TONLY

TONLY ELECTRONICS HOLDINGS LIMITED

通力電子控股有限公司

Incorporated in the Cayman Islands with limited liability

Stock Code : 01249

ANNUAL REPORT 2017

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FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

(HK$ Million)	**2017**	2016
Turnover	**5,912**	4,266
Gross profit	**825**	599
Gross profit margin (%)	**13.9%**	14.0%
Profit attributable to owners of the parent	**199**	152
Basic EPS (HK cents)	**78.96**	62.12
Full year dividend per share		
– Proposed final dividend per share (HK cents)	**35.0**	25.0

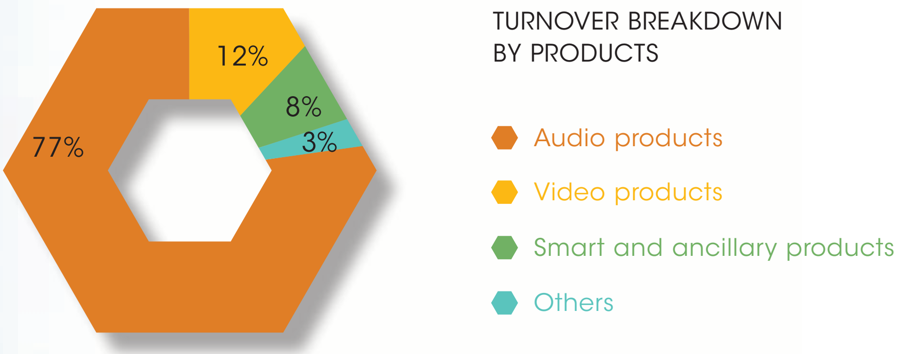
FINANCIAL POSITION

(HK$ Million)	**2017**	2016
Property, plant and equipment	**563**	474
Cash and cash equivalents	**850**	730
Total assets	**4,113**	3,168
Total liabilities	**2,618**	2,003
Net assets	**1,495**	1,165

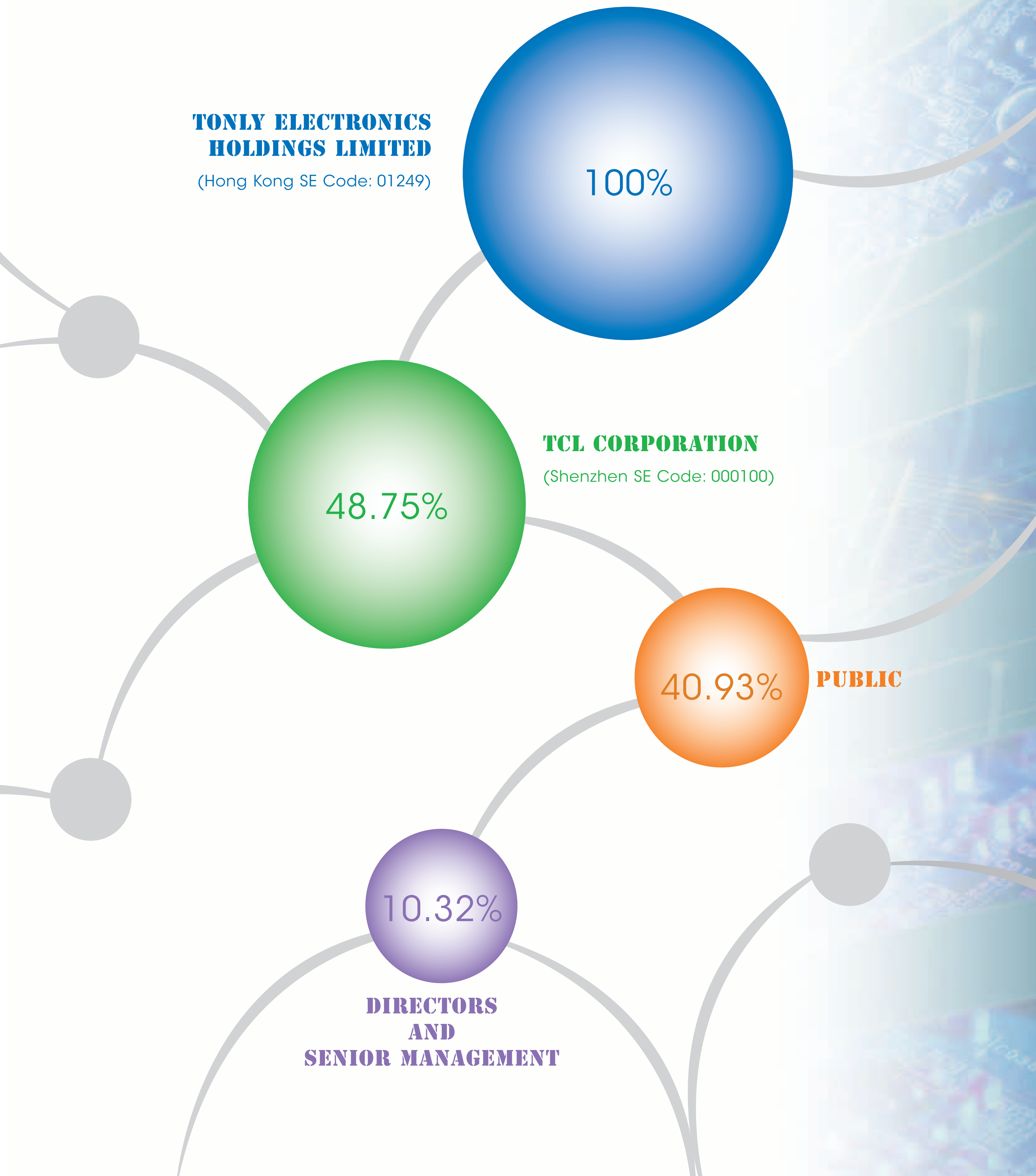
OPERATION INDICATORS

	2017	2016
Inventory turnover (days)	**48**	36
Trade receivables turnover (days)	**75**	100
Trade payables turnover (days)	**90**	107
Current ratio	**1.3**	1.3

Note: The above turnover days are calculated on average balance of the year.



CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

Liao Qian
Chairman

"WE ADHERE TO PRODUCT INNOVATION AND ARE COMMITTED TO TRANSFORM AND UPGRADE OUR PRODUCTS BY STRENGTHENING OUR DEVELOPMENT CAPABILITIES IN DESIGN AND CORE TECHNOLOGY. WE STRIVE TO BECOME A HIGH-TECH SMART PRODUCTS SUPPLIER WITH A COMPETITIVE EDGE."

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board ("Board") of directors ("Directors"), I am pleased to present the annual results and business outlook of Tonly Electronics Holdings Limited (the "Company", or "Tonly Electronics") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017.

In 2017, the pace of global economic recovery speeded up and China's economy grew steadily, with its GDP increasing by approximately 6.9% as compared to that of the previous year. It was the first time that China has reversed the slowdown of its economic growth since 2011 to showing an upswing. According to figures from the General Administration of Customs of the PRC, the import and export of the trade of goods in 2017 rebounded after having been declining for two years, with the total volume reached approximately RMB27.79 trillion, growing by approximately 14.2% as compared to that of the previous year. A sound economic environment will be conductive to the growth of the Group's export business of electronic products, as well as the continues exploration of relevant markets such as for smart speakers, tapping into development opportunities of smart products, and expansion its market share.

For the year ended 31 December 2017 ("the year under review"), the Group recorded a turnover of approximately HK$5,912.5 million, representing an increase of 38.6% over the corresponding period of last year, and a gross profit of approximately HK$824.7 million, representing a rise of 37.7% year-on-year. Gross profit margin slightly decreased by 0.1% from 14% for the corresponding period last year. Operating profit amounted to approximately HK$255.6 million, representing an increase of 32.6% year-on-year. Profit attributable to owners of the parent for the year under review rose by 30.8% year-on-year to approximately HK$198.6 million. The Board proposes to distribute 35.0 cents as the final dividend for the year ended 31 December 2017.

CHAIRMAN'S STATEMENT

During the year under review, the Group devotedly developed its audio product and smart product businesses. Among them, the growth of new audio products was substantial. Products of new customers started to be delivered in the second quarter of 2017, and at the same time smart voice speakers and ancillary products proceeded to bulk shipment in particular these was a rapid growth of bulk shipping of smart voice speakers of a specific customer on the 11 November shopping day, which drove the Group's turnover of smart and ancillary products to increase approximately 5 times year-on-year during the year under review. Meanwhile, the Group expanded well in relation to its new customer base and new business, but the progress of the international video business was below expectation, the Group has closed this business during the period. In 2017, despite the continuous optimisation of the product mix of the Group, the gross profit margin slightly decreased by 0.1% compared with the same period in 2016 due to the impact of rising raw material and labour costs, and the appreciation of the RMB.

The Group has been committed to developing new products. During the year under review, the Group's R&D expenses were approximately HK$202.0 million, representing 3.4% of its total turnover. The Group owns R&D bases in Huizhou, Shenzhen, and Xi'an with more than 800 staff members. In addition to developing and introducing new products in response to customers' specific requirements, the R&D team carries out visionary research and development on fundamental product technologies. The Group will devote more R&D resources to smart products, epitomised by smart speakers, to strive for first-mover advantages of product research and development in this field.

CHAIRMAN'S STATEMENT

In contrast with the other products of the Group, smart products demand more complex in R&D and more components, and require professional R&D personnel to follow up on the solutions and evolutions of the respective master control chip platforms. At the same time, in upstream applications, the various global mainstream voice eco-platforms have their own voice accesses, which need to be implemented in different products according to customer needs. The future of voice interaction technology will be a crucial part of human-machine interaction. Benefiting from the continuous improvement of far-field voice technology, the sales volume of smart speaker products with voice access and voice feedback grows swiftly in the global market. With years of professional experience in electro-acoustic design and pioneer advantages in smart speakers, the Group constantly innovates in product development to capture potential market opportunities.

However, the Group also believes that future voice technologies will not be limited to smart speaker products, but may also be ultilized by various types of products that require voice accesses. Therefore, in addition to strengthening the R&D and innovation of smart voice speakers, the Group also actively explores and applies the R&D progress on the cross-field ultilisation of smart voice. Apart from outstanding design and R&D, smart products that provide user-friendly experiences also require comprehensive automated testing capabilities. Thus the Group has accordingly established a number of automated test laboratories for smart products to better meet customer needs.

The Group not only equipped with R&D and production abilities, but also possesses the vertical integration capability of the supply chain, which enable the Group to provide customers with the speaker units and structural parts. In order to further meet the demand for smart products, the Group continuously enhances its capabilities in speaker units and structural components, especially those with new forms.

CHAIRMAN'S STATEMENT

After years of continuous investment and development, the audio business has now become the major business segment of the Group, especially in view of the rapid growth of new audio business. The Group will continue to consolidate and strengthen its position in the new audio market, focusing on the development of the business of soundbar and headphone products, striving for more business opportunities and exploring more new customers. For video and traditional audio services, the Group will keep on adjusting its resource structure and adopt small-team and asset-light operation strategy.

The Group will emphatically develop the smart and ancillary products business, in particular the smart voice speakers and voice-related smart products. The Group will keep on strengthening its technological advantages in smart voice, focusing on the form of smart speaker products and cooperating with global major voice recognition platforms to constantly tap into more market opportunities. In the meantime, the Group will seek more opportunities for cross-industry applications based on smart voice technology. As a core partner of the global Internet enterprise voice ecosystem, the Group will grow together with the voice ecosystem and persist in its efforts to bring the experience of a new generation of human-machine interaction to more users.

In terms of the vertical integration of the supply chain, the Group consolidated the moulding and plastic parts manufacturing and electro-acoustic units of its subsidiaries to achieve synergy and reduce production costs. The Group will further promote delicacy management to enhance overall operational efficiency and control overall costs. In view of the continuous growth of the Group's business, especially in the smart product business, delicacy management is a necessary process for the Group, during which it will adopt a series of measures to improve the administrative efficiency and internal operation process. With delicacy management and improvement of product testing and assembled infrastructure, the Group will be able to ensure product quality and control production cost.

CHAIRMAN'S STATEMENT

The Group will provide the highest quality products and services to brand companies and customers through expanding new businesses, exploring new technologies and new products, and enhancing its productivity. Following the gradual maturation of its smart and ancillary products business, the management expects that the Group's proportion of turnover from its smart and ancillary products will continue to grow in 2018 and is confident of the Group's future business growth.

Finally, I would like to take this opportunity to express my heartfelt gratitude to all of our shareholders, customers and business partners for their support over the past year, and thank the Group's management and employees for their tireless efforts and contributions. We look forward to move forward in 2018 together to create better returns for our shareholders.

LIAO Qian
Chairman
9 March 2018, Hong Kong

MANAGEMENT DISCUSSION & ANALYSIS

INDUSTRY OVERVIEW

In 2017, the pace of global economic recovery speeded up and China's economy grew steadily, with its GDP increasing by approximately 6.9% as compared to that of the previous year. It was the first time that China has reversed the slowdown of its economic growth since 2011 and showing an upswing. According to figures from the General Administration of Customs of the PRC, the import and export of the trade of goods in 2017 rebounded after having been declining for two years, with the total volume reached approximately RMB27.79 trillion, growing by approximately 14.2% as compared to that of the previous year. The latest "World Economic Outlook" released by the International Monetary Fund ("IMF") also pointed out that, due to the increased global growth momentum and the recent changes in U.S. tax policies, global output rose by approximately 3.7% in 2017, representing a 0.5 percentage point higher than that in 2016. A sound economic environment will be conductive to the growth of the Group's export business of electronic products, as well as the continuous exploration of relevant markets for smart speakers etc., tapping into development opportunities of smart products, and expansion of its market share.

Under the prevailing trend of artificial intelligence, the market demand for smart speakers has been on an upward trend. In 2017, the market scale of smart speakers showed rapid growth and the adoption rate of smart speakers in the market far exceeded expectations. The entire industry chain has progressed from infancy towards maturity. International and domestic Internet and hardware industry leaders have seized the market opportunities, kicking off a new wave of market boom of smart voice speakers. Amazon is still in a significant leading position in view of the current market competition of smart voice speaker. Meanwhile, according to Strategy Analytics, the sales volume of smart speakers will exceed US$1.5 billion in 2017 and is expected to reach US$5.5 billion by 2022 at a CAGR of 29.7%.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS OVERVIEW

During the year under review, the Group recorded a turnover of approximately HK$5,912.5 million, representing an increase of 38.6% over the corresponding period of last year, and a gross profit of approximately HK$824.7 million, representing a rise of 37.7% year-on-year. Gross profit margin slightly decreased by 0.1% from 14% for the corresponding period last year. Operating profit amounted to approximately HK$255.6 million, representing an increase of 32.6% year-on-year. Profit attributable to owners of the parent for the year under review rose by 30.8% year-on-year to approximately HK$198.6 million.

For the year ended 31 December 2017, turnover from the Group's audio product business increased by 60.3% year-on-year to approximately HK$4,554.6 million; turnover from video product business decreased by 37.0% year-on-year to approximately HK$731.1 million; turnover from the smart and ancillary products increased by approximately 5 times year-on-year to approximately HK$464.1 million; turnover from other business decreased by 13.9% year-on-year to approximately HK$162.7 million. The Group's turnover breakdown by product(1):

	2017 **(HK$'000)**	2016 (HK$'000)	Change
Audio Products(2)	**4,554,612**	2,840,803	60.3%
Video Products(3)	**731,059**	1,159,791	-37.0%
Smart and Ancillary Products(4)	**464,096**	76,001	510.7%
Other Businesses	**162,712**	189,072	-13.9%
Total	**5,912,479**	4,265,667	38.6%

Notes:

(1) Partial smart ancillary products sales in 2016 were reclassified to smart and ancillary products for the reason of product form adjustment.

(2) Mainly include wireless bluetooth speakers, soundbar, headphones, home theater, mini speakers, and other products.

(3) Mainly include DVD player and BD player, OTT set top box (STB) and other products.

(4) Mainly include smart voice speakers and ancillary products, smart voice modules, smart gateways, and other products.

MANAGEMENT DISCUSSION & ANALYSIS

During the year under review, the Group devoted its effort in developing its audio product and smart product businesses. Among them, the growth of new audio products was substantial. Products of new customers started to be delivered in the second quarter of 2017, and at the same time smart voice speakers and ancillary products proceeded to bulk shipment, in particular there was a rapid growth of bulk shipping of smart voice speakers of a specific customer on the 11 November shopping day, which drove the Group's turnover of smart and ancillary products to increase approximately 5 times year-on-year during the year under review. Meanwhile, the Group expanded well in relation to its new customer base and new business, but the progress of the international video business was below expectation, and the Group has closed this business during the period. In 2017, despite the continuous optimisation of the product mix of the Group, the gross profit margin slightly decreased by 0.1% compared with the corresponding period in 2016 due to the impact of rising raw material and labour costs, and the appreciation of the RMB.

Research and Development (R&D) and Product Innovation

The Group has been committed to develop new products. During the year under review, the Group's R&D expenses were approximately HK$202.0 million, representing 3.4% of its total turnover. The Group has its own R&D bases in Huizhou, Shenzhen, and Xi'an with more than 800 staff members. In addition to developing and introducing new products in response to customers' specific requirements, the R&D team carries out visionary research and development on fundamental product technologies. The Group will devote more R&D resources to smart products, epitomised by smart voice speakers, to strive for pioneer advantages of product research and development in this field.

In contrast with the other products of the Group, smart products demand more complex R&D and more components, and require professional R&D personnel to follow up on the solutions and evolution of the respective master control chip platforms. At the same time, in upstream applications, the various global mainstream voice eco-platforms have their own voice accesses, which need to be implemented in different products according to customer needs. The future of voice interaction technology will be a crucial part of human-machine interaction. Benefiting from the continuous improvement of far-field voice technology, the sales volume of smart speaker products with voice access and voice feedback grows swiftly in the global market. With years of professional experience in electro-acoustic design and pioneer advantages in smart speakers, the Group constantly innovates in product development to capture potential market opportunities.

However, the Group also believes that future voice technologies will not be limited to smart speaker products, but may also be ultilized by various types of products that require voice accesses. Therefore, in addition to strengthening the R&D and innovation of smart voice speakers, the Group also actively explores and applies the R&D process on the cross-field ultilisation of smart voice. Apart from outstanding design and R&D, smart products that provide user-friendly experiences also require comprehensive automated testing capabilities. Thus the Group has accordingly established a number of automated test laboratories for smart products to better meet customer needs.

MANAGEMENT DISCUSSION & ANALYSIS

The Group is not only equipped with R&D and production abilities, but also possesses the vertical integration capability of the supply chain, which enables the Group to provide customers with speaker units and structural parts. In order to further meet the demand for smart products, the Group continuously enhances its capabilities in speaker units and structural components, especially those with new forms. On 15 January 2018, a subsidiary of the Group entered into a joint venture agreement with a subsidiary of Coxon Precise Industrial Co., Ltd (a Taiwan company whose shares are listed on the Taiwan Stock Exchange stock code: 3607, "Coxon Precise") for the establishment of a joint venture company in China to further strengthen its capabilities in precision plastic injection and structural parts with new forms, in order to serve the diverse needs of more customers. Please refer to the announcement of the Company published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company on 15 January 2018.

Customer and Market Development

The Group continues to uphold the philosophy of innovation in R&D, swift customer response, and strict quality control. The Group received high recognition from the customers during the process of cooperation. The Group has collaborated with many well-known audio and video brands all over the world for years, and has built a strong customer base. With the rapid growth of the smart voice market, the Group can leverage on its R&D strengths in this field to better serve its customers and capture market growth opportunities with its customers.

In the meantime, the Group will also eagerly expand its Internet customer base and strive for more business opportunities for cooperation to help the speedy development of the smart voice eco-platform of internet customers. As the global voice ecosystem advances and matures, more and more brands have launched or will soon launch voice-enabled smart products (including but not limited to smart speakers), and the Group will also leverage on its pioneer advantages in smart voice technologies, as well as the foundation for cooperation in each voice eco-platform to exploit more business opportunities of smart products from brand customers across the smart speaker industry.

Production and Supply Chain Management

In the face of China's labour shortage problems and rising wages, the Group is committed to enhance its human resources system. During the year under review, the Group continued to increase the proportion of automated equipment and strengthened the stability of skilled workers to boost its per capita production efficiency steadily. The Group has introduced automatic test systems and automatic packaging systems to facilitate lean, automated, and informationised production and independently developed MES and WMS systems to improve operational efficiency and quality. The Group completed the renewable energy (solar) power generation project during the period which made use of the idle roofs of its factories and reduced its carbon emissions by building a decentralised roof photovoltaic power generation system and deploying advanced solar panels (photoelectric conversion efficiency of 16.0% and above) to generate power for factory use. Chilled water storage is currently under construction, which aims to reduce the overall power consumption of the factories.

MANAGEMENT DISCUSSION & ANALYSIS

The Group is also dedicated to optimising the equipment and management system of its production plant. On the one hand, the Group implemented smart warehouse logistics management based on an industrial intelligence system, to closely integrate all aspects of supply chain, production, and logistics, in order to set a solid foundation for Industry 4.0 and to increase the actual production capacity of the Huizhou production base. Currently, phase one of the extension of the production base has been completed and the base has been put into operation in the first quarter of 2017. Phase two of the project has commenced, which allows the Group to promote centralised management of the production capacity as well as to expand its product line, integrate its supply chain effectively and increase production efficiency. In view of the increase in the total orders received and expected to receive in the second half of the year, in order to satisfy product manufacturing and delivery needs, the Group has signed a production plant lease agreement with TCL Communication Technology Holdings Limited during the year under review. Please refer to the announcement the Company published on the website of the Stock Exchange of Hong Kong Limited and the Company on 31 May 2017.

In June 2017, a fire accident occurred in the warehouse for materials and the secondary workshop of the factory area located at Dongguan City, Guangdong Province, China, which is operated by FP Group (Dongguan) Limited, a wholly-owned subsidiary of the Company. As a result of the fire accident, some of the raw material, semi-finished goods, finished goods, part of the plant and production facilities in the factory area have been damaged. Whilst the fire accident may have a temporary adverse impact on the short term financial position of the Group and the product delivery schedule, the Group had made sufficient property insurance arrangements. Please refer to the announcement the Company published on the websites of The Stock Exchange of Hong Kong Limited and the Company on 12 June 2017.

Future Plans and Outlook

According to the "2018 Economic and Financial Outlook Report" released by the Institute of International Finance at the Bank of China, following the introduction of the fiscal and taxation released by the U.S. government, the major banking businesses in Europe and the U.S. have become more robust and the stability in emerging markets has been further enhanced. It is estimated that in 2018 the global economy will continue to show sound growth momentum. In the "World Economic Outlook", the IMF raised global economic growth projections for 2018 and 2019 to 3.9% and adjusted its forecast for China's economic growth in 2018 to 6.6%. Although the pace of global economic recovery is accelerating and there are still changes and risks in the world economy and finance, the Group will continue to adopt a prudent and cautious strategy to optimise its product mix and diversify its business, in line with the general trend in smart technology.

MANAGEMENT DISCUSSION & ANALYSIS

After years of continuous investment and development, the audio business has now become the major business segment of the Group, especially in view of the rapid growth of new audio business. The Group will continue to consolidate and strengthen its position in the new audio market, focusing on the development of the business of soundbar and headphone products, striving for more business opportunities and exploring more new customers. For video and traditional audio business, the Group will keep on adjusting its resource structure and adopt a small-team and asset-light operation strategy.

The Group will continue to emphasise its development on the smart and ancillary products business, in particular smart voice speakers and voice-related smart products. The Group will keep on strengthening its technological advantages in smart voice technology, focusing on the form of smart speaker products and cooperating with global major voice recognition platforms to constantly tap into more market opportunities. In the meantime, the Group will seek more opportunities for cross-industry applications based on smart voice technology. As a core partner of the global Internet enterprise voice ecosystem, the Group will grow together with the voice ecosystem and persist in its efforts to bring the experience of a new generation of human-machine interaction to more users.

In terms of the vertical integration of the supply chain, the Group consolidated the moulding and plastic parts manufacturing and electro-acoustic units of its subsidiaries to achieve synergy and reduce production costs. The Group will further promote delicacy management to enhance overall operational efficiency and control overall costs. In view of the continuous growth of the Group's business, especially in the smart product business, delicacy management is a necessary process for the Group, during which it will adopt a series of measures to improve the administrative efficiency and internal operation process. With delicacy management and improvement of product testing and assembled infrastructure, the Group will be able to ensure product quality and control production cost.

In conclusion, the Group will provide the highest quality products and services to brand companies and customers through expanding new businesses, exploring new technologies and new products, and enhancing its productivity. Following the gradual maturity of its smart and ancillary products business, the management expects that the Group's proportion of turnover from its smart and ancillary products will continue to grow in 2018 and is confident of the Group's future business growth. The Group will, as always, keep on looking for opportunities and actively seeking viable business expansion opportunities, which, coupled with its owns strengths, will enlarge its business portfolio, elevate the long-term value of the Group, and proactively generate more returns for its shareholders.

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There is no material acquisitions and disposals of subsidiaries during the period under review. Thereafter, on 15 January 2018 a subsidiary of the Group entered into a joint venture agreement with a subsidiary of Coxon Precise for the establishment of a joint venture company in China, in which the parties invested RMB14 million and RMB6 million in cash respectively. Please refer to the announcement of the Company published on the websites of The Stock Exchange of Hong Kong Limited and the Company on 15 January 2018.

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 31 December 2017 amounted to approximately HK$849,787,000, of which 1.4% was maintained in Hong Kong dollars, 93.7% in US dollars, 4.8% in Renminbi and 0.1% in Euros.

There was no material change in the available credit facilities when compared with the year ended 31 December 2016 and there was no asset held under finance lease as at 31 December 2017.

As at 31 December 2017, the Group's gearing ratio was nil since the Group had cash and bank balances of approximately HK$849,787,000 and without interest-bearing bank borrowings.

Pledge of Assets

There was no pledge of assets by the Group as at 31 December 2017.

Capital Commitments and Contingent Liabilities

As at 31 December 2017, the Group had capital commitments of approximately HK$6,791,000 (31 December 2016: HK$15,367,000). The Group did not have any material contingent liabilities as at 31 December 2017.

Pending Litigation

The Group had not been involved in any material litigation for the year ended 31 December 2017.

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 the Company's 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 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

The Group had approximately 7,959 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company. In order to align the interests of staff with those of the shareholders, share options were granted to selected employees under the Company's share option scheme. Options for subscribing a total of 17,532,116 shares remained outstanding at the end of the reporting period.

A restricted share award scheme (the "Award Scheme") was also adopted by the Company on 28 August 2014 as amended on 8 August and 7 September 2017 pursuant to which existing shares may be purchased by the trustee from the market or new shares may be subscribed for out of cash contributed by the Group and be held on trust by the trustee of the Award Scheme for the relevant selected persons until such shares are vested with the relevant selected persons in accordance with the rules of the Award Scheme.

DIRECTORS AND SENIOR MANAGEMENT

LIAO QIAN
Chairman and Non-Executive Director

YU GUANGHUI
Executive Director

SONG YONGHONG
Executive Director

REN XUENONG
Executive Director

DIRECTORS AND SENIOR MANAGEMENT

YUAN BING

(Former) Chairman and Non-Executive Director

LEONG YUE WING

Independent Non-Executive Director

POON CHIU KWOK

Independent Non-Executive Director

LI QI

Independent Non-Executive Director

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. YU GUANGHUI

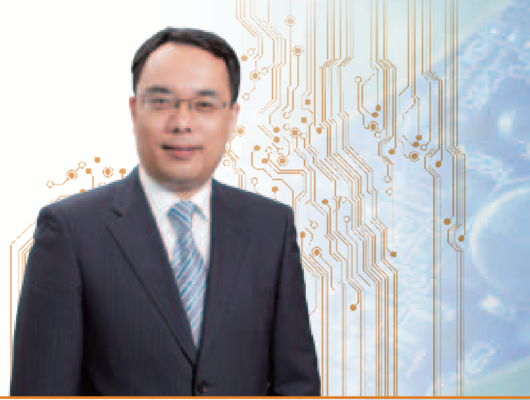
Aged 49, is an executive Director and Chief Executive Officer ("CEO") of our Company. He is also the vice president of TCL Corporation ("TCL Corporation", the Company's ultimate holding company and the shares of which are listed on Shenzhen Stock Exchange (Stock Code: 000100)). He also holds directorships in various principal subsidiaries of our Group. Mr. YU joined TCL Corporation in 1993. He had held the positions of engineer of TCL Huizhou Shouhua Science Park, deputy general manager of TCL King, deputy general manager of TCL Electronics (HK) Co., Ltd., general manager of TCL Overseas Holdings Co., Ltd., vice executive president and president of TCL Multimedia Technology Holdings Ltd, general manager of AV Business Unit and president of the Company. Mr. YU has rich management experience in materials procurement, manufacturing, product management, business development and cooperation with world-class companies. Mr. YU graduated from the Shaanxi Normal University with a Master's degree in Physics in 1993, and obtained a MBA degree from Peking University in 2005 and an EMBA degree from Cheung Kong Graduate School of Business in 2009.

MR. SONG YONGHONG

Aged 50, is an executive Director and chief operating officer of our Company. He also holds directorships in various principal subsidiaries of our Group. Mr. SONG joined TCL Corporation Group in 2003. Since 2010, he has been the deputy managing director and general manager of Product Centre of AV Division of our Group. From 2003 to 2009, he had been the deputy general manager of AV Division of TCL Multimedia Technology Holdings Limited ("TCL Multimedia"). From 2009 to 2010, Mr. SONG had held the position of general manager of Global Product Centre of TCL Multimedia and senior vice president of TCL Multimedia. Prior to joining TCL Corporation, Mr. SONG had held the positions of deputy general manager of Dongguan Jinzheng Digital Technology Co., Ltd. Mr. SONG has substantial experience in management and business development in the field of electronic products. Mr. SONG graduated from the Faculty of Physics of Shaanxi Normal University with a Bachelor's degree in Science in 1990 and obtained an IEMBA degree from the Hong Kong University of Science and Technology in 2012.

DIRECTORS AND SENIOR MANAGEMENT

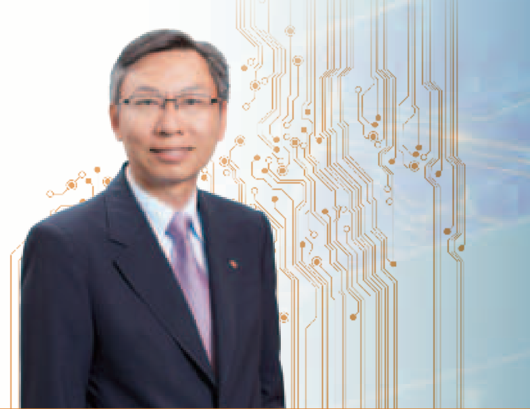
Aged 47, is an executive Director and the chief financial officer of our Company. Since July 2004, Mr. REN has been the financial controller and the head of the Finance Department of AV Division of our Group. He currently holds directorships in various principal subsidiaries of our Group. Mr. REN is a practising accountant in the PRC and has rich financial and accounting experience in the field of electronic products. From 1996 to 2001, Mr. REN had been the deputy manager of the Finance Department of TCL King Electrical Appliances (Huizhou) Co., Ltd.. Mr. REN graduated from Hunan College of Finance and Economics with a certificate of accountancy and audit in 1991.



MR. REN XUENONG

NON-EXECUTIVE DIRECTOR

Aged 48, was the Chairman and a non-executive Director of the Company (resigned with effect from 1 January 2017) and also the chairman of the nomination committee and a member of the remuneration committee (ceased to be chairman and member with effect from 1 January 2017). He was also the chairman and a non-executive director of China Display Optoelectronics Technology Holdings Limited (formerly known as TCL Display Technology Holdings Limited), the issued shares of which are listed on the Stock Exchange (Stock Code: 334). He is also the chairman of T.C.L. Industries Holdings (H.K.) Limited and the vice president of TCL Corporation the issued shares of which are listed on the Shenzhen Stock Exchange (stock code: 100). Mr. YUAN currently holds certain positions in the TCL Group, namely, the president and a director of Xinjiang TCL Equity Investment Co., Ltd and the legal representative and chairman of Beijing Sinopharm Hundric Medline Info. Tech. Co., Ltd., the legal representative and chairman of Guangzhou TCL Medical Equipment Co., Ltd, the legal representative and chairman of Beijing Wemed Medical Equipment Co., Ltd.* (北京唯邁醫療設備有限公司), a director of Highly Information Industry Co. Ltd and a director of TCL New Technology (Huizhou) Co., Ltd. Mr. Yuan also holds certain positions in a number of entities in which the TCL Group invests, including the legal representative and an executive director of Urumqi TCL Chuangdong Equity Investment Management Co., Ltd, the



MR. YUAN BING

DIRECTORS AND SENIOR MANAGEMENT

legal representative and chairman of Huizhou TCL Kaichuang Enterprise Management Co., Ltd, an executive partner (authorised representative) of Huizhou Kaichuang Venture Capital Partners (Limited Partnership), the legal representative and an executive director of Nanjing Chuangdong Equity Investment Fund Management Co., Ltd., an executive partner (authorised representative) of Nanjing Zijin Chuangdong Investment Partnership (Limited Partnership), the legal representative and chairman of Shanxi TCL-Huirong Venture Capital Management Co., Ltd., a director of Shanxi TCL-Huirong Creative Investment Co., Ltd., the legal representative and chairman of Urumqi TCL Equity Investment Management Co., Ltd.* (烏魯木齊TCL股權投資管理有限公司), an executive partner (authorised representative) of TCLWX Creative Capital Partnership (Limited Partnership), a director of Yixing Jiangnan Tianyuan Investment Consulting Co., Ltd.* (宜興江南天源投資諮詢有限公司), the legal representative and chairman of Urumqi Qixinda Equity Investment Management Co., Ltd., an executive partner (accredited representative) of Wuxi TCL-SK Semiconductor Industry Investment Fund Partnership (Limited Partnership)* (無錫TCL愛思開半導體產業投資基金合夥企業(有限合夥)), an executive partner (accredited representative) of Xinjiang Dongpeng Waichuang Equity Investment Partnership (Limited Partnership)* (新疆東鵬偉創股權投資合夥企業(有限合夥)), a director of Tibet Rongxin Venture Capital Management Co., Ltd, the legal representative and executive director of Tibet Dongwei Investment Management Co., Ltd.* (西藏東偉投資管理有限公司), a director of Pharmaxyn Laboratories Ltd., a director of Wuxi DK Electronic Materials Co., Ltd.* (無錫帝科電子材料科技有限公司), a director of Beijing Enji Saiwei Energy Saving Technology Co., Ltd.* (北京恩吉賽威節能科技有限公司), a director of CRTVU-Online Educational Technology Co., Ltd., a director of Petro AP Company Limited, a director of Petro AP (Hong Kong) Company Limited, a director of Shanxi United Magnesium Industry Co., Ltd., a director of National Day International Limited* (華慶國際有限公司), a director of Golive Movies Limited, a director of Eastern Ray Investment Limited* (東輝投資有限公司), a director of Global Fortune Ventures Limited* (環球機遇有限公司) and a director of Shenzhen Momoda Internet Communication Company Limited. Mr. YUAN is also the legal representative, an executive director and a general manager of Shenzhen Empyrean Matrix Investment Management Co., Ltd.* (深圳市九天矩陣投資管理有限公司), and a supervisor of Huizhou Dongxu Zhiyue Equity Investment Management Co., Ltd.* (惠州市東旭智嶽股權投資管理有限公司). Mr. YUAN joined TCL Corporation in May 1999. From May 1999 to August 2000, Mr. Yuan was a supervisor of the Financial Department of TCL Corporation. From September 2000 to May 2004, he was a manager of the Financial Department of TCL International Holdings Company Limited. From May 2004 to May 2005, he was the deputy general manager of TCL International Holdings Limited. He successively served as the vice chief and chief at the Strategic Development Department of TCL Corporation during the period from January 2002 to May 2005 and from June 2005 to July 2005 respectively. From August 2005 to April 2006, he was the general manager of the Financial Management Centre of TCL Corporation. He was an executive director and the chief financial officer of TCL Multimedia from October 2006 to January 2009. From May 2006 to June 2008, he was the financial director of TCL Corporation. He was the adjunct head of department of the Investment Management Department of the Financial Management Centre of TCL Corporation from July 2006 to September 2007. He was the vice-president of TCL Corporation from July 2007 to January 2011. He was the senior vice-president of TCL Corporation from February 2011 to July 2011. Mr. YUAN has over 25 years of experience in the consumer electronic products industry.

* English translation for identification purpose only

DIRECTORS AND SENIOR MANAGEMENT

MR. LIAO QIAN

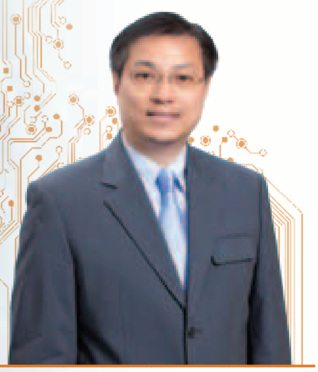
Aged 37, was appointed as the Chairman and non-executive Director of the Company with effect from 1 January 2017, he is currently the executive Director, vice president, secretary of the board of directors and the vice chairman of investor relations committee of TCL Corporation. He joined TCL Corporation as the officer of the board of directors in March 2014. Mr. Liao was subsequently appointed as the secretary of the board of directors of TCL Corporation in April 2014, a member of the executive committee of TCL Corporation in December 2014. He served as a director of TCL Communication Technology Holdings Limited (whose shares were during 27 September 2004 up to 30 September 2016 listed on the Stock Exchange (former Stock Code: 2618)) since May 2015, a director of TCL Financial Holding (Shenzhen) Co. Ltd.* (TCL金融控股(深圳)有限公司) in September 2015, a director of TCL Smart Home Technologies Co., Limited in November 2015, a director of Highly Information Industry Co. Ltd (a subsidiary of TCL Corporation) and Huizhou Kuyou Network and Technology Co. Ltd.* (惠州酷友網絡科技有限公司) respectively in March 2016, a director of Speedex Logistics Co. Ltd.* (速必達希杰物流有限公司, a joint venture of TCL Corporation) in July 2016, a director of Shenzhen Hawk Internet Co. Ltd.* (深圳豪客互聯網有限公司, a wholly owned subsidiary of TCL Corporation) and TCL Culture and Media (Shenzhen) Co. Ltd* (TCL文化傳媒(深圳)有限公司, a wholly owned subsidiary of TCL Corporation) in August 2016, an independent director of Shenzhen Jiawei Photovoltaic Lighting Co.,Ltd. (SZSE Stock Code: 300317) in November 2016, the Chairman and non-executive Director of TCL Display Optoelectronics Technology Holdings Ltd. (Stock Code: 334) in January 2017, and a non-executive Director of Fantasia Holdings Group Co., Ltd. (Stock Code: 1777) in March 2017. Prior to joining TCL Corporation, Mr. LIAO had worked for Guotai Junan Securities Co. Ltd. as the senior manager and general manager of financial advisory department and Guotai Junan Securities Co. Ltd. (Shenzhen headquarters) as the director of corporate accounts in relation to the capital market of investment banking business in between Hong Kong and the People's Republic of China during August 2006 to February 2014. Mr. LIAO obtained a bachelor's degree in economics in 2002, and a master degree of laws in 2006. Mr. LIAO also holds a Chinese legal professional qualification certificate.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. LEONG YUE WING

Aged 65, is an independent non-executive Director. Prior to his re-designation as an independent non-executive Director with effect from 15 January 2016, Mr. LEONG was a non-executive Director of the Company. Mr. LEONG had previously been chief executive officer of TCL Multimedia from 1 October 2007 to 30 September 2009 and was responsible for the overall management of TCL Multimedia including strategy, business development and operations. Prior to joining TCL Multimedia, Mr. LEONG was associated with Royal Philips Electronics since 1978 and retired in April 2007 as executive vice president of Philips Consumer Electronics. Mr. LEONG has extensive management experience in the production and sales of AV and consumer electronics products, and has been actively involved in business development in the PRC, Asia Pacific region, Latin American, North American and European markets. Mr. LEONG obtained a Bachelor's degree in Mechanical Engineering in 1976 and a MBA from the University of Singapore (currently the National University of Singapore) in 1988.

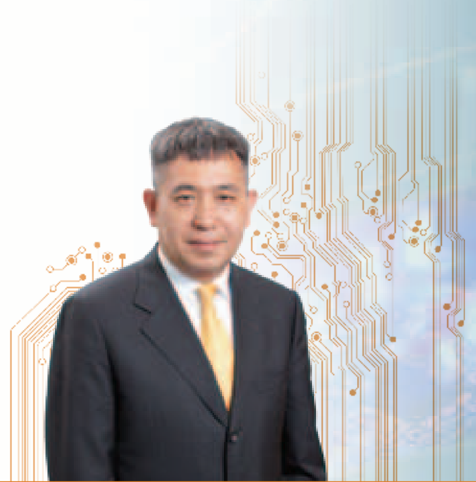


MR. POON CHIU KWOK

Aged 55, is an independent non-executive Director of our Company. Mr. POON, FCPA (Aust.), possesses years of appropriate accounting and related financial management expertise. He now serves as an executive director, vice president and company secretary of Huabao International Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange (stock code: 336), an independent non-executive director of Greentown Service Group Co., Ltd., the shares of which are listed on the Main Board of the Stock Exchange (stock code: 02869), an independent non-executive director of Yuanda China Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2789), Changan Minsheng APLL Logistics Co., Ltd., the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1292), Sunac China Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1918) TUS International Limited (stock code: 872), AUX International Holdings Limited (stock code: 2080) and Sany Heavy Equipment International Holdings Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 631), Jinchuan Group International Resources Co. Ltd, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2362), Honghua Group Limited (stock code: 196) and Yazhou Coal Mining Company Limited (stock code: 1171), and an non-executive director of Chong Kin Group Limited (stock code: 1609). Mr. POON is a Fellow member of CPA Australia Ltd., a Fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries and a member of its Technical Consultation Panel, Audit Committee, Mainland China Fous Group and Professional Development Committee. He is a member and Associate Instructor of Hong Kong Securities and Investment Institute. He obtained a master's degree in international accounting, a post-graduate diploma in laws, a bachelor's degree in laws and a bachelor's degree in business studies. Mr. POON joined the Group in July 2013.

In October 2017, based on findings made by the Listing Committee of the Stock Exchange ("Listing Committee") in respect of Sunac China Holdings Limited ("Sunac China") and on Sunac China's acceptance, without admission of any liabilities and for the purpose of settlement, of the relevant findings, the Listing Committee censured Sunac China for breaching Rule 2.13(2) of the Listing Rules for failure to ensure the announcements made in February 2015 and May 2015 were accurate and complete in all material aspects, and not misleading. Please refer to the Listing Committee's news issued on 26 October 2017 for further details.

Although Mr. POON was an independent non-executive director of Sunac China at the relevant time, Mr. POON was not personally subject to any investigation process, disciplinary action or censure from the Listing Committee or any other competent authority in respect of the above matters.



MR. LI QI

Aged 57, is an independent non-executive Director of our Company. Mr. LI is an associated professor in the Department of Applied Economics and the Dean at Guanghua School of Management of Peking University, as well as the Dean of Guanghua School of Management, Shenzhen and Shanghai Branch. At present, his research covers various areas including the economy of the PRC and corporate governance. From April 2003 to December 2006, Mr. LI served as an independent director of Shandong Juli Group Co., Limited which is listed on the Shenzhen Stock Exchange (stock code: 000880). Mr. LI graduated from the Economics Department of Peking University in July 1983. From July 1983 to June 1989, he held a teaching position at the Department of Economics and Management of the School of Economics of Peking University. He received his doctorate degree in social and economic science from Vienna University of Economics and Business of Austria in June 1997.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

MR. WANG XIAOFENG

Aged 52, is a senior vice president and chief marketing officer of the Company. He served as a director of 深圳市前海浩方科技有限公司 in June 2014. He has been a deputy general manager and general manager of sales center of Tonly Electronics since October 2006. Mr. WANG joined the TCL Corporation in 1997. From December 1998 to May 2001, he served as the manager of the Marketing Department and the Product Planning Department of TCL Electrical Appliance Sales Company. From May 2001 to September 2002, he had been the general manager of the Monitor Division of TCL Multimedia. From September 2002 to May 2004, Mr. WANG had held the office of general manager of the AV Division of TCL Multimedia. From May 2004 to November 2005, he had been a director of Human Resources and a director of Operation of Component Strategic Business Unit of TCL Corporation. From November 2005 to October 2006, he had been general manager of the Flat Panel Business Group of TTE Corporation. Mr. WANG has strong ability in the management process from product planning to sales and marketing, as well as advertising and promotion, particularly in TV and AV industry. Mr. WANG graduated from the School of Management of Xi'an Jiaotong University with a Bachelor's degree in Management Engineering in 1988 and obtained a Master degree in International Industrial Trading from Xi'an Jiaotong University in 1994 and an EMBA degree from the University of Texas at Arlington in 2006. Mr. WANG is now taking CEIBS (China Europe International Business School) Global EMBA programme.

MR. HUANG WEI

Aged 43, is a senior vice president and chief sourcing officer of the Company, also served as general manager of the innovative business center. He is currently the chairman and a director of Regency Optics-Electron. He joined TCL Corporation in 1998. From 1998 to 2005, he had been the head of Computer Technology Research & Development Department and Procurement Department of TCL Computer Technology Company. From 2005 to 2009, Mr. HUANG had been the operation controller and supply chain controller of TCL Communication. From 2009 to 2011, he had been the general manager of Moulding Centre and general manager of General Utilities Sourcing Division of Global Manufacturing Centre of TCLM. In 2010, Mr. HUANG had been the deputy general manager of our Group and general manager of Supply Chain Centre of our Group. Mr. HUANG has rich management experience in procurement, supply, management and business development in the field of electronic products. Mr. HUANG graduated from Nanjing University of Science and Technology with a Bachelor's degree in Mechanical Design & Manufacturing in 1996, and obtained an EMBA degree from the CEIBS (China Europe International Business School) in 2009.

COMPANY SECRETARY

MR. TSUI KWOK HO *(Resigned with effect from 25 April 2017)*

Aged 30, is a practising solicitor in Hong Kong. He graduated from the University of Hong Kong with a Bachelor of Business Administration (Law) and a Bachelor of Laws in 2009 and 2011 respectively, and obtained a Postgraduate Certificate in Laws from the University of Hong Kong in 2012.

MS. CHOY FUNG YEE *(Appointed with effect from 25 April 2017)*

Age 33, is a practising lawyer in Hong Kong and a partner of Messrs. Cheung Tong & Rosa Solicitors, Hong Kong. Ms. CHOY graduated from the University of Hong Kong in 2006 with a Bachelor's degree in laws and obtained a Postgraduate Certificate in Laws from the University of Hong Kong in 2007. She is currently also the company secretary of TCL Multimedia Technology Holdings Limited (Stock Code: 1070).

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. YU Guanghui *(Chief Executive Officer)*
Mr. SONG Yonghong *(Chief Operating Officer)*
Mr. REN Xuenong *(Chief Financial Officer)*

NON-EXECUTIVE DIRECTORS

Mr. YUAN Bing (Former Chairman)	(Resigned with effect from 1 January 2017)
Mr. LIAO Qian (Chairman)	(Appointed with effect from 1 January 2017)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. POON Chiu Kwok
Mr. LI Qi
Mr. LEONG Yue Wing

COMPANY SECRETARY

Mr. TSUI Kwok Ho, Solicitor, Hong Kong	(Resigned with effect from 25 April 2017)
Ms. CHOY Fung Yee, Solicitor, Hong Kong	(Appointed with effect from 25 April 2017)

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
Hong Kong

CORPORATE INFORMATION

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 Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

PRINCIPAL OFFICE

8th 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

Cornerstones Communications
Unit 1408-10, 14/F, Dominion Centre
43-59 Queen's Road East, Wanchai
Hong Kong

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the one-stop solution supplier of the electro-acoustic and wireless technologies based smart voice products. The Group's ultimate goal is to maximize values for its shareholders and customers, and to provide opportunities for its employees.

On 12 July 2013, the Company adopted a corporate governance code prepared based on the code provisions (the "Code Provisions") revised code on corporate governance (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Company, and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2017, the Company has complied with the Code Provisions with the following exceptions:

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Due to other pre-arranged business commitments which must be attended, Mr. LI Qi, being an independent non-executive director of the Company, was not present at the Company's annual general meeting held on 23 May 2017.

However, Mr. LIAO Qian, non-executive director and Chairman of the Board, Mr. POON Chiu Kwok and Mr. LEONG Yue Wing, independent non-executive directors of the Company, were present to ensure an effective communication with the shareholders at that meeting.

Due to other pre-arranged business commitments which must be attended, Mr. LIAO Qian, being non-executive director and Chairman of the Board, Mr. LI Qi and Mr. LEONG Yue Wing, being independent non-executive directors of the Company, were not able to attend the Company's extraordinary general meeting held on 27 September 2017.

However, Mr. POON Chiu Kwok, an indepednent non-executive director of the Company, was present to ensure an effective communication with the shareholders at that meeting.

CORPORATE GOVERNANCE REPORT

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.

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. Mr. TSUI Kwok Ho ("Mr. TSUI"), the company secretary of the Company until his resignation which took effect on 25 April 2017, and Ms. CHOY Fung Yee ("Ms. CHOY"), the current company secretary of the Company appointed with effect from 25 April 2017, are not employees of the Company. Mr. TSUI was a solicitor of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors. Mr. TSUI had been appointed as the company secretary of the Company since 19 August 2016 until his resignation. Ms. CHOY is a partner of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors.

The Company has assigned Mr. REN Xuenong, an executive director of the Company, as the contract person with Mr. TSUI (during his office) and Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. TSUI (during his office) and Ms. CHOY through the contact person assigned. Given the long-term relationship between Messrs. Cheung Tong & Rosa Solicitors and the Group, each of Mr. TSUI (during his office) and Ms. CHOY is both familiar with the operations of the Group and has in-depth knowledge of the management of the Group. Having in place a mechanism that Mr. TSUI (during his office) and Ms. CHOY will get hold of the Group's development promptly without material delay and with their expertise and experience, the Board is confident that having Mr. TSUI (during his office) and Ms. CHOY as the company secretary is beneficial to the Group's compliance with the relevant Board procedures, applicable laws, rules and regulations.

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received two confirmations (the "Confirmations") from TCL Corporation and T.C.L. Industries Holdings (H.K.) Limited (the "Covenantors") signed by them confirming that for the period from 1 January 2017 to 31 December 2017 and up to the date of signing the Confirmation by the relevant Covenantor, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 July 2013 as amended on 25 August 2017 (the "Deed of Non-Competition").

The independent non-executive directors of the Company have reviewed the Confirmations and all of them are satisfied that the Deed of Non-Competition has been complied with during the period under review.

DIRECTORS

THE BOARD

The Board of Directors, 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.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

There are currently 7 directors, all with professional backgrounds and/or extensive expertise for the direction and oversight of the Group's strategic priorities. The Board of the Company currently comprises the following directors:

Executive Directors
Mr. YU Guanghui
Mr. SONG Yonghong
Mr. REN Xuenong

Non-executive Director
Mr. YUAN Bing *(Note 1)*
Mr. LIAO Qian *(Chairman) (Note 2)*

Independent Non-executive Directors
Mr. POON Chiu Kwok
Mr. LI Qi
Mr. LEONG Yue Wing

Notes:

(1) Mr. YUAN Bing resigned as the Chairman and a non-executive Director with effect from 1 January 2017.

(2) Mr. LIAO Qian was appointed as the Chairman and a non-executive Director with effect from 1 January 2017.

An updated list of the Company's directors by category identifying their role and function is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether the director is an independent non-executive director and sets out 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 "Director and Senior Management" of this annual report on pages 18 to 26.

Save as disclosed in the Directors and Senior Management profile of this annual report, there are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

CORPORATE GOVERNANCE REPORT

The non-executive directors play an important role on the Board. Accounting for more than one-third of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole. Throughout the year of 2017, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive directors has represented at least one-third of the Board.

ATTENDANCE RECORD OF DIRECTORS IN 2017

During the year of 2017, the Board held 4 regular meetings at about quarterly intervals and 6 additional meetings. As regards general meeting, the Company held 3 general meetings on during the year of 2017. Attendance of individual directors at the Board meetings and general meetings in 2017 is as follows:

	Regular Board Meetings	Additional Board Meetings concerning Special Matters requiring the Board's Decisions	General Meetings
Executive Directors			
Mr. YU Guanghui	4/4	5/6	0/3
Mr. SONG Yonghong	3/4	6/6	0/3
Mr. REN Xuenong	4/4	6/6	3/3
Non-executive Director			
Mr. LIAO Qian *(Chairman)* (appointed on 1 January 2017)	3/4	6/6	2/3
Independent Non-executive Directors			
Mr. POON Chiu Kwok	4/4	6/6	3/3
Mr. LI Qi	3/4	4/6	1/3
Mr. LEONG Yue Wing	4/4	6/6	2/3

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 directors or members of the relevant committees, to ensure that they had 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. When needed and upon making request to the Board, directors may obtain independent professional advice at the Company's expense in carrying out their duties.

Minutes of all Board meetings and Audit Committee and Remuneration Committee and Nomination Committee meetings are kept by the Company Secretary. All of the above minutes record the discussions and decisions reached by the directors or members of the relevant committees in sufficient detail the matters considered and decisions reached, 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 would abstain from voting and would 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 CHIEF EXECUTIVE

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. The position of the Chairman was held by Mr. LIAO Qian while the position of CEO was held by Mr. YU Guanghui during the year ended 31 December 2017. This ensures a clear distinction between the Chairman's duty to manage the Board and the CEO's duty to oversee the overall internal operation of the Company.

CORPORATE GOVERNANCE REPORT

APPOINTMENTS, RE-ELECTION AND REMOVAL OF MEMBERS OF THE BOARD

Mr. LIAO Qian was appointed as non-executive Director and Chairman of the Board to fill the casual vacancy following the resignation of Mr. YUAN Bing with effect from 1 January 2017. Mr. LIAO was then re-elected at the annual general meeting held on 23 May 2017.

Under article 16.18 of the Company's Article of Association, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every 3 years while those retiring directors shall be eligible for re-election. Any director who has not been subject to retirement by rotation in the 3 years preceding the annual general meeting shall retire by rotation at such annual general meeting.

At the annual general meeting held on 23 May 2017, Mr. SONG Yonghong, Mr. REN Xuenong and Mr. POON Chiu Kwok retired from office by rotation and were re-elected as directors thereat.

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

The Company confirms that year of service of all INEDs is less than 9 years.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Accordingly, the terms of appointment for the non-executive directors of the Company are as follows:

Name of Non-executive director	Terms of Appointment
Mr. LEONG Yue Wing	until Annual General Meeting of the Company ("AGM") to be held in 2019
Mr. POON Chiu Kwok	until AGM to be held in 2020
Mr. LI Qi	until AGM to be held in 2018
Mr. LIAO Qian *(Chairman)*	until 31 Decemebr 2020

NOMINATION OF DIRECTORS

On 12 July 2013, the Board has established a nomination committee (the "Nomination Committee") to provide a framework and set the standards for the appointment of high quality directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of director(s).

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

RESPONSIBILITIES OF DIRECTORS

The Company officers work closely with the newly appointed directors both immediately before and after his/her appointment to acquaint the newly appointed directors with the duties and responsibilities as a director of the Company and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisors setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related law 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 Company Registry of Hong Kong and The Hong Kong Institute of Directors have also been forwarded to each director for his/her information and/or reference.

The Board views that the non-executive directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at the Board Meetings, taking the lead where potential conflicts of interest arise, scrutinizing the Company's performance and providing constructive and informed advice on the business 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/she is charged with. The contribution made by the directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the directors with reference to his/her necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and board committee meetings indicates the constant participation of all directors, including executive, independent non-executive and other non-executive directors and ensures the better understanding of the views of shareholders by directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

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

CORPORATE GOVERNANCE REPORT

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 2017 to 31 December 2017:

Directors	Read materials	Attend seminars/ briefings
Executive Directors		
Mr. YU Guanghui	✔	✔
Mr. SONG Yonghong	✔	✔
Mr. REN Xuenong	✔	✔
Non-executive Director		
Mr. LIAO Qian (appointed with effect from 1 January 2017)	✔	✔
Independent Non-executive Directors		
Mr. POON Chiu Kwok	✔	✔
Mr. LI Qi	✔	✔
Mr. LEONG Yue Wing	✔	✔

SECURITIES TRANSACTIONS GUIDELINES

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

Specific enquiries have been made with all directors and they have confirmed that throughout the year ended 31 December 2017, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The directors' interests in shares of the Company as at 31 December 2017 are set out on pages 61 to 62 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employee, 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 relevant expertise. All Board Committees are provided with accurate and sufficient information in timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

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;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- corporate governance duties.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

In 2017, the Board had three Board Committees, namely the Remuneration Committee, the Audit Committee and Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs. An executive committee was formed on 24 February 2016 for the purpose of efficient administration, operation and management of the business and affairs of the Group.

Attendance of the relevant members of the Board Committees at the meetings of the committees in 2017 is as follows:

	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	Executive Committee
Executive Directors				
Mr. YU Guanghui	N/A	3/3	1/1	0/0
Mr. SONG Yonghong	N/A	N/A	N/A	0/0
Mr. REN Xuenong	N/A	N/A	N/A	0/0
Non-executive Director				
Mr. LIAO Qian (appointed on 1 January 2017)	N/A	3/3	1/1	N/A
Independent non-executive Directors				
Mr. POON Chiu Kwok	3/3	3/3	1/1	N/A
Mr. LI Qi	2/3	2/3	0/1	N/A
Mr. LEONG Yue Wing	3/3	3/3	1/1	N/A

Nomination Committee

The Nomination Committee was established on 12 July 2013. A majority of the members are Independent Non-executive Directors. This Committee is chaired by Mr. LIAO Qian, a non-executive director (appointed on 1 January 2017) with Mr. YU Guanghui, an executive director, Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, being independent non-executive directors as members. The Committee held one meeting during year 2017.

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 www.tonlyele.com and HKEx's website www.hkex.com.hk.

The main duties of the Nomination Committee include the following:

- determining the policy for the nomination of directors;
- reviewing and supervising the structure, size and composition of the Board;
- identifying and recommending qualified individuals to become members of the Board;
- assessing the independence of the Independent Non-executive Directors;
- making 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;

The work performed by the Nomination Committee during 2017 included:

- reviewing policy for nomination of directors;
- reviewing the current Board structure, diversity and composition.

The Nomination Committee follows the procedures below when considering nomination of directors:

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive director).

2. Consider the role and capabilities required for the particular vacancy.

3. Identify candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

4. Make recommendations to the Board on the appointment or re-appointment of directors.

CORPORATE GOVERNANCE REPORT

The Nomination Committee uses the following criteria when evaluating the nomination of directors:

1. Common Criteria for All Directors

   (a) Character and integrity

   (b) The willingness to assume broad fiduciary responsibility

   (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs

   (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the company

   (e) Significant business or public experience relevant and beneficial to the Board and the company

   (f) Breadth of knowledge about issues affecting the company

   (g) Ability to objectively analyse complex business problems and exercise sound business judgment

   (h) Ability and willingness to contribute special competencies to Board activities

   (i) Fit with the company's culture

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

   (a) 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

   (b) Accomplishments of the candidate in his/her field

   (c) Outstanding professional and personal reputation

   (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

Board Diversity Policy

The Company has adopted a board diversity policy ("Board Diversity Policy") in 12 July 2013 which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

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, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against object 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, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Board will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

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

Remuneration Committee

The Remuneration Committee is chaired by Mr. LEONG Yue Wing, an independent non-executive director. It consists of 4 other members, including Mr. YU Guanghui, Mr. LIAO Qian, Mr. POON Chiu Kwok and Mr. LI Qi, the majority of whom are independent non-executive directors.

The Remuneration Committee is governed by its terms of reference adopted by the Board on 12 July 2013. The terms of reference are made available on the Company's website www.tonlyele.com and HKEx's website www.hkex.com.hk.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee was established in 12 July 2013 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 references 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 2017, the Remuneration Committee accomplished the following:

- assessing the performance of executive directors;
- discussing and approving the grant of share options to the directors; and
- discussing and approving the remuneration adjustment of the independent non-executive directors.

The Human Resource 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

The Group provides a competitive remuneration package to its directors to attract and retain talents. A large portion of the package for executive directors is linked to their performance, which in turn is aligned with the interests of the shareholders, so as to provide an incentive for the executive directors to achieve the best performance. Part of the remuneration of executive directors may comprise of long-term incentive plan which comprises the share option scheme and the share 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 purpose of the long-term incentive plan of the Group is to reward outstanding performance that is measured by achieved targets, and is closely linked with the performance of the Group. The benefit or award granted under the plan will only be vested over a period of time so as to provide an incentive for the executives or employees to consistently perform at a high standard and bring along long-term benefits to the Group.

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

- directors' fee; and
- awarded shares or share options of the Group under the long term incentive plan, which are awarded subject to the discretion of the Board.

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

Audit Committee

The Audit Committee currently comprises 3 members, namely Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing. Mr. POON Chiu Kwok is the chairman of the Audit Committee.

The Audit Committee usually meets 2 times a year to review and monitor the integrity of the Group's financial statements. The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of the external auditor.

The Audit Committee is governed by its terms of reference adopted on 12 July 2013 pursuant to the Revised Code. The terms of reference are made available on the Company's website www.tonlyele.com and HKEx's website www.hkex.com.hk.

The work performed by the Audit Committee during 2017 included consideration of the following matters:

- the completeness and accuracy of the 2017 annual and interim financial statements;
- the Company's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Company;
- review of the effectiveness of the system of internal control 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 the external auditor; and
- 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.

CORPORATE GOVERNANCE REPORT

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

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports 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 74 to 80.

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 81 to 171 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 10 to 17 in this report.

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS SYSTEMS

The Board is responsible for ensuring that an appropriate and effective risk management and internal control systems are established and maintained within the Company. The Directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's systems of risk management and internal control. The risk management and internal control systems are reviewed on annual basis with each review covering a period of one year preceding the review. During the year under review, the directors, through the Audit Committee, have reviewed the effectiveness of all material aspects of the risk management and internal control systems of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions and concluded that the risk management and internal control systems were adequate and effective.

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has adopted a set of risk management and internal control policies and procedures to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

The identification, evaluation and management processes for material risks used in the risk management and internal control systems of the Company are subject to both regular and non-regular reviews. For regular reviews, the audit department works with the external accountants who perform an audit on the risk management and internal control systems of the Company once each year. For non-regular reviews, the audit department of the Company independently perform non-regular reviews according to its duties.

The risk management and internal control system is mainly used as a guidance and management tool for all departments, and the audit department has specially assigned risk management and internal control auditor to manage internal control matters of each departments. The system consists of functions such as a building platform for risk management and internal control system, internal evaluation testing and fault handling.

The key processes used to review the effectiveness of the risk management and internal control system of each departments and handle material faults in internal control for the Company are as follows: As the principal of risk management and internal control, each department head is required to lead the internal evaluation and improvement of the procedures and systems of each department every year and make changes based on recommendation from other departments or the external auditor of the Company; the risk management and internal control auditor of the audit department acts as supervisor for the implementation of each procedures; and the legal department shall implement legal risk management.

CORPORATE GOVERNANCE REPORT

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 Executive Committee of the Board.

Each year, the Audit Committee of the Company reviews the findings made by the internal auditor in respect of issues encountered by them in preparing of the auditor's report, which often cover issues relating to risk management 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 reviewed the effectiveness of the risk management and internal control systems, including financial, operational and compliance, in the key business activities of the Company. The internal audit department has also reviewed (i) the internal control mechanism and its implementation, (ii) project basis auditing and made recommendations for improvement, and (iii) management of tendering and made recommendations for improvement.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 department submits a detailed report at least once a year to the Board for its review and monitors the effectiveness of the systems 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.

The Company has procedures and internal controls for the handling and dissemination 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 escalated to the Board for decision on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the Listing Rules and the Securities and Futures Ordinance (Cap. 571) will be disclosed in accordance with all applicable requirements in due course. Inside information would be kept strictly confidential until such disclosure.

For the year of 2017, no critical internal control issues have been identified.

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

AUDITOR'S REMUNERATION

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

Statutory audit services	HK$2,180,000
Non-audit services (which include taxation compliance, agreed upon procedures and other professional services)	HK$524,500
Continuing connected transactions	HK$130,000

COMPANY SECRETARY

The position of Company Secretary is currently held by Ms. CHOY Fung Yee since the appointment on 25 April 2017 and before that by Mr. TSUI Kwok Ho, each of them is a practising solicitor of Hong Kong, who is not an employee of the Company. The Company Secretary can contact the Company through Mr. REN Xuenong, an executive director of the Company. The Company Secretary is responsible to the Board and reports to the Board Chairman 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.

Each of Mr. TSUI and Ms. CHOY is required to take no less than 15 hours of relevant professional training each year. Each of them has fulfilled the requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group strives to uphold a high level of corporate transparency and provides full support to the investor relations team by involving senior management in close contact and interactive dialogue with research analysts and institutional investors through different channels including meetings, teleconferences, luncheons and plant visits.

In addition to frequent meetings with investors, the Group arranged non-deal road shows and investor conference in Taiwan, Hong Kong, Shanghai and Shenzhen in which analysts and fund managers attended with favorable response during the year under review.

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

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

CORPORATE GOVERNANCE REPORT

The external auditor of the Company, Messrs. Ernst & Young also attended the Annual General Meeting held on 23 May 2017 to answer questions about the conduct of the audit, the preparation and content of the auditor's report, and auditor independence.

VOTING BY POLL

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

SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

General meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Based on the requirement under Code, a Shareholders Communication Policy was formulated in 12 July 2013 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with shareholders. The effectiveness of shareholders communication under the shareholders communication policy had been reviewed by the Board during the year.

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

In addition to the general meetings, press conferences and analysts briefings are held at least two times a year subsequent to the interim and final results announcements in which the directors and management are available to answer questions about the Group. Investors can also submit enquiries to management by sending emails to ir@tonlyele.com or by call to our investor hotline at (852) 2437 7430. The Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

CONSTITUTIONAL DOCUMENTS

In 2017, no amendment had been made to the memorandum and articles of association of the Company.

DISCONTINUATION OF PUBLICATION OF QUARTERLY RESULTS

The Board has resolved not to further announce and publish the quarterly financial results for the first three-month and nine-month periods of each financial year for the Group in order to reduce legal costs and administrative expenses of the Group starting from the first quarter of 2017.

The Company will continue to announce and publish its interim and annual results and reports in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company will also continue to engage in timely and active communications with and provide access to its shareholders and potential investors. Business updates press release of the Group will be uploaded after the end of each quarter of each financial year on a voluntary basis in order to provide its shareholders and potential investors certain level of transparency of the financial position of the Group during the relevant period. The Board believes that the discontinuation of quarterly results will not compromise or prejudice the interests of the Company's shareholders and potential investors.

CONCLUSION

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

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

HUMAN RESOURCES:

In 2017, adhering to the spirit of the business development strategy, "transformation and entrepreneurship", the Company enforced a series of human resources management works and made a lot of productive efforts for the selection and training of new technical personnel, establishment of project-oriented incentives, creation of "learn and growth" atmosphere within the organization, as well as optimal allocation of human resources.

1. BASIC INFORMATION ON HUMAN RESOURCES

As at 31 December 2017, a total of 7,959 people were employed, the distribution of which is set out as follows:

Employees by Geographic Region as of 31 December 2017:

Mainland China:	7,954
Hong Kong, China:	2
Overseas	3

Employees by Age as of 31 December 2017:

Employees aged below 30	5,538
Employees aged above 30	2,421

The male-to-female ratio was 2.2. The overall turnover rate was approximately 12.9%.

On the training front, the Company has adopted a "continuous learning and growth" approach to increase employee efficiency as well as individual and team professional capabilities aiming at reducing the Company's labour costs to the maximum.

2. CORE WORK OF HUMAN RESOURCES

In 2017, Tonly actively expanded the core business to diversified territories of smart audio and IoT products. In particular, we continued to improve synergies by vertically integrating upstream and downstream industries which laid a solid foundation for the Company's sustainable development. To keep in line with changes in the development strategy and business models, the Company has taken a series of positive and effective measures to elevate staff efficiency and professional capacity, encourage work inspiration, fabricate harmonious organization atmosphere and enhance growth of employees.

Facing the advancement of technologies and emerging innovative products in the consumer electronics industry while upholding the spirit of "transformation and entrepreneurship", the Company is committed to becoming the one-stop solution supplier of the smart AV and smart IoT products through its industrial competitiveness of independent research and development as well as technological innovation and the vertical integration of the supply chain and the strategic layout abroad. By combing the organizational structure and core processes, organizational effectiveness was improved. The core processes were continuously optimized as well. Meanwhile, we established the "product line" and "business line" end to end incentive model to promote prompt delivery of products and ensure customer's satisfactions.

The Company has established reward scheme which addressed compensation, benefits, recognition and appreciation to cultivate staff to be customer-oriented while interrelating staff benefits with project performances and team compatibility. Meanwhile, the Company is committed to creating a "happy work and healthy life" work atmosphere through activities like skill contest, staff proposal, team development and interest associations in order to raise involvement and create a sense of belonging of staffs while supporting the development of business at the same time.

The Company has always put increasing resources in the developments and trainings of personnel. In the past year, to coordinate the Company's demand for professionals, the Company continually sought for the industry's professionals and carried out an "Elite Eagle Training Programme" to focus on the development of the capabilities of technical professionals and reinforce knowledge training in key business areas. Employees and the Company have therefore synchronized their growth when supporting rapid operation development.

The Company strived to consummate the human resources policies and systems and promote the perfection and use of Electronic Human Resources (E-HR) system so as to achieve systematic business processes and improve efficiency and quality of personnel services through standardized IT systems.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

SOCIAL RESPONSIBILITIES

During the year under review, the Group has always adhered to its principle of performing social responsibility, and contributed to the community with concrete action by actively taking part in campaigns such as public charity, educational support, environmental protection and construction.

Social responsibility management system is an important part of the Company's overall business management system. The Company is committed to protect the rights of employees and external personnel, creating documentation of the social responsibility management system, paying efforts to prevent and reduce harm to the process of production of social responsibility. The Company's social responsibility management system adheres to the Company's standards and requirements carried out by the "plan, do, check, review" dynamic cycle.

FOCUS ON EDUCATION

The Company is committed to "shouldering social responsibility and becoming an outstanding corporate citizen" and pays close attention to the educational undertakings.

SCHOOL-ENTERPRISE COOPERATION

- In recent years, the Group has visited a number of campuses and attracted and reserved a group of talents who tally with the characteristics of the Company's development. We have held some seminars for such "Eyas" that enable them to understand the full picture of the Company's development, gain in-depth knowledge of the Company's culture, learn how to plan their personal development via scientific career planning, prepare unyielding minds to cope with future challenges, obtain preliminary understanding on the background business knowledge required in their work and complete mental transformation from a student to an employee in order to obtain growth through experience.

- In order to make sure that manufacturing employment and technical personnel needs are met for the development, the Company has gradually solidified colleges and school-enterprise cooperation projects.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

ENVIRONMENTAL PROTECTION

– Adhering to the highly responsible attitude toward employees, customers and the environment, in the product formation process from raw materials to market, 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 is prohibited.

The Group devotes 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 encourages to protect the environment. The Group completed the renewable energy (solar) power generation project during the year ended 31 December 2017 which made use of the idle roofs of its factories and reduced its carbon emissions by building a decentralised roof photovoltaic power generation system and deploying advanced solarpanels (photoelectric conversion efficiency of 16.0% and above) to generate power for factory use. Chilled water storage is currently under construction, which aims to reduce the overall power consumption of the factories. Further discussion in this respect has been set out in the section headed "Management Discussion and Analysis" of this Annual Report.

The Group continuously implements fine-tuned strategy to shoulder its corporate environmental, social and ethical responsibility and improve corporate governance, in an effort to create greater value for all of the Group's stakeholders including shareholders, customers and employees as well as the communities where it operates.

The Environmental, Social and Governance Report of the Company for the year ended 31 December 2017 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.

REPORT OF THE DIRECTORS

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 2017.

CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 February 2013. On 15 August 2013, the shares of the Company ("Shares") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction.

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.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the section headed "Management Discussion and Analysis" 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" below in this Report of the Directors. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a review of the business of the Group, discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position, and an indication of the outlook of the business of the Group, is set out under sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this Annual Report. Those discussions also form part of this Report of the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has complied with regulations related to occupational safety, including but not limited to the Fire Prevention Law of the People's Republic of China, the Production Safety Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Occupation Diseases. The Group maintains the occupational safety of employees mainly by the following methods: weekly inspection of safety production risks including risks of fire, piling up of hazardous materials and electricity; regular disinfection of workplace and arranging professional medical institutions for physical examination for employees; accelerating the automatization of factories, replacing dangerous operation by machines to prevent employees from being injured.

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

As at 31 December 2017 and up to the date of this 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 risk 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

Substantially all of the Group's revenue are attributable to the revenue from audio-visual products. The general state of the global economy, market condition and consumers' behaviour may have significant impact on the operating results and financial condition of the Group. The global market for the Group's products and services is highly competitive and is subject to ever-changing technological advancements, market development, changes in customer needs, evolving industry standards, and frequent product launches and upgrades.

To minimise this risk, the Group continues its efforts on research and development to broaden its product and technology platforms and enhance its product competitiveness, which enable the Group to extend its reach to different end products so as to diversify its source of revenue and profit, and in turn, reduce its dependency on one single product. In addition, the Group continues to strengthen its customer relationship and refine its sales strategy, in order to maintain robust profitability of the Group. 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, the potential financial impact and measures undertaken to manage those risk areas are disclosed in note 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES of the Notes to Financial Statements in this Annual Report.

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 81 to 171.

The Board has proposed a final dividend, for the year ended 31 December 2017, of HK35.0 cents (2016: HK25.0 cents) in cash per share.

Subject to approval at the forthcoming annual general meeting on 24 April 2018, Tuesday the said final dividend will be payable on or about 28 May 2018, Monday to shareholders whose names appear on the register of members of the Company on 18 May 2018, Friday.

The register of members of the Company will be closed from 19 April 2018, Thursday to 24 April 2018, Tuesday (both dates inclusive), for the purposes of determining the entitlements of the shareholders to attend and vote at the AGM. No transfer of the Shares may be registered during the said period. In order to qualify to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 18 April 2018, Wednesday.

The register of members of the Company will be closed from 16 May 2018, Wednesday to 18 May 2018, Friday (both dates inclusive), for the purposes of determining the entitlements of the shareholders to the proposed final dividend upon the passing of relevant resolution. No transfer of the Shares may be registered during the said period. 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 Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 15 May 2018, Tuesday.

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 172. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the Company's share capital (including issue of shares by the Company) during the year, together with the reasons therefore, are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands 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

Pursuant to the rules of the Award Scheme adopted by the Company on 28 August 2014 as amended on 8 August 2017 and 7 September 2017, the trustee for the Award Scheme purchased from the market a total of 1,390,000 existing shares and subscribed for a total of 5,705,804 new shares, all being the awarded shares for the Award Scheme during the year. The total amount paid by the Company to the trustee to acquire such existing and new shares was approximately HK$8,939,000 and HK$5,705,804 respectively.

Save as disclosed above, during the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Law of the Cayman Islands amounted to approximately HK$461,434,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK$234,000.

REPORT OF THE DIRECTORS

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 five largest suppliers combined contributed to less than 20% of the Group's purchases. Those suppliers have been cooperating with the Group for a long term.

Sales

– the largest customer	42.8%
– the five largest customers combined	79.4%

The Group recognises maintaining good and stable relationship with customers and business partners is key for the sustainable development of the Group. Therefore, the Group keeps good partnership with its major customers.

Major Customers

The Group's major customers are all from consumer audio-visual and voice-enabled smart products industry, which is characterised by its cycles of integration and emergence of new brands. Any loss of or changes in market position of any of these customers may materially and adversely affect the business, financial conditional 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 product mix and integrating industry chain. Further discussion in this aspect has been set out under sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this Annual Report.

The Group's credit terms with its customers including credit period are disclosed in note 19. TRADE RECEIVABLES of the Notes to Financial Statements of this Annual Report. 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 businesses operations. The Group adopts multiple sourcing policy and strategic inventory management to ensure sufficient supply of materials for production.

None of the directors of the Company, 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 of the Company during the year ended 31 December 2017 and up to the date of this report were:

Executive Director:
Mr. YU Guanghui *(Chief Executive Officer)*
Mr. SONG Yonghong *(Chief Operating Officer)*
Mr. REN Xuenong *(Chief Financial Officer)*

Non-Executive Directors:
Mr. LIAO Qian *(Chairman)* (Appointed with effect from 1 January 2017)

Independent Non-Executive Directors:
Mr. POON Chiu Kwok
Mr. LI Qi
Mr. LEONG Yue Wing

In accordance with article 16.18 of the Company's articles of association, Mr. LI Qi will only hold office until the conclusion of the forth coming AGM even if he is not to retire by rotation and Mr. YU Guanghui and Mr. LEONG Yue Wing will retire by rotation. All of them, being eligible, will offer themselves for re-election at the forthcoming AGM.

Each of the existing Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and hence are independent.

REPORT OF THE DIRECTORS

REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Particulars of the remuneration of the directors and the five highest paid employees during the financial year are set out in notes 8 and 9 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 29 to 49 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the remuneration payable to the directors.

PENSION SCHEMES

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 18 to 26 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting 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, ARRANGEMENTS 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 financial year.

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

As at 31 December 2017, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held Personal interests	Family/ corporate interests	Other interests *(Note 3)*	Number of underlying shares held under equity derivations *(Note 4)*	Total	Appropriate percentage of the number of issued shares of the Company *(Note 5)*
YU Guanghui	1,066,981	11,869,339 *(Note 1)*	736,583	1,035,936	14,708,839	5.48
SONG Yonghong	768,019	13,399,268 *(Note 2)*	564,714	809,550	15,541,551	5.79
REN Xuenong	502,852	–	294,633	554,375	1,351,860	0.50
LIAO Qian	8,230	–	54,306	597,649	660,185	0.25
LEONG Yue Wing	74,200	–	20,000	400,000	494,200	0.18
POON Chiu Kwok	–	–	20,000	400,000	420,000	0.16
LI Qi	–	–	20,000	400,000	420,000	0.16

Notes:

1. For the purpose of the SFO, as at 31 December 2017, other than the personal interests and the other interests as stated in the above table, Mr. YU Guanghui ("Mr. YU") was deemed to be interested in 11,869,339 shares, were held by Vast Bright Investment Limited ("Vast Bright") which was owned 100% by Mr. YU.

2. For the purpose of the SFO, as at 31 December 2017, other than the personal interests and the other interests as stated in the above table, Mr. SONG Yonghong was deemed to be interested in the 13,399,268 shares held by Run Fu, which was owned as to 100% by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) in which Mr. SONG Yonghong held 37% effective interest.

REPORT OF THE DIRECTORS

3. These other interests are awarded shares which remained unvested as at 31 December 2017. Further details of the Restricted Share Award Scheme and the awarded shares granted during the 12 months ended 31 December 2017 are set out in the paragraph headed "Restricted Share Award Scheme" under the section "Other Information" in this report.

4. As at 31 December 2017, these equity derivatives were share options granted to the relevant directors under the Share Option Scheme on 30 December 2016 and 22 September 2017. Further details of the Share Option Scheme and the share options granted during the 12 months ended 31 December 2017 were set out in the paragraph headed "Share Option Scheme" under the section "Other Information" in this report.

5. Such percentage was calculated based on the total number of Shares in which each of the directors was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued Shares of the Company as at 31 December 2017, being 268,192,071 Shares.

(B) Interests in Associated Corporation of the Company – Long Positions
TCL Multimedia Technology Holdings Limited ("TCL Multimedia") *(Note 6)*

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family/ Corporate interests	Other interests	Number of underlying shares held under equity derivations	Number of nil-paid rights	Total	Appropriate percentage of the number of issued shares of TCL Multimedia *(Note 7)*
LEONG Yue Wing	494,672	-	-	-	164,890	659,562	0.04
LIAO Qian	34,041	-	7,710	118,739	6,796	167,286	0.01

Note:

6. TCL Multimedia is a subsidiary of TCL Corporation.

7. Such percentage was calculated based on the "deemed" aggregate number of issued shares of TCL Multimedia as at 31 December 2017 for the purpose of disclosure of interest, i.e. 2,330,177,485 shares in issue, being the aggregate of (i) the total number of issued shares as at 31 December 2017, being 1,747,633,114 shares in issue, disclosed on the website of the Hong Kong Stock Exchange, and (ii) 582,544,371 rights shares granted under the rights issue of TCL Multimedia, pursuant to section 349(6) of the SFO.

Save as disclosed above, as at 31 December 2017, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2017, the interests and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

(i) Long positions in shares of the Company:

Name of Shareholder	Nature of Interest	Number of shares held	Percentage of the number of issued shares of the Company
TCL Corporation	Interest of controlled corporation	130,741,170 *(Note 1)*	48.75 *(Note 2)*
Run Fu Holdings Limited ("Run Fu")	Beneficial owner	13,399,268 *(Note 3)*	5.00 *(Note 2)*

Notes:

1. For the purpose of SFO, TCL Corporation was deemed to be interested in the 130,741,170 Shares through its controlled corporation, TCL Industries Holdings (H.K.) Limited ("TCL Industries") (its direct wholly-owned subsidiary).

2. Such percentage was calculated based on the issued share capital of the Company as at the Latest Practicable Date, being 268,192,071 Shares in issue.

3. This is the figure recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO. The Company has been notified by Run Fu that the holding of Run Fu as at 31 December 2017 was 13,399,268 shares of the Company.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2017, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year ended 31 December 2017 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; or 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 SCHEME

The following share options were outstanding under the share option scheme adopted by the Company on 17 April 2014 during the year:

	Number of share options										
Name or category of participant	At 1 January 2017	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed/ expired during the period	At 31 December 2017	Date of grant of share options	Exercise price of share options *(HK$)*	Exercise period of share options	Closing price immediately before the date of grant of share options *(HK$)*	Weighted average closing price immediately before the date of exercise of share options* *(HK$)*
Directors											
Executive directors											
YU Guanghui	561,456	-	(561,456)	-	-	-	30 September 2014	6.020 (Note 1)	Note 2	6.45	8.11
	817,390	-	(408,695)	-	-	408,695	30 December 2016	4.050	Note 3	3.95	10.03
	-	627,241	-	-	-	627,241	22 September 2017	9.600	Note 4	9.60	
	1,378,846	627,241	(970,151)	-	-	1,035,936					
SONG Yonghong	430,450	-	(430,000)	-	(450)	-	30 September 2014	6.020 (Note 1)	Note 2	6.45	7.16
	626,665	-	(298,000)	-	-	328,665	30 December 2016	4.050	Note 3	3.95	10.62
	-	480,885				480,885	22 September 2017	9.600	Note 4	9.60	
	1,057,115	480,885	(728,000)	-	(450)	809,550					
REN Xuenong	224,582	-	(224,582)	-	-	-	30 September 2014	6.020 (Note 1)	Note 2	6.45	8.71
	326,956	-	(23,478)	-	-	303,478	30 December 2016	4.050	Note 3	3.95	10.32
	-	250,897				250,897	22 September 2017	9.600	Note 4	9.60	
	551,538	250,897	(248,060)	-	-	554,375					
Non-executive directors											
LIAO Qian (Note 4)	347,649	-	-	-	-	347,649	30 December 2016	4.050	Note 3	3.95	
	-	250,000	-	-	-	250,000	22 September 2017	9.600	Note 4	9.60	
	347,649	250,000	-	-	-	597,649					

Name or category of participant	At 1 January 2017	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed/ expired during the period	At 31 December 2017	Date of grant of share options	Exercise price of share options	Exercise period of share options	Closing price immediately before the date of grant of share options	Weighted average closing price immediately before the date of exercise of share options*
	Number of share options										
								(HK$)		*(HK$)*	*(HK$)*
Independent Non-executive Directors											
LEONG Yue Wing	334,200	-	(334,200)	-	-	-	30 September 2014	6.020 (Note 1)	Note 2	6.45	6.91
	300,000	-	-	-	-	300,000	30 December 2016	4.050	Note 3	3.95	
	-	100,000	-	-	-	100,000	22 September 2017	9.600	Note 4	9.60	
	634,200	100,000	(334,200)	-	-	400,000					
POON Chiu Kwok	334,200	-	(334,000)	-	(200)	-	30 September 2014	6.020 (Note 1)	Note 2	6.45	6.66
	300,000	-	-	-	-	300,000	30 December 2016	4.050	Note 3	3.95	
	-	100,000	-	-	-	100,000	22 September 2017	9.600	Note 4	9.60	
	634,200	100,000	(334,000)	-	(200)	400,000					
LI Qi	334,200	-	(334,200)	-	-	-	30 September 2014	6.020 (Note 1)	Note 2	6.45	8.03
	300,000	-	-	-	-	300,000	30 December 2016	4.050	Note 3	3.95	
	-	100,000	-	-	-	100,000	22 September 2017	9.600	Note 4	9.6	
	634,200	100,000	(334,200)	-	-	400,000					
Sub-total	5,237,748	1,909,023	(2,948,611)	-	(650)	4,197,510					
Other employees	10,162,298	-	(9,318,602)	-	(843,696)	-	30 September 2014	6.020 (Note 1)	Note 2	6.45	7.58
	2,683,062	-	(597,975)	-	(15,033)	2,070,054	30 December 2016	4.050	Note 3	3.95	8.84
	-	8,802,111	-	-	(60,000)	8,742,111	22 September 2017	9.600	Note 4	9.60	
Sub-total	12,845,360	8,802,111	(9,916,577)	-	(918,729)	10,812,165					
Employees of TCL group those who have contributed or may contributed to the Group	2,548,796	-	(458,453)		(195,143)	1,895,200	30 December 2016	4.050	Note 3	3.95	7.90
	-	627,241	-	-	-	627,241	22 September 2017	9.600	Note 4	9.60	
Sub-total	2,548,796	627,241	(458,453)	-	(195,143)	2,522,441					
Total	20,631,904	11,338,375	(13,323,641)	-	(1,114,522)	17,532,116					

Notes:

(1) As a result of the completion of the rights issue on 21 November 2014, the exercise price of the share options was adjusted from HK$6.706 to HK$6.020.

(2) 50% of the share options granted on 30 September 2014 are exercisable commencing from 1 May 2015 to 30 September 2017, and the remaining 50% are exercisable commencing from 1 May 2016 to 30 September 2017.

(3) For share options granted to the employees of the Group, 50% of the share options granted on 30 December 2016 are exercisable commencing from 31 May 2017 to 31 December 2019, and the remaining 50% are exercisable commencing from 31 May 2018 to 31 December 2019.

For the share options granted to the employees of the TCL Corporation and/or its subsidiaries excluding the employees of 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 31 December 2022.

(4) For share options granted to the employees of the Group, the share options granted on 22 September 2017 are exercisable commencing from 15 May 2018 to 31 December 2020.

For the share options granted to the directors and management of the Group and the employees of the TCL Corporation and/or its subsidiaries excluding the employees of the Group, 50% of the share options are exercisable commencing from 15 May 2018 to 31 December 2020, and the remaining 50% are exercisable commencing from 15 May 2019 up to 31 December 2020.

* This represents the weighted average closing price of the shares of the Company immediately before the date on which the relevant share options were exercised by the relevant director, associate of director or other employees and those who may have contributed or may contribute to the Group (as the case may be) during the period from 1 January 2017 to 31 December 2017.

The total number of shares of the Company that could be issued upon exercise of (i) all outstanding share options and (ii) all share options that could be granted under the then available scheme mandate limit as at 31 December 2017 was 17,532,116 and 26,819,207 shares respectively, which represented about 6.5% and 10.0% of the issued share capital of the Company as at 31 December 2017.

RESTRICTED SHARE AWARD SCHEME

The Company adopted the Award Scheme on 28 August 2014. The Company has appointed BOCI-Prudential Trustee Limited as the trustee (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 restricted shares (the "Restricted Shares") held by the Trustee.

The grantees of the Restricted Shares are not entitled to any distribution the Company made in respected the Restricted Shares. The Company may determine any vesting conditions for the Restricted Shares as it considers appropriate in its absolute discretion. Detail of the Scheme are set out in the Company's announcement dated 28 August 2014. Information in relation to the Restricted Shares granted but not vesting under the Scheme are as follows:

	Number of awarded shares							
Name or category of participant	At 1 January 2017	Granted during the period	Vested during the period	Cancelled/ lapsed/ deducted during the period *(Note 1)*	At 31 December 2017	Date of grant	Vesting date	Fair value HK$ per share on granted day
Executive directors								
YU Guanghui	416,181	-	(416,181)	-	-	29/04/2016	31/05/2017	3.60
	-	234,791	(234,791)	-	-	28/04/2017	31/05/2017	4.97
	-	234,790	-	-	234,790	28/04/2017	31/05/2018	4.97
	-	250,897	-	-	250,897	08/08/2017	15/05/2018	9.80
	-	250,896	-	-	250,896	08/08/2017	15/05/2019	9.80
	416,181	*971,374*	*(650,972)*	-	*736,583*			
SONG Yonghong	319,072	-	(319,072)	-	-	29/04/2016	31/05/2017	3.60
	-	180,006	(180,006)	-	-	28/04/2017	31/05/2017	4.97
	-	180,006	-	-	180,006	28/04/2017	31/05/2018	4.97
	-	192,354			192,354	08/08/2017	15/05/2018	9.80
	-	192,354			192,354	08/08/2017	15/05/2019	9.80
	319,072	*744,720*	*(499,078)*	-	*564,714*			
REN Xuenong	166,472	-	(166,472)	-	-	29/04/2016	31/05/2017	3.60
	-	93,916	(93,916)	-	-	28/04/2017	31/05/2017	4.97
	-	93,916	-	-	93,916	28/04/2017	31/05/2018	4.97
	-	100,359	-	-	100,359	08/08/2017	15/05/2018	9.80
	-	100,358	-	-	100,358	08/08/2017	15/05/2019	9.80
	166,472	*388,549*	*(260,388)*	-	*294,633*			
Non-executive director								
LIAO Qian	4,305	-	(3,925)	(380)	-	29/09/2016	31/12/2017	3.96
	4,306	-	-	-	4,306	29/09/2016	31/12/2018	3.96
	-	25,000	-	-	25,000	08/08/2017	15/05/2018	9.80
	-	25,000	-	-	25,000	08/08/2017	15/05/2019	9.80
	8,611	*50,000*	*(3,925)*	*(380)*	*54,306*			

REPORT OF THE DIRECTORS

Name or category of participant	At 1 January 2017	Granted during the period	Vested during the period	Cancelled/ lapsed/ deducted during the period (Note 1)	At 31 December 2017	Date of grant	Vesting date	Fair value HK$ per share on granted day
	Number of awarded shares							
Independent non-executive director								
LEONG Yue Wing	-	10,000	-	-	10,000	08/08/2017	15/05/2018	9.80
	-	10,000	-	-	10,000	08/08/2017	15/05/2019	9.80
	-	*20,000*	-	-	*20,000*			
POON Chiu Kwok	-	10,000	-	-	10,000	08/08/2017	15/05/2018	9.80
	-	10,000	-	-	10,000	08/08/2017	15/05/2019	9.80
	-	*20,000*	-	-	*20,000*			
LI Qi	-	10,000	-	-	10,000	08/08/2017	15/05/2018	9.80
	-	10,000	-	-	10,000	08/08/2017	15/05/2019	9.80
	-	*20,000*	-	-	*20,000*			
Sub-total	910,336	2,214,643	(1,414,363)	(380)	1,710,236			
Other grantees in aggregate	348,063	-	-	(28,845)	319,218	21/05/2015	16/05/2018	5.49
	725,082	-	(688,569)	(36,513)	-	29/04/2016	31/05/2017	3.60
	593,625	-	-	(36,452)	557,173	29/04/2016	31/05/2018	3.60
	230,306	-	(184,433)	(45,873)	-	29/09/2016	31/12/2017	3.96
	230,298	-	-	(25,109)	205,189	29/09/2016	31/12/2018	3.96
	-	635,153	(630,586)	(4,567)	-	28/04/2017	31/05/2017	4.97
	-	386,132	(379,318)	(6,814)	-	28/04/2017	29/12/2017	4.97
	-	635,135	-	(2,907)	632,228	28/04/2017	31/05/2018	4.97
	-	414,298	-	-	414,298	08/08/2017	15/05/2018	9.80
	-	414,288	-	-	414,288	08/08/2017	15/05/2019	9.80
	-	1,840,000	-	(20,000)	1,820,000	08/08/2017	15/12/2019	9.80
	-	1,840,000	-	(20,000)	1,820,000	08/08/2017	15/05/2020	9.80
Sub-total	2,127,374	6,165,006	(1,882,906)	(227,080)	6,182,394			
Total	3,037,710	8,379,649	(3,297,269)	(227,460)	7,892,630			

According to the rules of the Award Scheme, subject to the refreshment of the Award Scheme limit and the adjustment in the event of consolidation or subdivision of shares, the Board shall not make any further award of Awarded Shares which will result in the aggregate number of the Awarded Shares granted under the Award Scheme exceeding 10% of the issued share capital of the Company as at the approval date (i.e. 7 September 2017 being the date on which the Board approved such amendments, "Approval Date') (or the latest new approval date (i.e. latest date on which the Board approves the refreshment of the Scheme limit, "New Approval Date"), as the case may be). As at 31 December 2017, 20,528,336 further Awarded Shares might be granted to the eligible participants of the Award Scheme, which represented about 7.7% of the issued share capital of the Company as at 31 December 2017.

On 27 September 2017, in which an ordinary resolution was passed to grant a specific mandate to the Directors to allot and issue new Shares under the Award Scheme not exceeding 3% of the number of shares in issue as at the date on which the resolution was passed, i.e. 27 September 2017. As at 27 September 2017, the number of issued shares of the Company was 262,355,696 Shares and the maximum amount of new shares which could be issued as approved under the said specific mandate was therefore 7,870,670 Shares. During the year ended 31 December 2017, 5,705,804 Shares has been issued and allotted under the said specific mandate and the remaining maximum amount of new Shares which could be issued and allotted under the said specific mandate as at 31 December 2017 was 2,164,866 Shares. The said specific mandate is going to expire at the conclusion of the forthcoming annual general meeting of the Company. An ordinary resolution for a new annual specific mandate to be granted to the Directors to allot and issue new Shares as Awarded Shares under the Award Scheme not exceeding 3% Shares of the number of Shares in issue as of the annual general meeting will be proposed at the annual general meeting. Further details will be set out in the circular of the Company in respect of the said annual general meeting.

Note:

(1) This includes, among others, number of Awarded Shares deducted by the Company to recover such amount of taxes paid by the Company for the selected person as reimbursement pursuant to the Scheme rules.

CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transaction and continuing connected transactions with TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (excluding the Group) (being an associate (as defined in the Listing Rules) of TCL Corporation) (collectively, the "TCL Corporation Group").

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 2017:

(a) Pursuant to the Technology Support Services and Trade Name Licence (2015 Renewal) Agreement dated 16 November 2015 entered into between the Company and TCL Corporation, TCL Corporation has granted to the Group a non-exclusive, non-licensable and non-transferable licence to use (i) the general technology support services provided by TCL Corporation and its subsidiaries ("TCL Corporation Group"); and (ii) to use "TCL" trade name and other trade names from time to time used by TCL Corporation Group. During the year, HK$546,000 was paid by the Group to TCL Corporation Group as licence fee.

REPORT OF THE DIRECTORS

(b) Pursuant to the Master Lease (Tenant) (2015 Renewal) Agreement dated 16 November 2015 entered into between the Company and TCL Corporation as amended and supplemented by the Master Lease (Tenant) (2015 Renewal) Supplemental Agreement dated 31 May 2017 entered into by the aforesaid parties, HK$13,938,000 was paid by the Group to TCL Corporation Group as rental, repair and maintenance fee during the year.

(c) Pursuant to the Master Overseas Materials Sourcing (2015 Renewal) Agreement dated 16 November 2015 entered into between the Company and TCL Corporation, the Group (i) purchased overseas materials from TCL Corporation Group amounting to HK$259,692,000 (inclusive of administrative expenses paid) and (ii) sold overseas materials amounting to HK$255,142,000 to TCL Corporation Group during the year.

(d) Pursuant to the Master Sale and Purchase (2015 Renewal) Agreement dated 16 November 2015 entered into between the Company and TCL Corporation, the Group (i) sold components, parts and accessories to TCL Corporation Group amounting to HK$11,287,000 and (ii) sourced components and parts from TCL Corporation Group amounting to HK$209,000 during the year.

(e) Pursuant to the Master Financial Services (2015 Renewal) Agreement dated 16 November 2015 entered into among the Company, TCL Finance Company Limited ("Finance Company", a non-wholly owned subsidiary of TCL Corporation) and TCL Corporation, the Company may from time to time utilise the financial services provided by the Finance Company including deposit services and other financial services.

On 12 July 2017, the Company, Finance Company and TCL Corporation entered into the Master Financial Services (2017 Renewal) Agreement with a term from the date on which the independent shareholders of the Company approved the said agreement and the transactions contemplated thereunder and the proposed annual caps (i.e. 25 August 2017) to 31 December 2019, which is substantially similar in nature as the Master Financial Services (2015 Renewal) Agreement with certain amendments.

The Master Financial Services (2015 Renewal) Agreement was terminated upon the Master Financial Services (2017 Renewal) Agreement coming into effect on 25 August 2017.

During the year ended 31 December 2017, the Group paid HK$47,000 as fees for the other financial services provided by Finance Company during the year. The maximum daily balance of deposits placed by the Group with Finance Company during the year was HK$782,572,000.

The interest rates offered by Finance Company were not lower than the interest rate offered by other independent financial institution during the year. Pursuant to the Master Financial Services Agreement, if any relevant member of the Group demands repayment of any deposits placed by it with Finance Company in accordance with the terms and procedure thereof and Finance Company fails to follow the repayment demand, such member of the Group shall have the right to request TCL Corporation to repay the outstanding amount on behalf of Finance Company in full. There was no collateral provided by Finance Company for the deposit placed by the Group during the year.

(f) Pursuant to the Licence Agreement (Hong Kong Science Park) dated 1 November 2016 entered into between the Company and TCL Corporate Research Hong Kong Co., Limited ("TCL Corporate Research", an indirect wholly-owned subsidiary of TCL Corporation) for the grant of an license by TCL Corporate Research to the Company to use certain premises, the Group (i) paid a licence fee to TCL Corporate Research amounting to HK$298,000 and (ii) remained a deposit balance, paid to TCL Corporate Research, amounting to HK$77,000 during the year.

All the related parties transactions set out in note 31 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 directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have confirmed that the abovementioned continuing connected transactions were entered into:

(a) in the ordinary and usual course of the Group's business;

(b) 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

(c) 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 Hong Kong Listing Rules* issued by the Hong Kong Institute of Certificated Public Accountants. Ernst & Young has issued their unqualified letter containing the 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 Stock Exchange.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, the controlling shareholder and any of its subsidiaries had no contract of significance with the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 29 to 49 in this annual report.

REPORT OF THE DIRECTORS

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code. Having made specific enquiry with all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2017.

CHANGE OF PARTICULARS OF THE DIRECTORS

As at the date of this report, certain particulars of the directors had been changed in the following aspects, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Effective Date	Changes
1 January 2017	Mr. YUAN Bing resigned as the Chairman of the Company
1 January 2017	Mr. LIAO Qian was appointed as the Chairman of the Company

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, 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.

The Audit Committee consists of three independent non-executive Directors, namely, Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, and is chaired by Mr. POON Chiu Kwok who possesses appropriate accounting and related financial management expertise. The primary duties of the audit committee are to assist the Board to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company and to perform other duties and responsibilities as assigned by the Board. The Group's results for the year ended 31 December 2017 have been reviewed by the audit committee, which is of the opinion that the preparation of such financial information complies with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by Messrs. Ernst & Young. Messrs. Ernst & Young will retire and, being eligible, will offer themselves for reappointment as the auditor of the Company at the forthcoming annual general meeting.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme and the Award Scheme as disclosed above and in note 27 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.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that the Directors shall be indemnified out of the assets of the Company from and against all losses or liabilities which they incur or sustain as a Director of the Company in defending any proceedings, whether civil or criminal, in which judgment 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.

MANAGEMENT CONTRACT

Save for employment contracts, no contracts concerning the management and administration of the whole or any principal business of the Company were entered into or subsisted during the year ended 31 December 2017.

ON BEHALF OF THE BOARD

LIAO QIAN
Chairman

Hong Kong
9 March 2018

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

OPINION

We have audited the consolidated financial statements of Tonly Electronics Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 81 to 171, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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**
Derecognition of financial assets – Receivable purchase arrangements	
The Group has entered into certain receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers (the "Factoring Arrangements"). As at 31 December 2017, factored trade receivables amounted to HK$833,592,000 and were fully derecognised from the financial statements. Significant management judgement is required to determine whether, and to what extent, the risks and rewards of ownership associated with the factored trade receivables have been transferred to the banks at the end of the reporting period as well as whether the Group retained control of the factored trade receivables. The disclosures in respect of the receivable purchase arrangements are included in notes 3 and 19 to the consolidated financial statements.	We evaluated the terms and conditions of the receivable purchase agreements and the cash flow variability analysis of the Factoring Arrangements provided by management regarding the derecognition of such trade receivables at the end of the reporting period.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Patent fees accruals	
As at 31 December 2017, accruals of HK$237,359,000 have been made for the patent fees in respect of the technologies applied by the Group in its products. The balance of the patent fees accruals was estimated based on production volume and estimated charge rates with reference to the industry information, quotes from the counterparties, and advice from in-house and external legal counsels, which covered both estimated patent fees and litigation expenses in defending claims. Significant judgement is required to estimate the patent fees accruals and reversals and the final settlement amount is subject to prolonged negotiations with the related patent owners. Due to the significant uncertainties involved, this area is significant to our audit. The disclosures in respect of the patent fees accruals are included in notes 3 and 24 to the consolidated financial statements.	We evaluated the Group's methodology in relation to the patent fees accruals, evaluated the key inputs and assumptions used by management in the determination of the patent fees accruals and reviewed the quotes from the counterparties and advice from in-house and external legal counsels.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Warranty provision	
As at 31 December 2017, a warranty provision of HK$240,931,000 has been recognised for the costs to repair or replace defective goods after sales in accordance with contractual terms of sales contracts. The balance of the warranty provision was estimated based on estimated extent of repairs and replacements and estimated defective rates with reference to past experience and technological needs for the defective products. Significant judgement is required to select the inputs and assumptions by management to estimate the provision. Furthermore, the change in assumptions can materially affect the levels of warranty provision recorded in the consolidated financial statements. The accounting policies and disclosures in respect of the warranty provision are included in notes 2.4, 3 and 25 to the consolidated financial statements.	We obtained an understanding of the warranty estimation process performed by management, evaluated the Group's methodology and the key assumptions, and tested the source of data used in the determination of the warranty provision.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

- 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 CHUNG, Ho Ling.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
9 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
TURNOVER	5	**5,912,479**	4,265,667
Cost of sales		**(5,087,789)**	(3,666,526)
Gross profit		**824,690**	599,141
Other income and gains, net	5	**100,339**	106,316
Selling and distribution costs		**(174,908)**	(131,286)
Administrative expenses		**(270,249)**	(177,505)
Research and development costs	7	**(201,993)**	(197,962)
Other operating expenses, net	7	**(22,325)**	(5,893)
		255,554	192,811
Finance costs	6	**(7,405)**	(4,534)
Share of profits and losses of associates		**3,736**	4,422
PROFIT BEFORE TAX	7	**251,885**	192,699
Income tax expense	10	**(53,379)**	(41,008)
PROFIT FOR THE YEAR		**198,506**	151,691
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	21	**46,492**	22,231
Reclassification adjustments for gains included in profit or loss	21	**(7,622)**	(1,598)
Income tax effect	21	**(6,059)**	–
		32,811	20,633

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Exchange fluctuation reserve:			
Translation of foreign operations		**54,810**	(49,303)
Release upon disposal of a subsidiary	32	**(201)**	–
		54,609	(49,303)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**87,420**	(28,670)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**285,926**	123,021
Profit/(loss) attributable to:			
Owners of the parent		**198,648**	151,775
Non-controlling interests		**(142)**	(84)
		198,506	151,691
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**286,056**	123,114
Non-controlling interests		**(130)**	(93)
		285,926	123,021
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK78.96 CENTS**	HK62.12 cents
Diluted		**HK76.71 CENTS**	HK61.38 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**562,992**	474,015
Prepaid land lease payments	14	**70,908**	67,655
Goodwill	15	**4,290**	4,009
Other intangible asset	16	**196**	303
Investment in an associate	17	**25,150**	20,008
Prepayments and other receivables	20	**9,690**	5,603
Deferred tax assets	26	**80,974**	73,933
Total non-current assets		**754,200**	645,526
CURRENT ASSETS			
Inventories	18	**958,638**	395,699
Trade receivables	19	**1,208,381**	1,253,314
Bills receivable		**–**	4,683
Prepayments, deposits and other receivables	20	**265,592**	135,941
Tax recoverable		**–**	2,506
Derivative financial instruments	21	**76,454**	–
Cash and cash equivalents	22	**849,787**	730,495
Total current assets		**3,358,852**	2,522,638
CURRENT LIABILITIES			
Trade payables	23	**1,472,949**	1,064,311
Bills payable		**–**	227
Other payables and accruals	24	**739,189**	622,049
Tax payable		**113,462**	89,367
Derivative financial instruments	21	**33,655**	2,907
Provision	25	**240,931**	216,787
Total current liabilities		**2,600,186**	1,995,648
NET CURRENT ASSETS		**758,666**	526,990
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,512,866**	1,172,516

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**17,667**	7,820
Net assets		**1,495,199**	1,164,696
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**268,192**	249,163
Reserves	28	**1,227,007**	915,368
		1,495,199	1,164,531
Non-controlling interests		**–**	165
Total equity		**1,495,199**	1,164,696

LIAO Qian
Director

YU Guanghui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		ATTRIBUTABLE TO OWNERS OF THE PARENT													
	NOTES	SHARE CAPITAL HK$'000	SHARE PREMIUM ACCOUNT HK$'000 (Note 27,28(i))	SHARE OPTION RESERVE HK$'000 (Note 28(ii))	RESERVE FUNDS HK$'000 (Note 28(iii))	CAPITAL RESERVE HK$'000 (Note 28(iv))	MERGER RESERVE HK$'000 (Note 28(v))	HEDGING RESERVE HK$'000 (Note 28(vi))	EXCHANGE FLUCTUATION RESERVE HK$'000	SHARES HELD FOR THE AWARD SCHEME HK$'000 (Note 27)	AWARDED SHARE RESERVE HK$'000 (Note 28 (vii))	RETAINED PROFITS HK$'000	TOTAL HK$'000	NON-CONTROLLING INTERESTS HK$'000	TOTAL EQUITY HK$'000
At 1 January 2016		249,163	437,632	16,234	69,737	(77,223)	(6,059)	(23,538)	13,186	(22,960)	792	446,125	1,103,089	-	1,103,089
Profit for the year		-	-	-	-	-	-	-	-	-	-	151,775	151,775	(84)	151,691
Other comprehensive income for the year:															
Cash flow hedges	21	-	-	-	-	-	-	20,633	-	-	-	-	20,633	-	20,633
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(49,294)	-	-	-	(49,294)	(9)	(49,303)
Total comprehensive income for the year		-	-	-	-	-	-	20,633	(49,294)	-	-	151,775	123,114	(93)	123,021
Contribution by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	-	258	258
Equity-settled share option arrangements		-	-	2,922	-	-	-	-	-	-	-	-	2,922	-	2,922
Share options lapsed during the year		-	-	(1,533)	-	-	-	-	-	-	-	1,085	(448)	-	(448)
Purchase of shares for the Award Scheme	27	-	-	-	-	-	-	-	-	(15,184)	-	-	(15,184)	-	(15,184)
Vesting of shares under the Award Scheme		-	-	-	-	-	-	-	-	10,056	(10,058)	-	(2)	-	(2)
Employee share-based compensation benefits under the Award Scheme		-	-	-	-	-	-	-	-	-	12,374	-	12,374	-	12,374
Final 2015 dividend declared		-	(61,334)	-	-	-	-	-	-	-	-	-	(61,334)	-	(61,334)
Transfer from retained profits		-	-	-	5,942	-	-	-	-	-	-	(5,942)	-	-	-
At 31 December 2016 and 1 January 2017		**249,163**	**376,298**	**17,623**	**75,679**	**(77,223)**	**(6,059)**	**(2,905)**	**(36,108)**	**(28,088)**	**3,108**	**593,043**	**1,164,531**	**165**	**1,164,696**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**198,648**	**198,648**	**(142)**	**198,506**
Other comprehensive income for the year:															
Cash flow hedges, net of tax	21	**-**	**-**	**-**	**-**	**-**	**-**	**32,811**	**-**	**-**	**-**	**-**	**32,811**	**-**	**32,811**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**54,798**	**-**	**-**	**-**	**54,798**	**12**	**54,810**
Release upon disposal of a subsidiary	32	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(201)**	**-**	**-**	**-**	**(201)**	**-**	**(201)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**32,811**	**54,597**	**-**	**-**	**198,648**	**286,056**	**(130)**	**285,926**
Disposal of a subsidiary	32	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(35)**	**(35)**
Equity-settled share option arrangements		**-**	**-**	**12,989**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,989**	**-**	**12,989**
Issue of shares upon exercise of share options		**13,323**	**80,136**	**(16,770)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**76,689**	**-**	**76,689**
Share options lapsed during the year		**-**	**-**	**(1,119)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**811**	**(308)**	**-**	**(308)**
Share options expired during the year		**-**	**-**	**(442)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**442**	**-**	**-**	**-**
Awarded shares lapsed during the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,021)**	**203**	**(818)**	**-**	**(818)**
Purchase of shares for the Award Scheme	27	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,939)**	**-**	**-**	**(8,939)**	**-**	**(8,939)**
Shares allotted for the Award Scheme	27	**5,706**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,706)**	**-**	**-**	**-**	**-**	**-**
Vesting of shares under the Award Scheme		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,204**	**(14,586)**	**-**	**(382)**	**-**	**(382)**
Employee share-based compensation benefits under the Award Scheme		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27,312**	**-**	**27,312**	**-**	**27,312**
Final 2016 dividend declared		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(61,931)**	**(61,931)**	**-**	**(61,931)**
Transfer from retained profits		**-**	**-**	**-**	**19,941**	**-**	**-**	**-**	**-**	**-**	**-**	**(19,941)**	**-**	**-**	**-**
At 31 December 2017		**268,192**	**456,434***	**12,281***	**95,620***	**(77,223)***	**(6,059)***	**29,906***	**18,489***	**(28,529)***	**14,813***	**711,275***	**1,495,199**	**-**	**1,495,199**

* These reserve accounts comprise the consolidated reserves of HK$1,227,007,000 (2016: HK$915,368,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**251,885**	192,699
Adjustments for:			
Finance costs	6	**7,405**	4,534
Share of profits and losses of associates		**(3,736)**	(4,422)
Interest income	5	**(6,040)**	(5,893)
Imputed interest income on other receivables	5	**(736)**	(135)
Loss on disposal of a subsidiary	32	**5,566**	–
Gain on disposal of associates	5	**–**	(1,134)
Loss on disposal of items of property, plant and equipment	7	**290**	742
Loss on write-off of items of property, plant and equipment	7	**6,957**	–
Write-off of damaged inventories	7	**9,008**	–
Ineffectiveness of cash flow hedges	7	**1,362**	(1,533)
Fair value gains on derivative financial instruments, net – transactions not qualifying as hedges	5	**(8,239)**	–
Depreciation	7	**82,763**	74,376
Amortisation of other intangible asset	7	**130**	162
Amortisation of prepaid land lease payments	7	**1,390**	1,403
Impairment/(reversal of impairment) of trade receivables, net	7	**3,745**	(3,985)
Equity-settled share option expense	7	**11,661**	1,624
Employee share-based compensation benefits under the Award Scheme	7	**25,514**	11,134
		388,925	269,572
Increase in inventories		**(544,986)**	(86,062)
Decrease/(increase) in trade receivables		**106,796**	(218,459)
Decrease in bills receivable		**4,842**	2,141
Decrease/(increase) in prepayments, deposits and other receivables		**(122,801)**	94,827
Increase in trade payables		**355,376**	48,542
Decrease in bills payable		**(227)**	(9,643)
(Decrease)/increase in other payables and accruals		**95,467**	(7,036)
Increase in provision		**9,003**	16,174
Cash generated from operations		**292,395**	110,056
Interest paid		**(7,405)**	(4,534)
Hong Kong profits tax refunded/(paid)		**372**	(1,844)
Overseas taxes paid		**(43,417)**	(27,308)
Net cash flows from operating activities		**241,945**	76,370

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Net cash flows from operating activities		**241,945**	76,370
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**6,040**	5,893
Purchases of items of property, plant and equipment		**(152,271)**	(109,088)
Settlement of consideration payable in respect of acquisition of a subsidiary in the prior year		**–**	(23,996)
Disposal of a subsidiary	32	**(6,401)**	–
Investments in associates		**–**	(6,653)
Disposal of associates		**–**	5,640
Proceeds from disposal of items of property, plant and equipment		**8,236**	3,587
Net cash flows used in investing activities		**(144,396)**	(124,617)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by non-controlling shareholders		**–**	258
Purchase of shares for the Award Scheme	27	**(8,939)**	(15,184)
Proceeds from issue of shares upon exercise of share options	27	**76,689**	–
Dividends paid		**(61,931)**	(61,334)
Net cash flows from/(used in) financing activities		**5,819**	(76,260)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**103,368**	(124,507)
Cash and cash equivalents at beginning of year		**730,495**	889,892
Effect of foreign exchange rate changes, net		**15,924**	(34,890)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**849,787**	730,495
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**849,787**	730,495

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION

Tonly Electronics Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is located at 8/F, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the manufacture and sale of audio-visual products and the rendering of research and development services.

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

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

NAME	PLACE OF INCORPORATION/ REGISTRATION AND BUSINESS	ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY		PRINCIPAL ACTIVITIES
			DIRECT	INDIRECT	
Tonly International Limited ("Tonly International")	British Virgin Islands/ Hong Kong	US$100	100	-	Investment holding
Tonly Electronics Limited	British Virgin Islands/ Hong Kong	HK$105,800,000	-	100	Investment holding
TCL Technology (HK) Company Limited	Hong Kong	HK$50,000,000	-	100	Trading of audio-visual products and components
TCL OEM Sales Limited	Hong Kong	HK$2	-	100	Trading of audio-visual products and components

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

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

NAME	PLACE OF INCORPORATION/ REGISTRATION AND BUSINESS	ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY DIRECT	INDIRECT	PRINCIPAL ACTIVITIES
TCL Technoly Electronics (Huizhou) Co., Ltd.*/# (TCL Technoly)	PRC/ Mainland China	RMB161,500,000	-	100	Manufacture and sale of audio-visual products and components
Huizhou TCL Audio Video Electronics Co., Ltd.*/# (惠州TCL音視頻電子有限公司)	PRC/ Mainland China	RMB25,000,000	-	100	Manufacture and sale of audio-visual products and components
Xi'an TCL Software Development Co., Ltd.*/# (西安TCL軟件開發有限公司)	PRC/ Mainland China	US$2,000,000	-	100	Software development
Shenzhen Tongli Science and Technology Development Co., Ltd. ^/# (深圳市通力科技開發有限公司)	PRC/ Mainland China	RMB10,000,000	-	100	Software development
Pully Technology Limited	Hong Kong	US$5,000,000	-	100	Investment holding
FP Group (Dongguan) Limited*/# (東莞普笙電子科技有限公司)	PRC/ Mainland China	RMB31,700,000	-	100	Manufacture and sale of audio products and components
Huizhou Pully Acoustic Technology Co. Ltd.*/# (惠州普力電聲科技有限公司)	PRC/ Mainland China	RMB30,000,000	-	100	Manufacture and sale of audio products and components
Tonly Technology Private Limited	India	INR495,756	-	100	Trading of audio-visual products and components
Tonly Acoustic Inc.	The United States of America	US$10,000	-	100	Trading of audio-visual products and components

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

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

^ Registered as a limited liability company under the PRC law.

* Registered as wholly-foreign-owned enterprises under PRC law.

The English names of these companies are not official and are direct translation from their Chinese names for identification purposes only.

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 which have been measured at fair value.

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 2017. 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).

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.

2.1 BASIS OF PREPARATION (CONTINUED)

BASIS OF CONSOLIDATION (CONTINUED)

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has assessed and adopted, to the extent that is applicable to the Group, the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a material impact on the financial performance and financial positions for the periods presented in these financial statements. While the amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, these amendments have no impact to the disclosure in these financial statements as the Group has no changes in liabilities arising from financing activities.

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 2	*Classification and Measurement of Share-based Payment Transactions* [1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* [1]
HKFRS 9	*Financial Instruments* [1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation* [2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4]
HKFRS 15	*Revenue from Contracts with Customers* [1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers* [1]
HKFRS 16	*Leases* [2]
HKFRS 17	*Insurance Contracts* [3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures* [2]
Amendments to HKAS 40	*Transfers of Investment Property* [1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration* [1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments* [2]
Annual Improvements to HKFRS 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28 [1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to a number of HKFRSs [2]

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] No mandatory effective date yet determined but available for adoption

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

The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met.

Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the impairment requirements and are summarised as follows:

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

In general, the directors of the Company anticipate the application of the expected loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets as at 1 January 2018.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material.

The directors of the Company have assessed the impact on application of HKFRS 15. Since the warranties provided by the Group are assurance-type warranties which is not a separate performance obligation from the manufacture and sale of audio-visual products, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods. However, the application of HKFRS 15 in the future may result in more disclosures.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 29 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$8,807,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENT IN AN ASSOCIATE

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.

The Group's investment in an associate is 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 an associate is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, 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 associate are eliminated to the extent of the Group's investment in an associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

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, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS AND GOODWILL (CONTINUED)

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

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

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

FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT (CONTINUED)

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.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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 the 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.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RELATED PARTIES (CONTINUED)

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

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

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

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

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

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

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. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (CONTINUED)

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:

Buildings	5%
Leasehold improvements	20%
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 33.3%
Motor vehicles	20%

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.

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. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (CONTINUED)

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 4 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.

OPERATING LEASES

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 lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

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

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

The Group's financial assets include cash and cash equivalents, trade and bills receivables, other receivables and derivative financial instruments (the accounting policy of which is further explained in the accounting policy under the section "Derivative financial instruments and hedge accounting").

Subsequent measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

Subsequent measurement (continued)

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

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

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, 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, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and derivative financial instruments (the accounting policy of which is further explained in the accounting policy under the section "Derivative financial instruments and hedge accounting").

Subsequent measurement

The subsequent measurement of financial liabilities is as follows:

<u>Financial liabilities at fair value through profit or loss</u>
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in 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.

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 date of initial recognition and only if the criteria in HKAS 39 are satisfied.

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.

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 forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Initial recognition and subsequent measurement (continued)

Hedges which meet the strict 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 hedging reserve, while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TREASURY SHARES

Own equity instruments which are reacquired and held by the Company (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents 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.

Provisions for product warranties granted by the Group on certain products are recognised based on past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, 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.

The carrying amount of deferred tax assets is reviewed at the end of the 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 recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) income from the rendering of services when the services are rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

EMPLOYEE BENEFITS

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, further details of which are given in note 27 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS (CONTINUED)

Share-based payments (continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS (CONTINUED)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options and awarded shares ("Awarded Shares") 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 operate in the PRC are required to participate in a central pension scheme (the "Pension Scheme") operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Pension Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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.

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.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES (CONTINUED)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgement, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENT

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

Derecognition of financial assets – Receivable purchase arrangements

The Group has entered into certain receivable purchase arrangements with banks on its trade receivables. As at 31 December 2017, the Group has determined that it has transferred substantially all risks and rewards of ownership associated with certain trade receivables factored to banks under these arrangements. Accordingly, the relevant trade receivables with an aggregate carrying amount of HK$833,592,000 (2016: HK$293,513,000) are fully derecognised. Further details are given in note 19 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

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.

(i) Warranty provision

Provision has been made for costs to repair or replace defective goods, such as labour costs (whether incurred internally or externally) and material costs, and costs that may not be recoverable from suppliers for the rework, in accordance with contractual terms or the Group's policy. In determining the amount of provisions, management estimates the extent of repairs and replacements with reference to its past experience and technological needs for defective products. The estimation may be adversely affected by many factors, including additional variations to the plans requested by the customers or because of technical needs, and unforeseen problems and circumstances. Any of these factors may affect the extent of repair or replacement required and therefore affect the ultimate repair and replacement costs to be incurred in the future periods. Details of the movements in the provision are set out in note 25 to the financial statements.

(ii) Patent fees accruals

Patent fees accruals have been made for products including third-party technologies. Technology companies frequently enter into litigation arising from allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetise patents they have purchased or otherwise obtained.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Group may have to engage in protracted litigation. If the Group is found to infringe one or more patents or other intellectual property rights, regardless of whether it can develop non-infringing technology, it may be required to pay substantial damages or royalties to a third-party, or it may be subject to a temporary or permanent injunction prohibiting the Group from marketing or selling certain products.

In certain cases, the Group may consider the desirability of entering into licensing agreements, although no assurance can be given that such licences can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Group's operating expenses.

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4. SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the manufacture and sale of audio-visual products. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

Revenue from external customers based on the locations of these customers is analysed as follows:

	2017 HK$'000	2016 HK$'000
United States	1,898,532	1,030,401
Japan	1,605,288	1,168,786
Europe	992,535	516,296
PRC	948,479	1,106,268
Korea	351,966	329,619
Brazil	50,125	28,742
India	39,004	63,910
Singapore	16,783	8,595
Others	9,767	13,050
	5,912,479	4,265,667

The non-current assets of the Group (excluding deferred tax assets and goodwill) are substantially located in the PRC.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the year is set out below:

	2017 HK$'000	2016 HK$'000
Customer A	2,530,660	1,224,991
Customer B	1,458,434	1,142,721

5. TURNOVER, OTHER INCOME AND GAINS, NET

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the year.

An analysis of the Group's turnover, other income and gains, net, is as follows:

	Note	2017 HK$'000	2016 HK$'000
Turnover			
Sale of goods		5,864,457	4,240,931
Rendering of services		48,022	24,736
		5,912,479	4,265,667
Other income			
Interest income		6,040	5,893
Imputed interest income on loans and receivables		736	135
Government grants*		8,874	12,381
Value-added tax refund		42,308	31,045
Others		34,142	12,400
		92,100	61,854
Gains, net			
Gain on disposal of associates		–	1,134
Foreign exchange difference, net		–	41,795
Fair value gains, net:			
Ineffectiveness of cash flow hedges	21	–	1,533
Fair value gains on derivative financial instruments, net – transactions not qualifying as hedges	21	8,239	–
		8,239	44,462
		100,339	106,316

* Certain government grants have been received from the relevant government authorities in the PRC to subsidise the Group's export business, future business development and high technology research and development. There are no unfulfilled conditions or contingencies relating to these grants.

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6. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on factored trade receivables	**7,405**	4,534

7. PROFIT BEFORE TAX

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold*		**5,043,896**	3,651,767
Cost of services rendered*		**34,885**	14,759
Depreciation	13	**82,763**	74,376
Amortisation of other intangible asset	16	**130**	162
Research and development costs			
– current year expenditure		**201,993**	197,962
Amortisation of prepaid land lease payments	14	**1,390**	1,403
Ineffectiveness of cash flow hedges		**1,362**	(1,533)
Minimum lease payments under operating leases		**34,822**	26,991
Auditor's remuneration		**2,180**	2,073
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		**689,905**	518,829
Equity-settled share option expense		**11,661**	1,624
Employee share-based compensation benefits under the Award Scheme		**25,514**	11,134
Defined contribution expense		**49,899**	38,306
		776,979	569,893
Product warranty provision:			
Additional provision	25	**39,912**	63,200
Reversal of unutilised provision	25	**(16,959)**	(33,512)
		22,953	29,688

7. PROFIT BEFORE TAX (CONTINUED)

	Note	2017 HK$'000	2016 HK$'000
Loss on sale of scrap materials**		–	9,136
Loss on disposal of items of property, plant and equipment**		290	742
Loss on write-off of items of property, plant and equipment**		6,957	–
Write-off of damaged inventories*		9,008	–
One-off compensation and other losses on the fire accident**		5,767	–
Loss on disposal of a subsidiary**	32	5,566	–
Impairment/(reversal of impairment) of trade receivables, net**		3,745	(3,985)

* These amounts are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

** These amounts are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 Benefits of Directors) Regulation, is as follows:

	2017 HK$'000	2016 HK$'000
Fees	720	360
Other emoluments:		
Salaries, allowances and benefits in kind	3,057	3,111
Discretionary performance-related bonuses	596	–
Equity-settled Award Scheme expense	7,853	4,767
Equity-settled share option benefits	4,155	404
Pension scheme contributions	380	356
	16,041	8,638
	16,761	8,998

During the current and prior years, certain directors were granted share options and Awarded Shares, in respect of their services to the Group, under the share option scheme and Award Scheme of the Company, further details of which are set out in note 27 to the financial statements. The fair value of such options and Awarded Shares, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (CONTINUED)

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	Fees HK$'000	Equity-settled Award Scheme expense HK$'000	Equity-settled share option benefits HK$'000	Total remuneration HK$'000
2017				
Mr. POON Chiu Kwok	**240**	**54**	**297**	**591**
Mr. LI Qi	**240**	**54**	**297**	**591**
Mr. LEONG Yue Wing	**240**	**54**	**297**	**591**
	720	**162**	**891**	**1,773**

	Fees HK$'000	Equity-settled Award Scheme expense HK$'000	Equity-settled share option benefits HK$'000	Total remuneration HK$'000
2016				
Mr. POON Chiu Kwok	180	–	48	228
Mr. LI Qi	–	–	48	48
Mr. LEONG Yue Wing	180	–	48	228
	360	–	144	504

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

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8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

The remuneration paid to executive directors and non-executive directors during the year was as follows:

	Salaries, allowances and benefits in kind HK$'000	Discretionary performance-related bonuses HK$'000	Equity-settled Award Scheme expense HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017						
Executive directors:						
Mr. YU Guanghui	1,202	259	3,488	1,277	151	6,377
Mr. SONG Yonghong	1,051	211	2,674	979	117	5,032
Mr. REN Xuenong	804	126	1,395	511	112	2,948
	3,057	596	7,557	2,767	380	14,357
Non-executive directors:						
Mr. YUAN Bing (note (i))	-	-	-	-	-	-
Mr. LIAO Qian (note (ii))	-	-	134	497	-	631
	-	-	134	497	-	631
	3,057	596	7,691	3,264	380	14,988

8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS (CONTINUED)

	Salaries, allowances and benefits in kind HK$'000	Discretionary performance-related bonuses HK$'000	Equity-settled Award Scheme expense HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2016						
Executive directors:						
Mr. YU Guanghui	1,224	-	2,200	83	143	3,650
Mr. SONG Yonghong	1,078	-	1,687	63	109	2,937
Mr. REN Xuenong	809	-	880	33	104	1,826
	3,111	-	4,767	179	356	8,413
Non-executive directors:						
Mr. YUAN Bing (note (i))	-	-	-	81	-	81
Mr. LIAO Qian (note (ii))	-	-	-	-	-	-
	-	-	-	81	-	81
	3,111	-	4,767	260	356	8,494

Notes:

(i) Mr. YUAN Bing resigned as the Chairman, a non-executive director of the Company with effect from 1 January 2017.

(ii) Mr. LIAO Qian has been appointed as the Chairman, a non-executive director of the Company with effect from 1 January 2017.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2016: three), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2016: two) non-director, highest paid employees for the year are as follows:

	2017	2016
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,428**	1,884
Discretionary performance-related bonuses	**272**	–
Equity-settled Award Scheme expense	**2,990**	1,609
Equity-settled share option benefits	**1,095**	40
Pension scheme contributions	**162**	102
	5,947	3,635

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

	Number of employees	
	2017	2016
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**1**	–

During the current and prior years, share options and Awarded Shares were granted to employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The fair value of such options and Awarded Shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the dates of grant and the amounts included in the financial statements for the current year are included in the above employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2017 HK$'000	2016 HK$'000
Current – Hong Kong		
Charge for the year	**6,881**	1,613
Overprovision in prior years	**(734)**	(208)
Current – Elsewhere		
Charge for the year	**47,668**	30,445
Overprovision in prior years	**(2,274)**	–
Deferred (note 26)	**1,838**	9,158
Total tax charge for the year	**53,379**	41,008

Certain of the Group's subsidiaries in the PRC enjoyed a total exemption of Corporate Income Tax ("CIT") for two years and a half reduction for the following three years.

In the prior year, the Group's PRC subsidiary, TCL Technoly was designated as a "High and New Technology Enterprise" (the "HNTE") and accordingly could enjoy a preferential CIT rate of 15%. The validity of TCL Technoly's HNTE status ended in the current year and is in the process of renewal for its HNTE status. The PRC Ministry of Science and Technology has announced TCL Technoly's proposed designation as HNTE during the year. The directors of the Company considers that TCL Technoly's HNTE renewal is just subject to certain administrative procedures which is likely to be completed before the annual CIT filing. As such, TCL Technoly still applied the preferential CIT rate of 15% for the CIT provision as at 31 December 2017.

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10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates to the tax expense at the effective tax rates is as follows:

	2017 **HK$'000**	2016 HK$'000
Profit before tax	**251,885**	192,699
Tax at the statutory/applicable tax rates of different countries/ jurisdictions	**64,342**	49,042
Lower tax rates for specific provinces or enacted by local authorities	**(32,006)**	(22,596)
Adjustments in respect of current tax of previous periods	**(3,007)**	(208)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**9,057**	12,516
Income not subject to tax	**(1,814)**	(2,249)
Expenses not deductible for tax	**11,059**	4,095
Tax losses not recognised	**6,308**	1,875
Tax losses utilised from previous periods	**–**	(797)
Profits and losses attributable to associates	**(560)**	(670)
Tax charge at the Group's effective tax rate	**53,379**	41,008

The share of tax attributable to associates amounting to HK$1,161,000 (2016: HK$681,000) is included in "Share of profits and losses of associates" in the profit or loss.

11. DIVIDENDS

	2017 **HK$'000**	2016 HK$'000
Proposed final dividend – HK35.0 cents (2016: HK25.0 cents) per ordinary share	**93,867**	62,291

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

	2017 HK$'000	2016 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	198,648	151,775

	Number of shares 2017	 2016
Shares		
Weighted average number of ordinary shares in issue less shares held for the Award Scheme during the year used in the basic earnings per share calculation	251,568,362	244,322,509
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the year	2,731,117	–
Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the year	4,656,347	2,934,006
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	258,955,826	247,256,515

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding during that year had no dilutive effect on the basic earnings per share amount presented.

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017							
At 31 December 2016 and 1 January 2017:							
Cost	207,427	143,489	204,684	82,686	5,847	69,374	713,507
Accumulated depreciation	(26,512)	(60,254)	(90,744)	(57,936)	(4,046)	-	(239,492)
Net carrying amount	180,915	83,235	113,940	24,750	1,801	69,374	474,015
At 1 January 2017, net of accumulated depreciation	180,915	83,235	113,940	24,750	1,801	69,374	474,015
Additions	-	19,802	63,278	18,653	3,201	47,337	152,271
Disposals	-	(180)	(4,932)	(1,712)	(1,702)	-	(8,526)
Disposal of a subsidiary	-	-	-	(1,083)	-	-	(1,083)
Depreciation provided during the year	(14,247)	(36,397)	(20,489)	(10,944)	(686)	-	(82,763)
Write-off	-	(2,096)	(2,828)	(2,033)	-	-	(6,957)
Transfer	117,739	-	-	-	-	(117,739)	-
Exchange realignment	12,200	6,518	8,907	1,770	140	6,500	36,035
At 31 December 2017, net of accumulated depreciation	296,607	70,882	157,876	29,401	2,754	5,472	562,992
At 31 December 2017:							
Cost	339,718	163,133	239,066	84,433	4,278	5,472	836,100
Accumulated depreciation	(43,111)	(92,251)	(81,190)	(55,032)	(1,524)	-	(273,108)
Net carrying amount	296,607	70,882	157,876	29,401	2,754	5,472	562,992

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings HK$'000	Leasehold improvements HK$'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 2016							
At 1 January 2016:							
Cost	221,441	140,165	214,050	85,536	5,871	3,783	670,846
Accumulated depreciation	(17,785)	(36,871)	(90,796)	(50,763)	(3,631)	–	(199,846)
Net carrying amount	203,656	103,294	123,254	34,773	2,240	3,783	471,000
At 1 January 2016, net of accumulated depreciation	203,656	103,294	123,254	34,773	2,240	3,783	471,000
Additions	–	16,900	19,267	6,337	753	65,831	109,088
Disposals	–	(144)	(1,824)	(2,342)	(19)	–	(4,329)
Depreciation provided during the year	(10,282)	(31,523)	(19,498)	(12,058)	(1,015)	–	(74,376)
Exchange realignment	(12,459)	(5,292)	(7,259)	(1,960)	(158)	(240)	(27,368)
At 31 December 2016, net of accumulated depreciation	180,915	83,235	113,940	24,750	1,801	69,374	474,015
At 31 December 2016:							
Cost	207,427	143,489	204,684	82,686	5,847	69,374	713,507
Accumulated depreciation	(26,512)	(60,254)	(90,744)	(57,936)	(4,046)	–	(239,492)
Net carrying amount	180,915	83,235	113,940	24,750	1,801	69,374	474,015

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14. PREPAID LAND LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**68,999**	75,096
Amortised during the year (note 7)	**(1,390)**	(1,403)
Exchange realignment	**4,737**	(4,694)
Carrying amount at 31 December	**72,346**	68,999
Current portion included in other receivables (note 20)	**(1,438)**	(1,344)
Non-current portion	**70,908**	67,655

15. GOODWILL

	HK$'000
Cost and net carrying amount at 1 January 2016	4,279
Exchange realignment	(270)
Net carrying amount at 31 December 2016 and 1 January 2017	4,009
Exchange realignment	281
Net carrying amount at 31 December 2017	4,290
At 31 December 2017:	
Cost	4,290
Accumulated impairment	–
Net carrying amount	4,290

15. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through the acquisition of subsidiaries is allocated to the cash-generating unit ("CGU") of the manufacture and sale of audio-visual products and components for impairment testing.

The recoverable amount of the CGU was determined based on value in use calculations using cash flow projections of financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections was 19% (2016: 18%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3% (2016: 3%), which was in line with the long term average growth rate of the industry.

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rate used is before tax and reflects specific risks relating to the units.

16. OTHER INTANGIBLE ASSET

	CUSTOMER RELATIONSHIPS HK$'000
Cost at 1 January 2016 net of accumulated amortisation	482
Amortisation provided during the year (note 7)	(162)
Exchange realignment	(17)
Cost at 31 December 2016 and 1 January 2017 net of accumulated amortisation	303
Amortisation provided during the year (note 7)	(130)
Exchange realignment	23
At 31 December 2017	196

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17. INVESTMENT IN AN ASSOCIATE

	2017	2016
	HK$'000	HK$'000
Share of net assets	**25,150**	20,008

The Group's other receivables due from and other payables due to an associate are disclosed in notes 20 and 24 respectively to the financial statements.

SUMMARISED FINANCIAL INFORMATION OF AN ASSOCIATE

The following table illustrates the aggregate summarised financial information of the Group's associate that is not material:

	2017	2016
	HK$'000	HK$'000
Share of the associates' profits and losses for the year	**3,736**	4,422
Aggregate carrying amount of the Group's investment in this associate	**25,150**	20,008

18. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Raw materials	**358,162**	173,045
Work in progress	**105,172**	70,880
Finished goods	**495,304**	151,774
	958,638	395,699

19. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Due from third parties	**1,084,746**	1,211,354
Provision for impairment	**(9,429)**	(5,222)
	1,075,317	1,206,132
Due from TCL Corporation and its affiliates (note)	**133,064**	47,182
	1,208,381	1,253,314

Note: The amounts are unsecured, non-interest-bearing and repayable within one year.

SALES TO THIRD PARTY CUSTOMERS

The majority of the Group's sales in the PRC were mainly made on the cash-on-delivery basis or on commercial bills guaranteed by banks with credit periods ranging from 60 to 180 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 15 to 120 days. Sales to certain long term strategic customers were made on an open-account basis with credit terms of no more than 180 days.

SALES TO RELATED PARTIES

Sales to related parties were made on an open-account basis.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 HK$'000	2016 HK$'000
Current to 90 days	**1,023,690**	950,355
91 to 180 days	**73,289**	204,564
181 to 365 days	**31,434**	64,112
Over 365 days	**79,968**	34,283
	1,208,381	1,253,314

19. TRADE RECEIVABLES (CONTINUED)

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

	2017 HK$'000	2016 HK$'000
At 1 January	**5,222**	9,666
Impairment loss recognised	**4,323**	5,196
Reversal of impairment provision	**(578)**	(9,181)
Exchange realignment	**462**	(459)
At 31 December	**9,429**	5,222

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers who were in financial difficulties and only a portion of the receivables is expected to be recovered.

The aging analysis of the trade receivables that are not individual or collectively considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**1,202,786**	1,225,005
Less than 90 days past due	**–**	19,417
90 to 180 days past due	**–**	5,819
Over 180 days past due	**5,595**	3,073
	1,208,381	1,253,314

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19. TRADE RECEIVABLES (CONTINUED)

A subsidiary of the Group has entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 31 December 2017, trade receivables factored to banks aggregated to HK$833,592,000 (2016: HK$293,513,000), all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments and deposits	53,371	20,876
Other receivables (note (b))	215,417	112,864
Prepaid land lease payments (note 14)	1,438	1,344
Due from related parties:		
TCL Corporation and its affiliates (note (a))	5,056	2,556
An associate (note (a))	–	3,904
	275,282	141,544
Less: Prepayments and other receivables classified as non-current assets (note (b))	(9,690)	(5,603)
	265,592	135,941

Notes:

(a) The amounts are unsecured, repayable within one year and interest-free.

(b) Included in other receivables are loans and receivables with an aggregate principal amount of RMB7,080,000 (equivalent to HK$8,471,000) maturing in 2018 and classified as current assets (2016: RMB4,080,000, which equivalent to HK$4,572,000 and classified as non-current assets) which bear interest at a fixed interest rate of 10% per annum. They are stated at amortised cost.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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21. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Forward currency contracts	**69,044**	**24,173**	–	2,907
Options contracts	**7,410**	**9,482**	–	–
	76,454	**33,655**	–	2,907

FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES

Some forward currency contracts are designated as hedging instruments in respect of forecast future sales and forecast purchases in US$. The forward currency contract balances vary with the levels of expected foreign currency sales and purchases and changes in foreign exchange forward rates. A net unrealised loss of HK$1,362,000 as a result of the ineffective portion of change in fair values of these hedging derivative financial contracts was recognised in profit or loss for the year ended 31 December 2017 (2016: gain of HK$1,533,000).

The cash flow hedges were assessed to be highly effective and net gains of HK$32,811,000 (2016: net gains of HK$20,633,000) were included in the hedging reserve as follows:

	2017	2016
	HK$'000	HK$'000
Effective portion of changes in fair value of hedging instruments arising during the year	**(46,492)**	(22,231)
Deferred tax on fair value gains	**6,059**	–
Reclassified from other comprehensive income and recognised in profit or loss	**7,622**	1,598
Net gains on cash flow hedges	**(32,811)**	(20,633)

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

NON-HEDGING CURRENCY DERIVATIVES

In addition, the Group has entered into various forward currency contracts and options contracts to manage its exchange rate exposures. They are not designated for hedge purposes and are measured at fair value through profit or loss. Gains on changes in the fair value of non-hedging currency derivatives amounting to HK$8,239,000 (2016: Nil) were recognised in profit or loss during the year.

The fair values of derivative financial instruments were classified as Level 2 of the fair value hierarchy.

The fair values of the Group's derivative financial instruments are determined by discounting the estimated future cash flows which are based on forward exchange rates and contract forward rates, and the discount rate used reflects the credit risk of the forward contract counterparties.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for the financial instruments.

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22. CASH AND CASH EQUIVALENTS

	2017	2016
	HK$'000	HK$'000
Cash and bank balances	**849,787**	730,495

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$40,918,000 (2016: HK$86,260,000). The RMB is not freely convertible into other currencies, however, under PRC'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 three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Included in the Group's cash and bank balances were deposits of HK$470,972,000 (2016: HK$439,628,000) placed with a subsidiary of TCL Corporation, a financial institution approved by the People's Bank of China. The interest rates for these deposits ranged from 0.01% to 1.62% (2016: 0.01% to 1.10%) per annum, being the savings rates offered by the People's Bank of China. Further details of the interest income attributable to the deposits with the subsidiary of TCL Corporation are set out in note 31 to the financial statements.

23. TRADE PAYABLES

	2017 HK$'000	2016 HK$'000
Due to third parties	**1,465,732**	1,003,725
Due to TCL Corporation and its affiliates	**7,217**	60,586
	1,472,949	1,064,311

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

	2017 HK$'000	2016 HK$'000
Current to 90 days	**1,434,839**	1,001,490
91 to 180 days	**30,304**	49,402
181 to 365 days	**4,403**	2,297
Over 365 days	**3,403**	11,122
	1,472,949	1,064,311

The trade payables are non-interest-bearing and are normally settled within credit periods ranging from 15 to 120 days.

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24. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	HK$'000
Other payables (note (a))	**267,559**	182,337
Patent fees accruals	**237,359**	240,669
Accruals	**141,350**	130,667
Receipts in advance	**87,742**	41,453
Due to related parties:		
TCL Corporation and its affiliates (note (b))	**4,889**	26,923
An associate (note (b))	**290**	–
	739,189	622,049

Notes:

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

(b) The amounts are unsecured, repayable within one year and interest-free.

25. PROVISION

PRODUCT WARRANTIES

	2017	2016
	HK$'000	HK$'000
At 1 January	**216,787**	214,886
Additional provision	**39,912**	63,200
Amount utilised during the year	**(13,950)**	(13,514)
Reversal of unutilised amounts	**(16,959)**	(33,512)
Exchange realignment	**15,141**	(14,273)
At 31 December	**240,931**	216,787

The warranty provision represents management's best estimate of the Group's liability under warranties of 15 to 36 months granted on its products, based on past experience and technological needs for defective products.

26. DEFERRED TAX

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

DEFERRED TAX LIABILITIES

	Note	DEPRECIATION ALLOWANCE IN EXCESS OF RELATED DEPRECIATION HK$'000	FAIR VALUE ADJUSTMENTS ARISING FROM ACQUISITION OF SUBSIDIARIES HK$'000	WITHHOLDING TAX FOR DIVIDEND HK$'000	CASH FLOW HEDGES HK$'000	TOTAL HK$'000
Gross deferred tax liabilities at 1 January 2016		76	16	-	-	92
Deferred tax charged/(credited) to profit or loss during the year	10	(24)	(4)	7,756	-	7,728
Gross deferred tax liabilities at 31 December 2016 and 1 January 2017		52	12	7,756	-	7,820
Deferred tax charged/(credited) to profit or loss during the year	10	(52)	(4)	2,598	-	2,542
Deferred tax charged to the other comprehensive income during the year		-	-	-	7,305	7,305
Gross deferred tax liabilities at 31 December 2017		-	8	10,354	7,305	17,667

26. DEFERRED TAX (CONTINUED)

DEFERRED TAX ASSETS

	Note	DEPRECIATION ALLOWANCE IN EXCESS OF RELATED DEPRECIATION HK$'000	ELIMINATION OF UNREALISED PROFITS ARISING FROM INTRA-GROUP TRANSACTIONS HK$'000	DEFERRED INCOME HK$'000	ACCRUALS AND OTHER PROVISIONS HK$'000	CASH FLOW HEDGES HK$'000	TOTAL HK$'000
Gross deferred tax assets at 1 January 2016		-	197	1,492	78,685	-	80,374
Deferred tax (charged)/credited to profit or loss during the year	10	-	(101)	(1,458)	129	-	(1,430)
Exchange realignment		-	8	(34)	(4,985)	-	(5,011)
Gross deferred tax assets at 31 December 2016 and 1 January 2017		-	104	-	73,829	-	73,933
Deferred tax (charged)/credited to profit or loss during the year	10	22	(65)	-	747	-	704
Deferred tax credited to the other comprehensive income during the year		-	-	-	-	1,246	1,246
Exchange realignment		-	-	-	5,091	-	5,091
Gross deferred tax assets at 31 December 2017		22	39	-	79,667	1,246	80,974

The Group has tax losses of HK$17,302,000 (2016: HK$10,334,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

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%. 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.

Deferred tax has not been recognised for withholding taxes that would be payable on certain unremitted earnings that are subject to withholding tax of certain subsidiaries of the Group established in PRC. In the opinion of the directors, it is not probable that the relevant subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in PRC for which deferred tax liabilities have not been recognised amounting to HK$209,059,000 (2016: HK$148,655,000) as at 31 December 2017.

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

27. SHARE CAPITAL

SHARES

	2017 HK$'000	2016 HK$'000
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
268,192,071 (2016: 249,162,626) shares of HK$1.00 each	**268,192**	249,163

During the year, the movements in share capital and share premium account of the Company were summarised as follows:

	Notes	NUMBER OF SHARES IN ISSUE	SHARE CAPITAL HK$'000	SHARE PREMIUM ACCOUNT HK$'000 (Note 28(i))	TOTAL HK$'000
At 1 January 2016		249,162,626	249,163	437,632	686,795
Final 2015 dividend declared		–	–	(61,334)	(61,334)
At 31 December 2016 and 1 January 2017		249,162,626	249,163	376,298	625,461
Issue of shares upon exercise of share options	(a)	13,323,641	13,323	80,136	93,459
Shares allotted and issued for the Award Scheme	(b)	5,705,804	5,706	–	5,706
At 31 December 2017		268,192,071	268,192	456,434	724,626

Notes:

(a) The subscription rights attaching to 11,537,040 and 1,786,601 share options were exercised at the subscription prices of HK$6.02 and HK$4.05 per share respectively, resulting in the issue of 13,323,641 shares for a total cash consideration, before expenses, of HK$76,689,000. An amount of HK$16,771,000 was transferred from the share option reserve to share premium upon the exercise of the share options.

(b) Details of the shares allotted for the Award Scheme are set out in note (c) of the restricted share award scheme below.

27. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 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 of directors of the Company (the "Board") at its sole discretion considers may contribute or have contributed to the Group. The Scheme became effective on 17 April 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The purpose of the Scheme is to recognise the contribution of eligible participants, to motivate them by providing incentives to them, to help the Company retain its existing full-time or part-time employees (including any executive and non-executive director or proposed executive and non-executive director) of the Company and its subsidiaries (the "Employees") and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

Pursuant to the Scheme and subject to shareholders' approval, the maximum number of shares in respect of which options may be granted under the Scheme is such a number of shares representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the Scheme and any other scheme).

The maximum number of shares in respect of which options may be granted to any one participant in a 12-month period shall not exceed 1% (0.1% for connected persons) of the issued share capital of the Company. The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1.00 in total by the grantee. 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 offer of the share options. The subscription price for the shares in respect of which options are granted 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 Hong Kong Stock Exchange on the date of offer; (ii) the average closing price of the Company's shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

27. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

The following share options were outstanding under the Scheme during the year:

	2017		2016	
	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	**5.23**	**20,632**	6.02	13,523
Granted during the year	**9.60**	**11,338**	4.05	8,293
Lapsed during the year	**5.79**	**(873)**	5.95	(1,184)
Expired during the year	**6.02**	**(241)**	–	–
Exercised during the year	**5.76**	**(13,324)**	–	–
At 31 December	**7.62**	**17,532**	5.23	20,632

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2017 was HK$5.76 per share (2016: No share options were exercised).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017

Number of options '000	**Exercise price* per share HK$**	**Exercise period**
6,254	**4.05**	**Note 2**
11,278	**9.60**	**Note 3**
17,532		

27. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

2016

Number of options	Exercise price* per share	Exercise period
'000	HK$	
12,382	6.02	Note 1
8,250	4.05	Note 2
20,632		

* 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.

Note 1: Up to 50% of such share options are exercisable commencing from 1 May 2015 to 30 September 2017, and the remaining 50% are exercisable commencing from 1 May 2016 to 30 September 2017 subject to fulfilment of the relevant conditions for exercise of the share options.

Note 2: For share options granted to grantees in their capacity as employees and/or officers of the Group, up to 50% of such share options are exercisable commencing from 31 May 2017 to 31 December 2019, and the remaining 50% are exercisable commencing from 31 May 2018 to 31 December 2019 subject to fulfilment of the relevant conditions for exercise of the share options.

For share options granted to grantees in their capacity as the employees of TCL Corporation and/or its subsidiaries ("TCL Corporation Group"), one-third of such share options are exercisable commencing from 31 December 2016 to 31 December 2022, another one-third are exercisable commencing from 31 December 2017 to 31 December 2022, and the remaining one-third are exercisable commencing from 31 December 2018 to 31 December 2022 subject to fulfilment of the relevant conditions for exercise of the share options.

Note 3: For share options granted to the directors and senior management of the Company (so granted in their capacity as employees and/or officers of the Group) and employee of TCL Corporation Group, up to 50% of the share options are exercisable commencing from 15 May 2018 to 31 December 2020, and the remaining 50% of the share options are exercisable commencing from 15 May 2019 to 31 December 2020 subject to fulfilment of the relevant conditions of exercise of the share options.

For share options granted to the other employees and/or officers of the Group (so granted in such capacity), the share options granted under the Employee Grant are exercisable commencing from 15 May 2018 to 31 December 2020 subject to fulfilment of the relevant conditions of exercise of the share options.

27. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

The fair value of share options granted during the year was HK$22,386,000 (HK$1.974 each) (2016: HK$6,074,000, HK$0.732 each), of which the Group recognised a share option expense of HK$8,548,000 (2016: share option expense of HK$32,000 in respect of the share options granted to employees of the Group; other receivables of HK$850,000 in respect of the share options granted to the employees of TCL Corporation on its behalf) during the year ended 31 December 2017.

During the year ended 31 December 2017, the Group also recognised a share options expense of HK$3,113,000 (2016: HK$1,592,000) and other receivables of HK$1,072,000 (2016: Nil) in respect of the share options granted to the employees and/or officers of the Group and employees of TCL Corporation Group, respectively, in the prior years.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2017	2016
Dividend yield (%)	**2.60**	6.33
Historical volatility (%)	**38.947**	37.486 – 40.244
Risk-free interest rate (%)	**1.4878**	1.1550 – 2.1240
Expected life of options (year)	**2 – 4**	3 – 6

No other feature of the options granted was incorporated into the measurement of fair value.

The values of options 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.

At the end of the reporting period, the Company had 17,532,116 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 17,532,116 additional ordinary shares of the Company and additional share capital of HK$17,532,000 and share premium account of HK$142,916,000 (before issue expenses), respectively.

At the date of approval of these financial statements, the Company had 17,242,154 share options outstanding under the Scheme, which represented approximately 6.43% of the Company's shares in issue as at that date.

27. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME

On 28 August 2014 (the "Adoption Date"), the Board approved a restricted share award scheme (the "Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (the "Selected Employees") in accordance with the provisions of the Award Scheme and the maximum number of the Awarded Shares awarded to each of the Selected Employees under the Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Pursuant to the Award Scheme, the Board shall select the Selected Employees and determine the number of shares to be awarded. The Board shall pay BOCI-Prudential Trustee Limited (the "Trustee"), the Trustee engaged by the Company for the purpose of administrating the Award Scheme, the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee. The Trustee shall purchase from the market such a number of shares awarded as specified by the Board and shall hold such shares until they vest in accordance with the rules of the Award Scheme.

Also, the Board shall not make any further award of the Awarded Shares which will result in the aggregate number of the Shares awarded by the Board under the Award Scheme exceeding 10% of the issued share capital of the Company as at the Adoption Date.

The Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of 10 years unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of the Selected Employees under the Award Scheme.

On 29 September 2016, the scope of the eligible participants of the Award Scheme was amended and approved by the Board, which was broadened from the Selected Employees to include not only the Selected Employees but also (i) adviser, consultant, agent, contractor, client or supplier of any member of the Group; and (ii) employees or officers of any affiliated companies whom the Board in its sole discretion considers may contribute or have contributed to the Group (collectively the "Selected Persons").

On 8 August and 7 September 2017, the Award Scheme was further amended and approved by the Board.

27. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME (CONTINUED)

The major amendments to the Award Scheme in 2017 are as follows:

1. As an alternative to the purchase of existing shares on the market for any awards made under the Award Scheme, the Company may allot and issue new shares as Awarded Shares and the Board shall have the discretion to decide which form of Awarded Shares to be used for the award – whether to use existing shares purchased by the Trustee or new shares allotted by the Company and issued to the Trustee for each particular award;

2. The Selected Persons shall also be entitled to be related distribution derived from the relevant Awarded Shares referable to that Selected Persons the record date for entitlement of which falls within the period from the grant date to the vesting date (both dates inclusive) of such Awarded Shares, which shall however only be vested on the relevant Selected Persons on the vesting date subject to fulfilment of vesting conditions (if any);

3. In the event the Company is obliged to pay for and on behalf of the relevant Selected Persons any taxes under the Award Scheme which are to be borne by them, the Company shall be entitled, at its sole and absolute discretion to elect either one or a combination of (i) deducting the amount paid from any salary or any other cash payment to be paid to the Selected Persons by the Company; or (ii) deducting 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 amount paid by the Company on behalf of the Selected Persons 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;

27. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME (CONTINUED)

4. Subject to the refreshment of the Award Scheme limit and the adjustment in the event of consolidation or subdivision of shares, (i) the Board shall not make any further award of Awarded Shares which will result in the aggregate number of the Awarded Shares granted under the Award Scheme exceeding 10% of the issued share capital of the Company as at the approval date (i.e. 7 September 2017 being the date on which the Board approved such amendments, "Approval Date") (or the latest new approval date (i.e. latest date on which the Board approves the refreshment of the Scheme limit, "New Approval Date"), as the case may be); (ii) the maximum number of shares which may be awarded to an individual Selected Person under the Award Scheme in each financial year was amended to 1% of the number of issued share of the Company as at the Approval Date or the New Approval Date, as the case may be; and (iii) the aggregate number of new shares to be granted as Awarded Shares during the lifetime of the Scheme Mandate to be sought annually shall not exceed three percent (3%) of the total number of issued shares of the Company as at the date on which the relevant Scheme Mandate is approved (as the case may be); and

5. The Board may (i) accelerate the vesting of Awarded Shares to an earlier date and (ii) waive or alter any or all of the vesting conditions attached to such Awarded Shares, and in such circumstances, the vesting dates shall be accelerated to such earlier date and that part of or all of such Awarded Shares that have not previously vested shall become fully vested immediately on such date.

Further details of the Award Scheme are disclosured in the Company's announcements dated 28 August 2014 and 8 August 2017 and the Company's circular dated 12 September 2017.

27. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME (CONTINUED)

The following Awarded Shares were outstanding under the Award Scheme during the year:

	Notes	2017 Number of Awarded Shares '000	2016 Number of Awarded Shares '000
At 1 January			
Number of Awarded Shares held by the Trustee		**5,943**	3,845
Number of Awarded Shares granted but not yet vested		**3,037**	444
Maximum number of Awarded Shares available for grant		**11,537**	16,080
At 31 December			
Number of Awarded Shares held by the Trustee		**9,737**	5,943
Number of Awarded Shares granted but not yet vested		**7,893**	3,037
Maximum number of Awarded Shares available for grant*		**20,528**	11,537
Granted during the year	(a)	**8,380**	4,603
Lapsed during the year		**227**	60
Vested during the year		**3,297**	1,950
Purchased during the year	(b)	**1,390**	4,048
Allotted and issued during the year	(c)	**5,706**	–
Individual income tax paid on behalf of the Selected Employees and Selected Persons during the year	(d)	**48**	1

Notes:

(a) For the year ended 31 December 2017, a total of 7,879,649 Awarded Shares were granted to the Selected Persons who are employees and/or officers of the Group and 500,000 Awarded Shares were granted to the Selected Persons who are employees of TCL Corporation. The fair value of the Awarded Shares granted to the Selected Employees on the dates of grants were HK$10,804,000 (HK$4.970 per share) and HK$51,580,000 (HK$9.040 per share) (2016: HK$13,997,000), and the fair value of the Awarded Shares granted to the Selected Persons of TCL Corporation on the date of grant was HK$2,485,000 (HK$4.970 per share) (2016: HK$2,833,000), of which the Group recognised employee share-based compensation benefits under the Award Scheme of HK$19,658,000 (2016: HK$10,228,000) in respect of the Awarded Shares granted to the Selected Employees and recognised Awarded Shares expense of HK$2,382,000 (2016: recognised other receivables of HK$1,240,000 in respect of the Awarded Shares granted to the Selected Persons of TCL Corporation).

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31 December 2017

27. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME (CONTINUED)

Notes: (continued)

(b) For the year ended 31 December 2017, the Trustee purchased 1,390,000 (2016: 4,048,000) Awarded Shares at a total cost (including related transaction costs) of HK$8,939,000 (2016: HK$15,184,000).

(c) For the year ended 31 December 2017, 5,705,804 Awarded Shares were allotted and issued to the Trustee at par value (2016: Nil).

(d) For the year ended 31 December 2017, tax has been paid by the Group on behalf of certain Selected Persons whose rights were vested in the Awarded Shares and 47,662 Awarded Shares (2016: 684) were deducted from the total number of Awarded Shares entitled to be vested to those Selected Persons, as settlement for the individual income tax paid by the Group on their behalf.

* As mentioned above, on 8 August and 7 September 2017, the Award Scheme was further amended, such that, among others, the Board shall not make any further award of Awarded Shares which will result in the aggregate number of the Awarded Shares granted under the Award Scheme exceeding 10% of the number of issued shares of the Company as at the Approval Date (i.e. 7 September 2017) excluding all the Awarded Shares awarded under the rules of the pre-amended Award Scheme (including those cancelled, lapsed and/or not yet vested) up to the Approval Date. For the avoidance of doubt, Awarded Shares awarded but lapsed in accordance with the terms of the Award Scheme will not be counted for the purpose of calculating the aforesaid 10% scheme limit; yet, those Awarded Shares conditionally granted on 8 August 2017 (which were only issued on 7 November 2017 after, among others, the approval by the Shareholders for the Scheme Mandate; and the approval by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, such new Shares) were counted towards the 10% scheme limit. No further Awarded Shares have been granted thereafter up to 31 December 2017 and the date of approval of these financial statements.

  Therefore, the maximum number of Awarded Shares available for grant equal to the said 10% scheme limit less those Awarded Shares conditionally granted on 8 August 2017 plus those lapsed Awarded Shares out of the aforesaid granted Awarded Shares.

28. 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.

(I) SHARE PREMIUM

The application of the share premium account of the Company is governed by the Company Law (Revised) of the Cayman Islands. Under the constitutional documents and Companies Law (Revised) of the Cayman Islands, the share premium is distributable as a dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business immediately after the proposed dividend is paid.

28. RESERVES (CONTINUED)

(II) 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.

(III) RESERVE FUNDS

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries in the PRC has been transferred to the reserve funds which are restricted to use.

(IV) CAPITAL RESERVE

The Group's capital reserve comprises the difference between the amounts of the consideration and the carrying value of the non-controlling interests acquired or disposed of and the deemed capital contribution from TCL Multimedia Technology Holdings Limited ("TCL Multimedia").

(V) MERGER RESERVE

The merger reserve of the Group represents the capital contributions from the equity holders of the subsidiaries now comprising the Group before the completion of the reorganisation in 2013 and the par value of the Company's shares issued to TCL Multimedia for the acquisition of a subsidiary pursuant to the reorganisation in 2013.

(VI) HEDGING RESERVE

The hedging 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.

(VII) 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 Persons at the date of award.

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29. OPERATING LEASE ARRANGEMENTS

AS LESSEE

The Group leases certain of its office properties and factories under operating lease arrangements. These leases are negotiated for terms ranging from one to ten years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	8,766	4,971
In the second to fifth years, inclusive	41	325
	8,807	5,296

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for:		
Buildings	–	15,367
Plant and machinery	6,791	–

As at the end of the reporting period, the Company had no significant commitment.

31. RELATED PARTY TRANSACTIONS

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

	Notes	**2017** **HK$'000**	2016 HK$'000
TCL Corporation and its affiliates:			
Sales of raw materials	(i)	**255,142**	129,585
Sales of finished goods	(ii)	**11,287**	8,193
Purchases of raw materials	(iii)	**259,901**	149,771
Rental expense	(iv)	**13,938**	11,227
Interest income	(v)	**4,741**	1,162
Other finance service fee	(vi)	**47**	51
Call centre service fee	(vii)	**12**	31
Subcontracting fee expense	(viii)	**–**	7,703
Technology support services and trade name licence fee	(ix)	**546**	6,361
Licence fee on usage of premises	(x)	**298**	54
Fitting out fees	(xi)	**–**	741

Notes:

(i) The sales of raw materials were made at cost.

(ii) The sales of finished goods were made by reference to the prevailing market prices for comparable transactions.

(iii) The purchases of raw materials were made at prices similar to those set by independent third party suppliers.

(iv) The rental expense was determined with reference to the rates of similar premises for comparable transactions.

(v) The interest was charged at rates ranging from 0.01% to 1.62% (2016: 0.01% to 1.10%) per annum, which were determined with reference to the savings rates offered by the People's Bank of China.

(vi) The other finance service fee was determined with reference to the rates of similar services for comparable transactions.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

Notes: (continued)

(vii) The call centre service fee was calculated based on the actual usage in connection with the provision of the call centre service.

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

(ix) The technology support services and trade name licence fee was charged at a rate of 0.15% of the Group's turnover for the year.

(x) The licence fee was determined with reference to the prevailing market rentals for comparable properties in the vicinity of the licensed premises.

(xi) The fitting out fees were determined with reference to the rates of other similar services provided by other third party companies.

(b) Outstanding balances with related parties

Other than the balances with related parties as disclosed in notes 19, 20, 23 and 24 to the financial statements, the Group had no outstanding balances with related parties.

(c) Compensation of key management personnel of the Group

Further details of compensation of key management personnel of the Group are included in notes 8 and 9 to the financial statements.

All the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

DISPOSAL OF A SUBSIDIARY

On 14 September 2017, Tonly International entered into a settlement agreement with two non-controlling shareholders of Tonly Digital (the "NCI Buyers") pursuant to which the Group agreed to transfer entire shareholdings of Tonly Digital to the NCI Buyers. The transaction was completed on 14 September 2017.

	HK$'000
Net assets disposal of:	
Property, plant and equipment (note 13)	1,083
Cash and bank balances	2,939
Trade receivables	293
Prepayments and other receivables	620
Trade payables	(1,286)
Accruals and other payables	(1,210)
Tax payable	(99)
Non-controlling interests	(35)
	2,305
Realisation of exchange fluctuation reserve	(201)
Loss on disposal of a subsidiary (note 7)	(5,566)
	(3,462)
Satisfied by:	
Cash compensation paid to the NCI Buyers	(3,462)

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

Satisfied by:	
Cash compensation paid to the NCI Buyers	(3,462)
Cash and bank balances disposed of	(2,939)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(6,401)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise trade receivables 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, 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 interest rate and 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.

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

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team 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 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 these financial statements.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet the borrowing needs of all subsidiaries. In some cases, subsidiaries may borrow directly from local banks upon approval from the Group Treasury in advance. At the subsidiary level, financing is generally done on a short term floating rate basis. Long term financings are normally done at the Group level.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. These 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 tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incurs, so as to alleviate the impact on business due to exchange rate fluctuations. The Group uses forward currency contracts to reduce the foreign currency exposures.

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 value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

	INCREASE/ (DECREASE) IN EXCHANGE RATES	INCREASE/ (DECREASE) IN PROFIT BEFORE TAX
	%	HK$'000
2017		
If Hong Kong dollar weakens against United States dollar	**5**	**80,472**
If Renminbi weakens against United States dollar	**5**	**(55,883)**
If Hong Kong dollar strengthens against United States dollar	**(5)**	**(80,472)**
If Renminbi strengthens against United States dollar	**(5)**	**55,883**
2016		
If Hong Kong dollar weakens against United States dollar	5	85,286
If Renminbi weakens against United States dollar	5	(23,331)
If Hong Kong dollar strengthens against United States dollar	(5)	(85,286)
If Renminbi strengthens against United States dollar	(5)	23,331

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31 December 2017

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. 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.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. The Group had certain concentrations of credit risk of the total trade receivables due from the Group's largest external customer and the Group's five largest external customers as follows:

	As at 31 December	
	2017	2016
	%	%
Due from the Group's largest external customer	**38.94**	49.79
Due from the Group's five largest external customers	**62.67**	63.26

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 19 and 20, respectively, to the financial statements.

33. 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.

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:

	Within one year or on demand	
	2017	2016
	HK$'000	HK$'000
Trade payables (note 23)	**1,472,949**	1,064,311
Bills payable	**–**	227
Other payables (note 24)	**267,559**	182,337
Due to related parties (note 24)	**5,179**	26,923
	1,745,687	1,273,798

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 during the two years ended 31 December 2017 and 2016.

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33. 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 interest-bearing bank borrowings less cash and bank balances. Total capital refers to equity attributable to owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

	2017	2016
	HK$'000	HK$'000
Interest-bearing bank borrowings	**–**	–
Less: Cash and bank balances (note 22)	**(849,787)**	(730,495)
Net cash	**(849,787)**	(730,495)
Equity attributable to owners of the parent	**1,495,199**	1,164,531
Gearing ratio	**N/A**	N/A

34. EVENT AFTER THE REPORTING PERIOD

On 15 January 2018, the Group entered into a joint venture agreement with an independent third party for the establishment of a joint venture (the "JV") in the PRC, pursuant to which, among other matters, the Group and the independent third party agreed to contribute RMB14,000,000 (equivalent to HK$16,750,000) and RMB6,000,000 (equivalent to HK$7,179,000) respectively to the registered capital of the JV. Upon completion of the establishment of the JV, the Group and the independent third party will be indirectly interested in 70% and 30% of the equity interest of the JV respectively. In the future, the JV will focus on products such as precision plastic injection and structural parts.

35. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform the current year's presentation.

36. 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:

	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**181,323**	158,993
Total non-current assets	**181,323**	158,993
CURRENT ASSETS		
Due from subsidiaries	**542,725**	452,555
Other receivables	**2,192**	2,091
Cash and cash equivalents	**4,107**	2,131
Total current assets	**549,024**	456,777
CURRENT LIABILITIES		
Other payables and accruals	**2,156**	17
Total current liabilities	**2,156**	17
NET CURRENT ASSETS	**546,868**	456,760
TOTAL ASSETS LESS CURRENT LIABILITIES	**728,191**	615,753
EQUITY		
Share capital	**268,192**	249,163
Reserves (note)	**459,999**	366,590
Total equity	**728,191**	615,753

LIAO Qian
Director

YU Guanghui
Director

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Note	SHARE PREMIUM ACCOUNT HK$'000 (Note 27)	SHARE OPTION RESERVE* HK$'000 (Note 28(ii))	SHARES HELD FOR THE AWARD SCHEME HK$'000 (Note 27)	AWARDED SHARE RESERVE# HK$'000 (Note 28(vii))	RETAINED PROFITS/ (ACCUMULATED LOSSES) HK$'000	TOTAL HK$'000
At 1 January 2016		437,632	16,234	(22,960)	792	(2,349)	429,349
Loss for the year and total comprehensive loss for the year		-	-	-	-	(226)	(226)
Equity-settled share option arrangements		-	2,922	-	-	-	2,922
Share options lapsed during the year		-	(1,533)	-	-	224	(1,309)
Purchase of shares for the Award Scheme	27	-	-	(15,184)	-	-	(15,184)
Vesting of shares under Award Scheme		-	-	10,056	(10,058)	-	(2)
Employee share-based compensation benefits under the Award Scheme		-	-	-	12,374	-	12,374
Final 2015 dividend declared		(61,334)	-	-	-	-	(61,334)
At 31 December 2016 and 1 January 2017		376,298	17,623	(28,088)	3,108	(2,351)	366,590
Profit for the year and total comprehensive income for the year		-	-	-	-	68,840	68,840
Equity-settled share option arrangements		-	12,989	-	-	-	12,989
Issue of shares upon exercise of share options		80,136	(16,770)	-	-	-	63,366
Share options lapsed during the year		-	(1,119)	-	-	-	(1,119)
Share options expired during the year		-	(442)	-	-	442	-
Awarded shares lapsed during the year		-	-	-	(1,021)	-	(1,021)
Purchase of shares for the Award Scheme	27	-	-	(8,939)	-	-	(8,939)
Shares allotted for the Award Scheme		-	-	(5,706)	-	-	(5,706)
Vesting of shares under the Award Scheme		-	-	14,204	(14,586)	-	(382)
Employee share-based compensation benefits under the Award Scheme		-	-	-	27,312	-	27,312
Final 2016 dividend declared		-	-	-	-	(61,931)	(61,931)
At 31 December 2017		456,434	12,281	(28,529)	14,813	5,000	459,999

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note: (continued)

* 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 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.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 9 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the Group's published audited financial statements and reclassified/re-presented as appropriate, is set out below.

	YEAR ENDED 31 DECEMBER				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
TURNOVER	**5,912,479**	4,265,667	4,857,228	5,421,007	4,554,275
PROFIT BEFORE TAX	**251,885**	192,699	186,114	185,945	151,491
Income tax expense	**(53,379)**	(41,008)	(18,505)	(24,560)	(17,433)
PROFIT FOR THE YEAR	**198,506**	151,691	167,609	161,385	134,058
Attributable to:					
Owners of the parent	**198,648**	151,775	166,479	149,894	106,679
Non-controlling interests	**(142)**	(84)	1,130	11,491	27,379
	198,506	151,691	167,609	161,385	134,058

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	AS AT 31 DECEMBER				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**4,113,052**	3,168,164	3,202,796	3,139,319	2,624,681
Total liabilities	**(2,617,853)**	(2,003,468)	(2,099,707)	(2,043,993)	(2,075,454)
Non-controlling interests	**–**	(165)	–	(27,859)	(124,526)
	1,495,199	1,164,531	1,103,089	1,067,467	424,701

TONLY

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