2019 Annual Report

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

Contents

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

(HK$ Million)	2019	2018
Turnover	8,147	7,303
Gross profit	1,095	832
Gross profit margin (%)	13.4%	11.4%
Profit attributable to owners of the parent	269	223
Basic EPS (HK Dollars)	1.03	0.87
Full year dividend per share		
– Proposed final dividend per share (HK Dollars)	0.35	0.30

FINANCIAL POSITION

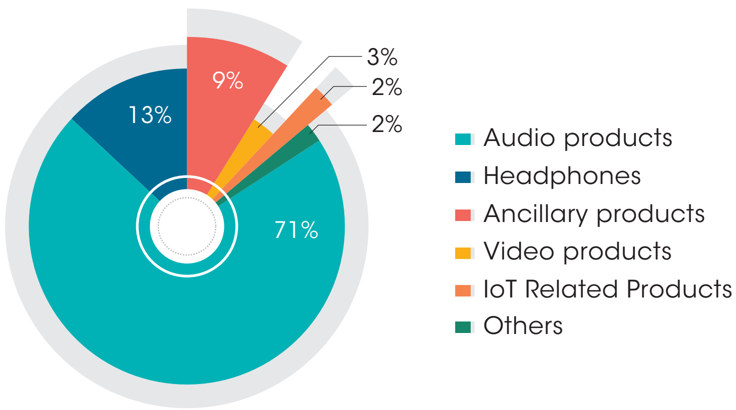
(HK$ Million)	2019	2018
Property, plant and equipment	1,086	818
Cash and cash equivalents	739	749
Total assets	5,618	4,705
Total liabilities	3,767	3,030
Net assets	1,851	1,675

OPERATION INDICATORS

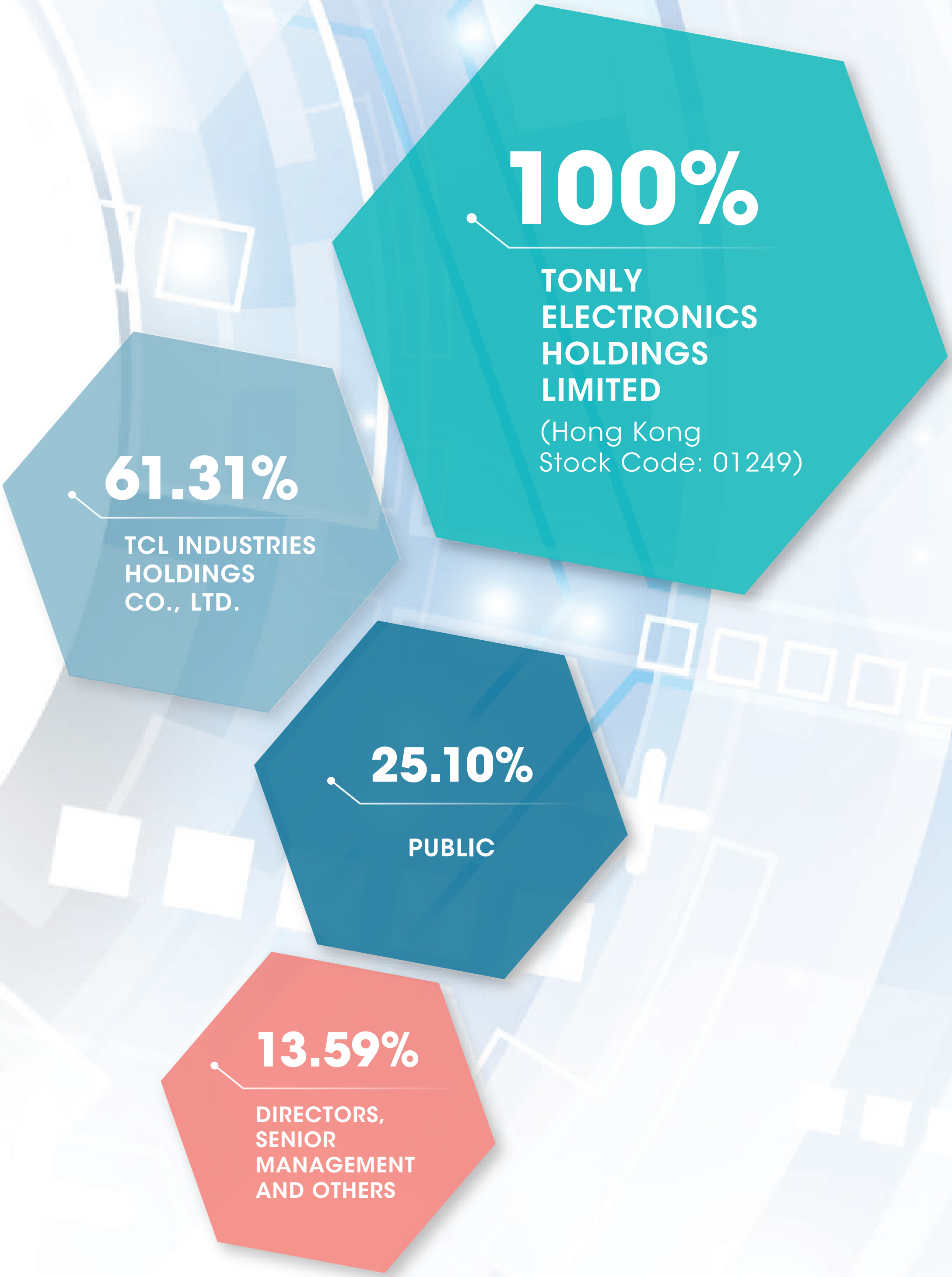
	2019	2018
Inventory turnover (days)	64	62
Trade receivables turnover (days)	75	60
Trade payables turnover (days)	107	93
Current ratio	1.2	1.2

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

TURNOVER BREAKDOWN BY PRODUCTS



CORPORATE STRUCTURE



(as at 24 March 2020)

CHAIRMAN'S STATEMENT

"WE ADHERE TO PRODUCT INNOVATION AND ARE COMMITTED TO TRANSFORMING AND UPGRADING 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."

LIAO Qian
Chairman

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 2019 (the "period under review").

During the period under review, the Group recorded a turnover of approximately HK$8,146.6 million, representing a year-on-year growth of 11.6%, which was primarily due to the growth in the new audio, smart audio speaker, headphones and ancillary product businesses. Gross profit amounted to approximately HK$1,095.5 million, representing a year-on-year growth of 31.7%. Gross profit margin increased by 2.0% from 11.4% in the same period last year to 13.4%, which was attributable to the improvement of production layout and efficiency as well as the decrease in cost of certain raw materials. Benefiting from the increase in turnover and gross profit margin as well as effective cost control, profit attributable to the owners of the holding company during the period under review increased by 20.4% year-on-year to HK$268.7 million.

Benefiting from the rapid growth in the global market of smart products and the advantage of leading product technology and the initial market layout, the smart products business of the Group maintained growth and the proportion of the revenue generated by it to the total turnover of the Group increased to 16.3%. Meanwhile, the ancillary product business which is ancillary to the smart product business also benefited from the overall market growth, especially in respect of precision plastic injection, structural parts with new form and speaker units which achieved remarkable results. In addition, with the shipments of Bluetooth headphones of the Group maintaining rapid growth, the Group has achieved large-scale shipments for True Wireless Stereo (TWS) earphones and enhanced technology development of active noise reduction and voice interaction functions. The Group continued to consolidate its leading position of Bluetooth speakers and enhance its market share of soundbars.

CHAIRMAN'S STATEMENT

During the period under review, the Group implemented cost reduction and efficiency enhancement measures at all departments and centres in order to enhance inter-department synergy and maximise the productivity of production lines and equipment. The production system personnel were enhanced. An asset shared-management mechanism was established to enhance the reusability of assets and reasonably eliminate obsolete equipment and equipment with outdated technology, which enhanced the utilisation rate of assets. The Group has established subsidiaries in Vietnam to construct its own overseas plant, so as to continuously enhance the overseas supply chain capacity and to extend its vertical integration capability overseas. In order to further improve productivity, the Group also continued to enhance production automation and its digitisation capability.

The Group has been committed to product R&D and innovation. During the period under review, the Group's R&D expenses amounted to HK$370.4 million, accounting for 4.5% of its total revenue. The Group has its own R&D bases in Huizhou, Shenzhen and Xi'an. Each R&D base carried out R&D works by regions, focusing on different basic modules, product categories and forward-looking technology. Leveraging on voice technology advantages from domestic and overseas ecological chain, it actively developed and reserved new products and technology. The Group continued to devote more R&D resources to smart products epitomised by smart voice speakers and gradually established the development capability for ancillary products which are ancillary to the smart products.

CHAIRMAN'S STATEMENT

The Group used Huizhou Zhongkai as a core base and moulding centre integrating research, production and sales. After the commencement of operation of the new plant at Phase Two of the Second Plant on land parcel No. 41 in March 2019, the operations in externally rented factories and warehouses of the Group gradually moved back to the new plant and certain space is reserved for the production of new products, which were beneficial to the enhancement of overall production management and efficiency and reduction in external rental expenses. The Group's Huizhou Puli Electroacoustic Tongqiao Industrial Park was also put into operation, forming a comprehensive industrial chain integrating carpentry, speaker assembly, high-end wooden boxes, speakers, and plastic injection. At the beginning of 2019, in order to enhance the overseas supply chain capability and to proactively respond to the potential impact of the U.S. tariff on the export of the Group's products, the Group purchased an industrial land of over one hundred thousand square meters in Vietnam to establish its own overseas plant which the Group would strive to commence operation in the second half of 2020.

The Group is not only equipped with R&D and production abilities, but also possesses vertical integration capability of the supply chain, which enables the Group to provide customers with speaker units and sophisticated structural parts. With hot sale of smart products continuing throughout the world, the Group's ancillary business has experienced rapid growth. During the period under review, the Group continuously has enhanced its capabilities in speaker units and structural components, especially the structural parts with new form related to precision moulding. Meanwhile, with the explosive growth of TWS earphone products, small forms of structural parts have experienced rapid growth and the Group has been continuously enhancing its developing capability regarding small forms of structural parts.

Looking forward, the Group will continue to consolidate and strive to upgrade its position in the new audio market, focus on the development of smart speakers, soundbar and headphone product businesses, as well as strive for more business opportunities and find more new customers. Especially with respect to soundbar products, the Group has completed productivity construction of soundbar integrated production at the Huizhou factory. As to customer structure, the Group has basically covered top soundbar customers around the world, which laid a solid foundation for the Group's future development of soundbar business.

CHAIRMAN'S STATEMENT

TWS earphones have become one of the Group's business units with key breakthrough. With Bluetooth 5.0 technology becoming more popular and gradual removal of headphone jacks from smart phones around the world, TWS earphones have experienced explosive growth in the past year. Basic user needs such as battery life, transmission and price of most TWS products in market are satisfactory while there is still room for improvement regarding functions including sound quality, noise reduction mode, voice assistant and health monitoring. In terms of sound quality, noise reduction technology and voice interaction, the Group has been well equipped with market competitive edges. The Group will keep on advancing its technology and automated production capacity to strive for more competitive integrated advantages and higher industry status in the TWS earphone market in the future.

The Group will continue to devote great effort to the development of its smart and ancillary product businesses, in particular smart voice speakers and other voice-related smart products. The Group will continue strengthening its technological advantages in smart voice, while focusing on the form of smart speaker products and cooperating with global major voice recognition platforms to constantly explore more market opportunities. In the meantime, the Group will seek more opportunities for cross-industry applications based on smart voice technology and develop more mainstream ancillary products in the voice ecosystem. As a core partner of the global Internet corporate voice ecosystem, the Group will achieve mutual growth with voice ecosystem development and strive to provide more users with the experience of a new generation of human-machine interaction.

The Group has actively coped with and prepared for the risks deriving from potential trade tariffs. After the establishment of the subsidiaries in Vietnam, the Group will strive for completing the construction of overseas self-owned plants as soon as possible and build mature capability of overseas supply chain vertical integration. The Group will continue to enhance its development ability in respect of utilities such as speakers and sophisticated structural parts. The Group also 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 implement streamlined management to enhance overall operational efficiency and control overall costs, during which it will adopt a series of measures to improve its administrative efficiency and internal operation process. With the streamlined 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

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 moving forward in 2020 together to create better returns for our shareholders.

LIAO Qian
Chairman
24 March 2020, Hong Kong

MANAGEMENT DISCUSSION & ANALYSIS

2019 was an unusual year for the development of the PRC's economy or even global economy. The Sino-US trade tariffs issue has been changeable, trade barriers arose around the world and certain PRC enterprises were included in the entity list of the US, all of which have posed significant challenges to the economic development of the PRC and the world. Nevertheless, in 2019, the PRC's gross domestic product (GDP) amounted to RMB99,086.5 billion, which reached US$14,400 billion (converted at the annual average exchange rate) and remained the second place in the world with a year-on-year increase of 6.1%. Such growth met the expected target of 6.0%-6.5% and contributed to approximately 30% of global economic growth.

With regard to industry development, according to a report published by Strategy Analytics, a third party market analysis institution, the global sales volume of smart speakers reached 146.9 million units in 2019, representing an increase of 70% as compared to 2018 and setting a record high. Among other things, although Amazon and Google still ranked the first and second in terms of shipments, their respective market shares reduced significantly as compared to the same period last year. Meanwhile, Chinese brands maintained their strong momentums with the market shares of Baidu, Ali (阿里) and Xiaomi still rose steadily. As for True Wireless Stereo (TWS) earphones market, according to the information from Counterpoint, a market research institution, the global shipments of TWS earphones was 120 million units in 2019, representing a year-on-year growth of 160% and a market size of approximately US$15 billion, of which Apple airpods occupied the dominant position, while other brands were also improving.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2019 (the "period under review"), the Group recorded a turnover of approximately HK$8,146.6 million, representing a year-on-year growth of 11.6% which was primarily due to the growth in the new audio, smart audio speaker, headphones and ancillary product businesses. Gross profit amounted to approximately HK$1,095.5 million, representing a year-on-year growth of 31.7%. Gross profit margin increased by 2.0% from 11.4% in the same period last year to 13.4%, which was attributable to the improvement of production layout and efficiency as well as the decrease in cost of certain raw materials. Benefiting from the increase in turnover and gross profit margin as well as effective cost control, profit attributable to the owners of the parent company during the period under review increased by 20.4% year-on-year to HK$268.7 million.

During the period under review, the Group implemented cost reduction and efficiency enhancement measure at all departments and centres in order to enhance inter-department synergy and maximise the productivity of production lines and equipment. The production system personnel were enhanced. An asset shared-management mechanism was established to enhance the reusability of assets and reasonably eliminate obsolete equipment and equipment with outdated technology, which enhanced the utilisation rate of assets. The Group has established subsidiaries in Vietnam to construct its own overseas plant, so as to continuously enhance the overseas supply chain capacity and to extend its vertical integration capability overseas. In order to further improve productivity, the Group also continued to enhance production automation and its digitisation capability.

MANAGEMENT DISCUSSION & ANALYSIS

During the period under review, the Group endeavoured to develop its audio product, smart product and ancillary product businesses, among which products including smart speakers, headphones and soundbars grew rapidly. Based on the analysis by product category, the turnover of the Group's audio products, headphones, video products, IoT related products, ancillary products and other businesses amounted to approximately HK$5,823.9 million, HK$1,055.2 million, HK$211.0 million, HK$128.3 million, HK$786.6 million and HK$141.6 million respectively, representing an increase of 5.1% and 49.7%, a decrease of 46.8% and 20.4%, an increase of 70.1% and 306.7% respectively. The Group's turnover breakdown by product is set out below:

	For the year ended 31 December		
	2019 (HK$'000)	2018 (HK$'000)	Change
Audio Products (1)	**5,823,875**	5,543,219	5.1%
Headphones	**1,055,194**	704,688	49.7%
Video Products (2)	**211,030**	396,420	-46.8%
IoT Products (3)	**128,310**	161,271	-20.4%
Ancillary products (4)	**786,640**	462,534	70.1%
Other Businesses	**141,592**	34,819	306.7%
Total	**8,146,641**	7,302,951	11.6%

(1) Mainly include smart voice speakers, wireless speakers, soundbars, home theatres, and mini speakers

(2) Mainly include DVD players, BD players and OTT set top boxes (STB)

(3) Mainly include smart plugs, smart gateways and other IoT products

(4) Mainly include fabric covering for external sales, plastic injection structural parts, speakers, wireless modules, and other components. The ancillary products of Guangdong Regency Optics-electron Co., Ltd. ("Guangdong Regency"), a subsidiary of the Group, began to be consolidated into the revenue of ancillary products of the Group in the first quarter of 2019.

* The sales volume of certain IoT related products in 2018 was reclassified to video products for the reason of product form adjustment.

MANAGEMENT DISCUSSION & ANALYSIS

During the period under review, benefiting from the rapid growth in the global market of smart products and the advantage of leading product technology and the initial market layout, the smart product business of the Group maintained growth and the proportion of the revenue generated by it to the total turnover increased to 16.3%. Meanwhile, the ancillary product business which is ancillary to the smart product business also benefited from the overall market growth, especially in respect of precision plastic injection, structural parts with new form and speaker units, all of which achieved remarkable results. In addition, with the shipments of Bluetooth headphones of the Group maintaining rapid growth, the Group has achieved large-scale shipments for TWS earphones and enhanced technology development of active noise reduction and voice interaction functions. The Group continued to consolidate its leading position of Bluetooth speakers and enhance its market share of soundbars.

PRODUCT RESEARCH AND DEVELOPMENT (R&D) AND INNOVATION

The Group has been committed to product R&D and innovation. During the period under review, the Group's R&D expenses amounted to HK$370.4 million, accounting for 4.5% of its total revenue. The Group has its own R&D bases in Huizhou, Shenzhen and Xi'an. Each R&D base carried out R&D works by regions, focusing on different basic modules, product categories and forward-looking technology. Leveraging on voice technology advantages from domestic and overseas ecological chain, it actively developed and reserved new products and technology. The Group continued to devote more R&D resources to smart products epitomised by smart voice speakers and gradually established the development capability for ancillary products which are ancillary to the smart products.

In respect of the smart voice eco-platform, the Group maintained close cooperation with internet enterprises with global mainstream voice platforms and continued development of latest technologies and product coordination on the basis of mainstream voice platforms. The smart audio speaker market continued to grow and gradually developed and diversified various ecological scenes centring this market. With the integration of various human-device interactions such as voice, vision and touch and the perception, comprehension and decision-making ability of AI, a smart home in the 5G era is created. In respect of the transformation of technology and interaction method, smart audio speaker has been gradually transforming from sole-audio interaction to "audio + visual" diversified interaction. Screen-equipped smart speaker jointly developed by the Group and its customers breaks the limitation in respect of audio interaction function and content display and allows smart products to acquire audio and visual abilities.

MANAGEMENT DISCUSSION & ANALYSIS

The Group constantly develops diversified smart products and, by leveraging on its extensive experience in professional electro-acoustic design and pioneer advantages in smart speakers, the Group constantly innovates in product development to enhance the overall competitiveness of the Group and capture potential market opportunities. The Group also believes that future voice technologies will not only be limited to smart speaker products, but may also be utilised by various types of products that require voice access. Therefore, in addition to strengthening the R&D and innovation of smart voice speakers, the Group also actively explores and applies ecological ancillary products in respect of cross-field utilisation of smart voice. Apart from outstanding design and R&D, smart products that provide user-friendly experiences also require comprehensive automated testing capabilities. The Group has also established a number of automated test laboratories for smart products to better meet customer needs.

During the period under review, the Group has been enhancing its active noise reduction technology and developed various mid– to high-end earphone products with active noise reduction functions. The headphone business has maintained rapid growth. In 2019, TWS master chip manufacturers launched new generation upgraded products specially designed for Android platforms with a view to achieving dual wireless connection. Represented by the projects of Qualcomm, Bestechnic and Airoha, the TWS earphone market has experienced explosive growth. The Group has been constantly expanding the TWS earphone products development team. Combining active noise reduction and voice interaction technology and leveraging on its outstanding electroacoustic capability, the Group's TWS earphone products have realised large-scale shipments.

CUSTOMER AND MARKET EXPANSION

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 customers during the process of cooperation with customers towards mutual benefits. 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 together with its customers.

In the meantime, the Group will continue to eagerly expand its Internet customer base and strive for more diversified business cooperation opportunities to facilitate speedy development of smart voice Eco platform of internet customers. As global voice eco-platform advances and matures, more brands have launched or will soon launch smart products with audio interaction (including but not limited to smart speakers), and the Group will also leverage on its pioneer advantages in smart voice technologies and the foundation for cooperation in each voice eco-platform to develop a variety of ancillary products in the smart voice ecosystem.

MANAGEMENT DISCUSSION & ANALYSIS

PRODUCTION AND SUPPLY CHAIN MANAGEMENT

The Group used Huizhou Zhongkai as a core base and moulding centre integrating research, production and sales. After the commencement of operation of the new plant at Phase Two of Second Plant on land parcel No. 41 in March 2019, the externally rented factories and warehouses of the Group gradually moved back to the new plant and certain space was reserved for the production of new products, which were beneficial to the enhancement of overall production management and efficiency and reduced external rental expenses. The Group's Huizhou Puli Electroacoustic Tongqiao Industrial Park was also put into operation, forming a comprehensive industrial chain integrating carpentry, speaker assembly, high-end wooden boxes, speakers, and plastic injection. At the beginning of 2019, in order to enhance the overseas supply chain capability and to proactively respond to the potential impact of the U.S. tariff on the export of the Group's products, the Group purchased industrial land of over one hundred thousand square meters in Vietnam to establish its own overseas plant which the Group would strive to commence operation in the second half of 2020.

The Group is not only equipped with R&D and production abilities, but also possesses vertical integration capability of the supply chain, which enables the Group to provide customers with speaker units and sophisticated structural parts. With hot sale of smart products continuing throughout the world, the Group's ancillary business has experienced rapid growth. During the period under review, the Group continuously enhanced its capabilities in speaker units and structural components, especially the structural parts with new form related to precision moulding. Meanwhile, with the explosive growth of TWS earphone products, small forms of structural parts have experienced rapid growth and the Group has been continuously enhancing its developing capability regarding small forms of structural parts.

To tackle the labour shortage and salary increase problems in the PRC in a proactive manner, the Group continued to optimise its human resources system and establish overseas productivity. During the period 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 automated test systems and automated packaging systems to facilitate a streamlined, automated, digitalised and informationised production to improve operational efficiency and quality. The Group is also dedicated to optimising the equipment and management system of its production plant. The Group implemented smart warehouse logistics management based on an industrial intelligence system, to closely integrate all aspects of supply chain, production, and logistics while enhancing the actual production capacity of the Huizhou production base.

MANAGEMENT DISCUSSION & ANALYSIS

FUTURE PLANS AND OUTLOOK

In 2020, Sino-US trade disputes eventually entered a stage of gradual improvement. On 15 January, the PRC and the US signed Phase I Economic and Trade Agreement, which brought a pause to the trade disputes lasting for nearly two years. However, the outbreak of the novel coronavirus epidemic early this year forced numerous enterprises to postpone production after the Chinese New Year holidays. Meanwhile, World Health Organization (WHO) declared on 11 March that the novel coronavirus epidemic has constituted a pandemic, which posed challenges to overall economic development for the first half of the year. The PRC government's series of epidemic prevention and control measures have effectively controlled the epidemic from spreading. The International Monetary Fund (IMF) anticipated that the economic growth of the PRC in 2020 will be 5.6%.

Despite uncertainties in external economic environment, the Group will continue to consolidate and strive to upgrade its position in the new audio market, focus on the development of smart speakers, soundbar and headphone product businesses, as well as strive for more business opportunities and find more new customers. Especially with respect to soundbar products, the Group has completed productivity construction of soundbar integrated production at the Huizhou factory. As to customer structure, the Group has basically secured top soundbar customers around the world, which laid a solid foundation for the Group's future development of soundbar business. For the video business, the Group will keep on adjusting its resource structure and adopt a small-team and asset-light operation strategy.

TWS earphones have become one of the Group's business units with key breakthrough. With Bluetooth 5.0 technology becoming more popular and gradual removal of headphone jacks from smart phones around the world, TWS earphones have experienced explosive growth in the past year. Basic user needs such as battery life, transmission and price of most TWS products in market are satisfactory while there is still room for improvement regarding functions including sound quality, noise reduction mode, voice assistant and health monitoring. Counterpoint, a third party market analysis agency, predicted 120 million pairs of global TWS earphones shipments in 2019. With both driving force of replacement and new purchase, TWS earphones shipments will surge to 230 million pairs in 2020, representing a year-on-year growth rate of 91.6%. In terms of sound quality, noise reduction technology and voice interaction, the Group has been well equipped with market competitive edges. The Group will keep on advancing its technology and automated production capacity to strive for more competitive integrated advantages and higher industry status in the TWS earphone market in the future.

MANAGEMENT DISCUSSION & ANALYSIS

The Group will continue to devote great effort to the development of its smart and ancillary product businesses, in particular smart voice speakers and other voice-related smart products. The Group will continue strengthening its technological advantages in smart voice, while focusing on the form of smart speaker products and cooperating with global major voice recognition platforms to constantly explore more market opportunities. In the meantime, the Group will seek more opportunities for cross-industry applications based on smart voice technology and develop more mainstream ancillary products in the voice ecosystem. As a core partner of the global Internet corporate voice ecosystem, the Group will achieve mutual growth with voice ecosystem development and strive to provide more users with the experience of a new generation of human-machine interaction.

The Group has actively coped with the risks deriving from potential trade tariffs and prepared in advance. After the establishment of the subsidiaries in Vietnam, the Group will strive for completing the construction of overseas self-owned plants as soon as possible and build mature capability of overseas supply chain vertical integration. The Group will continue to enhance its development ability in respect of utilities such as speakers and sophisticated structural parts. The Group also 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 implement streamlined management to enhance overall operational efficiency and control overall costs, during which it will adopt a series of measures to improve its administrative efficiency and internal operation process. With the streamlined 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 brand companies and customers with outstanding quality products and services by expanding new businesses, exploring new technologies and products, and enhancing its productivity. As the smart and ancillary product business is becoming more mature, the management estimates that businesses such as smart products, soundbars, headphones and ancillary products of the Group will account for an increasing proportion in 2020. Meanwhile, along with the continuous development of smart audio products, more enterprises will enter this field in the future and the market competition will become fiercer. The Group will, as always, keep on looking for opportunities and actively seeking viable business expansion opportunities, which, coupled with its own strengths, will enlarge its business portfolio, enhance the long-term value of the Group, and proactively generate more return for its shareholders.

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no significant investments, nor other material acquisitions and disposals of subsidiaries, associates and/or joint ventures during the period under review, save as the acquisition of equity interest in Huizhou Nikko Optoelectronics Co., Ltd., the details of which are disclosed under the sub-section "Connected Transactions" under the section headed "Report of the Directors" of this annual report.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained robust financial position during the Period under Review. The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and short-term deposits. The main objective of 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 2019 amounted to approximately HK$739,193,000, of which 2% was maintained in Hong Kong dollars, 49% in US dollars, 48% in Renminbi and 1% in Vietnamese Dong.

For the purpose of day-to-day liquidity management and future expansion, the Group has access to banking facilities. As at 31 December 2019, the Group's interest-bearing bank borrowings were HK$234,713,000, which are denominated in RMB with variable interest rate ranging from 3.47%-4.75%. The maturity profile of borrowing ranged from one to five years. It is the intention of the Group to maintain a mix of equity and debt to ensure an efficient capital structure and in view of the reasonable interest rate. There was no asset held under finance lease as at 31 December 2019.

The Group monitors capital using a gearing ratio, which is debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Debt is calculated as a total of interest-bearing bank borrowings. Total capital refers to equity attributable to owners of the parent. The gearing ratio as at the end of the reporting period was 13.1%.

PLEDGE OF ASSETS

There was no pledge of assets by the Group as at 31 December 2019.

MANAGEMENT DISCUSSION & ANALYSIS

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2019, the Group had capital commitments of approximately HK$58,789,000 (31 December 2018: HK$48,070,000). The Group did not have any material contingent liabilities as at 31 December 2019.

PENDING LITIGATION

The Group had not been involved in any material litigation for the year ended 31 December 2019.

FOREIGN EXCHANGE EXPOSURE

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

It is the Group's policy to centralise foreign currency management to monitor 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 9,247 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 shareholders, share options were granted to selected employees under the Company's share option scheme. Options to subscribe for a total of 27,946,154 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 2017 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. The Group has also developed training programs to its employees to ensure they are properly trained.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. YU GUANGHUI

Aged 51, is an executive Director and Chief Executive Officer ("CEO") of our Company. He holds directorships in various principal subsidiaries of our Group. Mr. YU joined TCL Technology Group Corporation ("TCL Technology", together with its subsidiaries, "TCL Technology Group") (formerly known as 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., senior vice executive president and president of TCL Industries Holdings Co., Ltd. ("TCL Holdings"), 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.

DIRECTORS AND SENIOR MANAGEMENT

MR. SONG YONGHONG

Aged 52, 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 Technology 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 Electronics Holdings Limited (formerly known as TCL Multimedia Technology Holdings Limited, Stock Code: 01070) ("TCL Electronics"). From 2009 to 2010, Mr. SONG had held the position of general manager of Global Product Centre of TCL Electronics and senior vice president of TCL Electronics. Prior to joining TCL Technology, 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.

MR. REN XUENONG

Aged 49, 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.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

MR. LIAO QIAN

Aged 39, was appointed as the Chairman and non-executive Director, and also the chairman of the nomination committee and a member of the remuneration committee of the Company with effect from 1 January 2017. He is currently the executive Director, chief of staff, vice president and secretary of the board of directors of TCL Technology. Mr. Liao Qian holds a Chinese legal professional qualification certificate. Mr. Liao obtained a Bachelor's degree in Economics from Fuzhou University in 2002. He further obtained a Master's degree in Laws from Yunnan University in 2006. He joined TCL Technology as the officer of the board of directors in March 2014, and served as an independent director of Shenzhen Jiawei Photovoltaic Lighting Co.,Ltd. (SZSE Stock Code: 300317) since November 2016, the Chairman and non-executive Director of China Display Optoelectronics Technology Holdings Ltd. (a subsidiary of TCL Technology, Stock Code: 334) since January 2017, a non-executive Director of Fantasia Holdings Group Co., Ltd. (Stock Code: 1777) since March 2017, and vice chairman of Tianjin 712 Communication & Broadcasting Co., Ltd since May 2019.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. POON CHIU KWOK

Aged 57, is an independent non-executive Director of our Company. Mr. POON has acted as an independent non-executive director of the Company since July 2013. 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). He has also served as an independent non-executive director of following companies, the Shares of which are listed on the Main Board of the Stock Exchange: Greentown Service Group Co., Ltd. (stock code: 02869), Yuanda China Holdings Limited (stock code: 2789), Changan Minsheng APLL Logistics Co., Ltd. (stock code: 1292), Sunac China Holdings Limited (stock code: 1918), TUS International Limited (stock code: 872), AUX International Holdings Limited (stock code: 2080) and Sany Heavy Equipment International Holdings Company Limited (stock code: 631), Jinchuan Group International Resources Co. Ltd (stock code: 2362), Honghua Group Limited (stock code: 196) and Yanzhou Coal Mining Company Limited (stock code: 1171). He served as a non-executive director of Chong Kin Group Holdings Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 1609) from January 2018 to June 2018. Mr. POON is a Fellow member of CPA Australia Ltd., a Fellow member of The Chartered Governance Institute and the Hong Kong Institute of Chartered Secretaries and a member of its Technical Consultation Panel, Audit Committee and Mainland China Fous Group. He is a Fellow member and associate trainer of Hong Kong Securities and Investment Institute. He obtained a master's degree in international accounting, a postgraduate diploma in laws, a bachelor's degree in laws and a bachelor's degree in business studies.

DIRECTORS AND SENIOR MANAGEMENT

MR. LI QI

Aged 59, is an independent non-executive Director of our Company. Mr. LI has acted as an independent non-executive director of the Company since July 2013. Mr. LI is an associated professor in the Department of Applied Economics at Guanghua School of Management of Peking University. 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.

MR. LEONG YUE WING

Aged 67, is an independent non-executive Director. Prior to his redesignation 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 Electronics from 1 October 2007 to 30 September 2009 and was responsible for the overall management of TCL Electronics including strategy, business development and operations. Prior to joining TCL Electronics, 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.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

MR. WANG XIAOFENG

Aged 54, is a senior vice president and chief marketing officer of the Company. He has been a deputy general manager and general manager of sales center of Tonly Electronics since October 2006. Mr. WANG joined the TCL Technology 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 Electronics. From September 2002 to May 2004, Mr. WANG had held the office of general manager of the AV Division of TCL Electronics. 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 Technology. 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 45, is a senior vice president of the Company, also served as general manager of the innovative business center. He joined TCL Technology 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

MS. CHOY FUNG YEE

Aged 35, 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 Electronics.

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 DIRECTOR

Mr. LIAO Qian *(Chairman)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Ms. CHOY Fung Yee, Solicitor, Hong Kong

AUDITOR

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

LEGAL ADVISOR

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

PRINCIPAL REGISTRAR

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

BRANCH REGISTRAR

Tricor Investor Services Limited
Level 54, 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

8th Floor, Building 22E
22 Science Park East Avenue
Hong Kong Science Park
Shatin, New Territories, 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 maximise 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") in the 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 2019, the Company has complied with the Code Provisions with the following exception:

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.

Ms. CHOY Fung Yee ("Ms. CHOY"), the company secretary of the Company is not an employee of the Company. 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 contact person with Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group is speedily delivered to Ms. CHOY through the contact person assigned. Given the long-term relationship between Messrs. Cheung Tong & Rosa Solicitors and the Group, Ms. CHOY is very familiar with the operations of the Group and has in-depth knowledge of the management of the Group. Having in place a mechanism that Ms. CHOY will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. CHOY as the company secretary is beneficial to the Group's compliance with the relevant Board procedures, applicable laws, rules and regulations.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received two confirmations (the "Confirmations") from TCL Technology and T.C.L. Industries Holdings (H.K.) Limited ("TCL Industries") (TCL Technology and TCL Industries are collectively referred as the "Covenantors") signed by them confirming that for the period from 1 January 2019 to 31 December 2019 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 21 July 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.

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. LIAO Qian *(Chairman)*

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

CORPORATE GOVERNANCE REPORT

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 "Directors and Senior Management" of this annual report on pages 20 to 25.

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.

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 2019, 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.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORD OF DIRECTORS IN 2019

During the year of 2019, the Board held 4 regular meetings at about quarterly intervals and 5 additional meetings. As regards general meeting, the Company held 2 general meetings during the year of 2019. Attendance of individual directors at the Board meetings and general meetings in 2019 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	3/5	0/2
Mr. SONG Yonghong	4/4	5/5	0/2
Mr. REN Xuenong	3/4	5/5	2/2
Non-executive Director			
Mr. LIAO Qian *(Chairman)*	3/4	3/5	1/2
Independent Non-executive Directors			
Mr. POON Chiu Kwok	4/4	5/5	2/2
Mr. LI Qi	3/4	4/5	0/2
Mr. LEONG Yue Wing	3/4	4/5	1/2

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.

CORPORATE GOVERNANCE REPORT

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, 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 2019. 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.

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

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.

CORPORATE GOVERNANCE REPORT

At the annual general meeting held on 9 May 2019, Mr. Song Yonghong, Mr. Ren Xuenong and Mr. Liao Qian 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 independent non-executive directors 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 2021
Mr. POON Chiu Kwok	until AGM to be held in 2020
Mr. LI Qi	until AGM to be held in 2021
Mr. LIAO Qian *(Chairman)*	until AGM to be held in 2022

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.

CORPORATE GOVERNANCE REPORT

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, scrutinising the Company's performance and providing constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit Committee, Remuneration Committee and/or Nomination Committee.

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

All Directors have devoted their time and attention to the affairs of the Company with their hands on knowledge and expertise in the areas and operation in which he/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.

CORPORATE GOVERNANCE REPORT

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

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2019 to 31 December 2019:

Directors	Reading materials	Attending seminars/ briefings
Executive Directors		
Mr. YU Guanghui	✓	✓
Mr. SONG Yonghong	✓	✓
Mr. REN Xuenong	✓	✓
Non-executive Director		
Mr. LIAO Qian	✓	✓
Independent Non-executive Directors		
Mr. POON Chiu Kwok	✓	✓
Mr. LI Qi	✓	✓
Mr. LEONG Yue Wing	✓	✓

CORPORATE GOVERNANCE REPORT

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 2019, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The directors' interests in shares of the Company as at 31 December 2019 are set out on pages 66 to 68 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;

CORPORATE GOVERNANCE REPORT

- 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.

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

In 2019, the Board had four Board Committees, namely the Remuneration Committee, the Audit Committee, the Nomination Committee and the Executive Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs. The 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 2019 is as follows:

	Audit Committee Meeting(s)	Remuneration Committee Meeting(s)	Nomination Committee Meeting(s)	Executive Committee Meeting(s)
Executive Directors				
Mr. YU Guanghui	N/A	3/3	1/1	1/1
Mr. SONG Yonghong	N/A	N/A	N/A	1/1
Mr. REN Xuenong	N/A	N/A	N/A	1/1
Non-executive Director				
Mr. LIAO Qian *(Chairman of the Board)*	N/A	2/3	0/1	N/A
Independent non-executive Directors				
Mr. POON Chiu Kwok	3/3	3/3	1/1	N/A
Mr. LI Qi	1/3	2/3	0/1	N/A
Mr. LEONG Yue Wing	3/3	3/3	1/1	N/A

CORPORATE GOVERNANCE REPORT

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 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 2019.

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; and
- 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 2019 included:

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

CORPORATE GOVERNANCE REPORT

Nomination Policy

In 2019 the Company consolidated its nomination procedures and selection criteria of directors into the Nomination Policy of the Company, which was approved by the Nomination Committee and confirmed by the Board on 21 November 2018 with effect from 1 January 2019.

The Nomination Policy of the Company is as follows:

Objective

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

2. The Nomination Committee ("NC") shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as directors of the Company at general meetings or appoint as directors to fill casual vacancies.

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

Selection Criteria

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

Common Criteria for All Directors

4.1. Reputation for integrity, character and integrity

4.2. Commitment in respect of available time

4.3. The willingness to assume broad fiduciary responsibility

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

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

CORPORATE GOVERNANCE REPORT

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

4.7. Breadth of knowledge about issues affecting the Company

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

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

4.10. Fit with the Company's culture

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

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

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

4.13. Accomplishments of the candidate in his/her field

4.14. Outstanding professional and personal reputation

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

Nomination Procedures

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

10.5. the NC will make recommendations to the Board on the appointment or re-appointment of directors.

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

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

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

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

15. "Procedures for Shareholders to propose a person for election as a director" shall apply in respect of the nomination by shareholder(s) of person for election as director.

16. A candidate is allowed to withdraw his candidature at any time before the despatch of circular to shareholders for election at the general meeting by serving the Company a notice in writing provided that such notice shall be served on the Company not less than 3 business days prior to the despatch of the said circular.

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

Confidentiality

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

CORPORATE GOVERNANCE REPORT

Review

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

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

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

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

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

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

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

Board Diversity Policy

The Company has adopted a board diversity policy ("Board Diversity Policy") on 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 Board Diversity Policy was revised and updated on 21 November 2018 so as to amplify the policy objectives and in furtherance of more balanced considerations as well as to broaden the policy scope and to ensure the stability of the organization and functioning of the Board.

The Board Diversity Policy of the Company is as follows:

Purpose

1. This Board Diversity Policy (the "Policy") aims to set out the approach to achieve diversity on the Company's board of directors ("Board").

CORPORATE GOVERNANCE REPORT

Vision

2. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

Policy Statement

3. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development, and the Board diversity also helps to achieve a diversity of views and perspectives among members of the Board, to enhance decision making capacity, and to fairly and effectively safeguard the interests of various stakeholders, especially the long term shareholders interests of the Company. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments and succession will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

4. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, age, length of service) will be disclosed in the Corporate Governance Report annually.

Monitoring and Reporting

5. The Nomination Committee will report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

Review of this Policy

6. The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Disclosure of this Policy

7. A summary of this Policy together with the measurable objectives set for implementing this Policy, and the progress made towards achieving those objectives will be disclosed in the annual Corporate Governance Report.

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.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

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

The Remuneration Committee was established on 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 2019, the Remuneration Committee accomplished the following:

- assessing the performance of executive directors;
- discussing and approving the remuneration adjustment of the management; and
- discussing and making recommendations to the Board on the adjustment of long-term incentive plan (including share options and Awarded Shares).

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 consist 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 long-term benefits to the Group.

CORPORATE GOVERNANCE REPORT

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 Company 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 control 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 2019 included consideration of the following matters:

- the completeness and accuracy of the 2019 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 risk management and internal control systems 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.

Dividend Policy

The Company has confirmed and consolidated its dividend policy (the "Dividend Policy) on 21 November 2018 (with effect from 1 January 2019), which aims to consolidate and set out the approach and principles of the Company in declaration of dividend.

Purpose

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

Factor(s) to be considered for declaration of dividends

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

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

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

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

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

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

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

   2.7. any other factors that the Board deem appropriate.

CORPORATE GOVERNANCE REPORT

Principles in relation to declaration of dividends

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

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

    3.2. the Company will take priority to distributing dividends in cash and shares its profits with the Shareholders, whereas the target payout ratio of dividends distributed is expected to be in the range of 20%–40% of the Group's net profit for the current year, and the remaining profit will be used for the business development and operation of the Group;

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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 83 to 89.

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 90 to 215 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 19 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 an 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,

CORPORATE GOVERNANCE REPORT

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 systems are 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 department. 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 systems of each department 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.

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.

CORPORATE GOVERNANCE REPORT

Each year, the Audit Committee of the Company reviews the findings made by the internal auditor in respect of issues encountered by them in preparation of the auditor's report, which often covers issues relating to risk management and 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 that reports on the cause of and proposed solution for remedying the defect be submitted by the internal control department and the defect be followed up.

The Company has procedures and internal controls for the handling and dissemination of inside information. The Group strictly prohibits unauthorised use of inside information. The Group strives to identify inside information and any information which may potentially constitute inside information at the earliest practicable opportunity, which is then assessed and 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 2019, 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.

CORPORATE GOVERNANCE REPORT

CORPORATION GOVERNANCE FUNCTIONS

The work completed by the Board during 2019 as part of its corporate governance functions included the following:

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

SENIOR MANAGEMENT'S REMUNERATION

For the year ended 31 December 2019, senior management of the Company comprises 2 individuals. The remuneration paid to the members of senior management by bands in 2019 is set out as follows:

	Number of individuals
HK$2,000,001 to HK$2,500,000	2

AUDITOR'S REMUNERATION

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

	HK$'000
Statutory audit services	2,580
Non-audit services (which include taxation compliance, agreed upon procedures and other professional services)	611
Continuing connected transactions	200

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The position of Company Secretary is currently held by Ms. CHOY Fung Yee, 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.

Ms. CHOY is required to take no less than 15 hours of relevant professional training each year, which has been duly fulfilled 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 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.

The external auditor of the Company, Messrs. Ernst & Young also attended the Annual General Meeting held on 9 May 2019 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.

CORPORATE GOVERNANCE REPORT

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 the 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 under review.

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 7460. 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.

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

In 2019, no amendment had been made to the memorandum and articles of association of the Company.

CONCLUSION

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency. Relevant corporate information including annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website http://www.tonlyele.com in a timely manner. 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 2019, 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 2019, a total of 9,247 people were employed by the Group, the distribution of which is set out as follows:

Employees by Geographic Region as of 31 December 2019:

Mainland China:	9,216
Hong Kong, China:	10
Overseas	21

Employees by Age as of 31 December 2019:

Employees aged below 30	6,057
Employees aged above 30	3,190

The male-to-female ratio was 2.48. The overall turnover rate was approximately 16.1%.

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 minimising the Company's labour costs.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

2. CORE WORK OF HUMAN RESOURCES

In 2019, the Company 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 optimised 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 staff while supporting the development of business at the same time.

The Company has always put increasing resources in the developments and trainings of personnel. 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 standardised IT systems.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

SOCIAL RESPONSIBILITIES

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 protecting the rights of employees and external personnel, creating documentation of the social responsibility management system, paying efforts to prevent and reduce harm to social responsibility in the process of production. 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 grow 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 from entering all aspects of production, packaging, distribution, marketing, etc., and any harm to the health of employees and consumer safety, destruction of natural environment and other serious incidents are prohibited.

The Group devotes to achieving 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 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 2019 prepared in accordance with Appendix 27 to the Listing Rules will be published separately pursuant to the requirements under Appendix 27 to the Listing Rules.

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 2019.

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 by way of introduction.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries of the Company 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 under review.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the section headed "Management Discussion and Analysis" 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 (Cap. 622 of the Laws of Hong Kong), including a review of the business of the Group, discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position, particulars of important events affecting the Group that have occured since the year ended 31 December 2019 to the date of this annual report and an indication of the outlook and future development of the business of the Group, 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 automatisation of factories, replacing dangerous operation by machines to prevent employees from being injured.

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

REPORT OF THE DIRECTORS

As at 31 December 2019 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 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES of the Notes to Financial Statements in this Annual Report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the Group's financial position at that date are set out in the financial statements on pages 90 to 93.

The Board has proposed a final dividend, for the year ended 31 December 2019, of HK$0.35 (2018: HK$0.30) in cash per share.

Subject to approval at the forthcoming annual general meeting on 19 May 2020, Tuesday the said final dividend will be payable on or about 18 June 2020, Thursday to shareholders whose names appear on the register of members of the Company on 28 May 2020, Thursday.

REPORT OF THE DIRECTORS

The register of members of the Company will be closed from 14 May 2020, Thursday to 19 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 13 May 2020, Wednesday.

The register of members of the Company will be closed from 25 May 2020, Monday to 28 May 2020, Thursday (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 22 May 2020, Friday.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 216. 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.

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 28 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 365,000 existing shares 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 shares was approximately HK$2,174,000.

REPORT OF THE DIRECTORS

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 29 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, 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$480,457,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions.

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 approximately 22% of the Group's purchases. Those suppliers have been cooperating with the Group for a long term.

Sales

– the largest customer	42.3%
– the five largest customers combined	77.5%

The Group recognises that maintaining good and stable relationship with customers and business partners is key to 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 condition 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 the 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 find 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.

REPORT OF THE DIRECTORS

The Group's credit terms with its customers including credit period are disclosed in note 19. TRADE AND BILLS 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 2019 and up to the date of this report were:

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

Non-Executive Director:
Mr. LIAO Qian *(Chairman)*

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. YU Guanghui, Mr. POON Chiu Kwok and Mr. LI Qi 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 27 to 55 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 20 to 25 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2019, the interests and short positions of the directors and chief executive 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	Number of ordinary shares held: Family/ corporate interests	Other interests *(Note 3)*	Number of underlying shares held under equity derivatives *(Note 4)*	Total	Approximate percentage of the number of issued shares of the Company *(Note 5)*
YU Guanghui	2,212,259	11,869,339	–	2,905,262	16,986,860	6.23
SONG Yonghong	1,661,398	13,399,268	–	2,227,367	17,288,033	6.35
REN Xuenong	1,100,963	–	–	1,156,144	2,257,107	0.83
LIAO Qian	72,676	–	5,070	330,274	408,020	0.15
LEONG Yue Wing	394,200	–	–	100,000	494,200	0.18
POON Chiu Kwok	20,000	–	–	100,000	120,000	0.04
LI Qi	20,000	–	–	100,000	120,000	0.04

Notes:

1. For the purpose of the SFO, as at 31 December 2019, 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, which were held by Vast Bright Investment Limited which was owned as to 100% by Mr. YU.

2. For the purpose of the SFO, as at 31 December 2019, other than the personal interests and the other interests as stated in the above table, Mr. SONG Yonghong ("Mr. SONG") was deemed to be interested in 13,399,268 shares held by Run Fu Holdings Limited, which was owned as to 100% by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) in which Mr. SONG held 37% effective interest.

REPORT OF THE DIRECTORS

3. These other interests are Awarded Shares which remained unvested as at 31 December 2019. Further details of the Award Scheme are set out in the paragraph headed "Restricted Share Award Scheme" under this section.

4. As at 31 December 2019, these equity derivatives were outstanding share options granted to the relevant directors under the Share Option Scheme on 30 December 2016, 22 September 2017 and 21 May 2018. Further details of the Share Option Scheme were set out in the paragraph headed "Share Option Scheme" under this section.

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 2019, being 272,459,165 Shares.

(B) Interests in Associated Corporations of the Company – Long Positions TCL Electronics Holdings Limited ("TCL Electronics")

Name of Director	Number of ordinary shares held Personal interests	Number of ordinary shares held Corporate interests	Other interests *(Note 6)*	Number of underlying shares held under equity derivatives *(Note 7)*	Total	Approximate percentage of the number of issued shares of TCL Electronics *(Note 8)*
LEONG Yue Wing	494,672	–	–	–	494,672	0.02
LIAO Qian	86,740	–	22,178	353,206	462,124	0.02

Notes:

6. These other interests are restricted shares granted to the relevant directors of the Company which remained unvested as at 31 December 2019 according to the restricted share award scheme of TCL Electronics.

7. As at 31 December 2019, these equity derivatives were outstanding share options granted to the relevant directors under the share option scheme adopted by TCL Electronics in accordance with Chapter 17 of the Listing Rules.

8. Such percentage was calculated based on the total number of issued shares of TCL Electronics as at 31 December 2019, being 2,363,224,646 shares in issue, disclosed on the website of the Hong Kong Stock Exchange.

REPORT OF THE DIRECTORS

Guangdong Regency

Directors	No of ordinary shares held Personal Interest	Family Interest	Other Interest	Number of shares held under equity derivatives	Total	Approximate percentage of issued share capital of Guangdong Regency (Note 9)
REN Xuenong	799,000	-	-	-	799,000	1.64%
SONG Yonghong	-	800,000	-	-	800,000	1.64%
YU Guanghui	1,600,000	-	-	-	1,600,000	3.29%

9. Such percentage was calculated based on the total number of shares of Guangdong Regency in which the relevant director 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 Guangdong Regency as at 31 December 2019 based on the information available to the Company.

Save as disclosed above, as at 31 December 2019, none of the directors and chief executive 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2019, the interests and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares 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	Approximate percentage of the number of issued shares of the Company
TCL Holdings	Interest of controlled corporation	175,452,239 *(Note 1)*	64.40 *(Note 2)*

Notes:

1. For the purpose of SFO, TCL Holdings was deemed to be interested in the 175,452,239 Shares through its controlled corporation, TCL Industries (its direct wholly-owned subsidiary).

2. Such percentage was calculated based on the issued share capital of the Company as at 31 December 2019, being 272,459,165 Shares in issue.

Save as disclosed above, as at 31 December 2019, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

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 2019 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; 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 under review:

	Number of share options												
Name or category of participant	At 1 January 2019	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Expired during the period	TOTAL Cancelled/ Lapsed/Expired during the period	At 31 December 2019	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 exercise of share options* *(HK$)*
Director													
Executive directors													
YU Guanghui	408,695	-	(408,695)	-	-	-	-	-	30/12/2016	4.050	Note 1	3.95	5.87
	401,870	-	-	-	-	-	-	401,870	22/09/2017	9.600	Note 2	9.60	
	3,428,558	-	-	(925,166)	-	-	(925,166)	2,503,392	21/05/2018	7.840	Note 3	7.84	
	4,239,123	-	(408,695)	(925,166)	-	-	(925,166)	2,905,262					
SONG Yonghong	328,665	-	(328,665)	-	-	-	-	-	30/12/2016	4.050	Note 1	3.95	5.87
	308,100	-	-	-	-	-	-	308,100	22/09/2017	9.600	Note 2	9.60	
	2,628,561	-	-	(709,294)	-	-	(709,294)	1,919,267	21/05/2018	7.840	Note 3	7.84	
	3,265,326	-	(328,665)	(709,294)	-	-	(709,294)	2,227,367					
REN Xuenong	303,478	-	(303,478)	-	-	-	-	-	30/12/2016	4.050	Note 1	3.95	5.87
	160,748	-	-	-	-	-	-	160,748	22/09/2017	9.600	Note 2	9.60	
	1,363,260	-	-	(367,864)	-	-	(367,864)	995,396	21/05/2018	7.840	Note 3	7.84	
	1,827,486	-	(303,478)	(367,864)	-	-	(367,864)	1,156,144					
Non-executive director													
LIAO Qian (Note 4)	347,649	-	(327,000)	-	-	-	-	20,649	30/12/2016	4.050	Note 1	3.95	5.94
	250,000	-	-	-	-	-	-	250,000	22/09/2017	9.600	Note 2	9.60	
	59,625	-	-	-	-	-	-	59,625	21/05/2018	7.840	Note 3	7.84	
	657,274	-	(327,000)	-	-	-	-	330,274					

REPORT OF THE DIRECTORS

Name or category of participant	Number of share options: At 1 January 2019	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Expired during the period	TOTAL Cancelled/ Lapsed/Expired during the period	At 31 December 2019	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 exercise of share options* (HK$)
Independent non-executive directors													
LEONG Yue Wing	300,000	-	(300,000)	-	-	-	-	-	30/12/2016	4.050	Note 1	3.95	5.88
	100,000	-	-	-	-	-	-	100,000	22/09/2017	9.600	Note 2	9.60	
	400,000	-	(300,000)	-	-	-	-	100,000					
POON Chiu Kwok	300,000	-	-	(300,000)	-	-	(300,000)	-	30/12/2016	4.050	Note 1	3.95	
	100,000	-	-	-	-	-	-	100,000	22/09/2017	9.600	Note 2	9.60	
	400,000	-	-	(300,000)	-	-	(300,000)	100,000					
LI Qi	300,000	-	-	(300,000)	-	-	(300,000)	-	30/12/2016	4.050	Note 1	3.95	
	100,000	-	-	-	-	-	-	100,000	22/09/2017	9.600	Note 2	9.60	
	400,000	-	-	(300,000)	-	-	(300,000)	100,000					
Sub-total	11,189,209	-	(1,667,838)	(2,602,324)	-	-	(2,602,324)	6,919,047					
Other employees who have contributed or may contribute to the Group	1,851,308	-	(1,811,360)	(38,000)	(977)	-	(38,977)	971	30/12/2016	4.050	Note 1	3.95	5.91
	7,921,007	-	-	-	(640,000)	-	(640,000)	7,281,007	22/09/2017	9.600	Note 2	9.60	
	11,832,122	-	-	(1,185,176)	(580,000)	-	(1,765,176)	10,066,946	21/05/2018	7.840	Note 3	7.84	
Sub-total	21,604,437	-	(1,811,360)	(1,223,176)	(1,220,977)	-	(2,444,153)	17,348,924					
Employees and officers of TCL Technology Group and TCL Holdings and/or their subsidiaries ("TCL Holdings Group") (Note 4)	1,650,516	-	(505,547)	(494,740)	(12,345)	-	(507,085)	637,884	30/12/2016	4.050	Note 1	3.95	5.90
	627,241	-	-	-	-	-	-	627,241	22/09/2017	9.600	Note 2	9.60	
	2,509,248	-	-	-	(96,190)	-	(96,190)	2,413,058	21/05/2018	7.840	Note 3	7.84	
Sub-total	4,787,005	-	(505,547)	(494,740)	(108,535)	-	(603,275)	3,678,183					
Total	37,580,651	-	(3,984,745)	(4,320,240)	(1,329,512)	-	(5,649,752)	27,946,154					

Notes:

(1) For share options granted to grantees in their capacity as employees and/or officers of the Group, 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 the share options granted to grantees in their capacity as employees and/or officers of the TCL Technology Group (excluding the employees and/or officers of the Group) and those of TCL Holdings Group (excluding the employees and/or officers of the 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.

REPORT OF THE DIRECTORS

(2) For the 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(s) of TCL Technology Group (excluding the employees and/or officers of the Group) and/or TCL Holdings Group, (excluding the employees and/or officers of the 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 (out of which the commencement date of the exercise period of the share options granted to the directors of the Company was extended to 15 November 2019) to 31 December 2020, subject to fulfilment of the relevant conditions for exercise of the Share Options.

For share options granted to the other employees and/or officers of the Group (so granted in such capacity (other than the directors and senior management of the Company)), the share options are exercisable commencing from 15 May 2018 to 31 December 2020, subject to fulfillment of the relevant conditions for exercise of the Share Options.

(3) For share options granted to the directors and senior management of the Company (so granted in such capacity), 13% of such share options are exercisable commencing from 15 May 2019, 30% are exercisable commencing from 15 May 2020, 37% are exercisable commencing from 15 May 2021, and the remaining 20% are exercisable commencing from 15 May 2022, all share options will expire on 15 May 2024.

For share options granted to the employees and/or officers of the Group (other than the directors and senior management of the Company), the share options are exercisable commencing from 15 May 2019 to 31 December 2020.

For the share options granted to the employees and/or officers of TCL Technology Group (excluding the employees and/or officers of the Group) and/or TCL Holdings Group, (excluding the employees and/or officers of the Group), approximately one-third of the share options granted are exercisable commencing from 15 June 2018 to 15 June 2024; another approximately one-third are exercisable commencing from 15 June 2019 (out of which the commencement date of the exercise period of share options carrying the rights to subscribe for 377,626 shares was extended to 15 November 2019) to 15 June 2024; and the remaining approximately one-third of the share options are exercisable commencing from 15 June 2020 to 15 June 2024.

(4) As at the date of the grant, the above grantees were all employers and/or officers of TCL Technology Group but some of them have subsequently become employees and/or officers of TCL Holdings Group.

* 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 of the Group, TCL Technology Group or TCL Holdings Group (as the case may be) during the period from 1 January 2019 to 31 December 2019.

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 were:–

(a) 27,946,154 and 26,862,375 shares respectively as at 31 December 2019, which represented about 10.26% and 9.86% respectively of the then issued share capital of the Company; and

(b) 9,431,730 and 26,862,375 shares respectively as at the date of this annual report, which represented about 3.45% and 9.84% respectively of the then issued share capital of the Company.

REPORT OF THE DIRECTORS

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 "Awarded Shares") held by the Trustee.

The grantees of the Awarded Shares are not entitled to any distribution the Company made in respect of the Awarded Shares. The Company may determine any vesting conditions for the Awarded Shares as it considers appropriate in its absolute discretion. Details of the Scheme are set out in the Company's announcements dated 28 August 2014 and 8 August 2017 and the Company's circular dated 12 September 2017. Information in relation to the Awarded Shares granted but not vested under the Scheme are as follows:

	Number of Awarded Shares							
Name or category of participant	At 1 January 2019	Granted during the period	Vested during the period	Cancelled/ lapsed/ deducted during the period	At 31 December 2019	Date of grant	Vesting date	Fair value per share on date of grant HK$
Executive directors								
YU Guanghui	250,896	–	(250,896)	–	–	08/08/2017	15/11/2019	9.80
	118,006	–	–	(118,006)	–	21/05/2018	15/05/2019	7.84
	118,006	–	–	(118,006)	–	21/05/2018	15/05/2020	7.84
	486,908	–	(250,896)	(236,012)	–			
SONG Yonghong	192,354	–	(192,354)	–	–	08/08/2017	15/11/2019	9.80
	90,471	–	–	(90,471)	–	21/05/2018	15/05/2019	7.84
	90,471	–	–	(90,471)	–	21/05/2018	15/05/2020	7.84
	373,296	–	(192,354)	(180,942)	–			
REN Xuenong	100,358	–	(100,358)	–	–	08/08/2017	15/11/2019	9.80
	46,922	–	–	(46,922)	–	21/05/2018	15/05/2019	7.84
	46,921	–	–	(46,921)	–	21/05/2018	15/05/2020	7.84
	194,201	–	(100,358)	(93,843)	–			
Non-executive director								
LIAO Qian	25,000	–	(25,000)	–	–	08/08/2017	15/11/2019	9.80
	5,070	–	(5,070)	–	–	21/05/2018	15/11/2019	7.84
	5,070	–	–	–	5,070	21/05/2018	15/06/2020	7.84
	35,140	–	(30,070)	–	5,070			

REPORT OF THE DIRECTORS

Name or category of participant	At 1 January 2019	Granted during the period	Vested during the period	Cancelled/ lapsed/ deducted during the period	At 31 December 2019	Date of grant	Vesting date	Fair value per share on date of grant HK$
	Number of Awarded Shares							
Independent non-executive directors								
LEONG Yue Wing	10,000	–	(10,000)	–	–	08/08/2017	15/11/2019	9.80
	10,000	–	(10,000)	–	–			
POON Chiu Kwok	10,000	–	(10,000)	–	–	08/08/2017	15/11/2019	9.80
	10,000	–	(10,000)	–	–			
LI Qi	10,000	–	(10,000)	–	–	08/08/2017	15/11/2019	9.80
	10,000	–	(10,000)	–	–			
Sub-total	1,119,545	–	(603,678)	(510,797)	5,070			
Other employees who have contributed or may contribute to the Group in aggregate	389,744	–	(379,373)	(10,371)	–	08/08/2017	15/05/2019	9.80
	1,745,000	–	(1,525,000)	(220,000)	–	08/08/2017	15/12/2019	9.80
	1,745,000	–	(180,000)	(220,000)	1,345,000	08/08/2017	15/05/2020	9.80
	427,501	–	–	(427,501)	–	21/05/2018	15/05/2019	7.84
	703,827	–	–	(440,126)	263,701	21/05/2018	15/05/2020	7.84
	276,318	–	–	(12,627)	263,691	21/05/2018	15/05/2021	7.84
Sub-total	5,287,390	–	(2,084,373)	(1,330,625)	1,872,392			
Employees and officers of TCL Technology Group and TCL Holdings Groups	211,060	–	(203,886)	(7,174)	–	21/05/2018	15/06/2019	7.84
	211,046	–	(4,263)	(10,324)	196,459	21/05/2018	15/06/2020	7.84
Sub-total	422,106	–	(208,149)	(17,498)	196,459			
Total	6,829,041	–	(2,896,200)	(1,858,920)	2,073,921			

As at 31 December 2019, 18,660,081 further Awarded Shares might be granted to the eligible participants of the Award Scheme, which represented about 6.8% of the total number of issued shares of the Company as at 31 December 2019.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transactions and continuing connected transactions with its connected persons including (i) TCL Technology, its subsidiaries and associates (as defined in the Listing Rules)(excluding the Group)(collectively, the "TCL Technology Associates Group"); and (ii) TCL Holdings, its subsidiaries and its associates (excluding the Group) (collectively, the "TCL Holdings Associates Group").

In the first quarter of 2019, restructuring involving certain then subsidiaries and associates of TCL Technology occurred, whereby TCL Technology spun off, among others, all its equity interests in TCL Industries, together with its equity interests in its various associates, to TCL Holdings. The spin-off by TCL Technology of all its ownership interest in, among others, TCL Industries to TCL Holdings had been completed by 31 March 2019. Notwithstanding that TCL Technology was no longer a holding company of TCL Industries, it remained a connected person of the Company by virtue of its interest in Guangdong Regency at that time. TCL Technology held over 50% equity interest in Huizhou Kaichuang Venture Capital Partnership (Limited Partnership)("Huizhou Kaichuang"), a limited partnership established in the PRC, which at that time in turn held 10% equity interest in Guangdong Regency, a subsidiary of the Company, hence TCL Technology was a substantial shareholder of a subsidiary of the Company and therefore a connected person at subsidiary level of the Company. However, on 20 June 2019, Guangdong Regency entered into the equity transfer agreement which provided that Guangdong Regency was to issue certain number of consideration shares to the Vendors (defined below) as part of the consideration for the acquisition of equity interest in the Target Company (defined below) upon completion, the details of which are disclosed in this section of this annual report. Completion of the said equity transfer and allotment of consideration shares took place in July 2019 and as a result the equity interest of Huizhou Kaichuang in Guangdong Regency was diluted from 10% to 7.81% and hence TCL Technology ceased to be a connected person of the Company and the transactions between the Group and TCL Technology Associates Group (including those disclosed below) ceased to be continuing connected transactions since then.

On 20 June 2019, Guangdong Regency, a subsidiary of the Company, entered into an equity transfer agreement with (i) Mr. Ling Gaode; (ii) Mr. Hu Qingde; and (iii) Mr. Deng Gaofeng (collectively the "Vendors") pursuant to which Guangdong Regency agreed to acquire from the Vendors 49% of the equity interest in Huizhou Nikko Optoelectronics Co., Ltd. (the "Target Company"), a company established in the PRC with limited liability, at an aggregate consideration of RMB32,590,000. The consideration was to be satisfied by Guangdong Regency by way of (i) the payment of a cash consideration of RMB7,000,000; and (ii) the allotment and issuance of the 10,680,000 consideration shares in Guangdong Regency to the Vendors at the issue price of RMB2.39 per consideration share. Completion took place on 10 July 2019, after which Guangdong Regency held 100% of the equity interest in the Target Company and therefore the Target Company became a wholly-owned subsidiary of Guangdong Regency, while Guangdong Regency remains a subsidiary of the Company. Please refer to the announcements of the Company published on the websites of The Stock Exchange of Hong Kong Limited and the Company on 20 June 2019 and 10 July 2019 for details.

REPORT OF THE DIRECTORS

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.73 of the Listing Rules) during the year ended 31 December 2019:

(a) Pursuant to the Master Rental (2019) Agreement dated 25 April 2019 entered into between the Company and TCL Industries, the terms of the agreement are all in substance substantially incorporated from or similar to those of the Master Lease (Tenant) (2018 Renewal) Agreement save for the change of contracting party and making it clear that the scope of rental is to cover all forms of making available the use of properties and/or vehicles. The term of the agreement was from 25 April 2019 to 31 December 2019. During the period from 1 April 2019 to 24 April 2019, the Group has conducted continuing connected transactions with TCL Industries, its subsidiaries and associates (excluding the Group) (collectively "TCL Industries Associates Group") for rental of property and/or vehicles which are de minimis transactions according to Rule 14A.76 of the Listing Rules. HK$11,287,000 was paid by the Group to TCL Industries Associates Group as rental fee for the transactions under the Master Rental (2019) Agreement and the de minimis transactions for the period from 1 April 2019 to 31 December 2019.

(b) Pursuant to the Master Sale and Purchase (2019) Agreement dated 25 April 2019 entered into between the Company and TCL Industries, the terms of the agreement are all in substance substantially incorporated from or similar to those of the Master Sale and Purchase (2018 Renewal) Agreement, save and except (i) for the change of contracting party; (ii) that the products that the Group may source from TCL Industries Associates Group cover those manufactured not only in the PRC but also outside the PRC; and (iii) that the products that the Group may sell to TCL Industries Associates Group and the products that the Group may source from TCL Industries Associates Group are expanded to cover not only parts and components and accessories but also finished goods. The term of the agreement was from 25 April 2019 to 31 December 2019. During the period from 1 April 2019 to 24 April 2019, the Group has conducted continuing connected transactions with TCL Industries Associates Group for sale and purchase of components, parts, accessories and finished goods which are de minimis transactions according to Rule 14A.76 of the Listing Rules. The Group (i) sold components, parts, accessories and finished goods to TCL Industries Associates Group amounting to HK$100,528,000; and (ii) sourced components, parts, accessories and finished goods from TCL Industries Associates Group amounting to HK$147,000 under the Master Sale and Purchase (2019) Agreement and the de minimis transactions for the period from 1 April 2019 to 31 December 2019.

REPORT OF THE DIRECTORS

(c) Pursuant to the Technology Support Services and Trade Names Licence (2018 Renewal) Agreement dated 18 October 2018 entered into between the Company and TCL Technology, TCL Technology 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 Technology Associates Group; and (ii) to use "TCL" trade name and other trade names from time to time used by TCL Technology Associates Group. The term of the agreement was from 1 January 2019 to 31 December 2021. During the year, HK$2,981,000 was paid by the Group to TCL Technology Associates Group as licence fee.

(d) Pursuant to the Master Overseas Materials Sourcing (2018 Renewal) Agreement dated 18 October 2018 entered into between the Company and TCL Technology. The term of the agreement was from 1 January 2019 to 31 December 2021. The Group (i) purchased overseas materials from TCL Technology Associates Group amounting to HK$272,634,000 (inclusive of administrative expenses paid); and (ii) sold overseas materials amounting to HK$271,977,000 to TCL Technology Associates Group during the year.

(e) Pursuant to the Master Financial Services (2018 Renewal) Agreement dated 18 October 2018 entered into among the Company, TCL Technology, TCL Finance Co., Ltd ("Finance Company", a non-wholly owned subsidiary of TCL Technology) and TCL Finance (Hong Kong) Co., Limited, the Company may from time to time utilise the financial services provided by the Finance Company including deposit services and other financial services. The term of the agreement was from 1 January 2019 to 31 December 2021. During the year ended 31 December 2019, (i) the maximum daily balance of deposits placed by the Group with Finance Company during the year was HK$480,003,000; (ii) the Group did not utilise any other financial services and hence no financial services charges were incurred; and (iii) the Group has not received any promotion fee.

The interest rates offered by Finance Company were not lower than the interest rate offered by other independent financial institutions during the year. Pursuant to the Master Financial Services (2018 Renewal) 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 Technology to repay the outstanding amount on behalf of Finance Company in full. There was no collateral provided by Finance Company for the deposits placed by the Group during the year.

REPORT OF THE DIRECTORS

(f) Pursuant to the Sourcing Agreement 2018 dated 15 January 2018 entered into between TCL Technoly Electronics (Huizhou) Co., Ltd. ("TCL Technoly Electronics"), a wholly-owned subsidiary of the Company and Dongguan Chensong Plastic Co., Ltd ("Donguan Chensong"), a wholly-owned subsidiary of Coxon Precise Industrial Co., Ltd. ("Coxon Precise", together with its subsidiaries be collectively referred to as "Coxon Precise Group"), a connected person of the Company at subsidiary level for being indirectly interested in a joint venture being a subsidiary of the Company, TCL Technoly Electronics may from time to time source components from Dongguan Chensong. The term of this agreement was from 15 January 2018 to 31 December 2020. During the year, HK$70,598,000 was paid by the Group to Coxon Precise Group for purchase of components.

(g) Pursuant to the Master Administrative Services Agreement dated 9 March 2018 entered into between (i) Guangdong Tonly Precise Component Co., Ltd ("Guangdong Tonly"), an indirect subsidiary of the Company, which is 70% and 30% indirectly owned by the Company and Coxon Precise respectively; and (ii) Dongguan Chengda Hardware Products Co., Ltd. ("Dongguan Chengda"), a wholly-owned subsidiary of Coxon Precise, Guangdong Tonly may from time to time engage Dongguan Chengda to provide administrative services. The term of this agreement was from 9 March 2018 to 31 December 2020. During the year, HK$5,367,000 was paid by the Group to Coxon Precise Group as administrative fee.

(h) Pursuant to the Master Lease (Tenant) (2018 Renewal) Agreement dated 18 October 2018 entered into between the Company and TCL Technology, the terms of the agreement are all in substance substantially incorporated from or similar to those of the Master Lease (Tenant) (2015 Renewal) Agreement. The term of the agreement was from 1 January 2019 to 31 December 2021. HK$6,615,000 was paid by the Group to TCL Technology Associates Group as rental fee during the year.

(i) Pursuant to the Master Sale and Purchase (2018) Agreement dated 18 October 2018 entered into between the Company and TCL Technology, the terms of the agreement are all in substance substantially incorporated from or similar to those of the Master Sale and Purchase (2015 Renewal) Agreement. The term of the agreement was from 1 January 2019 to 31 December 2021. The Group (i) sold components, parts and accessories to TCL Technology Associates Group amounting to HK$6,404,000; and (ii) sourced components and parts from TCL Technology Associates Group amounting to HK$2,000 during the year.

REPORT OF THE DIRECTORS

The Company has followed its pricing policies when determining the price and terms of the continuing connected transactions conducted during the year under review.

All the related parties transactions set out in note 33 to the financial statements (other than those conducted with TCL Technology and the then affiliates since TCL Technology ceased to become a connected person of the Company since 9 July 2019) 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.

REPORT OF THE DIRECTORS

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 27 to 55 in this annual report.

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 was no 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 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, save as disclosed below, at least 25% of the total issued Shares were held by the public (i.e. the prescribed public float applicable to the Company under the Listing Rules) during the Year.

As disclosed in the joint announcement issued by TCL Holdings, TCL Industries and the Company dated 27 December 2019 and the announcement of the Company dated 15 January 2020, immediately following the close of the mandatory conditional cash offers by TCL Industries which had become unconditional on 12 December 2019 (the "Mandatory General Offer"), 59,594,554 Shares were held by the public (within the meaning of the Listing Rules), representing approximately 21.90% of the total issued Shares as at the date of the joint announcement. Accordingly, the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules was not satisfied.

The Company has made an application to the Stock Exchange for, and the Stock Exchange has granted, a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period commencing from 28 December 2019 to 27 March 2020 to allow the public float of the Company to be restored. On 13 March 2020, the Board was notified by TCL Industries that TCL Industries has entered into a sale and purchase agreement with an investor (the "Public Investor"), pursuant to which TCL Industries has agreed to sell and the Public Investor has agreed to acquire an aggregate of 8,000,000 Shares, representing approximately 2.93% of the issued share capital of the Company (the "Share Transfer"). Completion of the Share Transfer has taken place on 20 March 2020 (the "Completion Date"). To the best of the knowledge, information and belief of the Company, having made all reasonable enquiries, the Public Investor and its beneficial owner are independent and not connected with the Company or any of its connected persons.

REPORT OF THE DIRECTORS

Immediately after completion of the Share Transfer, 68,545,322 Shares, representing approximately 25.10% of the issued share capital of the Company as at the Completion Date, would be held by the public. As such, the public float of the Company would be restored to not less than 25% of its issued share capital, being the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules. For details, please refer to the announcements of the Company published on 15 January 2020, 13 March 2020 and 20 March 2020.

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 2019 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 2019 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 28 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.

REPORT OF THE DIRECTORS

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 2019.

ON BEHALF OF THE BOARD

LIAO QIAN
Chairman

Hong Kong
24 March 2020

INDEPENDENT AUDITOR'S REPORT

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 90 to 215, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Derecognition of financial assets – Receivables 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 2019, factored trade receivables amounted to HK$407,644,000 and were fully derecognised from the consolidated 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Patent fees accruals	
As at 31 December 2019, accruals of HK$150,036,000 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 was 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Warranty provision	
As at 31 December 2019, a warranty provision of HK$232,543,000 was 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 the 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 26 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.

INDEPENDENT AUDITOR'S REPORT

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

* 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
24 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**8,146,641**	7,302,951
Cost of sales		**(7,051,162)**	(6,471,337)
Gross profit		**1,095,479**	831,614
Other income and gains, net	5	**148,209**	168,071
Selling and distribution costs		**(190,709)**	(149,755)
Administrative expenses		**(331,083)**	(279,834)
Research and development costs	7	**(370,351)**	(255,572)
Other operating expenses, net		**(17,250)**	(16,872)
		334,295	297,652
Finance costs	6	**(31,877)**	(20,705)
Share of profits and losses of an associate		**(320)**	5,361
PROFIT BEFORE TAX	7	**302,098**	282,308
Income tax expense	10	**(30,885)**	(61,149)
PROFIT FOR THE YEAR		**271,213**	221,159
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year		**1,919**	1,897
Reclassification adjustments for loss/(gains) included in profit or loss		**(11,127)**	8,309
Income tax effect		**(160)**	5,913
		(9,368)	16,119

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Exchange fluctuation reserve:			
Translation of foreign operations		**(31,706)**	(47,224)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(41,074)**	(31,105)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**230,139**	190,054
Profit/(loss) attributable to:			
Owners of the parent		**268,746**	223,135
Non-controlling interests		**2,467**	(1,976)
		271,213	221,159
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**228,593**	192,540
Non-controlling interests		**1,546**	(2,486)
		230,139	190,054
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK$1.03**	HK$0.87
Diluted		**HK$1.00**	HK$0.85

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,086,062**	818,212
Prepaid land lease payments	14(a)	**–**	66,305
Goodwill	15	**4,002**	4,091
Other intangible asset	16	**–**	65
Investment in an associate	17	**1,918**	–
Prepayments and other receivables	20	**82,937**	18,060
Deferred tax assets	27	**79,523**	79,296
Total non-current assets		**1,254,442**	986,029
CURRENT ASSETS			
Inventories	18	**1,248,668**	1,268,150
Trade and bills receivables	19	**2,154,029**	1,231,231
Prepayments, other receivables and other assets	20	**211,177**	399,833
Tax recoverable		**7,071**	4,695
Derivative financial instruments	21	**3,755**	65,489
Cash and cash equivalents	22	**739,193**	749,466
Total current assets		**4,363,893**	3,718,864
CURRENT LIABILITIES			
Trade and bills payables	23	**2,318,109**	1,860,556
Other payables and accruals	24	**854,785**	730,053
Tax payable		**90,990**	81,827
Derivative financial instruments	21	**1,000**	50,133
Interest-bearing bank borrowings	25	**69,377**	73,338
Provision	26	**232,543**	218,362
Total current liabilities		**3,566,804**	3,014,269
NET CURRENT ASSETS		**797,089**	704,595
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,051,531**	1,690,624

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**10,679**	15,350
Other payables	24	**24,238**	–
Interest-bearing bank borrowings	25	**165,336**	–
Total non-current liabilities		**200,253**	15,350
Net assets		**1,851,278**	1,675,274
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	**272,459**	268,474
Reserves	29	**1,515,925**	1,330,301
		1,788,384	1,598,775
Non-controlling interests		**62,894**	76,499
Total equity		**1,851,278**	1,675,274

LIAO Qian
Director

YU Guanghui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

		Attributable to owners of the parent													
	Notes	Share capital HK$'000	Share premium account HK$'000 (Notes 28,29(i))	Share option reserve HK$'000 (Note 29(ii))	Reserve funds HK$'000 (Note 29(iii))	Capital reserve HK$'000 (Note 29(iv))	Merger reserve HK$'000 (Note 29(v))	Cash flow hedge reserve HK$'000 (Note 29(vi))	Exchange fluctuation reserve HK$'000	Shares held for the Award Scheme HK$'000 (Note 28)	Awarded share reserve HK$'000 (Note 29 (vii))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		268,192	456,434	12,281	95,620	(77,223)	(6,059)	29,906	18,489	(28,529)	14,813	706,760	1,490,684	-	1,490,684
Profit for the year		-	-	-	-	-	-	-	-	-	-	223,135	223,135	(1,976)	221,159
Other comprehensive income for the year:															
Cash flow hedges, net of tax		-	-	-	-	-	-	16,119	-	-	-	-	16,119	-	16,119
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(46,714)	-	-	-	(46,714)	(510)	(47,224)
Total comprehensive income for the year		-	-	-	-	-	-	16,119	(46,714)	-	-	223,135	192,540	(2,486)	190,054
Step Acquisition	31	-	-	-	-	-	-	-	-	-	-	-	-	71,564	71,564
Contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	-	7,421	7,421
Transfer of cash flow hedge reserve to inventories		-	-	-	-	-	-	(44,273)	-	-	-	-	(44,273)	-	(44,273)
Equity-settled share option arrangements		-	-	27,691	-	-	-	-	-	-	-	-	27,691	-	27,691
Issue of shares upon exercise of share options		282	1,098	(237)	-	-	-	-	-	-	-	-	1,143	-	1,143
Share options lapsed during the year		-	-	(1,934)	-	-	-	-	-	-	-	553	(1,381)	-	(1,381)
Share options cancelled during the year		-	-	(1,293)	-	-	-	-	-	-	-	948	(345)	-	(345)
Awarded shares lapsed during the year		-	-	-	-	-	-	-	-	-	(3,174)	-	(3,174)	-	(3,174)
Purchase of shares for the Award Scheme	28	-	-	-	-	-	-	-	-	(7,988)	-	-	(7,988)	-	(7,988)
Vesting of shares under the Award Scheme		-	-	-	-	-	-	-	-	10,351	(10,795)	-	(444)	-	(444)
Employee share-based compensation benefits under the Award Scheme		-	-	-	-	-	-	-	-	-	35,798	-	35,798	-	35,798
Final 2017 dividend declared		-	-	-	-	-	-	-	-	-	-	(91,476)	(91,476)	-	(91,476)
Transfer from retained profits		-	-	-	2,059	-	-	-	-	-	-	(2,059)	-	-	-
At 31 December 2018		268,474	457,532	36,508	97,679	(77,223)	(6,059)	1,752	(28,225)	(26,166)	36,642	837,861	1,598,775	76,499	1,675,274
At 1 January 2019		**268,474**	**457,532**	**36,508**	**97,679**	**(77,223)**	**(6,059)**	**1,752**	**(28,225)**	**(26,166)**	**36,642**	**837,861**	**1,598,775**	**76,499**	**1,675,274**
Profit for the year		-	-	-	-	-	-	-	-	-	-	**268,746**	**268,746**	**2,467**	**271,213**
Other comprehensive income for the year:															
Cash flow hedges, net of tax		-	-	-	-	-	-	**(9,368)**	-	-	-	-	**(9,368)**	-	**(9,368)**
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	**(30,785)**	-	-	-	**(30,785)**	**(921)**	**(31,706)**
Total comprehensive income for the year		-	-	-	-	-	-	**(9,368)**	**(30,785)**	-	-	**268,746**	**228,593**	**1,546**	**230,139**
Acquisition of non-controlling interests		-	-	-	-	**(5,018)**	-	-	-	-	-	-	**(5,018)**	**(11,154)**	**(16,172)**
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	-	**(3,997)**	**(3,997)**
Transfer of cash flow hedge reserve to inventories		-	-	-	-	-	-	**9,229**	-	-	-	-	**9,229**	-	**9,229**
Equity-settled share option arrangements		-	-	**13,333**	-	-	-	-	-	-	-	-	**13,333**	-	**13,333**
Issue of shares upon exercise of share options		**3,985**	**14,967**	**(2,814)**	-	-	-	-	-	-	-	-	**16,138**	-	**16,138**
Share options lapsed during the year		-	-	**(2,537)**	-	-	-	-	-	-	-	**1,675**	**(862)**	-	**(862)**
Share options cancelled during the year		-	-	**(5,726)**	-	**1,174**	-	-	-	-	-	**2,025**	**(2,527)**	-	**(2,527)**
Awarded shares lapsed during the year		-	-	-	-	-	-	-	-	-	**(4,557)**	-	**(4,557)**	-	**(4,557)**
Awarded shares cancelled during the year		-	-	-	-	-	-	-	-	-	**(8,190)**	**1,555**	**(6,635)**	-	**(6,635)**
Purchase of shares for the Award Scheme	28	-	-	-	-	-	-	-	-	**(2,174)**	-	-	**(2,174)**	-	**(2,174)**
Vesting of shares under the Award Scheme		-	-	-	-	-	-	-	-	**10,569**	**(10,589)**	-	**(20)**	-	**(20)**
Employee share-based compensation benefits under the Award Scheme		-	-	-	-	-	-	-	-	-	**22,484**	-	**22,484**	-	**22,484**
Final 2018 dividend declared		-	-	-	-	-	-	-	-	-	-	**(78,375)**	**(78,375)**	-	**(78,375)**
Transfer from retained profits		-	-	-	**17,468**	-	-	-	-	-	-	**(17,468)**	-	-	-
At 31 December 2019		**272,459**	**472,499***	**38,764***	**115,147***	**(81,067)***	**(6,059)***	**1,613***	**(59,010)***	**(17,771)***	**35,790***	**1,016,019***	**1,788,384**	**62,894**	**1,851,278**

* These reserve accounts comprise the consolidated reserves of HK$1,515,925,000 (2018: HK$1,330,301,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	**2019 HK$'000**	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**302,098**	282,308
Adjustments for:			
Finance costs	6	**31,877**	20,705
Share of profits and losses of associates		**320**	(5,361)
Interest income	5	**(8,298)**	(9,588)
Gain on disposal of a subsidiary	5	**-**	(29)
Loss on remeasurement of pre-existing interest in Guangdong Regency to acquisition date fair value	7	**-**	6,875
Gain on bargain purchase from Step Acquisition	5	**-**	(7,913)
Loss/(gain) on disposal of items of property, plant and equipment	7	**3,727**	(178)
Loss on write-off of items of property, plant and equipment	7	**7,601**	620
Write-off of damaged inventories	7	**-**	10,066
Ineffectiveness of cash flow hedges	7	**(439)**	(497)
Fair value loss on derivative financial instruments, net – transactions not qualifying as hedges	7	**13,378**	38,146
Depreciation of property, plant and equipment	7	**118,593**	94,350
Depreciation of right-of-use assets/recognition of prepaid land lease payments	7	**22,330**	1,423
Amortisation of other intangible asset	7	**65**	130
Impairment of trade receivables, net	7	**7,644**	732
Impairment/(reversal of impairment) of financial assets, net	7	**(5,106)**	5,129
Equity-settled share option expense	7	**15,641**	25,320
Employee share-based compensation benefits under the Award Scheme	7	**18,599**	30,020
		528,030	492,258
Increase in inventories		**(8,191)**	(357,285)
Decrease/(increase) in trade and bills receivables		**(941,031)**	73,180
Decrease/(increase) in prepayments, other receivables and other assets		**110,380**	(112,948)
Increase in trade and bills payables		**495,315**	383,487
(Decrease)/increase in other payables and accruals		**107,326**	(57,351)
(Decrease)/increase in provision		**19,261**	(1,993)
Cash generated from operations		**311,090**	419,348
Interest paid		**(31,308)**	(20,705)
Hong Kong profits tax paid		**-**	(11,661)
Overseas taxes paid		**(28,679)**	(81,283)
Net cash flows from operating activities		**251,103**	305,699

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	**2019 HK$'000**	2018 HK$'000
Net cash flows from operating activities		**251,103**	305,699
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**8,298**	9,588
Purchases of items of property, plant and equipment		**(320,541)**	(383,105)
Step Acquisition	31	**-**	1,762
Investment in an associate		**(2,238)**	–
Proceeds from disposal of items of property, plant and equipment		**16,352**	15,739
Net cash flows used in investing activities		**(298,129)**	(356,016)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from non-controlling shareholders		**-**	7,421
New bank loans		**239,066**	65,264
Repayment of bank loans		**(73,069)**	(355)
Acquisition of non-controlling interests		**(16,172)**	–
Principal portion of lease payments		**(33,272)**	–
Purchase of shares for the Award Scheme	28	**(2,174)**	(7,988)
Proceeds from issue of shares upon exercise of share options	28	**16,138**	1,143
Dividends paid		**(78,375)**	(91,476)
Dividends paid to non-controlling shareholders		**(3,997)**	–
Net cash flows from/(used in) financing activities		**48,145**	(25,991)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,119**	(76,308)
Cash and cash equivalents at beginning of year		**749,466**	849,787
Effect of foreign exchange rate changes, net		**(11,392)**	(24,013)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**739,193**	749,466
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**739,193**	749,466

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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 related components and the rendering of research and development services.

In the opinion of the Directors, T.C.L. Industries Holdings (H.K.) Limited ("TCL Industries"), a company incorporated in Hong Kong, is the immediate holding company of the Company; and the ultimate holding company of the Company before 31 March 2019 was TCL Technology Group Corporation ("TCL Technology") (formerly known as TCL Corporation), which is registered in the People's Republic of China (the "PRC").

On 31 March 2019, TCL Technology completed the transfer of the entire equity interest in, among others, TCL Industries to TCL Industries Holdings Co., Ltd. ("TCL Holdings"), a company established in the PRC with limited liability. Subsequently, TCL Industries further acquired 44,711,069 shares of the Company, representing approximately 16.43% of the then entire issued share capital of the Company in the Mandatory General Offer. Immediately after the close of the Mandatory General Offer, TCL Industries' shareholding in the Company increased to approximately 64.48% of the then entire issued share capital of the Company and TCL Industries remained as the immediate holding company of the Company.

In the opinion of the directors, as at 31 December 2019:

(a) TCL Industries remained as the immediate holding company of the Company;

(b) TCL Holdings has become the ultimate holding company of the Company; and

(c) as the major shareholders of TCL Holdings are the key management of TCL Technology, TCL Technology remained a related party of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tonly International Limited	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
Pully Technology Limited	Hong Kong	US$5,000,000	–	100	Investment holding
Tonly Electronics Sales Limited	Hong Kong	HK$2	–	100	Trading of audio-visual products and components
Tonly Electronics Technology (HK) Limited	Hong Kong	HK$50,000,000	–	100	Trading of audio-visual products and components
Tonly Intelligent Technology Limited	Hong Kong	HK$10,000	–	100	Trading of audio-visual products and components
Guangdong Regency Optics-electron Co., Ltd. ^/# (廣東瑞捷光電股份有限公司) ("Guangdong Regency")	PRC/ Mainland China	RMB48,680,000	–	51.83	Manufacture and sale of diffuser

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangxi Tonly Electronic Technology Co., Ltd. ^/# (廣西通力電子科技有限公司)	PRC/ Mainland China	RMB50,000,000	–	100	Manufacture and sale of audio-visual products and components
Guangdong Tonly Precision Structures Co., Ltd. ^/# (廣東通力精密結構件有限公司) ("Guangdong Tonly")	PRC/ Mainland China	RMB20,000,000	–	70	Manufacture and sale of audio-visual products and components
Huizhou Nikko Optoelectronics Co., Ltd. ^/# (惠州尼日科光電有限公司) ("Huizhou Nikko")	PRC/ Mainland China	RMB30,000,000	–	51.83	Manufacture and sale of optical film
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
Huizhou Tonly Audio Video Electronics Co., Ltd. */# (惠州通力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
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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
TCL Technoly Electronics (Huizhou) Co., Ltd.*/# (TCL 通力電子(惠州)有限公司)	PRC/ Mainland China	RMB161,500,000	–	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
Pully Electronics Technology Vietnam Co., Ltd.	Vietnam	US$4,000,000	–	100	Manufacture and sale of audio-visual products and components
Tonly Electronics Technology Vietnam Co., Ltd.	Vietnam	US$7,000,000	–	100	Manufacture and sale 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

^ Registered as a limited liability company under PRC law

* Registered as a wholly-foreign-owned enterprise under PRC law

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.1 BASIS OF PREPARATION (CONTINUED)

BASIS OF CONSOLIDATION (CONTINUED)

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

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

NOTES TO FINANCIAL STATEMENTS

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and impact of the new and revised HKFRSs are described below:

(A) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

New definition of a lease

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(A) (CONTINUED)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impacts on transition

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

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets included in "property, plant and equipment" in the consolidated statement of financial position.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(A) (CONTINUED)

Financial impact at 1 January 2019

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

	HK$'000
Assets	
Increase in right-of-use assets included in property, plant & equipment	99,987
Decrease in prepaid land lease payments	(66,305)
Decrease in prepayments, other receivables and other assets	(1,712)
Increase in total assets	31,970
Liabilities	
Increase in other payables and accruals	31,970

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

	HK$'000
Operating lease commitments as at 31 December 2018	59,304
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(19,224)
	40,080
Weighted average incremental borrowing rate as at 1 January 2019	4.6%
Discounted operating lease commitments as at 1 January 2019	33,191
Lease liabilities as at 1 January 2019	33,191

NOTES TO FINANCIAL STATEMENTS

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(B) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The amendments did not have any impact on the financial position or performance of the Group.

(C) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

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2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

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

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

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

NOTES TO FINANCIAL STATEMENTS

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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 statement of profit or loss and 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT (CONTINUED)

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

An assessment is made at the end of 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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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:

Owned assets

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

Right-of-use assets

Leasehold land	Over the lease terms
Buildings	Over the lease terms

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

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.

LEASES (APPLICABLE FROM 1 JANUARY 2019)

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

Group as a lessee

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES (APPLICABLE FROM 1 JANUARY 2019) (CONTINUED)

Group as a lessee (continued)

(a) Right-of-use assets

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

(b) Lease liabilities

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

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

The Group's lease liabilities are included in other payables and accruals.

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

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

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31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES (APPLICABLE BEFORE 1 JANUARY 2019)

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.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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)

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS (CONTINUED)

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

General approach

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

General approach (continued)

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

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

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, interest-bearing bank borrowings and derivative financial instruments.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES (CONTINUED)

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Initial recognition and subsequent measurement (continued)

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, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.

- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instruments is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

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

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

TREASURY SHARES

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Group provides for warranties in relation to the sale of certain audio-visual products during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries 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 each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

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.

REVENUE RECOGNITION

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Revenue from contracts with customers (continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Manufacture and sale of audio-visual products

Revenue from the sale of audio-visual products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the audio-visual products.

Some contracts for the sale of audio-visual products provide customers with rights of return. The rights of return and volume rebates give rise to variable consideration.

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(b) Provision of research and development services

Revenue from the provision of research and development services is recognised upon the transfer of the research and development outcome to the customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Other Income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

CONTRACT LIABILITIES

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

RIGHT-OF-RETURN ASSETS

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

REFUND LIABILITIES

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENTS

The Company operates a share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees 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 28 to the financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENTS (CONTINUED)

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

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

The dilutive effect of outstanding 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries 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 profits or losses are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

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

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

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 2019, 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$407,644,000 (2018: HK$921,886,000) are fully derecognised. Further details are given in note 19 to the financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

(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 26 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.

NOTES TO FINANCIAL STATEMENTS

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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 and related components. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2019	2018
	HK$'000	HK$'000
United States	**1,683,232**	1,040,702
Japan	**1,465,730**	1,726,094
Europe	**1,509,207**	2,168,578
PRC	**2,720,721**	2,045,749
Korea	**242,048**	249,701
Others	**525,703**	72,127
	8,146,641	7,302,951

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019	2018
	HK$'000	HK$'000
PRC	**1,088,700**	906,599
Vietnam	**62,508**	–
Hong Kong	**982**	134
	1,152,190	906,733

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (CONTINUED)

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:

	2019	2018
	HK$'000	HK$'000
Customer A	**3,448,947**	2,815,284
Customer B	**1,375,749**	1,634,206
Customer C	**970,348**	1,102,149

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of the Group's revenue is as follows:

	2019	2018
	HK$'000	HK$'000
Revenue from contracts with customers		
Sale of goods	**8,085,496**	7,268,745
Rendering of services	**61,145**	34,206
	8,146,641	7,302,951

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS, NET (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregated revenue information

Type of goods or services	2019 HK$'000	2018 HK$'000
Sale of goods	8,085,496	7,268,745
Research and development services	61,145	34,206
Total revenue from contracts with customers	8,146,641	7,302,951
Geographical markets		
United States	1,683,232	1,040,702
Japan	1,465,730	1,726,094
Europe	1,509,207	2,168,578
PRC	2,720,721	2,045,749
Korea	242,048	249,701
Others	525,703	72,127
Total revenue from contracts with customers	8,146,641	7,302,951
Timing of revenue recognition		
Goods or services transferred at a point in time	8,146,641	7,302,951
Total revenue from contracts with customers	8,146,641	7,302,951

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS, NET (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019	2018
	HK$'000	HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**96,911**	55,327
Research and development services	**53,856**	32,415
	150,767	87,742

(ii) Performance obligations

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

Sale of audio-visual products and related components

The performance obligation is satisfied upon delivery of the audio-visual products and related components and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return which give rise to variable consideration subject to constraint.

Research and development services

The performance obligation is satisfied upon delivery of research and development outcome to the customers. Payment is generally due upon completion of delivery of research and development outcome to the customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS, NET (CONTINUED)

	Note	2019 HK$'000	2018 HK$'000
Other income			
Interest income		**8,298**	9,588
Government grants*		**27,420**	20,657
Value-added tax refund		**37,080**	35,225
Insurance compensation		**-**	27,089
Certification fee income		**13,130**	8,870
Others		**62,281**	58,522
		148,209	159,951
Gains, net			
Gain on bargain purchase from Step Acquisition	31	**-**	7,913
Gain on disposal of items of property, plant and equipment		**-**	178
Gain on disposal of a subsidiary		**-**	29
		-	8,120
		148,209	168,071

* 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank loans	**11,413**	296
Interest on a finance lease	**–**	13
Interest on factored trade receivables	**17,928**	20,396
Interest on lease liabilities	**2,536**	–
	31,877	20,705

7. PROFIT BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories sold*		**7,018,350**	6,436,898
Cost of services rendered*		**32,812**	24,373
Depreciation of property, plant and equipment	13	**118,593**	94,350
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	13, 14(a)	**22,330**	1,423
Lease payments not included in the measurement of lease liabilities	24	**26,306**	–
Amortisation of other intangible asset	16	**65**	130
Research and development costs			
– current year expenditure		**370,351**	255,572
Fair value loss on derivative financial instruments, net – transactions not qualifying as hedges		**13,378**	38,146
Ineffectiveness of cash flow hedges**		**(439)**	(497)
Minimum lease payments under operating leases		**–**	51,695
Auditor's remuneration		**2,580**	2,480
Transaction costs incurred for the Step Acquisition		**–**	214
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		**1,117,720**	951,435
Equity-settled share option expense		**15,641**	25,320
Employee share-based compensation benefits under the Award Scheme		**18,599**	30,020
Defined contribution expense		**64,366**	60,075
		1,216,326	1,066,850

NOTES TO FINANCIAL STATEMENTS

31 December 2019

7. PROFIT BEFORE TAX (CONTINUED)

	Notes	2019 HK$'000	2018 HK$'000
Impairment of financial assets, net			
Impairment of trade receivables**	19	**7,644**	732
Impairment/(reversal of impairment) of financial assets included in prepayments, other receivables and other assets**		**(5,106)**	5,129
		2,538	5,861
Product warranty provision:			
Additional provision	26	**93,310**	39,687
Reversal of unutilised provision	26	**(64,434)**	(30,533)
		28,876	9,154
Loss/(gain) on disposal of items of property, plant and equipment**		**3,727**	(178)
Loss on write-off of items of property, plant and equipment**		**7,601**	620
Loss on re-measurement of pre-existing interest in Guangdong Regency to acquisition date fair value**	31	**-**	6,875
Write-off of damaged inventories*		**-**	10,066
Provision on obsoleted inventories		**3,823**	4,593
Reversal of compensation and other losses on the fire accident**		**-**	(1,077)

* 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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:

	2019 **HK$'000**	2018 HK$'000
Fees	**720**	720
Other emoluments:		
Salaries, allowances and benefits in kind	**3,728**	3,740
Discretionary performance-related bonuses	**1,344**	1,663
Equity-settled Award Scheme expense	**5,947**	8,513
Equity-settled share option benefits	**2,941**	6,363
Pension scheme contributions	**254**	429
	14,214	20,708
	14,934	21,428

During the 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 28 to the financial statements. The fair values 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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
2019				
Mr. POON Chiu Kwok	**240**	**20**	**11**	**271**
Mr. LI Qi	**240**	**20**	**11**	**271**
Mr. LEONG Yue Wing	**240**	**20**	**11**	**271**
	720	**60**	**33**	**813**

	Fees HK$'000	Equity-settled Award Scheme expense HK$'000	Equity-settled share option benefits HK$'000	Total remuneration HK$'000
2018				
Mr. POON Chiu Kwok	240	107	100	447
Mr. LI Qi	240	107	100	447
Mr. LEONG Yue Wing	240	107	100	447
	720	321	300	1,341

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

The remuneration paid to executive directors and non-executive director 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
2019						
Executive directors:						
Mr. YU Guanghui	1,578	584	1,308	2,800	91	6,361
Mr. SONG Yonghong	1,331	470	1,003	1,971	82	4,857
Mr. REN Xuenong	819	290	521	1,113	81	2,824
	3,728	1,344	2,832	5,884	254	14,042
Non-executive director:						
Mr. LIAO Qian	-	-	49	30	-	79
	-	-	49	30	-	79
	3,728	1,344	2,881	5,914	254	14,121

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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
2018						
Executive directors:						
Mr. YU Guanghui	1,535	717	3,654	2,647	170	8,723
Mr. SONG Yonghong	1,309	588	2,802	2,121	132	6,952
Mr. REN Xuenong	896	358	1,460	1,054	127	3,895
	3,740	1,663	7,916	5,822	429	19,570
Non-executive director:						
Mr. LIAO Qian	–	–	276	241	–	517
	–	–	276	241	–	517
	3,740	1,663	8,192	6,063	429	20,087

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

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2018: three), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2018: two) non-director, highest paid employees for the year are as follows:

	2019	2018
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,684**	1,644
Discretionary performance-related bonuses	**695**	766
Equity-settled Award Scheme expense	**1,071**	3,079
Equity-settled share option benefits	**1,158**	1,642
Pension scheme contributions	**163**	258
	4,771	7,389

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

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

During the 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 28 to the financial statements. The fair values 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 employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rate regime effective from the year of assessment 2018/19. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2019	2018
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**5,733**	13,730
Overprovision in prior years	**(202)**	–
Current – Elsewhere		
Charge for the year	**34,625**	57,136
Overprovision in prior years	**(2,836)**	(11,379)
Deferred (note 27)	**(6,435)**	1,662
Total tax charge for the year	**30,885**	61,149

Certain subsidiaries of the Group in the PRC were designated as "High and New Technology Enterprises" and accordingly could enjoy a preferential Corporate Income Tax rate of 15%.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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:

	2019 HK$'000	2018 HK$'000
Profit before tax	**302,098**	282,308
Tax at the statutory/applicable tax rates of different countries/jurisdictions	**76,316**	74,632
Lower tax rates for specific provinces or enacted by local authorities	**(32,156)**	(28,469)
Adjustments in respect of current tax of previous periods	**(3,038)**	(11,379)
Government tax incentives	**(20,516)**	(15,157)
Effect of withholding tax at 5% on the distributable profits of the Group's subsidiaries	**(4,512)**	16,928
Income not subject to tax	**(2,387)**	(3,570)
Expenses not deductible for tax	**13,238**	32,167
Tax losses not recognised	**4,321**	1,094
Tax losses utilised from previous periods	**(429)**	(4,278)
Profits and losses attributable to an associate	**48**	(819)
Tax charge at the Group's effective tax rate	**30,885**	61,149

No tax attributable to an associate is shared by the Group for the year ended 31 December 2019. The share of tax attributable to associates amounting to HK$2,913,000 is included in "Share of profits and losses of associates" in the profit or loss for the year ended 31 December 2018.

11. DIVIDENDS

	2019 HK$'000	2018 HK$'000
Proposed final dividend HK$0.35 (2018: HK$0.30) per ordinary share	**95,361**	80,542

NOTES TO FINANCIAL STATEMENTS

31 December 2019

11. DIVIDENDS (CONTINUED)

The amount of proposed final dividend above was calculated based on the number of issued shares of the Company as at 31 December 2019 and 2018 respectively.

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:

	2019	2018
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**268,746**	223,135

	Number of shares	
	2019	2018
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	**261,906,906**	255,768,203
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	**1,558,021**	2,611,221
Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the year	**4,761,461**	5,332,850
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**268,226,388**	263,712,274

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets			Owned assets							
	Leasehold land HK$'000	Buildings HK$'000	Total HK$'000	Buildings HK$'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	Total HK$'000
31 December 2019											
At 1 January 2019 (as originally presented)											
Cost	-	-	-	323,988	232,233	375,795	105,909	7,208	135,299	1,180,432	1,180,432
Accumulated depreciation	-	-	-	(56,504)	(131,487)	(107,668)	(64,148)	(2,413)	-	(362,220)	(362,220)
Net carrying amount	-	-	-	267,484	100,746	268,127	41,761	4,795	135,299	818,212	818,212
Effect of adoption of HKFRS 16 (Note 14)	67,677	32,310	99,987	-	-	-	-	-	-	-	99,987
At 1 January 2019 (restated)	67,677	32,310	99,987	267,484	100,746	268,127	41,761	4,795	135,299	818,212	918,199
Additions	28,593	42,976	71,569	-	104,451	78,009	31,963	406	77,119	291,948	363,517
Disposals	-	-	-	-	(1,597)	(14,740)	(3,427)	(315)	-	(20,079)	(20,079)
Depreciation provided during the year	(1,489)	(20,841)	(22,330)	(21,174)	(44,503)	(34,607)	(17,076)	(1,233)	-	(118,593)	(140,923)
Write-off/modification	-	(3,937)	(3,937)	-	(7,601)	-	-	-	-	(7,601)	(11,538)
Transfer	-	-	-	210,804	-	-	-	-	(210,804)	-	-
Exchange realignment	(1.554)	(1,019)	(2,573)	(9,288)	(3,122)	(6,434)	(1,115)	(80)	(502)	(20,541)	(23,114)
At 31 December 2019, net of accumulated depreciation	93,227	49,489	142,716	447,826	148,374	290,355	52,106	3,573	1,112	943,346	1,086,062
At 31 December 2019:											
Cost	94,541	69,958	164,499	523,884	318,505	399,105	126,447	6,960	1,112	1,376,013	1,540,512
Accumulated depreciation	(1,314)	(20,469)	(21,783)	(76,058)	(170,131)	(108,750)	(74,341)	(3,387)	-	(432,667)	(454,450)
Net carrying amount	93,227	49,489	142,716	447,826	148,374	290,355	52,106	3,573	1,112	943,346	1,086,062

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Owned assets						
	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 2018							
At 1 January 2018:							
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
At 1 January 2018, net of accumulated depreciation	296,607	70,882	157,876	29,401	2,754	5,472	562,992
Additions	–	65,659	150,152	29,252	3,139	134,903	383,105
Step Acquisition (note 31)	–	4,883	12,385	642	395	–	18,305
Disposals	–	(2)	(13,699)	(1,840)	(20)	–	(15,561)
Depreciation provided during the year	(15,960)	(37,961)	(25,276)	(13,867)	(1,286)	–	(94,350)
Write-off	–	(352)	(264)	(4)	–	–	(620)
Exchange realignment	(13,163)	(2,363)	(13,047)	(1,823)	(187)	(5,076)	(35,659)
At 31 December 2018, net of accumulated depreciation	267,484	100,746	268,127	41,761	4,795	135,299	818,212
At 31 December 2018:							
Cost	323,988	232,233	375,795	105,909	7,208	135,299	1,180,432
Accumulated depreciation	(56,504)	(131,487)	(107,668)	(64,148)	(2,413)	–	(362,220)
Net carrying amount	267,484	100,746	268,127	41,761	4,795	135,299	818,212

Note: As at 31 December 2019, certain leasehold land and buildings under construction in progress of the Group situated in Vietnam, with an aggregate carrying amount of HK$29,481,000 (2018: Nil), did not have the land certificates registered under the name of the respective subsidiaries of the Group. Moreover, the land transfer procedures of the land on which the relevant buildings under constructions have not been completed.

In the opinion of the directors, the risk of the Group not being able to obtain the legal titles for the relevant leasehold land is low and the Group will continue to complete the ownership registration of the land and buildings under construction in progress.

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14. LEASES

The Group has lease contracts for various items of leasehold land and buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owner. The lease terms for the leasehold land are negotiated on an individual basis and contain a wide range of different terms and conditions.

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

	2018 HK$'000
Carrying amount at 1 January 2018	72,346
Recognised in profit or loss during the year	(1,423)
Exchange realignment	(3,246)
Carrying amount at 31 December 2018	67,677
Current portion included in prepayments, other receivables and other assets (note 20)	(1,372)
Non-current portion	66,305

(B) Right-of-use assets

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

	Leasehold land HK$'000	**Buildings** HK$'000	**Total** HK$'000
As at 1 January 2019	67,677	32,310	99,987
Additions	28,593	42,976	71,569
Depreciation charge	(1,489)	(20,841)	(22,330)
Lease modification	–	(3,937)	(3,937)
Exchange realignment	(1,554)	(1,019)	(2,573)
As at 31 December 2019	93,227	49,489	142,716

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15. GOODWILL

	HK$'000
Cost and net carrying amount at 1 January 2018	4,290
Exchange realignment	(199)
Net carrying amount at 31 December 2018 and 1 January 2019	4,091
Exchange realignment	(89)
Net carrying amount at 31 December 2019	4,002
At 31 December 2019:	
Cost	4,002
Accumulated impairment	–
Net carrying amount	4,002

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 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% (2018: 19%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3% (2018: 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.

NOTES TO FINANCIAL STATEMENTS

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16. OTHER INTANGIBLE ASSET

	Customer relationships HK$'000
Cost at 1 January 2018, net of accumulated amortisation	196
Amortisation provided during the year	(130)
Exchange realignment	(1)
Cost at 31 December 2018 and 1 January 2019, net of accumulated amortisation	65
Amortisation provided during the year	(65)
At 31 December 2019	–

17. INVESTMENT IN AN ASSOCIATE

	2019 **HK$'000**	2018 HK$'000
Share of net assets	**1,918**	–

SUMMARISED FINANCIAL INFORMATION OF AN ASSOCIATE

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

	2019 **HK$'000**	2018 HK$'000
Share of the associates' profit/(loss) for the year (note)	**(320)**	5,361
Aggregate carrying amount of the Group's investment in the associate	**1,918**	–

Note: On 30 November 2018, the Group completed the acquisition of an additional 30.08% equity interest in Guangdong Regency (the "Step Acquisition"). As a result, the Group's interest in Guangdong Regency increased from approximately 26.32% to approximately 56.40% and Guangdong Regency became a subsidiary of the Company. Further details of this transaction are set out in note 31 to the financial statements.

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18. INVENTORIES

	2019 **HK$'000**	2018 HK$'000
Raw materials	**324,113**	442,949
Work in progress	**119,323**	195,610
Finished goods	**805,232**	629,591
	1,248,668	1,268,150

19. TRADE AND BILLS RECEIVABLES

	2019 **HK$'000**	2018 HK$'000
Trade receivables:		
Due from third parties	**1,693,449**	1,135,926
Provision for impairment	**(20,674)**	(13,114)
	1,672,775	1,122,812
Due from TCL Holdings and its affiliates (note)	**56,043**	–
Due from TCL Technology and its affiliates (note)	**415,684**	84,224
	2,144,502	1,207,036
Bills receivable	**9,527**	24,195
	2,154,029	1,231,231

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 a 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.

NOTES TO FINANCIAL STATEMENTS

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19. TRADE AND BILLS RECEIVABLES (CONTINUED)

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 ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 HK$'000	2018 HK$'000
Current to 90 days	**1,808,769**	961,586
91 to 180 days	**249,388**	128,570
181 to 365 days	**54,890**	66,335
Over 365 days	**31,455**	50,545
	2,144,502	1,207,036

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

	2019 HK$'000	2018 HK$'000
At beginning of year	**13,114**	12,900
Impairment loss, net	**7,644**	732
Exchange realignment	**(84)**	(518)
At end of year	**20,674**	13,114

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19. TRADE AND BILLS RECEIVABLES (CONTINUED)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

		Past due				
	Current	**Less than 90 days**	**90 to 180 days**	**181 to 365 days**	**Over 365 days**	**Total**
Expected credit loss rate	**0.17%**	**0.55%**	**1.57%**	**4.46%**	**64.14%**	**0.95%**
Gross carrying amount (HK$'000)	**1,647,046**	**269,443**	**195,409**	**34,905**	**18.373**	**2,165,176**
Expected credit losses (HK$'000)	**2,774**	**1,493**	**3,064**	**1,558**	**11,785**	**20,674**

As at 31 December 2018

		Past due				
	Current	Less than 90 days	90 to 180 days	181 to 365 days	Over 365 days	Total
Expected credit loss rate	0.22%	1.15%	1.29%	3.33%	61.92%	1.07%
Gross carrying amount (HK$'000)	1,166,667	27,571	3,019	6,778	16,115	1,220,150
Expected credit losses (HK$'000)	2,553	318	39	226	9,978	13,114

A subsidiary of the Group has entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. As at 31 December 2019, trade receivables factored to banks aggregated to HK$407,644,000 (2018: HK$921,886,000), all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

NOTES TO FINANCIAL STATEMENTS

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20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 HK$'000	2018 HK$'000
Prepayments	**67,282**	100,912
Deposits and other receivables (note (b))	**217,674**	307,403
Right-of-return assets	**4,256**	7,730
Prepaid land lease payments (note 14(a))	**-**	1,372
Due from related parties:		
TCL Holdings and its affiliates (note (a))	**2,362**	–
TCL Technology and its affiliates (note (a))	**2,540**	5,605
	294,114	423,022
Impairment allowance	**-**	(5,129)
	294,114	417,893
Less: Prepayments and other receivables classified as non-current assets	**(82,937)**	(18,060)
	211,177	399,833

Notes:

(a) The amounts are unsecured, repayable on demand and interest-free.

(b) Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2018 was 1.7%. There were no significant expected credit losses exposures for the balances as at 31 December 2019.

NOTES TO FINANCIAL STATEMENTS

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21. DERIVATIVE FINANCIAL INSTRUMENTS

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
	HK$'000	HK$'000	HK$'000	HK$'000
Forward currency contracts	3,755	1,000	45,308	43,978
Options contracts	-	-	20,181	6,155
	3,755	1,000	65,489	50,133

CASH FLOW HEDGE – FOREIGN CURRENCY RISK

Foreign currency forward contracts are designated as hedging instruments in cash flow hedges of forecast sales in USD and forecast purchases in RMB. These forecast transactions are highly probable, and they comprise about 37% of the Group's total expected sales in USD and about 12% of its total expected purchases in RMB. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the foreign exchange forward contracts are identical to the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the forecasted sales and purchases and the hedging instruments

- Different interest rate curves applied to discount the hedged items and hedging instruments

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21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CASH FLOW HEDGE – FOREIGN CURRENCY RISK (CONTINUED)

- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items

- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

The Group holds the following foreign exchange forward contracts:

	Maturity					
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	Total
As at 31 December 2019						
Foreign currency forward contracts (highly probable forecast sales)						
Notional amount (in HK$'000)	–	77,866	–	–	–	77,866
Average forward rate (RMB/USD)	–	6.9212	–	–	–	
Foreign currency forward contracts (highly probable forecast purchases)						
Notional amount (in HK$'000)	661,861	77,866	–	–	–	739,727
Average forward rate (USD/RMB)	6.9832	6.9320	–	–	–	
As at 31 December 2018						
Foreign currency forward contracts (highly probable forecast sales)						
Notional amount (in HK$'000)	34,233	34,233	22,822	–	–	91,288
Average forward rate (RMB/USD)	6.7323	6.7257	6.8304			
Foreign currency forward contracts (highly probable forecast purchases)						
Notional amount (in HK$'000)	1,041,603	234,948	924,129	274,106	–	2,474,786
Average forward rate (USD/RMB)	6.8357	6.7700	6.8433	7.0075		

NOTES TO FINANCIAL STATEMENTS

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21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount HK$'000	Carrying amount HK$'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year HK$'000
As at 31 December 2019				
Foreign currency forward contracts	77,866	(552)	Derivative financial instruments (liabilities)	(552)
Foreign currency forward contracts	739,727	2,438	Derivative financial instruments (assets)	2,438
As at 31 December 2018				
Foreign currency forward contracts	91,288	(21,280)	Derivative financial instruments (liabilities)	(21,280)
Foreign currency forward contracts	2,474,786	22,320	Derivative financial instruments (assets)	22,320

The impacts of the hedged items on the statement of financial position are as follows:

	Change in fair value used for measuring hedge ineffectiveness for the year HK$'000	Cash flow hedge reserve HK$'000
As at 31 December 2019		
Highly probable forecast sales	697	589
Highly probable forecast purchases	1,226	1,024
	1,923	1,613
As at 31 December 2018		
Highly probable forecast sales	11,134	9,458
Highly probable forecast purchases	(9,229)	(7,706)
	1,905	1,752

NOTES TO FINANCIAL STATEMENTS

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21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

	Total hedging gain/(loss) recognised in other comprehensive income					Amount reclassified from other comprehensive income to profit or loss			
	Gross amount HK$'000	Tax effect HK$'000	Total HK$'000	Hedge ineffectiveness recognised in profit or loss HK$'000	Line item in profit or loss	Gross amount HK$'000	Tax effect HK$'000	Total HK$'000	Line item (gross amount) in profit or loss HK$'000
Year ended 31 December 2019									
Highly probable forecast sales	693	(104)	589	(37)	Other operating expenses, net	(11,127)	1,669	(9,458)	Revenue
Highly probable forecast purchases	1,226	(202)	1,024	476	Other operating expenses, net	-	-	-	N/A
Year ended 31 December 2018									
Highly probable forecast sales	11,126	(1,668)	9,458	(39)	Other operating expenses, net	8,309	(1,246)	7,063	Revenue
Highly probable forecast purchases	(9,229)	1,523	(7,706)	536	Other operating expenses, net	-	-	-	N/A

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. Losses on changes in the fair value of non-hedging currency derivatives amounting to HK$13,378,000 (2018: HK$38,146,000) 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.

NOTES TO FINANCIAL STATEMENTS

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22. CASH AND CASH EQUIVALENTS

	2019	2018
	HK$'000	HK$'000
Cash and bank balances	**739,193**	749,466

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$356,308,000 (2018: HK$370,286,000). RMB is not freely convertible into other currencies, however, under the 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.

As at 31 December 2018, included in the Group's cash and bank balances were deposits of HK$396,516,000 placed with a subsidiary of TCL Technology, a financial institution approved by the People's Bank of China. The interest rates for these deposits ranged from 0.01% to 1.62% 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 Technology are set out in note 33 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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23. TRADE AND BILLS PAYABLES

	2019 HK$'000	2018 HK$'000
Due to third parties	**1,834,747**	1,756,302
Due to TCL Holdings and its affiliates	**151**	–
Due to TCL Technology and its affiliates	**467,031**	85,381
Due to Coxon Industry (Changshu) Co., Ltd. and its affiliates	**16,180**	17,161
Trade payables	**2,318,109**	1,858,844
Bills payable	**–**	1,712
	2,318,109	1,860,556

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

	2019 HK$'000	2018 HK$'000
Current to 90 days	**1,945,464**	1,726,307
91 to 180 days	**322,379**	45,583
181 to 365 days	**47,158**	83,699
Over 365 days	**3,108**	3,255
	2,318,109	1,858,844

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

	Notes	2019 HK$'000	2018 HK$'000
Other payables	(a)	**385,085**	241,742
Patent fees accruals		**150,036**	182,667
Accruals		**259,745**	135,207
Lease liabilities	(b)	**37,656**	–
Contract liabilities	(c)	**37,410**	150,767
Refund liabilities		**4,913**	9,413
Due to related parties:			
TCL Holdings and its affiliates	(d)	**2,656**	–
TCL Technology and its affiliates	(d)	**–**	10,257
Coxon Industry (Changshu) Co., Ltd and its affiliates	(d)	**1,522**	–
Total other payables and accruals		**879,023**	730,053
Less: Other payables classified as non-current liabilities		**(24,238)**	–
Current liabilities portion		**854,785**	730,053

Notes:

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

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

	Lease liabilities HK$'000
Carrying amount at 1 January 2019	33,191
New leases	42,976
Accretion of interest recognised during the year	2,536
Payments	(35,239)
Modification	(5,005)
Exchange realignment	(803)
Carrying amount at 31 December 2019	37,656

The maturity analysis of lease liabilities is disclosed in note 37 to the financial statements.

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24. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Notes: (continued)

(b) (continued)

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

	2019 HK$'000
Interest on lease liabilities	2,536
Depreciation charge of right-of-use assets	22,330
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, administrative expenses and research and development costs)	26,306
Total amount recognised in profit or loss	51,172

The total cash outflow for leases is disclosed in note 34(c) to the financial statements.

(c) Details of contract liabilities as at 31 December 2019 and 2018 are as follows:

	2019 HK$'000	2018 HK$'000
Short-term advances received from customers		
Sale of goods	22,211	96,911
Research and development services	15,199	53,856
Total contract liabilities	37,410	150,767

Contract liabilities include short-term advances received to deliver audio-visual products. The decrease in contract liabilities in 2019 was mainly due to the decrease in short-term advances received from customers in relation to the sale of goods at the end of the year.

(d) The amounts are unsecured, interest-free and repayable on demand.

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25. INTEREST-BEARING BANK BORROWINGS

		2019			2018		
	Note	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current							
Bank loans – unsecured		4.75	2020	173	6.96 – 7.39	2019	4,872
Bank loan – secured	(a)	3.47-4.28	2020	69,204	4.55	2019	68,466
				69,377			73,338
Non-current							
Bank loans – unsecured		4.75	2021	138	N/A	N/A	–
Bank loans – secured	(a)	4.23-4.28	2021-2024	165,198	N/A	N/A	–
				165,336			–
				234,713			73,338
Analysed into:							
Bank loans repayable:							
Within one year or on demand				69,377			73,338
In the second year				2,371			–
In the third to fifth years, inclusive				162,965			–
				234,713			73,338

Notes:

(a) The Group's bank borrowings are secured by

(i) an export invoice amounting to US$15,000,000 (equivalent to HK$116,799,000) (2018: US$12,000,000 (equivalent to HK$93,979,000));

(ii) a guarantee from TCL Holdings of up to RMB150,000,000 (equivalent to HK$167,430,000) as at the end of the reporting period (2018: Nil); and

(iii) a guarantee from TCL Technology of up to RMB60,000,000 (equivalent to HK$66,972,000) as at the end of the reporting period (2018: Nil).

(b) All bank borrowings are denominated in RMB.

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26. PROVISION

WARRANTIES

	2019 HK$'000	2018 HK$'000
At 1 January	**218,362**	240,931
Additional provision	**93,310**	39,687
Amounts utilised during the year	**(9,615)**	(11,147)
Reversal of unutilised amounts	**(64,434)**	(30,533)
Exchange realignment	**(5,080)**	(20,576)
At 31 December	**232,543**	218,362

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

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27. DEFERRED TAX

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

DEFERRED TAX LIABILITIES

	Note	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 2018		8	10,354	7,305	17,667
Deferred tax charged to profit or loss during the year		208	4,435	–	4,643
Step Acquisition	31	346	–	–	346
Deferred tax charged to other comprehensive income during the year		–	–	(5,636)	(5,636)
Exchange realignment		–	(60)	–	(60)
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019		562	14,729	1,669	16,960
Deferred tax credited to profit or loss during the year		(571)	(3,831)	–	(4,402)
Deferred tax credited to other comprehensive income during the year		–	–	(1,363)	(1,363)
Exchange realignment		9	(220)	(1)	(212)
Gross deferred tax liabilities at 31 December 2019		–	10,678	305	10,983

NOTES TO FINANCIAL STATEMENTS

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27. 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	Loss available for offsetting against future taxable profits HK$'000	Impairment of financial assets HK$'000	Accruals and other provisions HK$'000	Cash flow hedges HK$'000	Total HK$'000
Gross deferred tax assets at 1 January 2018		22	39	–	509	80,266	1,246	82,082
Step Acquisition	31	–	–	–	–	132	–	132
Deferred tax (charged)/credited to profit or loss during the year		72	67	3,588	179	(925)	–	2,981
Deferred tax credited to other comprehensive income during the year		–	–	–	–	–	277	277
Exchange realignment		–	–	–	–	(4,566)	–	(4,566)
Gross deferred tax assets at 31 December 2018 and 1 January 2019		94	106	3,588	688	74,907	1,523	80,906
Deferred tax (charged)/credited to profit or loss during the year		224	202	(3,588)	161	5,034	–	2,033
Deferred tax charged to other comprehensive income during the year		–	–	–	–	–	(1,523)	(1,523)
Exchange realignment		(1)	(12)	–	(52)	(1,524)	–	(1,589)
Gross deferred tax assets at 31 December 2019		317	296	–	797	78,417	–	79,827

NOTES TO FINANCIAL STATEMENTS

31 December 2019

27. DEFERRED TAX (CONTINUED)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes.

	2019	2018
	HK$'000	HK$'000
Net deferred tax assets recognised in the consolidated statement of financial statement	**79,523**	79,296
Net deferred tax liabilities recognised in the consolidated statement of financial statement	**(10,679)**	(15,350)
At 31 December	**68,844**	63,946

The Group has tax losses of HK$22,935,000 (2018: HK$7,842,000) 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 totalled to HK$195,341,000 (2018: HK$270,600,000) as at 31 December 2019.

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

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28. SHARE CAPITAL

SHARES

	2019 HK$'000	2018 HK$'000
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
272,459,165 (2018: 268,474,420) shares of HK$1.00 each	**272,459**	268,474

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

	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000 (Note 29(i))	Total HK$'000
At 31 December 2018 and 1 January 2019	268,474,420	268,474	457,532	726,006
Issue of shares upon exercise of share options (Note)	3,984,745	3,985	14,967	18,952
At 31 December 2019	272,459,165	272,459	472,499	744,958

Note:

The subscription rights attaching to 3,984,745 share options were exercised at the subscription price of HK$4.05 per share, resulting in the issue of 3,984,745 shares for a total cash consideration, before expenses, of approximately HK$16,138,000. An amount of HK$2,814,000 was transferred from the share option reserve to share premium upon the exercise of share options.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

On 2 October 2019, TCL Industries (the "Offeror") announced the Mandatory General Offer would be made to, among others, cancel all vested but outstanding share options at the see-through prices in the range of HK$0.0001 to HK$1.84 in cash for each share option with exercise prices in the range of HK$4.05 to HK$9.6 (the "Option Offer"). The holders of the share options are entitled to sell the share options in full within 14 days after the Mandatory General Offer becomes or is declared unconditional. The Mandatory General Offer has become unconditional on 12 December 2019.

As of 27 December 2019, the Offeror received valid acceptance in respect of 1,132,740 share options. These share options were cancelled after the settlement of the Option Offer.

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

	2019		2018	
	Weighted average exercise price per share HK$	Number of options '000	Weighted average exercise price per share HK$	Number of options '000
At 1 January	7.72	37,581	7.62	17,532
Granted during the year	N/A	-	7.84	22,167
Lapsed during the year	8.65	(1,330)	8.15	(1,112)
Cancelled during the year	6.85	(4,320)	9.60	(724)
Exercised during the year	4.05	(3,985)	4.05	(282)
At 31 December	8.34	27,946	7.72	37,581

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2019 was HK$4.05 per share (2018: HK$4.05 per share).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

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

2019

Number of options '000	Exercise price* per share HK$	Exercise period
659	**4.05**	**Note 1**
9,329	**9.60**	**Note 2**
17,958	**7.84**	**Note 3**
27,946		

2018

Number of options '000	Exercise price* per share HK$	Exercise period
5,790	4.05	Note 1
9,969	9.60	Note 2
21,822	7.84	Note 3
37,581		

* 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

Note 1: For share options granted to grantees in their capacity as employees and/or officers of the Group, 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 and/or officers of TCL Technology and/or its subsidiaries ("TCL Technology Group") (excluding the employees and/or officers of the Group) and/or TCL Holdings and/or its subsidiaries ("TCL Holdings Group") (excluding the employees and/or officers of the 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 2: 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(s) of TCL Technology Group (excluding the employees and/or officers of the Group) and/or TCL Holdings Group (excluding the employees and/or officers of the 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 (out of which the commencement date of the exercise period of the share options granted to the directors of the Company was extended to 15 November 2019) to 31 December 2020, subject to fulfilment of the relevant conditions for exercise of the share options.

For share options granted to the other employees and/or officers of the Group (so granted in such capacity (other than the directors and senior management of the Company)), the share options are exercisable commencing from 15 May 2018 to 31 December 2020, 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), 13% of such share options are exercisable commencing from 15 May 2019, 30% are exercisable commencing from 15 May 2020, 37% are exercisable commencing from 15 May 2021 and the remaining 20% are exercisable commencing from 15 May 2022, all share options will expire on 15 May 2024.

For share options granted to employees and/or officers of the Group (other than the directors and senior management of the Company), the share options are exercisable commencing from 15 May 2019 to 31 December 2020.

For share options granted to employees and/or officers of TCL Technology Group (excluding the employees and/or officers of the Group) and/or TCL Holdings Group (excluding the employees and/or officers of the Group), approximately one-third of the share options granted are exercisable commencing from 15 June 2018 to 15 June 2024; another approximately one-third are exercisable commencing from 15 June 2019 (out of which the commencement date of exercise period of share options carrying the rights to subscribe for 377,626 shares was extended to 15 November 2019) to 15 June 2024; and the remaining approximately one-third of the share options are exercisable commencing from 15 June 2020 to 15 June 2024.

Note 4: As at the date of the grant, the above grantees were all employers and/or officers of TCL Technology Group but some of them have subsequently become employees and/or officers of TCL Holdings Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

The fair value of share options granted during the year ended 31 December 2018 was HK$41,410,000 (HK$1.868 each), of which the Group recognised a share option expense of HK$13,278,000 during the year ended 31 December 2018.

During the year ended 31 December 2019, the Group also recognised a share options expense of HK$15,641,000 (2018: HK$12,042,000) and other payables of HK$438,000 (2018: other receivables of HK$645,000) in respect of the share options granted to the employees and/or officers of the Group and employees of TCL Technology Group, respectively, in the prior years.

The fair value of equity-settled share options granted during the year ended 31 December 2018 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2018
Dividend yield (%)	2.60
Historical volatility (%)	36.804 – 39.960
Risk-free interest rate (%)	2.212 – 2.883
Expected life of options (year)	1 – 5

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 27,946,154 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 27,946,154 additional ordinary shares of the Company and additional share capital of HK$27,946,000 and share premium account of HK$257,519,000 (before issue expenses), respectively.

At the date of approval of these financial statements, the Company had 9,431,730 share options outstanding under the Scheme, which represented approximately 3.45% of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. 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 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 2017 and 7 September 2017, the Award Scheme was further amended and approved by the Board.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. 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 related distribution derived from the relevant Awarded Shares referable to those 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 a 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;

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. 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 shares 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 disclosed in the Company's announcements dated 28 August 2014 and 8 August 2017 and the Company's circular dated 12 September 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME (CONTINUED)

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

	Notes	**2019 Number of Awarded Shares '000**	2018 Number of Awarded Shares '000
At 1 January			
Number of Awarded Shares held by the Trustee		**7,407**	9,742
Number of Awarded Shares granted but not yet vested		**6,829**	7,893
Maximum number of Awarded Shares available for grant		**18,148**	20,528
At 31 December			
Number of Awarded Shares held by the Trustee		**4,876**	7,407
Number of Awarded Shares granted but not yet vested		**2,074**	6,829
Maximum number of Awarded Shares available for grant*		**18,660**	18,148
Granted during the year	(a)	**–**	2,618
Lapsed during the year		**512**	273
Cancelled during the year		**1,341**	–
Vested during the year	(a)	**2,896**	3,347
Purchased during the year	(b)	**365**	1,012
Individual income tax paid on behalf of the Selected Employees and Selected Persons during the year	(c)	**6**	62

Notes:

(a) For the year ended 31 December 2018, a total of 1,950,587 Awarded Shares were granted to the Selected Persons who are employees and/or officers of the Group and 667,015 Awarded Shares were granted to the Selected Persons who are employees of TCL Technology. The fair value of the Awarded Shares granted to the Selected Employees was HK$15,293,000 (HK$7.84 per share) and the fair value of the Awarded Shares granted to the Selected Persons who are employees of TCL Technology on the date of grant was HK$5,230,000 (HK$7.84 per share), of which the Group recognised employee share-based compensation benefits under the Awarded Share expense of HK$6,023,000 in respect of the Awarded Shares granted to the Selected Employees and recognised other receivables of HK$2,216,000.

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31 December 2019

28. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME (CONTINUED)

Notes: (continued)

(a) (continued)

For the year ended 31 December 2019, the Group recognised employee share-based compensation benefits under the Award Scheme of HK$18,599,000 (2018: HK$23,997,000) in respect of the Awarded Shares granted to Selected Employees in prior years and recognised other receivables of HK$1,451,000 (2018: HK$388,000) in respect of the Awarded Shares granted to Selected Persons of TCL Technology.

(b) For the year ended 31 December 2019, the Trustee purchased 365,000 (2018: 1,012,000) Awarded Shares at a total cost (including related transaction costs) of approximately HK$2,174,000 (2018: HK$7,988,000).

(c) For the year ended 31 December 2019, tax has been paid by the Group on behalf of certain Selected Persons whose rights were vested in the Awarded Shares and 6,015 Awarded Shares (2018: 62,174) 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 2017 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. 2,617,602 Awarded Shares have been granted thereafter up to 31 December 2019 and the date of approval of these financial statements.

Therefore, the maximum number of Awarded Shares available for grant is equal to the said 10% scheme limit less those Awarded Shares conditionally granted on 8 August 2017 and on 21 May 2018 plus those lapsed Awarded Shares out of the Awarded Shares granted after 8 August 2017.

NOTES TO FINANCIAL STATEMENTS

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29. 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 Companies 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.

(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 the then controlling shareholder.

(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 the then controlling shareholder for the acquisition of a subsidiary pursuant to the reorganisation in 2013.

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31 December 2019

29. RESERVES (CONTINUED)

(VI) CASH FLOW HEDGE RESERVE

The cash flow hedge reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

(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.

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

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

	2019	2018
Percentage of equity interest held by non-controlling interests:		
Guangdong Regency and its subsidiary (note) (collectively, the "Guangdong Regency Group")	**48.2%**	43.6%
Guangdong Tonly	**30.0%**	30.0%

	2019 **HK$'000**	2018 HK$'000
Profit/(loss) for the year allocated to non-controlling interests		
Guangdong Regency Group	**7,492**	(165)
Guangdong Tonly	**(5,025)**	(1,811)
Accumulated balances of non-controlling interest at the reporting date:		
Guangdong Regency Group	**62,838**	71,398
Guangdong Tonly	**56**	5,101

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Note: On 20 June 2019, Guangdong Regency entered into an agreement with three individuals to acquire the remaining 49% equity interest of Huizhou Nikko at an aggregate consideration of RMB32,590,000 (equivalent to HK$37,042,000). The consideration was satisfied by way of (i) cash consideration of RMB7,000,000 (equivalent to HK$7,956,000) and (ii) 10,680,000 new shares of Guangdong Regency issued at a price of RMB2.39 per share. The transaction was completed on 10 July 2019 and Huizhou Nikko became a wholly-owned subsidiary of Guangdong Regency since then. The Group's interest in Guangdong Regency was then diluted from approximately 56.39% to approximately 44.02% and Guangdong Regency remained as a subsidiary of the Company by virtue of an acting-in-concert agreement entered into between TCL Technoly Electronics and Huizhou Kaichuang Venture Capital Partnership (Limited Partnership) ("Huizhou Kaichuang") on 6 June 2019. Further details of this transaction are set out in the Company's announcements dated 20 June 2019 and 10 July 2019.

On 30 September 2019, the Group acquired an additional 7.81% of equity interests in Guangdong Regency from Huizhou Kaichuang at a cash consideration of RMB7,410,000 (equivalent to HK$8,215,000), and the Group's equity interests in Guangdong Regency increased from 44.02% to 51.83%.

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2019	Guangdong Regency HK$'000	Guangdong Tonly HK$'000
Revenue	411,511	16,411
Total expenses	(392,047)	(33,162)
Profit/(loss) for the year	19,464	(16,751)
Total comprehensive income/(loss) for the year	19,464	(16,751)
Current assets	303,156	1,799
Non-current assets	28,195	-
Current liabilities	200,900	1,614
Net cash flows used in operating activities	20,200	123
Net cash flows from/(used in) investing activities	(14,856)	11
Net cash flows used in financing activities	(996)	-
Effect of foreign exchange rate changes, net	81	2
Net increase in cash and cash equivalents	4,429	136

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

2018	Guangdong Regency HK$'000	Guangdong Tonly HK$'000
Revenue	23,338	61,091
Total expenses	(22,717)	(67,126)
Profit/(loss) for the year	621	(6,035)
Total comprehensive income/(loss) for the year	621	(6,035)
Current assets	215,126	42,566
Non-current assets	24,064	16,198
Current liabilities	104,725	41,761
Net cash flows from/(used in) operating activities	1,385	(3,776)
Net cash flows used in investing activities	(2,543)	(18,137)
Net cash flows from/(used in) financing activities	(3,792)	23,668
Effect of foreign exchange rate changes, net	169	(64)
Net increase/(decrease) in cash and cash equivalents	(4,781)	1,691

NOTES TO FINANCIAL STATEMENTS

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31. BUSINESS COMBINATION

On 9 November 2018, the Group entered into a share transfer agreement (the "Agreement") with Mr. Weng Xiaoyu to acquire an additional 30.08% equity interest in Guangdong Regency, the then associate of the Group, at a consideration of RMB29,040,000 (equivalent to HK$32,751,000) and the Group's interest in Guangdong Regency increased from approximately 26.32% to approximately 56.40%, and Guangdong Regency became a subsidiary of the Group (the "Step Acquisition"). The Step Acquisition was completed on 30 November 2018 (the "Completion Date") and the results of the Guangdong Regency Group have been consolidated into the Group's consolidated financial statements commencing from the Completion Date.

The Group accordingly remeasured the fair value of its pre-existing interest in Guangdong Regency at the Completion Date and recognised a loss of HK$6,875,000 on the remeasurement of the Group's pre-existing interest in Guangdong Regency to acquisition date fair value.

Details of the carrying value and fair value of the Group's pre-existing interest in Guangdong Regency at the Completion Date are summarised as follows:

	HK$'000
Share of net assets	28,910
Less: Fair value of pre-existing interest	(22,035)
Loss on re-measurement	6,875

NOTES TO FINANCIAL STATEMENTS

31 December 2019

31. BUSINESS COMBINATION (CONTINUED)

The aggregate fair values of the identifiable assets and liabilities of the Guangdong Regency Group as at the Completion Date are as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	13	18,305
Deferred tax assets	27	132
Inventories		57,986
Trade and bills receivables		113,005
Prepayments, other receivables and other assets		33,289
Cash and cash equivalents		9,927
Trade and bills payables		(63,514)
Other payables and accruals		(24,196)
Deferred tax liabilities	27	(346)
Tax payable		(1,896)
Interest-bearing bank borrowings	34(b)	(8,429)
Total identifiable net assets at fair value		134,263
Non-controlling interests		(71,564)
Gain on bargain purchase		(7,913)
		54,786
Satisfied by:		
Cash		8,165
Other payables		24,586
Fair value of pre-existing interest in Guangdong Regency at the date of acquisition		22,035
		54,786

NOTES TO FINANCIAL STATEMENTS

31 December 2019

31. BUSINESS COMBINATION (CONTINUED)

The fair value of trade and bills receivables as at the date of acquisition amounted to HK$113,005,000. The gross contractual amount of trade receivables was HK$113,373,000.

The Group incurred transaction costs of HK$214,000 for the Step Acquisition. These transaction costs were expensed off and are included in administrative expense in the consolidated statement of profit or loss and other comprehensive income.

An analysis of the cash flows in respect of the Step Acquisition is as follows:

	HK$'000
Total cash consideration	(32,751)
Consideration payable included in other payables	24,586
	(8,165)
Cash and bank balances acquired	9,927
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,762
Transaction costs of the acquisition included in cash flows from operating activities	(214)
	1,548

Since the completion of the Step Acquisition on the Completion Date, the Guangdong Regency Group contributed revenue of HK$23,338,000 and contributed a gain of HK$622,000 included in the consolidated profit for the year ended 31 December 2018.

Had the Step Acquisition taken place at the beginning of the year ended 31 December 2018, the revenue of the Group and the profit of the Group for the year ended 31 December 2018 would have been HK$7,628,709,000 and HK$248,099,000, respectively.

NOTES TO FINANCIAL STATEMENTS

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32. COMMITMENTS

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

	2019 **HK$'000**	2018 HK$'000
Contracted, but not provided for:		
Buildings	**49,039**	48,070
Plant and machinery	**7,518**	–
Capital contributions payable to an associate	**2,232**	–
	58,789	48,070

(B) OPERATING LEASE COMMITMENTS AS AT 31 DECEMBER 2018

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

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000
Within one year	29,939
In the second to fifth years, inclusive	29,365
	59,304

NOTES TO FINANCIAL STATEMENTS

31 December 2019

33. 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	2019 HK$'000	2018 HK$'000
TCL Technology and the then affiliates:			
Sales of raw materials*	(i)	**659,812**	306,022
Sales of finished goods*	(ii)	**6,404**	3,905
Purchases of raw materials*	(iii)	**666,785**	305,840
Rental expense*	(iv)	**5,393**	20,763
Interest income	(v)	**1,085**	6,062
Technology support services and trade name licence fee*	(vi)	**5,419**	558
Licence fee on usage of premises*	(vii)	**–**	298
Management service fee*	(viii)	**–**	786
Addition of right-of-use assets*		**10,320**	–
Depreciation of right-of-use assets		**1,486**	–
Interest on lease liabilities		**150**	–
TCL Holdings and the affiliates:			
Sales of finished goods#	(ii)	**100,528**	–
Purchases of raw materials#	(iii)	**147**	–
Rental expense#	(iv)	**8,403**	–
Interest income	(v)	**183**	–
Depreciation of right-of-use assets		**2,767**	–
Interest on lease liabilities		**324**	–
A non-controlling shareholder of a subsidiary:			
Purchases of raw materials^	(iii)	**70,598**	50,918
Administrative service fee^	(ix)	**5,367**	10,023

NOTES TO FINANCIAL STATEMENTS

31 December 2019

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(A) (CONTINUED)

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% (2018: 0.01% to 1.62%) per annum, which were determined with reference to the savings rates offered by the People's Bank of China.

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

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

(viii) The management fee was determined after arm's length negotiations between the parties thereto and on normal commercial terms.

(ix) The administrative fee was determined with reference to the quotations for the same or similar administrative services from certain independent third party suppliers.

* All the above transactions up to 9 July 2019 also constitute connected transactions or continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules.

\# All the above transactions from 1 April 2019 also constitute connected transactions or continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules.

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

(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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) MAJOR NON-CASH TRANSACTIONS

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$42,976,000 and HK$42,976,000, respectively, in respect of lease arrangement for property, plant and equipment.

(B) CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

2019

	Lease liabilities included in other payables HK$'000	Interest-bearing bank borrowings HK$'000	Total HK$'000
At 31 December 2018	-	73,338	73,338
Effect of adoption of HKFRS 16	33,191	-	33,191
At 1 January 2019 (restated)	33,191	73,338	106,529
Changes from financing cash flows	(35,239)	165,997	130,758
New leases	42,976	-	42,976
Lease modification	(5,005)	-	(5,005)
Interest expense	2,536	-	2,536
Exchange realignment	(803)	(4,622)	(5,425)
At 31 December 2019	37,656	234,713	272,369

2018

	Note	Interest-bearing bank borrowings HK$'000	Total HK$'000
At 1 January 2018		–	–
Changes from financing cash flows		64,909	64,909
Step Acquisition	31	8,429	8,429
At 31 December 2018		73,338	73,338

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(C) TOTAL CASH OUTFLOW FOR LEASES

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

	2019 HK$'000
Within operating activities	28,842
Within investing activities	28,593
Within financing activities	33,272
	90,707

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

FINANCIAL ASSETS

	Financial assets at fair value through profit or loss			
	Designated as such upon initial recognition HK$'000	Mandatorily designated as such HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Trade and bills receivables	-	-	2,154,029	2,154,029
Financial assets included in prepayments, deposits and other receivables	-	-	222,576	222,576
Derivative financial instruments	-	3,755	-	3,755
Cash and cash equivalents	-	-	739,193	739,193
	-	3,755	3,115,798	3,119,553

NOTES TO FINANCIAL STATEMENTS

31 December 2019

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL LIABILITIES

	Financial liabilities at fair value through profit or loss			
	Designated as such upon initial recognition HK$'000	Held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	-	-	2,318,109	2,318,109
Financial liabilities included in other payables and accruals	-	-	389,263	389,263
Derivative financial instruments	-	1,000	-	1,000
Interest-bearing bank borrowings	-	-	234,713	234,713
	-	1,000	2,942,085	2,943,085

NOTES TO FINANCIAL STATEMENTS

31 December 2019

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

FINANCIAL ASSETS

	Financial assets at fair value through profit or loss			
	Designated as such upon initial recognition HK$'000	Mandatorily designated as such HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Trade and bills receivables	–	–	1,231,231	1,231,231
Financial assets included in prepayments, deposits and other receivables	–	–	307,879	307,879
Derivative financial instruments	–	65,489	–	65,489
Cash and cash equivalents	–	–	749,466	749,466
	–	65,489	2,288,576	2,354,065

NOTES TO FINANCIAL STATEMENTS

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35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL LIABILITIES

	Financial liabilities at fair value through profit or loss			
	Designated as such upon initial recognition HK$'000	Held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	–	–	1,860,556	1,860,556
Financial liabilities included in other payables and accruals	–	–	251,999	251,999
Derivative financial instruments	–	50,133	–	50,133
Interest-bearing bank borrowings	–	–	73,338	73,338
	–	50,133	2,185,893	2,236,026

NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from subsidiaries and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the financial controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The financial controller reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The Group enters into derivative financial instruments with various counterparties, principally financial institutions. Derivative financial instruments, including forward currency contracts and foreign currency options, are measured using valuation techniques similar to forward pricing and option pricing models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties and foreign exchange spot and forward rates. The carrying amounts of forward currency contracts and foreign currency options are the same as their fair values.

As at 31 December 2019, the mark-to-market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019	**Fair value measurement using Significant observable inputs (Level 2) HK$'000**
Derivative financial instruments	**3,755**

As at 31 December 2018	Fair value measurement using Significant observable inputs (Level 2) HK$'000
Derivative financial instruments	65,489

Liabilities measured at fair value:

As at 31 December 2019	**Fair value measurement using Significant observable inputs (Level 2) HK$'000**
Derivative financial instruments	**1,000**

NOTES TO FINANCIAL STATEMENTS

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

FAIR VALUE HIERARCHY (CONTINUED)

Liabilities measured at fair value: (continued)

As at 31 December 2018	Fair value measurement using Significant observable inputs (Level 2) HK$'000
Derivative financial instruments	50,133

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

Assets for which fair values are disclosed:

As at 31 December 2019	**Fair value measurement using Significant observable inputs (Level 2) HK$'000**
Derivative financial instruments	**3,755**

As at 31 December 2018	Fair value measurement using Significant observable inputs (Level 2) HK$'000
Derivative financial instruments	65,489

NOTES TO FINANCIAL STATEMENTS

31 December 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

INTEREST RATE RISK (CONTINUED)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity. There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		HK$'000
2019		
RMB	**25**	**(587)**
RMB	**(25)**	**587**
2018		
RMB	25	(183)
RMB	(25)	183

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. 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 foreign currency forward 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FOREIGN CURRENCY RISK (CONTINUED)

	Increase/ (decrease) in exchange rates	Increase/ (decrease) in profit before tax
	%	HK$'000
2019		
If the Hong Kong dollar weakens against the USD	**5**	**74,436**
If RMB weakens against the USD	**5**	**(109,164)**
If the Hong Kong dollar strengthens against the USD	**(5)**	**(74,436)**
If RMB strengthens against the USD	**(5)**	**109,164**
2018		
If the Hong Kong dollar weakens against the USD	5	43,679
If RMB weakens against the USD	5	(65,584)
If the Hong Kong dollar strengthens against the USD	(5)	(43,679)
If RMB strengthens against the USD	(5)	65,584

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 and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

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31 December 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

Maximum exposure and year-end staging (continued)

As at 31 December 2019

	12-months ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade and bills receivables*	-	-	-	2,154,029	2,154,029
Financial assets included in prepayments, other receivables and other assets					
– Normal**	222,576	-	-	-	222,576
Cash and cash equivalents					
– Not yet past due	739,193	-	-	-	739,193
	961,769	-	-	2,154,029	3,115,798

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	12-months ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade and bills receivables*	–	–	–	1,231,231	1,231,231
Financial assets included in prepayments, other receivables and other assets					
– Normal**	251,999	–	–	–	251,999
Cash and cash equivalents					
– Not yet past due	749,466	–	–	–	749,466
	1,001,465	–	–	1,231,231	2,232,696

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

NOTES TO FINANCIAL STATEMENTS

31 December 2019

37. 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:

	2019			
	Within 1 year or on demand HK$'000	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Lease liabilities	**14,029**	**22,515**	**2,826**	**39,370**
Trade and bills payables (note 23)	**2,318,109**	**-**	**-**	**2,318,109**
Other payables (note 24)	**385,085**	**-**	**-**	**385,085**
Due to related parties (note 24)	**4,178**	**-**	**-**	**4,178**
Interest-bearing bank borrowings	**71,805**	**172,415**	**-**	**244,220**
	2,793,206	**194,930**	**2,826**	**2,990,962**

	Within 1 year or on demand 2018 HK$'000
Trade and bills payables (note 23)	1,860,556
Other payables (note 24)	241,742
Due to related parties (note 24)	10,257
Interest-bearing bank borrowings	76,805
	2,189,360

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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 said objectives, policies or processes during the two years ended 31 December 2019 and 2018.

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. Total capital refers to equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2019	2018
	HK$'000	HK$'000
Interest-bearing bank borrowings	**234,713**	73,338
Equity attributable to owners of the parent	**1,788,384**	1,598,775
Gearing ratio	**13.1%**	4.6%

NOTES TO FINANCIAL STATEMENTS

31 December 2019

38. EVENTS AFTER THE REPORTING PERIOD

The outbreak of the novel coronavirus disease ("COVID-19") started from early 2020. Although the Group was affected to a certain extent in respect of work resumption of employees, materials supply and increase in cost of raw materials, the Group has been under normal management and has fully resumed work and maintained normal level of production and operation.

However, the pandemic has been spreading in Europe and Americas since March 2020. As the Group's major markets are in Europe and Americas, there will be significant adverse effects on the Group's business if the European and American markets slump or the countries implement closure of business premises in view of the impact of the pandemic.

39. COMPARATIVE AMOUNTS

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

In addition, certain comparative amounts have been reclassified to conform with the current year's presentation.

NOTES TO FINANCIAL STATEMENTS

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**804,950**	779,164
CURRENT ASSETS		
Prepayments, other receivables and other assets	**1,510**	1,695
Cash and cash equivalents	**12,357**	2,841
Total current assets	**13,867**	4,536
CURRENT LIABILITIES		
Other payables and accruals	**7,944**	2,599
NET CURRENT ASSETS	**5,923**	1,937
NET ASSETS	**810,873**	781,101
EQUITY		
Share capital	**272,459**	268,474
Reserves (note)	**538,414**	512,627
TOTAL EQUITY	**810,873**	781,101

LIAO Qian
Director

YU Guanghui
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Note:

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

	Note	Share premium account HK$'000 (Note 28)	Capital reserve HK$'000	Share option reserve* HK$'000 (Note 29(ii))	Shares held for the Award Scheme HK$'000 (Note 28)	Awarded share reserve# HK$'000 (Note 29(vii))	Retained profits HK$'000	Total HK$'000
At 1 January 2018		456,434	–	12,281	(28,529)	14,813	5,000	459,999
Profit for the year and total comprehensive income for the year		–	–	–	–	–	94,587	94,587
Equity-settled share option arrangements		–	–	27,691	–	–	–	27,691
Issue of shares upon exercise of share options		1,098	–	(237)	–	–	–	861
Share options lapsed during the year		–	–	(1,934)	–	–	–	(1,934)
Share options cancelled during the year		–	–	(1,293)	–	–	–	(1,293)
Awarded Shares lapsed during the year		–	–	–	–	(3,174)	–	(3,174)
Purchase of shares for the Award Scheme	28	–	–	–	(7,988)	–	–	(7,988)
Vesting of shares under the Award Scheme		–	–	–	10,351	(10,795)	–	(444)
Employee share-based compensation benefits under the Award Scheme		–	–	–	–	35,798	–	35,798
Final 2017 dividend declared		–	–	–	–	–	(91,476)	(91,476)
At 31 December 2018 and 1 January 2019		457,532	–	36,508	(26,166)	36,642	8,111	512,627
Profit for the year and total comprehensive income for the year		–	–	–	–	–	78,222	78,222
Equity-settled share option arrangements		–	–	13,333	–	–	–	13,333
Issue of shares upon exercise of share options		14,967	–	(2,814)	–	–	–	12,153
Share options lapsed during the year		–	–	(2,537)	–	–	–	(2,537)
Share options cancelled during the year		–	1,174	(5,726)	–	–	–	(4,552)
Awarded Shares lapsed during the year		–	–	–	–	(4,557)	–	(4,557)
Awarded shares cancelled during the year		–	–	–	–	(8,190)	–	(8,190)
Purchase of shares for the Award Scheme	28	–	–	–	(2,174)	–	–	(2,174)
Vesting of shares under the Award Scheme		–	–	–	10,569	(10,589)	–	(20)
Employee share-based compensation benefits under the Award Scheme		–	–	–	–	22,484	–	22,484
Final 2018 dividend declared		–	–	–	–	–	(78,375)	(78,375)
At 31 December 2019		472,499	1,174	38,764	(17,771)	35,790	7,958	538,414

NOTES TO FINANCIAL STATEMENTS

31 December 2019

40. 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.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 24 March 2020.

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				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**8,146,641**	7,302,951	5,912,479	4,265,667	4,857,228
PROFIT BEFORE TAX	**302,098**	282,308	251,885	192,699	186,114
Income tax expense	**(30,885)**	(61,149)	(53,379)	(41,008)	(18,505)
PROFIT FOR THE YEAR	**271,213**	221,159	198,506	151,691	167,609
Attributable to:					
Owners of the parent	**268,746**	223,135	198,648	151,775	166,479
Non-controlling interests	**2,467**	(1,976)	(142)	(84)	1,130
	271,213	221,159	198,506	151,691	167,609

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**5,618,335**	4,704,893	4,113,052	3,168,164	3,202,796
Total liabilities	**(3,767,057)**	(3,029,619)	(2,617,853)	(2,003,468)	(2,099,707)
Non-controlling interests	**(62,894)**	(76,499)	–	(165)	–
	1,788,384	1,598,775	1,495,199	1,164,531	1,103,089

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