ii)	**33,390**	35,596
After-sales service fee	(xv)	**71,582**	255,954
Promotion fee income	(xvi)	**1,727**	15,695
Platform service fee	(ix)	**326**	5,358
Platform service income	(xvii)	**–**	8,047
Addition of right-of-use assets	(xx)	**79,410**	–
Depreciation of right-of-use assets		**15,222**	–
Interest expense on lease liabilities		**1,581**	–
Other service income	(xvii)	**67,842**	28,050

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42. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

	Notes	2019 HK$'000	2018 HK$'000
Affiliates of TCL Technology:			
Purchases of raw materials	(vii)	**1,571,750**	1,620,406
Sales of raw materials	(viii)	**81,470**	41,341
Sales of finished goods	(i)	**56,522**	179,338
Logistics service fee expense	(xviii)	**126,459**	404,708
After-sales service fee	(xv)	**4,724**	164
Addition of right-of-use assets	(xx)	**17,804**	–
Depreciation of right-of-use assets		**2,217**	–
Interest expense on lease liabilities		**202**	–
Rental income	(xi)	**492**	1,780
A substantial shareholder and its affiliates:			
After-sales service income	(ii)	**–**	19,484
Companies controlled by TCL Holdings:			
Brand promotion fee	(xiii)	**219,732**	–
Sales of raw materials	(viii)	**30,985**	–
Sales of finished goods	(i)	**3,288,504**	–
Purchases of raw materials	(vii)	**104,639**	–
Purchases of finished goods	(vii)	**1,100,259**	–
Rental, maintenance income and facilities usage income	(xi)	**10,107**	–
Rental expense and licence fee	(xii)	**4,978**	–
After-sale service income	(ii)	**214**	–
After-sale service fee	(xv)	**243,356**	–
Platform service fee	(ix)	**7,031**	–
Other service income	(xvii)	**16,362**	–
Depreciation of right-of-use assets		**19,217**	–
Interest expense on lease liabilities		**1,473**	–
IT and other service fees	(ix)	**3,546**	–
Affiliates of TCL Holdings:			
Purchases of raw materials	(vii)	**1,136,738**	–
Sales of finished goods	(i)	**199,264**	–
Sales of raw materials	(viii)	**1,995**	–
Subcontracting fee expense	(xix)	**34,287**	–
Logistics service fee expense	(xviii)	**278,912**	–
Depreciation of right-of-use assets		**6,652**	–
Interest expense on lease liabilities		**453**	–
Rental income	(xi)	**1,644**	–
Rental expense	(xii)	**294**	–
Other related parties:			
Sales of finished goods	(i)	**699,088**	–

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42. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

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 1.99% (2018: 3.09%) per annum.

(iv) The interest was charged at rates ranging from 0.35% to 2.72% (2018: from 0.42% to 2.10%) per annum, which were determined with reference to the savings rates quoted by the People's Bank of China.

(v) The interest was charged at rates ranging from 3.30% to 3.40% (2018: 3.25% to 4.00%) per annum.

(vi) The other finance service fees were determined with reference to the rates of other similar services provided by third party companies.

(vii) For the years ended 31 December 2019 and 2018, the purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers or the cost plus a mark-up of 0.3%.

(viii) The sales of raw materials were made at the cost plus a certain mark-up which is mutually agreed.

(ix) The platform and IT and other service fee was determined with reference to service expenses charged by third party companies offering similar services.

(x) The subcontracting income was determined with reference to the rates of similar services provided to other third party companies.

(xi) The rental, maintenance income and facilities usage income were determined with reference to the rates of other similar premises.

(xii) The rental expense was charged at rates ranging from RMB31 to RMB301 (2018: RMB31 to RMB135) per square metre. The licence fee was charged at a rate of HK$28 per square feet for the year ended 31 December 2018.

42. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

Notes: (continued)

(xiii) Reimbursement of brand advertising costs incurred by TCL Technology was made based on 1.03% (2018: 1.52%) of the aggregate net sales of TV products using TCL A brand and TCL B brand and at 0.25% (2018: 0.25%) of the aggregate net sales of TV products of OEM brands, as defined in the Master TCL Trademark License (2017 Renewal) Agreement which will expire on 31 December 2020.

Brand promotion fee incurred by TCL Holdings was made based on 1.42% of the annual sales of products using TCL brand within the PRC, 0.43% of the annual sales of products using TCL brand outside the PRC and 0.25% of the annual sales of products of ODM and OEM brands, as defined in the Master Brand Promotion (2019-2021) Agreement.

(xiv) The R&D expenses represent outsource research and development expense allocated to the Group in respect of personnel of companies controlled by TCL Technology. The rental expenses were determined with reference to the rates of other similar premises.

(xv) The after-sales service fee was calculated and charged at a percentage of the sales revenue (capped at 2%) of certain TV products in the PRC market.

(xvi) The promotion fee income was determined with reference to the percentage charged by other active market participants in providing similar promotion services.

(xvii) The platform and other service income was determined with reference to the rates of similar services provided to other third party companies.

(xviii) The logistics service fee was determined with reference to the rates of other similar services provided by other third party companies.

(xix) The subcontracting fee expense was determined with reference to subcontracting fees charged by third party companies offering similar services.

(xx) Included in addition of right-of-use assets amounted of HK$53,228,000 and HK$17,804,000, respectively, were transactions with those companies whose holding company or major shareholder changed from TCL Technology to TCL Holdings from 1 April 2019 when the restructuring occurred during the first quarter of 2019, without contract modification.

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42. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other material transactions with related parties:

(i) On 18 February 2019, TCL King Electrical (a subsidiary of the Company) entered into an agreement with TCL Internet Technology (Shenzhen) Co., Ltd. ("TCL Internet Technology", a subsidiary of TCL Technology), pursuant to which a company in the PRC named as Zhihui Xinyuan Commercial (Huizhou) Co., Ltd. ("Zhihui Xinyuan") was established. According to the terms of the agreement, the registered capital of Zhihui Xinyuan would be RMB3,750,000, in which RMB3,000,000 (80% of the total registered capital) would be contributed by TCL King Electrical and RMB750,000 (20% of the total registered capital) would be contributed by TCL Internet Technology.

(ii) On 23 July 2019, Falcon Network Technology entered into the VIE Agreements with the OPCO and the PRC Equity Owners. Through the VIE Agreements, Falcon Network Technology obtained effective control over the finance and operation of the OPCO and could enjoy the entire economic interests and benefits generated by the OPCO.

(iii) On 1 November 2019, TCL Electrical (Huizhou) Company Limited (a subsidiary of the Company) acquired 100% equity interest in Shenzhen Hawk Internet from TCL Technology at a consideration of RMB200,110,000.

(c) Details of compensation of key management personnel of the Group are set out in notes 9 and 10 to the financial statements.

Except for the transactions with joint ventures, certain associates of the Group, addition of right-of-use assets, deprecation of right-of-use assets, interest expense on lease liabilities and transactions from April 2019 to December 2019 with TCL Technology and its subsidiaries included in note 42(a), all the above transactions disclosed in note 42 also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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43. 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	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(restated)		(restated)
Financial assets				
Equity investments designated at fair value through other comprehensive income	**143,920**	128,770	**143,920**	128,770
Restricted cash, non-current portion	**3,396**	–	**3,130**	–
Trade receivables classified as financial assets at fair value through profit or loss	**95,770**	126,162	**95,770**	126,162
Bills receivable	**4,167,798**	2,360,909	**4,167,798**	2,360,909
Financial assets at fair value through profit or loss	**961,576**	–	**961,576**	–
Derivative financial instruments	**139,480**	101,914	**139,480**	101,914
	5,511,940	2,717,755	**5,511,674**	2,717,755
Financial liabilities				
Interest-bearing bank and other borrowings	**1,737,898**	1,114,527	**1,718,006**	1,104,989
Derivative financial instruments	**50,985**	27,513	**50,985**	27,513
Other long-term payables	**27,252**	27,725	**25,029**	24,309
	1,816,135	1,169,765	**1,794,020**	1,156,811

Management has assessed that the fair values of cash and bank balances, the current portion of restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

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43. 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 non-current portion of restricted cash, 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 change in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 were assessed to be insignificant.

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 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 to calculate 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.

The Group invests in unlisted investments, which represent wealth management products issued by banks in the PRC. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

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 Group enters into these kind of derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including call options and put options, are measured using valuation techniques of Black-Scholes Options Pricing Model. The model incorporates various market observable inputs including risk-free rate and volatility. The carrying amounts of forward currency contracts, foreign currency swaps, interest rate swaps, call options and put options are the same as their fair values.

As at 31 December 2019, the mark-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.

For the fair value of the unlisted equity investments at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 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	2019: 3.8x to 7.7x (2018: 3.2x to 6.0x)	5% (2018: 5%) increase in multiple would result in increase in fair value by HK$4,832,000 (2018: HK$5,355,000)
		Average EV/S multiple of peers	2019: 0.2x to 6.1x (2018: 0.3x to 6.8x)	5% (2018: 5%) increase in multiple would result in increase in fair value by HK$263,000 (2018: HK$344,000)
		Average P/S multiple of peers	2019: 2.3x to 4.0x (2018: 1.4x to 4.1x)	5% (2018: 5%) increase in multiple would result in increase in fair value by HK$490,000 (2018: HK$226,000)
Call options	Black-Scholes Options Pricing Model	Risk-free rate	2019: 1.78% (2018: 2.64%)	1% (2018: 1%) increase (decrease) in risk-free rate would have no material impact on the fair value
		Volatility	2019: 26.84% to 43.89% (2018: 28.68% to 40.28%)	1% (2018: 1%) increase (decrease) in volatility would have no material impact on the fair value
Put options	Black-Scholes Options Pricing Model	Risk-free rate	2019: 1.69% (2018: 2.57%)	1% (2018: 1%) increase (decrease) in risk-free rate would have no material impact on the fair value
		Volatility	2019: 26.20% to 46.83% (2018: 26.52% to 46.47%)	1% (2018: 1%) increase (decrease) in volatility would have no material impact on the fair value

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.

43. 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 2019

	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	–	–	143,920	143,920
Trade receivables classified as financial assets at fair value through profit or loss	–	95,770	–	95,770
Bills receivable	–	4,167,798	–	4,167,798
Financial assets at fair value through profit or loss	–	961,576	–	961,576
Derivative financial instruments	–	38,336	101,144	139,480
	–	5,263,480	245,064	5,508,544

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

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$'000 (restated)	Total HK$'000 (restated)
Equity investments designated at fair value through other comprehensive income	–	–	128,770	128,770
Trade receivables 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	94,646	101,914
	–	2,494,339	223,416	2,717,755

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2019 HK$'000	2018 HK$'000
Equity investments at fair value through other comprehensive income:		
At 1 January	**128,770**	122,808
Total gains/(losses) recognised in other comprehensive income	**(7,525)**	9,088
Income tax effect	**(2,604)**	2,713
Acquisition of a subsidiary (note 38)	**27,775**	–
Exchange realignment	**(2,496)**	(5,839)
	143,920	128,770

	2019 HK$'000	2018 HK$'000 (restated)
Derivative financial instruments:		
At 1 January	**94,646**	–
Acquisition of associates	**–**	128,319
Total gains/(losses) recognised in profit or loss	**7,085**	(33,436)
Exchange realignment	**(587)**	(237)
	101,144	94,646

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2019

	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	**–**	**44,086**	**6,899**	**50,985**

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$'000 (restated)	Total HK$'000 (restated)
Derivative financial instruments	–	22,177	5,336	27,513

The movements in fair value measurements within Level 3 during the year are as follows:

	2019 HK$'000	2018 HK$'000 (restated)
Derivative financial instruments:		
At 1 January	**5,336**	–
Acquisition of associates	**–**	15,790
Total (gains)/losses recognised in profit or loss	**1,603**	(10,430)
Exchange realignment	**(40)**	(24)
	6,899	5,336

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets for which fair value are disclosed:

As at 31 December 2019

	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
Restricted cash, non-current portion	–	3,130	–	3,130

Liabilities for which fair value are disclosed:

As at 31 December 2019

	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	–	1,718,006	–	1,718,006
Other long-term payables	–	25,029	–	25,029
	–	1,743,035	–	1,743,035

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Liabilities for which fair value are disclosed: (continued)

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

44. 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.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (continued)

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.

The following table demonstrates the sensitivity to a reasonably possible change in 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
2019		
USD	**(25)**	**994**
USD	**25**	**(944)**
2018		
USD	(25)	1,208
USD	25	(1,208)

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 forecasts 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.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK$'000
2019		
If the HK$ weakens against the USD	**5**	**(137,326)**
If the HK$ weakens against the European dollar	**5**	**(88)**
If the HK$ weakens against the RMB	**5**	**1**
If the RMB weakens against the USD	**5**	**(15,070)**
If the European dollar weakens against the USD	**5**	**200**
If the European dollar weakens against the PLN	**5**	**3,656**
If the USD weakens against the European dollar	**5**	**7**
If the USD weakens against the PLN	**5**	**(161)**
If the HK$ strengthens against the USD	**(5)**	**137,326**
If the HK$ strengthens against the European dollar	**(5)**	**88**
If the HK$ strengthens against the RMB	**(5)**	**(1)**
If the RMB strengthens against the USD	**(5)**	**15,070**
If the European dollar strengthens against the USD	**(5)**	**(200)**
If the European dollar strengthens against the PLN	**(5)**	**(3,656)**
If the USD strengthens against the European dollar	**(5)**	**(7)**
If the USD strengthens against the PLN	**(5)**	**161**
2018 (restated)		
If the HK$ weakens against the USD	5	(31,880)
If the HK$ weakens against the European dollar	5	544
If the HK$ weakens against the RMB	5	(7,163)
If the RMB weakens against the USD	5	(30,360)
If the European dollar weakens against the PLN	5	5
If the USD weakens against the European dollar	5	(8)
If the USD weakens against the PLN	5	(207)
If the HK$ strengthens against the USD	(5)	31,880
If the HK$ strengthens against the European dollar	(5)	(544)
If the HK$ strengthens against the RMB	(5)	7,163
If the RMB strengthens against the USD	(5)	30,360
If the European dollar strengthens against the PLN	(5)	(5)
If the USD strengthens against the European dollar	(5)	8
If the USD strengthens against the PLN	(5)	207

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44. 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

The tables 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.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables measured at amortised cost*	–	–	–	6,089,047	6,089,047
Financial assets included in prepayments, other receivables and other assets**					
– Normal	1,199,924	–	–	–	1,199,924
– Doubtful	–	–	335,754	–	335,754
Cash and bank balances					
– Not yet past due	8,194,743	–	–	–	8,194,743
Restricted cash					
– Not yet past due	5,827	–	–	–	5,827
	9,400,494	–	335,754	6,089,047	15,825,295

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total 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 bank balances					
– 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 23 and 25 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".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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, lease liabilities (2018: finance leases) and other interest-bearing borrowings.

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:

	2019				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	1,653,561	2,162	95,424	–	1,751,147
Lease liabilities	84,773	23,404	17,342	55,387	180,906
Trade payables	9,396,398	–	–	–	9,396,398
Bills payable	2,683,814	–	–	–	2,683,814
Derivative financial instruments	44,086	–	6,899	–	50,985
Financial liabilities included in other payables	4,988,874	–	–	–	4,988,874
	18,851,506	25,566	119,665	55,387	19,052,124

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

	2018			
	Within 1 year or on demand HK$'000 (restated)	More than 1 year but less than 2 years HK$'000 (restated)	More than 2 years but less than 5 years HK$'000 (restated)	Total HK$'000 (restated)
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	–	5,336	27,513
Financial liabilities included in other payables	3,998,842	–	–	3,998,842
	16,531,824	20,608	5,336	16,557,768

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 2019 and 2018.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

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 lease liabilities, interest-bearing bank and other borrowings, less cash and bank balances and restricted cash. 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:

	Notes	**2019** **HK$'000**	2018 HK$'000 (restated)
Lease liabilities	16	**140,429**	–
Interest-bearing bank and other borrowings	31	**1,737,898**	1,114,527
Less: Cash and bank balances	27	**(8,194,743)**	(6,741,976)
Restricted cash	27	**(5,827)**	–
Net debt		**(6,322,243)**	(5,627,449)
Equity attributable to owners of the parent		**11,579,990**	9,875,692
Gearing ratio		**N/A**	N/A

45. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

As further explained in note 4 to the financial statements, retrospective adjustment arising from prior year provisional accounting was made, and certain items and balances in prior year financial statements and explanatory notes have been restated.

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46. 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:

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**3,317,541**	1,661,517
Right-of-use assets	**12,104**	–
	3,329,645	1,661,517
CURRENT ASSETS		
Due from related parties	**4,443,730**	4,921,281
Other receivables	**62,598**	64,648
Cash and bank balances	**409**	21,975
	4,506,737	5,007,904
Non-current assets classified as held for sale	**–**	23,099
Total current assets	**4,506,737**	5,031,003
CURRENT LIABILITIES		
Due to related parties	**134,716**	131,717
Other payables and accruals	**16,843**	17,787
Lease liabilities	**6,220**	–
Total current liabilities	**157,779**	149,504
NET CURRENT ASSETS	**4,348,958**	4,881,499
TOTAL ASSETS LESS CURRENT LIABILITIES	**7,678,603**	6,543,016
NON-CURRENT LIABILITIES		
Lease liabilities	**6,642**	–
Net assets	**7,671,961**	6,543,016
EQUITY		
Issued capital	**2,363,225**	2,335,494
Reserves (note)	**5,308,736**	4,207,522
Total equity	**7,671,961**	6,543,016

LI Dongsheng
Director

WANG Cheng Kevin
Director

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46. 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 2018	4,611,230	213,104	738,936	(208,197)	105,975	(2,190,906)	3,270,142
Total comprehensive loss for the year	–	–	–	–	–	(39,670)	(39,670)
Equity-settled share option arrangements	–	89,832	–	–	–	–	89,832
Rights issue (note 34)	1,418,399	–	–	–	–	–	1,418,399
Issue of shares upon exercise of share options (note 34)	20,414	(7,602)	–	–	–	–	12,812
Employee share-based compensation benefits under the Award Scheme (note 34)	–	–	–	–	72,589	–	72,589
Purchase of shares for the Award Scheme (note 34)	–	–	–	(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 and 1 January 2019	5,488,776	295,334	738,936	(243,269)	158,321	(2,230,576)	4,207,522
Total comprehensive income for the year	–	–	–	–	–	1,429,759	1,429,759
Equity-settled share option arrangements	–	38,367	–	–	–	–	38,367
Issue of shares upon exercise of share options (note 34)	108,845	(41,050)	–	–	–	–	67,795
Employee share-based compensation benefits under the Award Scheme (note 34)	–	–	–	–	35,822	–	35,822
Purchase of shares for the Award Scheme (note 34)	–	–	–	(9,647)	–	–	(9,647)
Vesting of shares under the Award Scheme	–	–	–	23,720	(29,108)	–	(5,388)
Profit distribution to owners	(455,494)	–	–	–	–	–	(455,494)
At 31 December 2019	5,142,127	292,651	738,936	(229,196)	165,035	(800,817)	5,308,736

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 2019

47. EVENT AFTER THE REPORTING PERIOD

The overall global market has been undergoing great uncertainty since the coronavirus disease 2019 (COVID-19) outbreak in the early 2020. It is expected that TV demand in the short term will probably be impacted. In the PRC market, offline sales of the TV industry recorded significant decline in the first quarter. In this regard, the Group has been proactively exploring new marketing model and optimising its channel structure. Since the pandemic situation has taken a turn for the better in China as of the date of this annual report, it is expected that the Group's TV sales in the PRC market will recover gradually to the level before the pandemic. In the overseas markets, as a result of the pandemic outbreak in overseas in the middle of March 2020, various countries announced border closure and international sport events were cancelled or delayed, which consequentially obstructed the sales in offline channels and the recovery time will largely depend on the control of the pandemic. In this regard, the Group has been paying close attention to the development of pandemic and will adjust its strategy of marketing and supply chain promptly in order to minimise the potential impact on the Group's full year TV sales in overseas markets. In terms of the Internet business, in view of the various precautionary measures including restriction of outdoor activities against the pandemic, consumers tend to use TV more often as a device for receiving information, home entertainment and online study, which may further cultivate users' habit for using TV as a smart device of household consumption. As of the end of February 2020, the number of existing subscribers grew by 139.0% year-on-year. Under such circumstances, it is expected that the monetisation ability of the Company's Internet business could be further enhanced.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 28 March 2020.

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				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(restated)			
RESULTS					
TURNOVER	**46,991,139**	45,581,970	40,822,357	33,361,250	34,016,833
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**2,524,381**	1,258,212	933,164	201,206	37,179
Income tax	**(199,288)**	(226,778)	(136,303)	(24,428)	(27,039)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS AND PROFIT FOR THE YEAR	**2,325,093**	1,031,434	796,861	176,778	10,140
Profit/(loss) attributable to:					
Owners of the parent	**2,279,426**	1,040,819	814,639	182,764	25,811
Non-controlling interests	**45,667**	(9,385)	(17,778)	(5,986)	(15,671)
	2,325,093	1,031,434	796,861	176,778	10,140

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(restated)			
Total assets	**33,322,571**	28,302,910	26,063,346	20,309,390	18,178,191
Total liabilities	**(21,385,805)**	(18,426,974)	(18,366,829)	(13,753,045)	(13,769,461)
Non-controlling interests	**(356,776)**	(244)	(67,793)	(103,900)	(112,144)
	11,579,990	9,875,692	7,628,724	6,452,445	4,296,586

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

"2007 Scheme"	the share option scheme adopted by the Company on 15 February 2007;
"2016 Scheme"	the share option scheme adopted by the Company on 18 May 2016;
"2017 Amendments"	the amendment of the Award Scheme on 24 November 2017, has the meaning ascribed to it under the section "Award Scheme" of the "Report of the Directors" in this annual report;
"2018 Amendments"	the amendment of the Award Scheme on 4 May 2018, has the meaning ascribed to it under the section "Award Scheme" of the "Report of the Directors" in this annual report;
"2019 AGM"	the AGM held on 28 May 2019;
"ACCA"	Association of Chartered Certified Accountants;
"AGM"	the annual general meeting of the Company;
"AI"	artificial intelligence;
"ARPU"	the average revenue per user;
"Articles"	the articles of association of the Company as amended from time to time;
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Audit Committee"	the audit committee of the Company;
"Award Scheme"	the restricted share award scheme adopted by the Company on 6 February 2008 (as amended or revised from time to time);
"Board"	the board of Directors;
"Board Committee(s)"	the committee(s) under the Board, namely Audit Committee, Nomination Committee, Remuneration Committee and Strategy Committee;
"Board Diversity Policy"	the board diversity policy of the Company adopted on 13 August 2013;

"Cayman Law"	the laws of the Cayman Islands;
"CEO"	the chief executive officer of the Company;
"CES"	International Consumer Electronics Show;
"CMM"	China Market Monitor Co., Ltd., a Chinese institution that focuses on retail market research of consumer goods and home appliance in the PRC;
"Code"	the corporate governance code as set out in Appendix 14 to the Listing Rules;
"Code Provisions"	the code provisions of the Code;
"Company" or "TCL Electronics"	TCL Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Hong Kong Stock Exchange (stock code: 01070);
"Company Secretary" or "Ms. CHOY"	Ms. CHOY Fung Yee, the company secretary of the Company as at the date of this annual report;
"connected person(s)"	has the meanings ascribed to it under the Listing Rules;
"COVID-19"	Coronavirus disease 2019;
"CSOT"	TCL China Star Optoelectronics Technology Co., Ltd.* (TCL華星光電技術有限公司), formerly known as Shenzhen China Star Optoelectronics Technology Co., Ltd.* (深圳市華星光電技術有限公司), a company established under the laws of the PRC with limited liability, a subsidiary of TCL Technology;
"Director(s)"	the director(s) of the Company;
"DISCIEN"	Beijing DISCIEN Consulting Co., Ltd, a professional consulting company focusing on the commercial and television industry chain in the PRC;
"Dividend Policy"	the dividend policy of the Company confirmed and consolidated on 20 December 2018 and took effect from 1 January 2019;
"EGM"	the extraordinary general meeting of the Company;

"Falcon Network Technology"	Shenzhen Falcon Network Technology Co., Ltd.* (formerly literally translated and known as Shenzhen Thunderbird Network Technology Company Limited) (深圳市雷鳥網絡科技有限公司), a limited liability company established and subsisting under the laws of the PRC, a subsidiary of the Company;
"Falcon Network Technology Group"	Falcon Network Technology and its subsidiaries;
"Finance Company"	TCL Finance Co., Ltd.* (TCL集團財務有限公司), a company established in the PRC with limited liability and a subsidiary of TCL Technology;
"GfK"	Gesellschaft für Konsumforschung (Corporation of Marketing Research for Consumer Product in English), headquartered in Nuremberg, Germany, a global market research group;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"HKICPA"	Hong Kong Institute of Certified Public Accountants;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Huizhou Keyin"	Huizhou Keyin Business Service Co., Ltd.* (惠州客音商務服務有限公司), a subsidiary of TCL Holdings;
"Huizhou Kuyu"	Huizhou Kuyu Network and Technology Co. Ltd.* (惠州酷友網絡科技有限公司), a subsidiary of TCL Holdings;
"Huizhou TCL Home Appliance"	Huizhou TCL Home Appliance Group Co. Ltd.* (惠州TCL家電集團有限公司), a subsidiary of TCL Holdings;
"IDG"	International Data Group, a technology media, data and marketing services company;
"IFA"	Internationale Funkausstellung Berlin, a showcase for the global technology industry;

"IHS"	IHS Markit, a source of information and insight in various critical business areas;
"IoT"	Internet of things;
"Lida Tiancheng"	Huizhou Lida Tiancheng Investment Co., Ltd.* (惠州礪達天成股權投資有限公司), a limited liability company established in the PRC and the general partner of Lida Zhihui;
"Lida Zhihui"	Ningbo Lida Zhihui Enterprise Management Partnership (Limited Partnership)* (寧波礪達致輝企業管理合夥企業(有限合夥)) a limited liability partnership established in the PRC and a controlling shareholder of TCL Holdings;
"Listing Rules"	the rules governing the listing of securities on the Hong Kong Stock Exchange;
"Model Code"	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules;
"Nomination Committee"	the nomination committee of the Company;
"Nomination Policy"	the nomination policy of the Company adopted on 20 December 2018 and took effect from 1 January 2019;
"NPD"	the NPD Group, Inc., a market research company that offers data, industry expertise, and prescriptive analytics globally;
"ODM"	original design manufacturing;
"OPCO"	Falcon Digital Entertainment Technology (Shenzhen) Limited* (深圳市雷鳥數字娛樂科技有限公司), formerly known as Hawk Digital Entertainment Technology (Shenzhen) Co., Ltd)* (豪客數字娛樂科技(深圳)有限公司);
"OTT"	over-the-top;
"PRC"	the People's Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purposes of this annual report;
"PRC Equity Owners"	Mr. WANG Hao and Ms. ZHU Xiaojiang;

"QD"	quantum dot;
"Qianhai Fende"	Shenzhen Qianhai Fende Industries Investment Company Limited* (深圳市前海芬德實業投資有限公司), a limited liability company established in the PRC;
"Qianhai Sailing"	Shenzhen Qianhai Sailing Supply Chain Management Co. Ltd.* (深圳前海啟航供應鏈管理有限公司), an associate of TCL Technology;
"R&D"	research and development;
"Remuneration Committee"	the remuneration committee of the Company
"Restructuring"	The restructuring occurred in the first quarter of 2019 which involved certain then subsidiaries and associates of TCL Technology, whereby TCL Technology spun off, among others, all its equity interests in T.C.L. Industries (H.K.), together with its equity interests in various of its associates to TCL Holdings. For details, please refer to the circular of the Company dated 19 June 2019;
"Rights Issue"	the rights issue in the proportion of one rights share for every three then existing shares of the Company held by the qualifying shareholders of the Company on the record date of 27 December 2017;
"Rights Issue Proceed(s)"	has the meaning ascribed to it under the section "The Use of Proceeds Form the Rights Issue" of the "Report of the Directors" in this annual report;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong);
"Share(s)"	ordinary share(s) of HK$1.00 each in the share capital of the Company;
"Share Option Scheme(s)"	the share option scheme(s) of the Company adopted by the Company from time to time;
"Shareholder(s)"	holder(s) of Share(s);
"Sigmaintell"	Sigmaintell Consulting Co., Ltd., a research & consulting company which focuses on worldwide display and integrated circuit market;

"Specific Mandate"	the specific mandate, Shareholders' approval of which is to be obtained at a general meeting of the Company for such purposes, for the issuance and allotment of new Shares pursuant to the Award Scheme (subject to adjustment in case of any Share consolidation or subdivision after such mandate has been approved, provided that the maximum number of new Shares that may be allotted and issued as a percentage of the total number of issued Shares at the date immediately before and after such consolidation or subdivision shall be the same);
"Speedex"	Speedex Logistics Co., Ltd.* (速必達希杰物流有限公司), a joint venture of TCL Technology;
"Strategy Committee"	the strategy committee of the Company;
"Strategy Executive Committee"	the strategy executive committee of the Company;
"subsidiary(ies)"	any entity within the meaning of the term "subsidiary" as defined in the Listing Rules and the term "subsidiaries" shall be construed accordingly;
"TCL Communication"	TCL Communication Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares were listed on the Hong Kong Stock Exchange from September 2004 to September 2016, a subsidiary of TCL Holdings;
"TCL Home Appliance (Hefei)"	TCL Home Appliance (Hefei) Co., Ltd.* (TCL家用電器(合肥)有限公司), a subsidiary of TCL Holdings;
"TCL Electronics (Huizhou)"	TCL Electronics (Huizhou) Co., Ltd.* (TCL電子(惠州)有限公司), a subsidiary of the Company;
"TCL Holdings"	TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司), formerly known as TCL Industries Holdings (Guangdong) Inc.* (TCL實業控股(廣東)股份有限公司), a joint stock company established under the laws of the PRC, the ultimate controlling shareholder of the Company;
"TCL Holdings Group"	TCL Holdings and its subsidiaries;
"T.C.L. Industries (H.K.)"	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong with limited liability, the immediate controlling shareholder of the Company and a wholly-owned subsidiary of TCL Holdings;
"TCL Intelligence Industry (Huizhou)"	TCL Intelligence Industry (Huizhou) Co. Ltd.* (TCL智慧工業(惠州)有限公司), a subsidiary of TCL Holdings;

"TCL King (Chengdu)"	TCL King Electrical Appliances (Chengdu) Company Limited* (TCL王牌電器(成都)有限公司), a subsidiary of the Company;
"TCL King Electrical"	TCL King Electrical Appliances (Huizhou) Company Limited* (TCL王牌電器(惠州)有限公司), a subsidiary of the Company;
"TCL Overseas Electronics"	TCL Overseas Electronics (Huizhou) Limited* (TCL海外電子(惠州)有限公司), a subsidiary of the Company;
"TCL Research"	Shenzhen TCL Research Co., Limited* (深圳TCL工業研究院有限公司), a subsidiary of TCL Technology;
"TCL Technology"	TCL Technology Group Corporation (TCL科技集團股份有限公司), formerly known as TCL Corporation (TCL集團股份有限公司), a joint stock company established under the laws of the PRC, the shares of which are listed on Shenzhen Stock Exchange (stock code: 000100);
"TCL Technology Group"	TCL Technology and its subsidiaries;
"Tonly Electronics"	Tonly Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Hong Kong Stock Exchange (stock code: 01249), a subsidiary of TCL Holdings;
"Trustee"	BOCI Prudential Trustee Limited, the trustee appointed by the Board for the administration of the Award Scheme;
"TV(s)"	television(s);
"USA" or "US"	United States of America;
"VIE Agreements"	collectively the exclusive business cooperation agreement, the exclusive purchase right agreement, the equity pledge agreement, the authorisation letters, the confirmation letters and the spousal consent letters entered into between Falcon Network Technology, OPCO and/or the PRC Equity Owners and/or their spouses on 23 July 2019;
"VIE Announcement"	the announcement of the Company dated 23 July 2019; and
"%"	percent.

The English translation of Chinese names or words in this circular, where indicated by "", are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

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