SKYWORTH

創維集團有限公司
SKYWORTH GROUP LIMITED

(formerly known as SKYWORTH DIGITAL HOLDINGS LIMITED 創維數碼控股有限公司)

(Incorporated in Bermuda with limited liability)

Stock Code : 00751.HK

Annual Report
2019

SKYWORTH 創維

CONTENTS

Financial Highlights

Amount expressed in RMB million (except for Share data and items specifically stated)

	For the year ended 31 December 2019	For the nine months ended 31 December 2018	Change
OPERATING RESULTS			
Revenue	**37,277**	30,192	+23.5%
EBIT	**2,037**	973	+109.4%
EBITDA	**2,907**	1,514	+92.0%
Net Profit for the year/period	**1,031**	553	+86.4%
Profit attributable to owners of the Company	**747**	420	+77.9%
FINANCIAL POSITION			
Net cash from (used in) operating activities	**898**	(2,477)	+136.3%
Cash position*	**6,102**	3,772	+61.8%
Borrowings	**8,177**	6,324	+29.3%
Corporate bonds (inclusive of interest)	**2,029**	2,026	+0.2%
Convertible bonds (inclusive of interest)	**927**	–	N/A
Equity attributable to owners of the Company	**15,992**	15,470	+3.4%
Working capital	**7,388**	8,636	–14.5%
Bills receivables	**4,835**	6,942	–30.4%
Trade receivables	**9,430**	9,474	–0.5%
Inventories	**4,909**	6,031	–18.6%
KEY RATIOS			
Gross profit margin (%)	**20.1**	18.7	+1.4pp
EBIT margin (%)	**5.5**	3.2	+2.3pp
EBITDA margin (%)	**7.8**	5.0	+2.8pp
Profit margin (%)	**2.8**	1.8	+1.0pp
ROE (%)	**4.7**	2.7	+2.0pp
Debt to equity (%)**	**61.4**	48.1	+13.3pp
Current ratio (times)	**1.3**	1.4	–7.1%
Trade receivable turnover period (days)***	**150**	131	+14.5%
Inventories turnover period (days) ***	**72**	65	+10.8%
DATA PER SHARE (CENTS)			
Earnings per Share – Basic (RMB)	**24.61**	13.85	+77.7%
Earnings per Share – Diluted (RMB)	**24.52**	11.63	+110.8%
Dividend per Share (HK$)	**–**	6.0	–100.0%
Book value per Share (RMB)	**592.71**	566.97	+4.5%
SHARE INFORMATION AT FINANCIAL YEAR END			
Skyworth Group Limited (shares are listed in Hong Kong, stock code: 00751)			
Number of Shares in issue (million)	**3,061**	3,061	+0.0%
Market capitalisation (HK$)	**6,887**	5,020	+37.2%
Skyworth Digital Co., Limited (shares are listed in Shenzhen, stock code: 000810)			
Number of shares in issue (million)	**1,058**	1,074	–1.5%
Market capitalisation (RMB)	**12,685**	5,971	+112.4%

* *Cash position refers to pledged bank deposits, restricted bank deposits, bank balances and cash*

** *(Borrowings + corporate bonds + convertible bonds)/total equity*

*** *Calculation based on average inventories; average sum of bills receivables and trade receivables*

CHAIRMAN'S STATEMENT

Chairman's Statement

Throughout the year 2019, Skyworth Group Limited (the "Company", together with its subsidiaries referred to as the "Group" or "Skyworth Group") maintained a strong commitment to its development strategy of upgrading through transformation. We established the general principles of "reform, innovation and development" underlying our operations, guided by which the entire group worked together to promote the transformation in three key areas: from manufacturing to modern services, from hardware to software, and from terminal products to smart systems. We actively pushed for adjustments to our organisational structure, taking an important step towards reforming relevant mechanisms, which contributed to a steady growth in our economic benefits. In light of the overall robust economic activities throughout the year, we are expected to record a revenue of RMB37.27 billion, representing a year-on-year decrease of 4.4%; our net profit is expected to reach RMB1.031 billion, representing a year-on-year growth of 22.9%. Our net assets amounted to RMB18.143 billion as of the end of 2019, representing a growth of 4.5% as compared with the opening amount, while our gearing ratio stood at approximately 61%, demonstrating increasingly improved gearing structure. Each of Skyworth Digital Co., Ltd. ("Skyworth Digital"), Skyworth Electric Appliance Limited ("Skyworth Electric"), Shenzhen Coocaa Network Technology Company Limited* ("Shenzhen Coocaa"), Skyworth Group Finance Company Limited and Skyworth Group Scientific Management Co., Ltd. reported record levels of operating results, with net profit for the year exceeding RMB100 million.

In 2019, we focused on promoting innovation-driven development and empowering conventional products with smart systems and technologies. We invested nearly RMB1.9 billion in technology research throughout the year, and undertook dozens of key research projects at both national and provincial levels. With the successful introduction of smart communities, smart appliances, smart office and smart automobile electronic systems, Skyworth Digital accelerated its transformation from a hardware manufacturer to a smart system and technology supplier, as well as a system integrator. In succession, Skyworth Electric introduced a number of new products, including its V-series smart invertor washing machines, smart inverter refrigerators, smart automobile air conditioning systems and smart kitchen appliances. Skyworth Research Institute of Smart System Technologies mobilised its internal research talents to carry out intensive research and development activities, which contributed to the launch of the world's first smart control centre (system) integrating many advanced technologies and equipped with multiple functions (such as voice and touch control), making it a central control system that is able to deliver smart interactions. This product led the group-wide upgrade in Skyworth for its entire smart home appliance portfolio. Going forward, we aim to build a home-based modern industry for smart human habitat with unique Skyworth features, creating modern living environment with greater health benefits, safety, comfort, convenience and energy efficiency.

Skyworth Group was also committed to promoting industrial transformation and upgrading in 2019, which delivered improved results for its core operations.

In terms of our multimedia business sector, we launched a number of new products for our premium series, including 8K+Alot+5G smart TV and 8K+OLED TV. Product value of these new products accounted for over 50% of our product mix, while 4K TV contributed over 80% to our shipment. Our enormous 100-inch 4K TV was selected for onsite live streaming the National Day parade held on Tiananmen Square. Shenzhen Coocaa was as ever dedicated to its principal activities, its system now has 42.39 million users, with 28 million active users as measured on a monthly basis.

In terms of our smart systems technology business sector, Skyworth Digital made a breakthrough in the development of its overseas operation. Our international standards for set-top box were officially released by the International Telecommunication Union. We also successfully won the bid (or shortlisted) to become a mainstream telecommunication operator in North America and Europe with our set-top box products, and our production bases in South Africa and India were successfully commissioned. During the year, we recorded a revenue of RMB9.6 billion, and for the first time, we topped the global list of players in terms of set-top box sales.

In our smart appliances business sector, Skyworth Electric took a diversified approach to development. Its OEM business reported a rapid growth, while its annual sales of refrigerators and washing machines reached 3.5 million units with revenue increasing by over 85%. Skyworth Electronic has now become one of the top ten manufacturers for branded washing machines across China, making itself the second home appliances company to make it to the top ten, following the precedent set by Shenzhen Chuangwei-RGB Electrics Co., Ltd..

Chairman's Statement

In terms of our modern services business sector, Skyworth Group has formed dedicated teams for financial services, macro-logistics services, supply chain operation, foreign trading, as well as park-based property management and construction development. We have set clear development plans for each of our business segments, and a specific development model for the modern services business, which showed positive momentum. Construction commenced in succession for our projects in Shenzhen (including bases in Shiyan and Longgang, and development tower in Qianhai), the air conditioner manufacturing park in Chuzhou, the smart manufacturing park in Guangzhou, Skyworth Industrial Park in Hohhot and Skyworth Innovation and Entrepreneurship Park in Ningbo. Meanwhile, our park projects in different cities such as Nanjing, Yichun, Chengdu and Suining also progressed as planned.

In addition to focusing on business integration and restructuring, Skyworth Group also strengthened its refined management throughout the year 2019. We completed the acquisition of Shenzhen Shencai Logistics Co., Ltd. as well as the planning and implementation of specific project for the macro-logistics services operation. With a total of 200 service centres, our logistics services have been expanded to cover 622 cities and 2,833 counties across China. Skyworth Digital completed its acquisition of Shenzhen Skyworth Qunxin Security Technology Co., Ltd. to promote the development of its smart systems and commercial display businesses, delivering an annual growth of over 50%. We also made further progress in our strategic collaboration with China Post Group, entered into an agreement for building the Sino-German Scientific Industrial Park, while exploring new growth opportunities in content operation, entrepreneurship & investment, kitchen appliances and professional sectors. We completed the initial reform of our marketing system: 164 TV marketing offices participated in reforming their distribution systems, our appliances business strengthened standard management for over 3,700 channels and portals, while our kitchen appliances business encouraged its core channels to set exemplars with outstanding performance. 15 of our key research projects were accepted following examination and we filed a total of 1,164 patent applications. A number of our research deliveries, including the ultra-high definition Q series, a full screen display with touch control capacity and our ultra-high definition TV based on domestic-made system on chip (SOC), received first prize and second prize for technological advancement from provincial and municipal authorities. Skyworth Group also became a leading business at the State-level Innovation Centre for Ultra-high Definition Technology.

During the past year, the Group was granted a number of awards, including "Top 100 Private Enterprises in Guangdong Province", "Leading Private Enterprise in Shenzhen Municipality", "Private Enterprise in Shenzhen with Outstanding Economic Contribution to the 40th Anniversary of China's Economic Reforms", "Top 70 Innovative Enterprises in Shenzhen Municipality" and "Top 100 Enterprises for Quality in Shenzhen Municipality".

1. **Overall environment**: according to the Central Economic Work Conference, while the fundamental trend in China's economy towards long-term prosperity remains unchanged, it is however, faced with increasing pressure of economic downturn. As the nation aims to "keep its economic growth within a reasonable range, and to ensure the building of a moderately prosperous society in all respects and the successful completion of its 13th five-year plan", this will provide enterprises with a relatively stable environment for further development.

2. **COVID-19 epidemic**: while the COVID-19 epidemic will undoubtedly have some major impact on the performance of the home appliances industry this year, it is, on the other hand, a wake-up call for enterprises to review their operations. Firstly, in order to turn this crisis into an opportunity, we must carefully study and judge the likely post-epidemic changes in the development of different sectors, and take necessary actions to adapt to the sudden changes to the environment; secondly, we must increase our investment in research to promote the development of a home-based industry for smart human habitat; and thirdly, we must seize the opportunity created by the growing size and trend in online consumption to build an online marketing system for our entire product offerings.

3. **Development in two areas**: along with the establishment of a world-class innovation platform and growth pole in the Guangdong-Hong Kong-Macao Greater Bay Area, Shenzhen is also accelerating its development of a pioneering demonstration zone. We expect to see more opportunities arising from 5G technology, ultra-high definition display, smart human habitat, modern services and other sectors.

4. **Domestic demand**: China's GDP per capita exceeded US$10,000 in 2019. The state government has eased restrictions on new policies relating to the issuance of residential permits for cities with a population of less than 3 million, with a view to driving vertical development in urbanisation. As a result, tier-1 cities will see rising demands for high-end products, while the market at township level and in rural areas will keep growing.

5. **Globalization**: as the home appliances industry enters a new stage where players have to compete for existing customers amidst differentiating needs and accelerated innovation, many will face a bottleneck in improving economies of scale. According to expert forecasts, the next decade will be a golden age when many of China's leading home appliances enterprises will become world-class players. In order to embrace the opportunities in consumption presented by emerging countries, home appliances enterprises must accelerate brand upgrading, management enhancement, mergers, acquisitions and restructuring and global development, while advancing the implementation of their growth strategies to tackle competition in the coming decade.

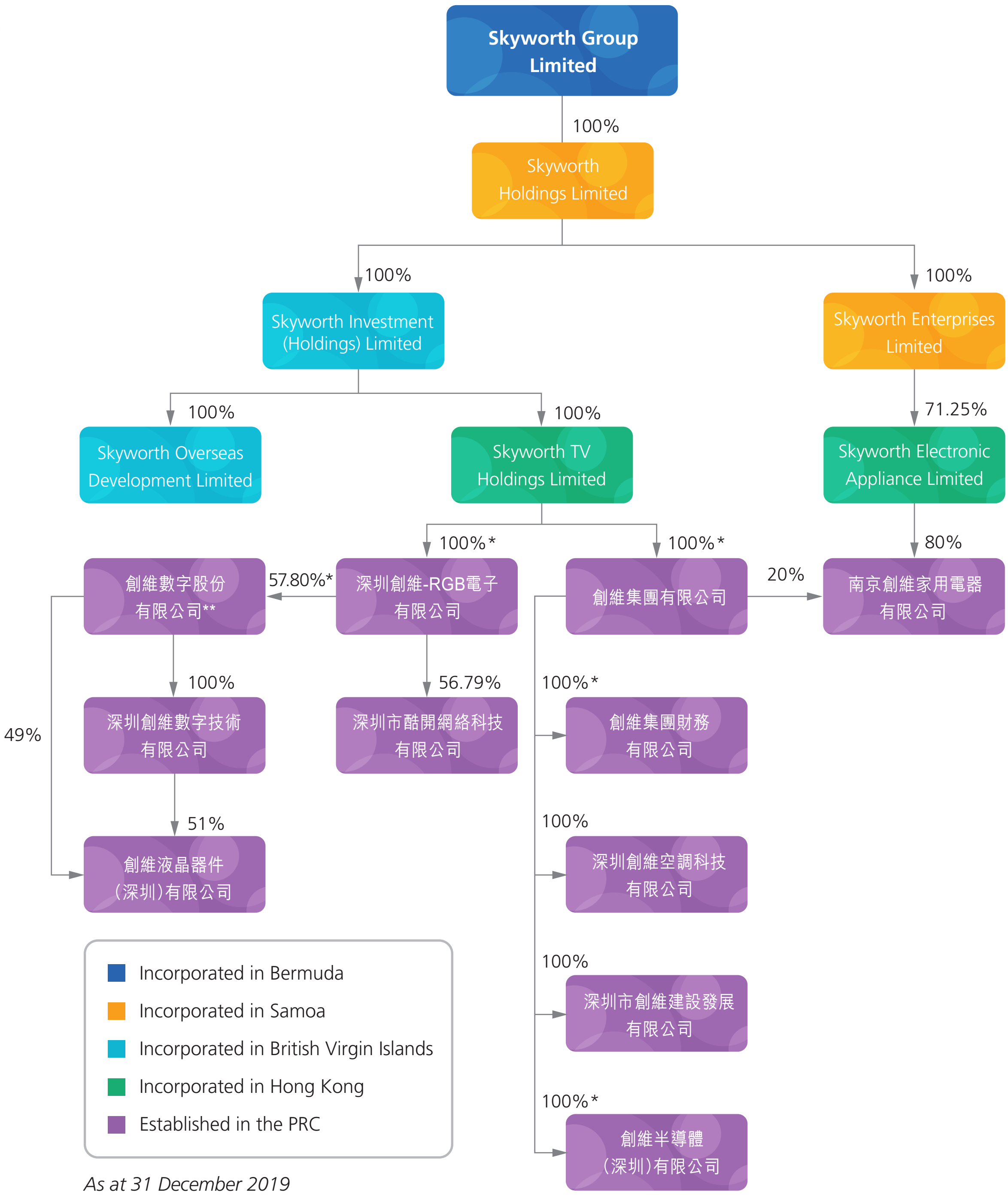
Looking ahead to 2020, the most urgent task for Skyworth is to unite its employees at all levels, free their minds to shape appropriate approaches, think outside the box and incorporate innovation into its development model. Meanwhile, we aim to further integrate 5G technology and 8K ultra-high definition display with our products under the conventional home appliances category. By promoting the extensive development through investment, mergers and acquisitions as well as restructuring; driving professional development in upstream and downstream markets for home appliances industry; encouraging coordinated development between production management and asset management; as well as supporting shared-development between the sectors of manufacturing and smart human habitat, we set out to meet our operational targets for the year and our objectives under the five-year plan.

As determined by the Board of the Group, Skyworth aims to achieve "accelerated development" in 2020. Entering into a new year, Skyworth Group will organise its operations with the objective of reaching the revenue threshold of one hundred billion; adhere to its underlying principles of "investment, innovation and reform"; accelerate its investment in new products, new businesses, key projects and overseas operations; step up its efforts in product innovation, management innovation and cultural innovation; as well as advance its reform in human resources and operational systems. The three key strategies, namely smartisation, internationalisation and refinement will remain our top priorities. By promoting the construction of our three key bases and the development of our four key business sectors (namely multimedia, smart systems technology, smart appliances and modern services); enabling the development of private communication devices and information security business; promoting the transformation in three key areas (namely from manufacturing to modern services, from hardware to software, and from terminal products to smart systems), we aim to deepen our efforts in fully reforming our systems and mechanisms, enhance adjustments to our organisational structure, thus bringing Skyworth to a new stage of development.

Yours sincerely,

Lai Weide
Chairman of the Board
5 April 2020

Simplified Corporate Structure



As at 31 December 2019

* *Effective Interest of Skyworth Group Limited (the "Company")*

** *Shares are listed on Shenzhen Stock Exchange, stock code: 000810.*
The effective interest held by the Company included 0.83% equity interest held under treasury shares of a subsidiary of the Company.

Management discussion and analysis

Management Discussion and Analysis

BUSINESS PERFORMANCE REVIEW

The Group resolved on 4 July 2018 to change the financial year end date of the Company from 31 March to 31 December. As this is the first full 12-month financial year after the change, reporting period of the financial statements presented therefore covers the twelve months from 1 January to 31 December 2019 (the "Reporting Year"), while relevant comparative figures cover the nine months from 1 April to 31 December 2018 (the "Previous Period").

To facilitate a better understanding of the Group's operating results in the new financial year, the Group also presents, on a voluntary basis, the unaudited financial results for the Reporting Year and the twelve months from 1 January to 31 December 2018 (the "Same Period of Previous Year") for comparison.

The audited and unaudited financial results for the twelve months from 1 January to 31 December 2019 and 2018, respectively, are as follows:

	1 January to 31 December 2019 (Audited)	1 January to 31 December 2018 (Unaudited)	**1 January to 31 December 2019 vs 1 January to 31 December 2018**
	RMB million	RMB million	**Increase/ (decrease)**
Revenue	**37,277**	38,978	(4.4%)
Gross profit	**7,502**	7,194	4.3%
Gross profit margin	**20.1%**	18.5%	1.6p.p.
Selling and distribution expenses	**(3,757)**	(3,689)	1.8%
General and administrative expenses	**(1,014)**	(1,076)	(5.8%)
Research and development expenses	**(1,843)**	(1,688)	9.2%
Profit before taxation	**1,553**	1,033	50.3%
Income tax expense	**(522)**	(194)	169.1%
Profit for the year	**1,031**	839	22.9%

Revenue

For the twelve months ended 31 December 2019, the Group's overall revenue amounted to RMB37,277 million (nine months ended 31 December 2018: RMB30,192 million), representing a decrease of RMB1,701 million or 4.4% compared with RMB38,978 million recorded in the Same Period of Previous Year.

As the People's Republic of China (the "PRC") enters a new economic cycle, the TV industry now operates in a stage where players compete for existing customers, while facing a sequential lack of momentum for economies of scale. In view of the increasingly fierce competition among brands, Skyworth has adhered to its development philosophy of being a "technological leader" and developing "health-focused technologies", remaining focused on the improvement of consumer experience and product competitiveness. Throughout 2019, Skyworth Group consistently implemented its "1334 strategy" for business development, managing to complete transformation in three key areas: namely from manufacturing to modern services, from hardware to software, and from terminal products to smart systems. Skyworth Group also promoted adjustments to its organisational structure, which contributed to a balanced growth in overall revenue and a steady improvement in group-wide efficiency.

For its smart TV systems business, Skyworth leveraged on its advantages as an early mover to accelerate the penetration of its OLED TV products. Despite declining revenue recorded amidst negative growth in overall market sales, the smart TV systems business was able to further strengthen and increase its market share through the introduction of products offering greater value. Meanwhile, not only did the Group record fast growth in revenue from internet value-added services of Coocaa system during the year, it also delivered significant growths in its smart systems technology business and smart appliances businesses. As a result, the Group's overall revenue remained stable on a year-on-year basis, declining by a mild 4.4% from the Same Period of Pervious Year to RMB37,277 million. Notwithstanding a shrinking market size for the industry, the Group still managed to strengthen its integrated management covering R&D, production and sales, which in turn, led to enhanced overall operating efficiency and improved product profitability. For the Reporting Year, the Group's gross profit margin grew by 1.6 percentage points from the Same Period of Previous Year to 20.1%.

(a) Business Review by Geographical Segment

The Group's operations have been expanded worldwide, including mainland China and other regions in Asia, Africa, Europe and America, with mainland China being the primary market.

Mainland China Market

For the twelve months ended 31 December 2019, revenue from the mainland China market amounted to approximately RMB26,006 million (nine months ended 31 December 2018: RMB22,279 million), representing a decrease of RMB2,230 million or 7.9% compared with RMB28,236 million recorded in the Same Period of Previous Year.

During the Reporting Year, the Group's multimedia business, smart systems technology business and smart appliances business each accounted for 59.2% (from 1 January to 31 December 2018: 59.2%), 21.9% (from 1 January to 31 December 2018: 20.3%) and 11.8% (from 1 January to 31 December 2018: 9.9%) of its revenue from the mainland China market, while Modern Services business and other operations attributed the remaining 7.1% (from 1 January to 31 December 2018: 10.6%).

Overseas Markets

For the twelve months ended 31 December 2019, revenue from overseas markets amounted to RMB11,271 million (nine months ended 31 December 2018: RMB7,913 million), equivalent to 30.2% of the Group's overall revenue, representing an increase of RMB529 million or 4.9% compared with RMB10,742 million recorded in the Same Period of Previous Year. In pursuit of greater stability, the Group's OEM operation in overseas markets adjusted its customer and order structure during the previous periods, which is effective. The revenue from overseas markets stabilised and recorded a modest increase during the Reporting Year.

Geographical distribution of revenue in overseas markets

The Group's main overseas markets are Asia, Middle East, Africa and Europe. The geographical distribution of the revenue in proportion for overseas markets is illustrated as follows:

	Twelve months ended 31 December	
	2019 **(%)**	2018 (%)
Asia (excluding Middle East)	**54**	52
Europe	**15**	12
Middle East	**12**	14
Africa	**12**	13
America	**6**	8
Oceania	**1**	1
	100	100

For revenue analysis by business sector concerning the mainland China market and overseas markets, please refer to the section headed "Business Review by Business Sector".

(b) Business Review by Business Sector

The Group has announced its overall strategic direction for upgrading through reformation for five years (also known as the "1334 Strategy"), covering four key business sectors, including: 1. Multimedia business; 2. Smart systems technology business; 3. Smart appliances business; and 4. Modern services business.

1. Multimedia Business

The Group's multimedia business primarily covers, among others, smart TV systems and provision of internet valued-added services of Coocaa System.

For the twelve months ended 31 December 2019, the Group's revenue of multimedia business recorded revenue of RMB21,505 million (nine months ended 31 December 2018: RMB18,646 million) in the mainland China market, representing a decrease of RMB3,290 million or 13.3% compared with RMB24,795 million recorded in the Same Period of Previous Year.

For the twelve months from 1 January to 31 December 2019 and those from 1 January to 31 December 2018, the Group's smart TV systems sales volumes by product and market are as follows:

	1 January to 31 December 2019	1 January to 31 December 2018	**January to December 2019 vs January to December 2018**
	Unit ('000)	Unit ('000)	Increase/ (decrease)
PRC Market			
Including:	**9,031**	8,804	2.6%
– 4K smart TV systems	**4,992**	5,003	(0.2%)
– Non-4K smart TV systems	**4,039**	3,801	6.3%
Overseas Markets	**6,775**	6,512	4.0%
Total smart TV systems sales volume	**15,806**	15,316	3.2%

1.1 Smart TV systems products (PRC Market)

For the twelve months ended 31 December 2019, the Group's smart TV systems products recorded revenue of RMB13,648 million in the mainland China market (nine months ended 31 December 2018: RMB12,473 million), representing a decrease of RMB2,553 million or 15.8% compared with RMB16,201 million recorded in the Same Period of Previous Year.

During the Reporting Year, as the PRC grew more mature for deploying the next generation of technologies (such as 5G, AI and VR), the TV industry was preparing for new opportunities to be presented by another round of consumption upgrading. The Group aims to build sustainable competitiveness geared for future success through its long-standing commitment to improving consumer experience and product strengths. Through its self-developed AI-empowered image sensor chip – "Hummingbird" Pro, and the "Skyworth 30+" image refining technology, the Group effectively addressed image distortion through real-time in-depth colour compensation, allowing its smart TV systems products to deliver refined and more natural colours. Moreover, by using SOBiF technology to reduce image retention, the Group also found a solution to burn-in on OLED screens from prolonged use, delivering improved image quality. To seize new opportunities with smart TV systems becoming the control centre for smart home, the Group also worked on the interconnection among products from different brands and the integration of various home appliances into a single smart ecosystem through its two key technologies known as Swaiot and TrensAI. Meanwhile, as the first mainland-based manufacturer to successfully achieve mass production of OLED screens, the Company has developed and launched 9 new models of OLED TV featuring industry-leading technologies as of the date of this report, enabling the Group's smart TV systems business to secure a leading position in mainland China's OLED market. According to the statistics from All View Cloud (AVC) on OLED market retail volume from January to December 2019, the Group ranked first among domestic brands with a market share of 39.6%.

For the twelve months ended 31 December 2019, while the Group's sales volume increased by 2.6% year on year, the sales volume of 4K smart TV systems, however, decreased slightly by 0.2% year on year. Meanwhile, the sales volume of non-4K smart TV systems also outperformed the overall mainland China market, delivering a year-on-year growth of 6.3%. However, as the Group adjusted its marketing strategies and unit rates to cope with fierce competition in the marketplace and increase market share, revenue recorded by its smart TV systems products in the mainland China market for the current year declined as compared with the Same Period of Previous Year.

1.2 *Smart TV Systems Products (Overseas Markets)*

For the twelve months ended 31 December 2019, the Group's smart TV systems products recorded revenue of RMB5,907 million (nine months ended 31 December 2018: RMB5,252 million) in overseas markets, representing a decrease of RMB1,404 million or 19.2% compared with RMB7,311 million recorded in the Same Period of Previous Year.

During the Reporting Year, overall performance of the international TV market remained sluggish amidst the US-China trade war and decelerated growths in key global economies. As the market gradually enters a new stage where players must compete for existing customers while coping with differentiating needs and accelerated innovation, many household appliance companies will face a bottleneck in improving economies of scale. In adopting relatively stable and conservative sales strategies, the Group cancelled projects of low profit margin in certain overseas markets as part of its strategic decision, focusing instead on opportunities in consumption presented by emerging countries, as well as the optimisation of its sales channels and structures.

Through the model of original design manufacturer ("ODM") and the establishment of overseas sales offices, the Group made substantial investments in promotional and marketing campaigns, which led to its increased popularity and visibility in overseas markets, with ASEAN countries reporting the most pronounced improvement in brand image. In Indonesia and the Philippines, the Group was among the first to launch online e-commerce business, which contributed to its top ranking in smart TV systems sales for online channels; it also became a key partner for Google in developing Android TV and AIOT smart home businesses. In India, the Group made strategic adjustment and improvement to its key channels, which entailed an in-depth optimisation of its customer structure to focus on premium customers, including the addition of VJSALE – the largest retail chain in south India, and FILPKART – India's largest e-commerce brand.

1.3 Internet value-added Services of Coocaa System

For the twelve months ended 31 December 2019, the Group recorded a significant growth of RMB276 million or 50.2% in revenue from the internet value-added services of Coocaa System, which increased to RMB826 million (nine months ended 31 December 2018: RMB447 million) from RMB550 million in Same Period of Previous Year.

As at 31 December 2019, the total activated smart terminal of Coocaa System in the PRC market was approximately 44.30 million, the monthly active volume of smart terminal was approximately 28.94 million, while the average daily active volume was approximately 15.53 million. As the PRC gradually transits from 4G to 5G for its internet and telecommunication technologies, rapid growths will be observed for internet-based online content services. Our industrial deployment strategy of "hardware + content" is well received by internet-based enterprises: Beijing iQIYI Science & Technology Co., Ltd.*（北京愛奇藝科技有限公司）("iQIYI"), an affiliate of Tencent Holdings Limited ("Tencent") and an affiliate of Baidu Holdings Limited*（百度控股有限公司）("Baidu") have all successively invested in Shenzhen Coocaa Network Technology Company Limited*（深圳市酷開網絡科技有限公司）("Shenzhen Coocaa", an indirect non-wholly owned subsidiary of the Company).

As a carrier of content service platforms, not only has Coocaa promoted the innovation and operation of large-screen and home internet businesses, it has also assisted our long-term development in the industry of smart human habitat and made a leap-forward enhancement for our operating efficiency. With a team engaged in scaled large-screen internet operation, Shenzhen Coocaa leverages on the advantages of its system, including a comprehensive range of contents, a powerful platform, as well as highly accurate and smart artificial intelligence. With its internet-based products designed around user experience, outstanding process of user traffic, in-depth exploration of statistical value, precise advertisement delivery and management, as well as standardised encryption management for advertising traffic, Shenzhen Coocaa has won industry recognition and wide approval among customers, especially during the COVID-19 outbreak, when "otaku economy" drove an explosive growth in revenue from content-based operations. It is our opinion that building on technologies of greater sophistication and reliability, our smart home and smart city businesses will enjoy accelerated development through collaborative projects with internet giants.

2. *Smart Systems Technology Business*

Smart Systems Technology business covers, among others, home access systems, intelligent manufacturing, automotive electronic systems and other electronic products.

For the twelve months ended 31 December 2019, revenue recorded for Smart Systems Technology business in the mainland China market amounted to RMB5,699 million (nine months ended 31 December 2018: RMB4,388 million), representing a decrease of RMB32 million or 0.6% from RMB5,731 million recorded in the Same Period of Previous Year. For the twelve months ended 31 December 2019, revenue recorded for Smart Systems Technology business in overseas markets amounted to RMB3,899 million (nine months ended 31 December 2018: RMB2,185 million), representing an increase of RMB1,103 million or 39.4% from RMB2,796 million recorded in the Same Period of Previous Year.

During the Reporting Year, by actively promoting the development of its principal businesses, such as home terminal boxes, smart access devices and general-purpose smart terminal products, the Group recorded broad-based growth in results across its operations with broadcast operators, the top three telecom operators in the PRC, as well as those in the domestic internet OTT retail market and its four main overseas markets around the globe. In light of the implementation of a nationwide action plan regarding the ultra-high-definition industry, the Group actively assisted in upgrading optical networks for broadcast operators, successfully secured wholesales for its 4K ultra-high-definition boxes, integrated terminals, broadband access equipment and gateways. In anticipation of the imminent 5G era, the Group formed strategic partnerships with the top three telecom operators in the PRC to accelerate the construction of its smart home ecosystem and build smart home portals (entertainment portal, access portal and control portal), which saw sales multiplying for many of its products, such as ultra-high-definition video boxes, smart network multipathing and IOT general-purpose smart terminals. In the domestic internet OTT retail market, Skyworth adopted a parallel approach in developing its own brands and cooperative brands with Tencent Penguin Aurora, achieving integrated sales across e-commerce platforms (such as JD.com, Tmall, Suning) and offline channels. Lastly, by further expanding into the traditional Pay TV market overseas, actively diversifying its strategic channel partnerships (such as Google and Netflix) and participating in optical fibre upgrades for overseas operators, not only did the Group manage to increase hardware sales for Passive Optical Network, WiFi router, 4G wireless router, Home Networking and Cable Modem 3.1, its overseas smart systems technology business also recorded an exceptional performance, topping global sales for the first time.

Having proposed an advanced concept for smart home-based appliances, the Group introduced the world's first smart control centre (system) integrating many advanced technologies and equipped with multiple functions (such as voice and touch control). This product then led a group-wide upgrade in Skyworth for its entire smart home appliance portfolio, the objective of which was to build a home-based modern industry for smart human habitat with unique Skyworth features. Going forward, the Group will provide greater support for research and development of the Skyworth smart human habitat system, whose technologies will be used to drive the smartisation of terminal products and the development of the smart human habitat industry.

3. *Smart Appliances Business*

Smart appliances business covers, among others, smart air conditioners, smart refrigerators and smart washing machines.

For the twelve months ended 31 December 2019, revenue recorded for smart appliance products in the mainland China market amounted to RMB3,077 million (nine months ended 31 December 2018: RMB1,707 million), representing an increase of RMB289 million or 10.4% compared with RMB2,788 million recorded in the Same Period of Previous Year. Revenue in overseas markets amounted to RMB1,218 million (nine months ended 31 December 2018: RMB606 million), representing an increase of RMB434 million or 55.4% compared with RMB784 million recorded in the Same Period of Previous Year.

During the Reporting Year, Skyworth continued to build its capabilities for product R&D, channel-based operation and production scale with excellent operation management ability. By drawing lessons from those outside the Skyworth Group and fully unlocking its own potentials, Skyworth managed to transit from a factor-driven approach to efficiency-driven development, which contributed to a substantial growth in its business scale.

Empowered by smart technologies, home appliances have evolved from traditionally separated devices to user-centric smart terminals, becoming a platform through which Skyworth can interact with consumers. Skyworth has adopted the core vision of "building smart home control centres" for its smart appliances business, which will require a comprehensive deployment of its AIOT ecosystem. In 2019, Skyworth launched its 21-inch smart large-screen voice-controlled refrigerator, BLDC-equipped washing machine series, the sixth-generation i-DD front load washing machine and a brand new platform for top load washing machines, all of which were well received by the market and customers. Some of our refrigerator and washing machine products also won several certifications and awards, including the "China Red Star Design Award", "AIOT Proprietary Innovation Brand" and "A+-rated Product under the New National Standards".

Skyworth has implemented a dual-strategy of targeting the domestic market through customisation for key customers and promotion of online best sellers, which have been making gradual yet steady progress as they become new profit drivers with contribution equalling traditional offline channels. In terms of its international markets, Skyworth aims to enhance its focus on customer resources by prioritising the Middle East, European, African and Asia-Pacific markets. In 2019, its overseas business enjoyed rapid growth, making Skyworth one of the largest PRC-based exporters of front load washing machines. We have every faith that the next five years will see Skyworth maintain its momentum and progress, further expand its sales footprint and reach new milestones building on its brand and technologies.

Not only have its economic reforms driven the PRC to rapid economic development and accelerated urbanisation, the Chinese people are also growing increasingly keen on a modern human habit that offers improved health benefits, safety, comfort, convenience and energy efficiency as their incomes continue to rise. Meanwhile, the booming of new information technologies, such as 5G, artificial intelligence and cloud computing technologies are leading us to a new era that features the "interconnection of all things and smart interaction", making it possible to build smart cities, smart communities and smart human habitats. It is our belief that the current generations will likely be welcoming an entirely new era of smart human habitats in the next five to ten years. As full-scenario smart functions are introduced to common households while smart control centres quickly replace the traditional mode for controlling home appliances, we will certainly start a new chapter in living experience.

4. *Modern Services business*

Modern services business covers, among others, maintenance and repair for home appliances, macro-logistics services, international trades, construction development, financial lease and property operation for industrial parks.

The Group's modern services business is mostly based in the mainland China market. For the twelve months ended 31 December 2019, revenue recorded for modern services amounted to RMB1,852 million (nine months ended 31 December 2018: RMB2,400 million), representing a decrease of RMB717 million or 27.9% compared with RMB2,569 million recorded in the Same Period of Previous Year.

During the Reporting Year, the Group finalised its development plans for various business directions and determined the development mode for its modern services business. In order to improve operating efficiency and productivity while accelerating its upgrading transformation from manufacturing to modern services, the Group promoted the reorganisation of its business structure through its initiatives in industrial park development and made good use of the existing advantages to shape its modern services business. Focusing on its principal activities, the Group drove corporate development with enhanced efforts in outward expansion and resource integration. During the Reporting Year, the Group completed the merger and acquisition of Shencai Logistics, implemented its designated plan for macro-logistics services, which in turn, boosted its development in information security, logistics services, smart system and commercial display businesses. Meanwhile, the Group also made further progress in forming strategic cooperation with China Post, entered into an agreement for building the Sino-German Scientific Industrial Park and actively fostered new growth drivers within the modern services business. In addition to improved results from core operations, its transformation towards modern services also played a major part in helping the Group maintaining a leading position in the home appliances industry. By fully utilising the strengthens of its core operations, constantly incorporating innovation into its development model and accelerating new business integration and expansion, the Group has created favourable conditions and settings for future reform and development, which will provide strong support for scientific research, investment, production, procurement and construction across the Skyworth Group.

Gross profit margin

For the twelve months ended 31 December 2019, the overall gross profit margin of the Group was 20.1% (nine months ended 31 December 2018: 18.7%), representing an increase of 1.6 percentage points in comparison to 18.5% recorded in the Same Period of Previous Year.

During the Reporting Year, in order to ensure robust operations across the Group, we continued to refine operations management, adopting multiple integrated methods to increase the gross profit margin of our products and reduce group-wide operating costs. In view of the declining prices of key materials (such as display panels), not only did the Company strengthen control on prices while adopting pricing strategies that closely aligned with market conditions, it also changed sales policies alongside sales structures to increase the sales proportion of high-end smart TV systems products, all in an effort to improve gross profit margin. A 3 percentage-point cut to VAT rate for domestic products also contributed to the increase in gross profit margin. Furthermore, we independently assessed the ability of cooperative projects in overseas markets recording low or negative gross profit to operate as a going concern, with a view to minimising loss-making projects. While remaining committed to strengthening our market presence in the Philippines, South Africa and Germany, we also strived for higher gross profit margin through products, sales channels and marketing campaigns. For ODM customers, the Group also focused on internal resources, it continually improved product competitiveness and quality of customer services, with an aim to deliver higher added values and gross profit margin.

Relying on strong research and development capabilities, our smart systems technology products have been well received by customers. During the Reporting Year, the Group adopted a pragmatical approach in forming and extending closer and stronger industrial alliances. By strengthening its strategic cooperation with other sectors, the Group optimised its product design, completed the refinement, automation and smartisation of its manufacturing processes, and introduced stringent control for product quality. Meanwhile, in light of emerging demands and new applications, we adopted innovative technologies to add new elements to existing products and increased the sales proportion of products with high gross profit margin. These efforts drove a year-on-year growth in gross profit margin and revenue recorded for smart systems technology products from the Same Period of Previous Year. As a result, smart systems technology products made greater contribution to the Group's growth in gross profit margin during the Reporting Year.

Expenses

For the twelve months ended 31 December 2019, the Group's selling and distribution expenses amounted to RMB3,757 million (nine months ended 31 December 2018: RMB2,862 million), representing an increase of RMB68 million or 1.8% compared with RMB3,689 million for the Same Period of Previous Year. The selling and distribution expenses to revenue ratio for the twelve months ended 31 December 2019 was 10.1% (nine months ended 31 December 2018: 9.5%), which increased by 0.6 percentage points from 9.5% recorded in the Same Period of Previous Year.

For the twelve months ended 31 December 2019, the Group's general and administrative expenses amounted to RMB1,014 million (nine months ended 31 December 2018: RMB833 million), representing a decrease of RMB62 million or 5.8% compared with RMB1,076 million for the Same Period of Previous Year. The general and administrative expenses to revenue ratio for the twelve months ended 31 December 2019 was 2.7% (nine months ended 31 December 2018: 2.8%), which drop by 0.1 percentage points from 2.8% recorded in the Same Period of Previous Year.

Since the Group continued to devote enormous resources during the current year to the research and development of premium smart products and the improvement of its corporate competitiveness, a corresponding increase was recorded in research and development expenses. For the twelve months ended 31 December 2019, the Group's research and development expenses amounted to RMB1,843 million (nine months ended 31 December 2018: RMB1,327 million), representing an increase of RMB155 million or 9.2% compared with RMB1,688 million for the Same Period of Previous Year. The research and development expenses to revenue ratio for the twelve months ended 31 December 2019 was 4.9% (nine months ended 31 December 2018: 4.4%), which rose by 0.6 percentage points from 4.3% recorded in the Same Period of Previous Year.

LIQUIDITY, FINANCIAL RESOURCES AND CASH FLOW MANAGEMENT

The Group adopts a prudent financial policy to maintain stable financial conditions. As at 31 December 2019, net current assets amounted to RMB7,388 million, representing a decrease of RMB1,248 million or 14.5% when compared with RMB8,636 million as at 31 December 2018. As at 31 December 2019, bank balances and cash amounted to RMB4,806 million, representing an increase of RMB1,492 million or 45.0% when compared with RMB3,314 million as at 31 December 2018. As at 31 December 2019, pledged bank deposits amounted to RMB885 million, representing an increase of RMB762 million or 619.5% when compared with RMB123 million as at 31 December 2018. As at 31 December 2019, restricted bank deposits amounted to RMB411 million, representing an increase of RMB76 million or 22.7% when compared with RMB335 million as at 31 December 2018.

The Group secured certain assets against its certain trade facilities and loans granted from various banks. As at 31 December 2019, such secured assets included bank deposits of RMB885 million (as at 31 December 2018: RMB123 million), trade receivables of RMB19 million (as at 31 December 2018: RMB25 million), bills receivables of RMB686 million (as at 31 December 2018: RMB500 million), as well as certain prepaid lease payments on land use rights, lands and properties in mainland China and Hong Kong, with an aggregate net book value of RMB404 million (as at 31 December 2018: RMB242 million).

As at 31 December 2019, total bank loans amounted to RMB8,177 million (as at 31 December 2018: RMB6,324 million), corporate bonds (inclusive of interest) amounted to RMB2,029 million (as at 31 December 2018: RMB2,026 million) and convertible bonds (inclusive of interest) amounted to RMB927 million (as at 31 December 2018: nil). Overall interest-bearing liabilities of the Group were RMB11,133 million (as at 31 December 2018: RMB8,350 million), equity attributable to owners of the Company amounted to RMB15,992 million (as at 31 December 2018: RMB15,470 million). The debt to equity ratio revealed as 61.4% (as at 31 December 2018: 48.1%).

TREASURY POLICY

The Group's major investments and revenue streams are derived from mainland China. The Group's assets and liabilities are mainly denominated in RMB, others are denominated in Hong Kong dollars, US dollars and Euros. The Group uses general trade financing to fulfil the needs in operating cash flow. In order to reduce finance costs, the Group exploits the currency-based and income-based financial management tools introduced by banks to offset such costs. The management of the Group regularly reviews changes in foreign exchange rates and its interest rate exposures, in order to determine the need for foreign exchange hedging. However, a number of uncertainties, such as the US-China trade war, the UK's exit from the EU and interest-rate fluctuations in the US, have added to the difficulty in predicting future changes in exchange rates. For the twelve months ended 31 December 2019, the Group recorded a net exchange gain of RMB59 million (nine months ended 31 December 2018: gain of RMB67 million) associated with general operation.

In addition, the Group still held the following investments during the Reporting Year:

(a) Unlisted equity securities

As at 31 December 2019, the Group held investments in 39 unlisted companies. The total value (at fair value) of these investments (net of changes in fair value and costs) was RMB1,983 million, of which RMB1,396 million represented 10% equity interest held by the Group in a PRC investee company. This investee company is principally engaged in manufacture and sale of flat screen displays, display materials, LCD-related products and other electronic accessories.

(b) Listed equity securities

As of 31 December 2019, the Group held investments in four listed equity securities, details of which are as follows:

Listed company	Shareholding percentage as of 31 December 2019	Value of investment as of 31 December 2019 (RMB million)	Value of investment as of 31 December 2018 (RMB million)	Exchange on which the securities are listed	Principal business of the listed company
Chigo Holding Limited	3.39%	11.5	27.9	The Stock Exchange of Hong Kong Limited	Manufacture and sale of air-conditioners
Bank of Gansu Co., Ltd.	0.99%	121.2	–	The Stock Exchange of Hong Kong Limited	Financial services
Ningbo Exciton Technology Co., Limited	0.58%	22.4	18.2	Shenzhen Stock Exchange	Manufacture and sale of flat screen displays
Amlogic (Shanghai) Co., Ltd.	2.03%	381.2	91.6 *(Note: not listed in 2018)*	Shanghai Stock Exchange	Research, design, development and manufacture of chips

Skyworth Group will prioritise its investment in building a smart-home platform, aiming to create a new ecosystem for its smart human habitat business by fully leveraging on additional advantages of products and services from the smart systems technology business. Building on scenarios related to smart household services, Shenzhen Coocaa will explore the feasibility of expanding operation scale for the smart human habitat business. Through strategic partnerships with financial institutions, coupled with the know-how of Skyworth and Shenzhen Coocaa in providing customised and targeted smart-home content services, we plan to tap into the business sector of financial technology services, aiming to build a high-tech smart household service platform that covers the three key areas of home entertainment, consumer and financial services. Since Skyworth and Shenzhen Coocaa also proposed to improve experience for home users and enhance service capacity of their own OTT platforms through in-depth cooperation with financial institutions in mobile payment, Skyworth Group therefore made a medium to long-term investment in Bank of Gansu Co., Ltd. during the year.

The management looks upon the other three listed equity securities as medium to long-term investments, whose businesses are similar to those of the Group. Our judgment on their results coincides with the whole electronic industry, which is one of the main business sectors being advocated by the PRC government, though returns from these investments might still be subject to market uncertainties. The management will take a prudent approach in dealing with these investments and take necessary actions to cope with market changes.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the Reporting Year, in order to cope with the increased production scale and improved output ratio of smart products, the Group invested a total of approximately RMB742 million in construction projects, including the expansion of its production plants in Nanjing, Guangzhou and Qianhai, and approximately RMB491 million for purchasing machinery and other equipment for production lines and improvement of facilities in former production plants. The Group plans to further invest in building properties, plants, office premises and purchasing new equipment, with a view to further increasing productivity, improving operation efficiency for its products, as well as catering for future business needs in the development of smart, diversified and internationalised products.

During the Reporting Year, a subsidiary of the Group won a bid at the auction (by tender) for the acquisition of a land parcel located in Ningbo City, Zhejiang Province, PRC with a site area of 52,612 sq.m. at the consideration of approximately RMB1,224 million. The Group intends to develop the Land into a residential area for sale with high-rise residential building(s) together with commercial facilities.

CONTINGENT LIABILITIES

There are individual patent disputes which arise in the ordinary course of business of the Group. The Group is in the course of processing these matters. The directors are of the view that these patent disputes will not have a material adverse impact on the consolidated financial statements of the Group.

HUMAN RESOURCES CAPITAL

As at 31 December 2019, the Group had around 36,000 employees (as at 31 December 2018: 37,000) in the PRC (Hong Kong and Macau inclusive) and overseas, including sales personnel situated throughout 31 branches and 185 sales offices. The Group places high emphasis on fundamental employee benefits, appraisal systems, long-term and short-term incentive schemes, in an effort to motivate and recognise staff with outstanding contributions and performance. The Group allocates substantial resources for staff development, focusing on pre-employment and on-the-job trainings, providing periodical updates on the latest industrial trends, policies and guidelines to improve the quality of human capital. Meanwhile, the Group continues to strengthen the infrastructure of human resources, provides guidance on position titles, salary norms, and gradually establishes a long-term centralised mechanism for the selection, training and development of industry leaders. It also sets up a specified department to enhance the professionalism of general staff and the leadership skills of its senior management.

The Group's remuneration policy is determined with reference to individual performance, functions and conditions of human resources market.

OUTLOOK

The Board of Skyworth Group has specified that the aim to achieve "accelerated development" in 2020. Our three key strategies, namely smartisation, internationalisation and refinement will remain top priorities in the coming year. Under these strategies, we will promote the construction of our three key bases and the development of our four key business sectors (namely multimedia, smart systems technology, smart appliances and modern services); accelerate the development of private communication devices and information security business; and promote the transformation in three key areas (namely from manufacturing to modern services, from hardware to software, and from terminal products to smart systems). In light of the challenges we face in these new development goals and tasks, we must unite employees at all levels across the Group, including those in management and other positions, empower them with the skills necessary to complete respective tasks and ultimately achieve our goals.

In addition, we will accelerate the delivery of key investment projects and increase our investment in mergers and acquisitions. We also intend to further invest in foreign operations, focusing on India, Southeast Asia and Africa, where we aim to build strengths in localised channel and talent management through accelerated base construction. In terms of the domestic market, the Group will further expand its footprint by actively securing its positions across high-end markets in urban areas, rural markets and professional application markets, through which it sets out to establish a centrally-managed platform for e-commerce operation while improving its marketing network system. Through enhanced investment in emerging sectors and businesses, the Group aims to advance its operations in, among others, information security, dedicated screen display, solar and smart lighting, macro-logistics, TV-based content operation and smart human habitat. Meanwhile, the Group will strengthen its efforts in promoting structural adjustments for products, assets, debts, talents and distribution. Serving as the means by which the Group promotes innovation-driven development, these 5 key structural adjustments will be delivered through technology innovation, merger and reorganisation, centralised management of financing, strengthened development for executive team and comprehensive performance assessment, respectively. In addition to reinforcing system reforms for management personnel, human resources, distribution, as well as marketing, supply chain and construction management, we will also continue to enhance our governance structure, highlight science-based decision-making, strengthen authority control and implement supervision mechanisms, with a view to boosting sustainable development across the Group through augmented organisation, integration and coordination in our operations.

While the new era has announced its arrival with new challenges, we remain confident about our vision and commitments. We are faithful to the principles of focusing on business development, encouraging young talents to assume management positions and sharing business accomplishments among group members, for they will lead us to satisfactory investment, innovation and reform outcomes. With our eyes set on quality-driven development, we aim to offer the public greater happiness with premium products and reliable services. In pursuit of our 2020 annual targets and the revenue threshold of RMB100 billion, the Group will take on future challenges with confidence and diligence, all the while making the best of its investment, innovation and reform efforts to drive business development.

EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 in the mainland China and the subsequent quarantine measures imposed by the mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group, as most of the Group's operations are located in various cities in mainland China. The Group had to stop some of its manufacturing and other business activities since January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic.

The Group had resumed its manufacturing and other business activities gradually since February and March 2020. Up to the date of this report, the manufacturing and other business activities of the Group are fully resumed and operating at normal capacity level. As the quarantine measures imposed by the China government effectively controlled the spread of COVID-19 in China, the director of the Company expect the economic activities in China will bounce back in the coming future.

Management Discussion and Analysis

As the operations of most of the Group's customers, suppliers, associates, joint ventures and investees are located in mainland China, the outbreak of the COVID-19 is expected to have a negative impact on these entities. Due to the potential negative impact on the debtors, prepayments and advances to suppliers, the Group will perform impairment review and ECL assessments to review the recoverability of such balances. Moreover, the Group will review the recoverability of the Group's inventories and stock of properties which may be negatively affected by the outbreak of COVID-19.

As the situation remains fluid as at the date of this report, the directors of the Company are in progress to assess the financial effects of the COVID-19 on the Group's consolidated financial statements. Nevertheless, the COVID-19 outbreak is expected to affect the consolidated results of the Group for the year ending 31 December 2020.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Lai Weide, aged 61, is the Chairman of the Board and Executive Director. Mr. Lai is also the chairman of Skyworth Digital Co. Ltd., a subsidiary of the Company and listed on the Shenzhen Stock Exchange (Stock code: 000810.SZ) ("Skyworth Digital") and a director of certain subsidiaries of the Company. He is a senior accountant and holds a master's degree in engineering from University of Electronic Science and Technology of China. Mr. Lai was appointed as the Chairman of the Board and an Executive Director on 8 July 2016.

Mr. Lai has served as deputy director-general and director-general of the Ministry of Machine-Building and Electronics Industry of The People's Republic of China; deputy head and head of the Assets and Finance Department; deputy general manager of China Electronic Corporation; chairman and general manager of Nanjing Electronic Information Industrial Corporation; chairman of Panda Electronic Group Limited and chairman of Caihong Group Corporation, etc. Mr. Lai was chairman and executive director of Nanjing Panda Electronics Company Limited (stock code: 00553, a company listed and traded on the main board of The Stock Exchange of Hong Kong Limited), chairman of Nanjing Huadong Electronics Information & Technology Company Limited# (南京華東電子信息科技股份有限公司) (stock code: 000727, a company listed on the Shenzhen Stock Exchange). He has engaged in the work of management in central government and state-owned enterprises for a long period and has substantial experience in government authority and business management.

Save and except for the relationship with the Group mentioned above, Mr. Lai does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at 31 December 2019, Mr. Lai has interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). Please refer to the details of his interests on pages 39 to 44 of this annual report.

Mr. Liu Tangzhi, aged 56, joined the Group in 1998. Mr. Liu is an Executive Director and a director of certain subsidiaries of the Company. He was appointed as the chief executive officer of the Company on 1 April 2017. Mr. Liu is the president of Skyworth Group Co., Ltd.# (創維集團有限公司) and director of Skyworth Digital.

Mr. Liu graduated from the Zhongnan University of Economics and Law in Wuhan with a bachelor's degree in economics, and graduated from Macao University of Science and Technology with a master's degree in business administration.

Save and except for the relationship with the Group mentioned above, Mr. Liu does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at 31 December 2019, Mr. Liu has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of his interests on pages 39 to 44 of this annual report.

Ms. Lin Wei Ping, aged 62, is an Executive Director, a member of each of the Remuneration Committee and Nomination Committee and a director of certain subsidiaries of the Company. Ms. Lin was appointed as the executive chairperson of the Company on 1 April 2013 and resigned on 8 July 2016.

Ms. Lin joined the Group in 1993. Ms. Lin was the deputy manager of purchasing department and administration manager in Hong Kong and subsequently, the head of human resources department of the Group, primarily responsible for material purchasing from overseas market and administration and human capital management for certain companies within the Group.

Ms. Lin graduated from South China University of Technology in the PRC with a bachelor degree in electronic engineering. Before joining the Group, Ms. Lin had worked in the Ministry of Information Industry in the PRC as a research engineer.

Ms. Lin is the spouse of Mr. Wong Wang Sang, Stephen, the former Non-Executive Director and a controlling shareholder of the Company and mother of Mr. Lin Jin, a current Executive Director. Save and except for the relationship mentioned above, Ms. Lin does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at 31 December 2019, Ms. Lin has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of her interests on pages 39 to 44 of this annual report.

Mr. Shi Chi, aged 48, is an Executive Director of the Company. He joined the Group in 2000 and is a director and the president of Skyworth Digital, in which Mr. Shi holds 3.47% shareholding and his spouse holds 0.61% shareholding. He is also a director of certain subsidiaries of the Company.

Mr. Shi graduated from Huazhong University of Science & Technology with a Doctorate degree in Communication and Electronic System. Mr. Shi has been participating in numerous national and provincial projects on technological researches, in charge of designing several high-end digital television products and publishing over 20 articles in various professional and science journals. He is the vice president of China Radio and TV Equipment Industry Association, the president of Shenzhen Young Science and Technology Talents Association and the vice president of Shenzhen Software Industry Association.

Save and except for the relationship with the Group mentioned above, Mr. Shi does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at 31 December 2019, Mr. Shi has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of his interests on pages 39 to 44 of this annual report.

Directors and Senior Management Profiles

Mr. Lin Jin, aged 35, is an Executive Director of the Company. Mr. Lin graduated from the University of Toronto with a bachelor degree in applied science. He is currently a director in a number of subsidiaries of the Company, including Shenzhen Coocaa Network Technology Company Limited# (深圳市酷開網絡科技有限公司) and Skyworth Digital. He is also currently a director (non-executive) of Skywell New Energy Automobile Co., Ltd.# (開沃新能源汽車有限公司) and Skysource (China) Investment Co., Ltd.# (創源天地(中國)投資有限公司) and a number of their respective subsidiaries. Prior to joining the Group in 2011, Mr. Lin worked in MediaTek Inc. as a sales manager from November 2009 to October 2011 and Realtek Semiconductor Corp. as a system development engineer from September 2007 to September 2009. He has more than 10 years of work experience in companies primarily engaged in the business of designing and manufacturing electronics and electronic components.

Mr. Lin is the son of Mr. Wong Wang Sang, Stephen, the former Non-Executive Director and a controlling shareholder of the Company, and Ms. Lin Wei Ping, an Executive Director. Save and except for the relationship with the Group mentioned above, Mr. Lin does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at 31 December 2019, Mr. Lin has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of his interests on pages 39 to 44 of this annual report.

Mr. Lam Shing Choi, Eric, aged 48, is the company secretary of the Company and he was appointed as an Executive Director on 28 February 2020.

Mr. Lam is mainly responsible for overseeing the finance functions, corporate governance matters and investor relationship of the Group. Mr. Lam joined the Group in March 1998 as the finance manager, and was responsible for setting up computerised accounting system of the sales head office in Dongguan, coordinating with the auditors and preparing the monthly financial statements. In January 2001, he was transferred to Skyworth Multimedia International Limited (a wholly-owned subsidiary of the Company) as the financial controller, and was in charge of the finance department. From 2006 to 2007, he worked as the financial controller of Skyworth Overseas Development Limited (a wholly-owned subsidiary of the Company) and oversaw the finance department, internal control, financial statements and banking facilities. Mr. Lam then served as the financial controller of Skyworth TV Holdings Limited (a wholly owned subsidiary of the Company) from 2007 to 2011 and was responsible for the banking facility arrangement and financial reporting of the Company. He has been the financial controller of the TV business unit of the Group since December 2011 and the LCD business unit of the Group since December 2012. He is also a director and/or company secretary of certain subsidiaries of the Company. Mr. Lam graduated from Monash University in Australia with a bachelor's degree of business in accounting and a bachelor's degree of computing in information systems. Mr. Lam is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Certified Practising Accountants Australia. Mr. Lam has over 20 years of working experience in corporate finance, banking and accounting.

As at the date of this report, Mr. Lam is also an independent non-executive director of AGBA Acquisition Limited, which is listed on NASDAQ Stock Market in the United States of America.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Weibin, aged 58, is an Independent Non-Executive Director, the chairperson of Remuneration Committee, a member of each of the Audit Committee and Nomination Committee. He was first appointed as an Independent Non-Executive Director on 10 March 2000.

Mr. Li is a practicing solicitor in Hong Kong and is the founder and senior partner of Li & Partners, a firm of solicitors in Hong Kong. He graduated from the China University of Political Science and Law in Beijing, the postgraduate school of the Chinese Academy of Social Sciences in Beijing and the University of Hong Kong with a bachelor degree in law, a master degree in law and a bachelor degree in common law, respectively. Mr. Li is also admitted to practice law in the PRC, England and Wales and New York, USA. Mr. Li is a China-appointed attesting officer, a visiting professor in the China University of Political Science and Law and has worked in the legal field for over 30 years.

Save and except for the relationship with the Group mentioned above, Mr. Li does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at 31 December 2019, Mr. Li has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of his interests on pages 39 to 44 of this annual report.

Mr. Cheong Ying Chew, Henry, aged 71, is an Independent Non-Executive Director, the chairperson of Audit Committee, a member of each of the Remuneration Committee and Nomination Committee. He was first appointed as an Independent Non-Executive Director on 1 January 2015.

Mr. Cheong holds a Bachelor of Science (Mathematics) degree from Chelsea College, University of London and a Master of Science (Operational Research and Management) degree from Imperial College, University of London. Mr. Cheong has over 40 years of experience in the securities industry.

He is also an independent non-executive director of CK Asset Holdings Limited (formerly known as Cheung Kong Property Holdings Limited), CK Infrastructure Holdings Limited (formerly known as Cheung Kong Infrastructure Holdings Limited), and New World Department Store China Limited, all being companies listed in Hong Kong. He is also an independent director of BTS Group Holdings Public Company Limited, a company listed in Thailand, and an executive director and the deputy chairman of Worldsec Limited, a company listed in London.

He was an independent non-executive director of TOM Group Limited from 2000 to 2019, an independent non-executive director of Greenland Hong Kong Holdings Limited from 2006 to 2019, an independent non-executive director of CNNC International Limited from 2008 to 2019, an independent non-executive director of Hutchison Telecommunications Hong Kong Holdings Limited from 2009 to 2019.

Save and except for the relationship with the Group mentioned above, Mr. Cheong does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at 31 December 2019, Mr. Cheong does not have interests in the shares of the Company within the meaning of Part XV of the SFO.

Directors and Senior Management Profiles

Mr. Hung Ka Hai, Clement, aged 64, is an Independent Non-Executive Director, the chairperson of Nomination Committee, a member of each of the Audit Committee and Remuneration Committee. He was appointed as an Independent Non-Executive Director on 18 March 2020.

Mr. Hung obtained a bachelor of arts degree from the University of Huddersfield, United Kingdom in 1980. Mr. Hung had served Deloitte China for 31 years where he had assumed various leadership roles, including the managing partner of Deloitte Shenzhen office and Guangzhou office, before he took up the chairman role of Deloitte China from 2014 to 2016. He was also a member of the China management team of Deloitte China. Mr. Hung had also assumed the role of the southern audit leader and the deputy managing partner of the southern region of China (including Hong Kong, Macau, Shenzhen, Guangzhou, Xiamen and Changsha). He was also a board member of Deloitte Global. In June 2016, he retired from Deloitte China.

Mr. Hung served as the Guangzhou Institute of Certified Public Accountants consultant from 2004 to 2014. During the period between 2006 and 2011, he also served as a member of the Political Consultative Committee of Luohu District, Shenzhen. After his retirement as the chairman of Deloitte China, he was appointed as an expert consultant of the Ministry of Finance in the People's Republic of China. Mr. Hung is a life member of The Institute of Chartered Accountants in England and Wales.

Mr. Hung is serving as a director of each of the following listed companies whose issued shares are listed on the Stock Exchange:

- an independent non-executive director of Gome Finance Technology Company Limited (formerly known as Sino Credit Holdings Limited) (stock code: 628) since 31 October 2016;
- an independent non-executive director of Sheng Ye Capital Limited (stock code: 6069, the listing of the shares of which has been transferred to the Main Board from the GEM of the Stock Exchange (stock code: 8469) from 24 October 2019) since 19 June 2017;
- a non-executive director of High Fashion International Limited (stock code: 608) since 1 December 2017;
- an independent non-executive director of Zhongchang International Holdings Group Limited (formerly known as Henry Group Holdings Limited) (stock code: 859) since 12 January 2018;
- an independent non-executive director of Aoyuan Healthy Life Group Company Limited (stock code: 3662) since 22 February 2019;
- an independent non-executive director of China East Education Holdings Limited (stock code: 667) since 12 June 2019;
- an independent non-executive director of Huarong International Financial Holdings Limited (stock code: 993) since 13 December 2019; and
- an independent non-executive director of Tibet Water Resources Ltd. (stock code: 1115) since 31 December 2019.

Mr. Hung was an independent non-executive director of Lerthai Group Limited (formerly known as LT Commercial Real Estate Limited) (stock code: 112) from 24 February 2017 to 3 March 2017 and a non-executive director of the said company from 3 March 2017 to 30 June 2017. He was re-designated as an independent non-executive director of the said company on 30 June 2017 and subsequently resigned with effect from 30 September 2018. He was also an independent non-executive director of SMI Holdings Group Limited (stock code: 198) from 16 January 2017 to 15 March 2017 and re-designated as a non-executive director of the said company on 15 March 2017. He subsequently resigned with effect from 28 February 2019.

Save and except for the relationship with the Group mentioned above, Mr. Hung does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at 31 December 2019, Mr. Hung does not have interests in the shares of the Company within the meaning of Part XV of the SFO.

SENIOR MANAGEMENT

Mr. Huang Mingyan, aged 57, joined the Group as vice president of Skyworth Group in June 2017. Mr. Huang graduated from Chongqing University with a master degree in architectural economics and management. From August 1984 to July 1988, Mr. Huang worked as an designer at Central Design & Research Institute under the Ministry of Machinery Industry; from August 1993 to September 1999, he served as deputy head of the Group Affairs Department of China National Real Estate Development Group Corporation; he was general manager of the Property Department of China Electronics Corporation from October 1999 to November 2002; Mr. Huang served as general manager and secretary of Party Committee at China Electronic Industrial Development Company from December 2002 to April 2013; and he worked as assistant general manager of Caihong Group Corporation and general manager of Caihong Group Industrial Co., Ltd from May 2013 to May 2017.

Save and except for the relationship with the Company as mentioned above, Mr. Huang does not have any relationship with any director, senior management, substantial shareholder or controlling shareholders of the Company.

Mr. Wang Zhiguo, aged 39, is the director and chief technology officer of Skyworth Group, the chief executive officer of Shenzhen Coocaa Network Technology Company Limited#（深圳市酷開網路科技有限公司）, chairman/president of Shenzhen Chuangwei-RGB Electronics Co., Ltd., head of the Skyworth Research Institute of Intelligent System Technologies, and also a director of certain subsidiaries of the Company.

Mr. Wang graduated in 2006 from Germany Dresden University of Technology with a master degree in computer engineering; he joined the Group in 2009. Over these years, he has successively worked as director and head of research institute, deputy general manager and general manager.

Save and except for the relationship with the Company as mentioned above, Mr. Wang does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholders of the Company.

Directors and Senior Management Profiles

Mr. Wu Wei, aged 53, joined the Group in May 1997. Mr. Wu is a professor-level engineer who graduated from ShanghaiTech University with a bachelor degree in radio electronics. From May 1997 to January 2005, Mr. Wu served as deputy chief engineer and chief engineer of Shenzhen Chuangwei-RGB Electronics Co., Ltd.; from January 2005 to February 2009, he worked as vice president of Skyworth Multimedia (Overseas) Company Limited and general manager of its Research Centre; Mr. Wu was appointed as chief engineer of the TV business unit since February 2009, and he has been serving as chief engineer of Skyworth Group Co., Ltd. since 2017.

Mr. Wu personally owns 13 authorised patents for invention and has published 8 theses on national publications. He presided and participated in the implementation of a number of China's key national programmes, including the project of core electronic components, high-end general use chips and basic software products, the 863 Programme, the Key Technologies R&D Programme, as well as electronics funds under the Ministry of Industry and Information Technology. In total, Mr. Wu has contributed 1 State Scientific & Technological Progress Award (First Class), 6 Guangdong Province Science & Technology Awards, and 8 Shenzhen Municipality Scientific & Technological Progress Awards for the Group.

Mr. Wu is a member of the National Standardisation Technical Committee for Audio, Video & Multimedia System and Equipment, the deputy director of Zhongguancun Audio-Visual Industry Technology Innovation Alliance, and a member of China's Expert Committee of Supplier Alliance for Smart Manufacturing Solutions. He is also head of the Guangdong Provincial Research Centre of Engineering Technology for Ultra-HD Display, a member of the Guangdong Provincial "Expert Panel for the Promotion of 4K Application & Sector Development", director of the Guangdong Provincial Standardisation Technical Committee for Green Manufacturing of Electrical & Electronic Products, and secretary general of the Shenzhen Municipality Alliance for Industry Standards of Smart TV.

Save and except for the relationship with the Company as mentioned above, Mr. Wu does not have any relationship with any director, senior management, substantial shareholder or controlling shareholders of the Company.

Mr. Ying Yiming, aged 44, is the financial controller of the Company.

Mr. Ying graduated from Hubei Normal University in the People's Republic of China majoring in Computer Accounting. He is a PRC accountant and a non-executive member of The Chinese Institute of Certified Public Accountants, and has over 22 years of experience in accounting and financial management. Mr. Ying joined the Group in 2000 and has been the director and financial controller of Skyworth Mobile Communication Technology (Shenzhen) Co., Ltd.# (創維移動通信技術（深圳）有限公司), and head of the Accounting Department (PRC Division) and director of the Finance and Operations Management Department of Skyworth Group. Mr. Ying is currently the head of the Finance and Assets Department of Skyworth Group, and director of certain subsidiaries of the Company including Skyworth Digital, Skyworth Group Finance Co., Ltd.# (創維集團財務有限公司) and Skyworth Group Construction Development Co., Ltd.# (創維集團建設發展有限公司).

Save and except for the relationship with the Company as mentioned above, Mr. Ying does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company.

English translation is not official and is provided for reference only

Directors' Report

Directors' Report

The directors of the Company (the "Directors") are pleased to present the annual report and the audited consolidated financial statements of the Group for the financial year ended 31 December 2019 (hereinbelow also referred to as the reporting year).

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the annual general meeting on 31 May 2019, the English name of the Company was changed from "Skyworth Digital Holdings Limited" to "Skyworth Group Limited" and adopted the Chinese name "創維集團有限公司" as the secondary name of the Company.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the manufacture and sales of smart TV systems, home access systems, smart white appliances, internet value-added services, property development and property holding. Details of the principal activities of the principal subsidiaries, associates and joint ventures of the Group are set out in notes 60, 22 and 23 of the consolidated financial statements, respectively.

BUSINESS REVIEW

A fair review of the business of the Group for the reporting year, including the discussion on the principal risks and uncertainties facing the Group, important events affecting the Group that have occurred since the end of the reporting year and an indication of the likely future developments, is set out in the "Chairman's Statement" on pages 3 to 7 and "Management Discussion and Analysis" on pages 9 to 24 of this annual report. The above discussions form part of this Directors' Report.

Details about the Group's financial risk management are set out in note 55 to the consolidated financial statements.

An analysis of the Group's performance for the reporting year using financial key performance indicators is set out in the "Financial Highlights" on page 2 and "Management Discussion and Analysis" on pages 9 to 24 of this annual report.

Environmental Policies and Performance

The Group is committed to promoting long term environmental sustainability and creating sustainable value for stakeholders by providing safe, reliable and high-quality products and services that satisfy our customers. We strive to encourage higher awareness of environmental conservation at our workplace. The Group established a Corporate Social Responsibility Policy which defines our long-term approach to specific issues in four key aspects: Workplace, Environment, Operating Practices and Community, which is instrumental in enabling our business to operate in a sustainable manner.

The Group strives to achieve the foregoing environmental objectives by minimising the environmental impact concerning our daily business operations and promoting environmental protection in the supply chain and workplace. We aspire to reduce pollutions, emissions and wastes, increase recycling and minimise energy consumption by continually improving our environmental management policies and practices and educating our employees to adopt environmentally responsible behaviour.

The Group always cherishes natural resources and believes that business expansion and minimisation of the consumption of natural resources can co-exist. In relation to the efficient use of resources, the Group has introduced various energy efficiency strategies and measures including, implementation of energy-saving machines; installation of eco-friendly lighting system; and reduction of water and paper consumption.

To ensure that our actions and initiatives are effective and relevant, the Board regularly reviews our environmental, social and governance strategy and monitor our progress in achieving such objectives.

Compliance with Relevant Laws and Regulations

During the reporting year, the Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group.

On the corporate level, the Company and all of its subsidiaries have complied with the relevant laws of their respective place of incorporation and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Securities and Futures Ordinance (the "SFO") where they are applicable. The Group has adopted its own code of conduct regarding securities transactions by Directors (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code").

In relation to human resources, the Group is committed to complying with the requirements of the Personal Data (Privacy) Ordinance, the Employment Ordinance, the Minimum Wage Ordinance and ordinances relating to disability, gender, family status and race discrimination, as well as occupational safety of employees of the Group, so as to safeguard the interests and well-being of its employees.

Relationship with Key Stakeholders

(a) Employees

The Group believes that employees are the primary force in driving its business growth and considers them to be the most valuable assets of a company and strives to help its employees to achieve their full potential both personally and professionally. We promote team spirit and offer various training programmes to help improve the competency, work skills, expertise and performance of employees. The training programmes also help employees to raise awareness on environmental issues and workplace discrimination to improve their understanding of the strategies and policies of the Group. The Group also organises staff-friendly activities for employees, such as sports activities and outings, to promote staff relationships and physical fitness.

(b) Customers

The Group strives to achieve corporate sustainability in providing quality products and services to our customers. We have established strict quality control to ensure continuous improvement of product quality by conducting regular market surveys to gain market insights and feedback.

(c) Suppliers

The Group has established a well-governed supplier selection and evaluation system. We adhere to open, fair and transparent criteria in selecting suppliers and carry out long-term monitoring of suppliers' quality and conduct regular reviews of all suppliers to ensure they can meet the requirements, values and expectations of the Group.

(d) Shareholders and Investors

The Group has in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its shareholders and investors. We believe that the accurate and timely information disclosure can facilitate constructive feedback and ideas that are beneficial for investor relations and future corporate development.

Directors' Report

RESULTS AND APPROPRIATIONS

The results of the Group for the reporting year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 75 to 76 of this annual report.

The board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2019 (for the 9 months ended 31 December 2018: HK6.0 cents, totalling approximately RMB157 million).

DIVIDEND POLICY

The Company has adopted a dividend policy, pursuant to which the Company may from time to time in general meeting declare dividends in any currency to be paid to the shareholders of the Company, but no dividend shall be declared in excess of the amount recommended by the Board. The Board may from time to time pay to the shareholders of the Company such interim dividends as appear to the Board to be justified by the profits of the Company.

The proposed dividend payout as determined by the Board at the time of declaration of dividend would depend on, among other matters, the distributable profits, cash flow, liquidity and financial position, current and future operations, capital requirements and surplus of the Company, as well as dividends received from Company's subsidiaries and associates. The payment of dividend is also subject to any restrictions under Bermuda laws and the Company's bye-laws.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past 5 financial years is set out on page 224 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting year, the aggregate revenue attributable to the Group's 5 largest customers was less than 18.2% of the Group's total revenue. The aggregate purchase attributable to the Group's 5 largest suppliers accounted for 17.7% of the Group's total purchase and the purchase attributable to the Group's largest supplier was 7.7% of the total purchases.

None of the Directors, their associates or any shareholders of the Company (who to the knowledge of the Directors owns 5% or more of the issued shares of the Company) has any interest in any of the Group's abovementioned 5 largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

During the reporting year, the Group incurred approximately RMB742 million in production plants construction at various locations within the People's Republic of China (the "PRC").

The Group acquired additional plant and machinery at a cost of approximately RMB491 million for the expansion of existing production facilities and setting up of new production facilities. Details of these and other movements in the property, plant and equipment of the Group during the reporting year are set out in note 16 to the consolidated financial statements.

CORPORATE BONDS

On 15 September 2017, the Company issued secured corporate bonds with principal value of RMB2,000 million. The corporate bonds bear an interest at 5.36% per annum with maturity of 5 years, under which the Company has the right to adjust the coupon rate and the bond holders have a sell-back right to the Group at the end of the third year. The purposes for issuing corporate bonds were to adjust the debt structure and supplement the general working capital of the Group. The corporate bonds were listed on the Shenzhen Stock Exchange under the abbreviated bond name "17 Skyworth P1" with the code "112584" on 23 October 2017. Details of the corporate bonds are set out in note 45 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company disclosed in the section headed "Directors' Interests in Shares, Share Options and Awarded Shares" below and note 48 to the consolidated financial statements, no equity-linked agreement was entered into by the Company during the reporting year or subsisted at the end of the reporting year.

SHARE CAPITAL

Details of movements in the share capital of the Company during the reporting year are set out in note 46 to the consolidated financial statements.

SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Group during the reporting year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders of the Company as at 31 December 2019 amounted to approximately RMB1,525 million (for the 9 months ended 31 December 2018: RMB1,599 million).

DONATIONS

During the reporting year, the Group made charitable donations amounting to approximately RMB1.4 million.

DIRECTORS

The Directors who were in office during the reporting year are named as below:

Executive Directors:

Mr. Lai Weide	*(Chairman of the Board)*
Mr. Liu Tangzhi	*(Chief Executive Officer)*
Ms. Lin Wei Ping	
Mr. Shi Chi	
Mr. Lin Jin	
Mr. Lam Shing Choi, Eric	*(Appointed with effect from 28 February 2020)*

Independent Non-Executive Directors:

Mr. Li Weibin
Mr. Cheong Ying Chew, Henry
Mr. Li Ming *(Resigned with effect from 18 March 2020)*
Mr. Hung Ka Hai, Clement *(Appointed with effect from 18 March 2020)*

In accordance with bye-law 86 and 87 of the Company's bye-laws, Mr. Liu Tangzhi, Ms. Lin Wei Ping, Mr. Lam Shing Choi, Eric, Mr. Cheong Ying Chew, Henry and Mr. Hung Ka Hai, Clement will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

CONFIRMATION OF INDEPENDENCE

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 25 to 32 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 or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation. All independent non-executive Directors have entered into letters of appointment with the Company for a term of three years which may be terminated by either party by giving to the other not less than one month's notice in writing.

EMOLUMENT POLICY

The emoluments of the Directors are reviewed by the Remuneration Committee from time to time, with reference to the qualifications, responsibilities, experience and performance of the individual Directors, and the operating results of the Group. Details of the policy are set out in the "Corporate Governance Report" on pages 49 to 67 of this annual report.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 58 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SHARES, SHARE OPTIONS AND AWARDED SHARES

As at 31 December 2019, the interests and short positions that the Directors and the chief executive of the Company had or were deemed to have in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO), which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and Stock Exchange pursuant to the Model Code, were as follows:

(a) Long positions in shares of the Company and associated corporations

The Company

Name of director	Capacity		Number of issued shares held	Approximate percentage of the total number of issued shares
Lai Weide	Beneficial owner		5,002,000	0.16%
Lin Wei Ping	Beneficial owner		9,160,382	0.30%
	Interest of spouse	*(Notes a and b)*	1,238,258,799	40.45%
		(Notes a and c)	1,247,419,181	40.75%
Liu Tangzhi	Beneficial owner		6,884,675	0.22%
Shi Chi	Beneficial owner		5,184,825	0.17%
	Interest of spouse		5,466,466	0.18%
			10,631,291	0.35%
Lin Jin	Beneficial owner		3,898,719	0.13%
Li Weibin	Beneficial owner		1,000,000	0.03%

Notes:

(a) *37,300,000 shares of the Company are held by Mr. Wong Wang Sang, Stephen and 1,200,958,799 shares of the Company are held by Target Success Group (PTC) Limited ("Target Success") in its capacity as trustee of the Skysource Unit Trust in which all of the units and issued shares of Target Success are held by Mr. Wong Wang Sang, Stephen. As such, Mr. Wong Wang Sang, Stephen is interested and deemed to be interested in 1,238,258,799 shares of the Company.*

(b) *Ms. Lin Wei Ping is interested in 1,247,419,181 shares of the Company, which comprise 9,160,382 shares held by herself and the deemed interests in 1,238,258,799 shares held by her spouse Mr. Wong Wang Sang, Stephen.*

(c) *Mr. Wong Wang Sang, Stephen is interested in 1,247,419,181 shares of the Company, which comprise 37,300,000 shares held by himself, the deemed interests in 1,200,958,799 shares held by Target Success and the deemed interests in 9,160,382 shares held by his spouse Ms. Lin Wei Ping.*

Associated corporations – Skyworth Digital Co., Ltd.

Name of director	Capacity	Number of issued shares held	Approximate percentage of the total number of issued shares
Lai Weide	Beneficial owner *(Note)*	750,000	0.07%
Liu Tangzhi	Beneficial owner *(Note)*	600,000	0.06%
Shi Chi	Beneficial owner	36,770,524	3.47%
	Interest of spouse	6,507,500	0.61%
		43,278,024	4.08%

Note: 400,000 shares of Skyworth Digital Co., Ltd. held by Lai Weide and 400,000 shares of Skyworth Digital Co., Ltd. held by Liu Tangzhi are restricted shares granted under the restricted share incentive scheme of Skyworth Digital Co., Ltd., which is a 56.97% owned subsidiary of the Company, (the "Restricted Share Incentive Scheme"), which are subject to lock-up restrictions under the terms and conditions of the Restricted Share Incentive Scheme. The restricted shares will be released from the lock-up restriction in 3 batches in accordance with the release schedule under the Restricted Share Incentive Scheme, conditional upon the fulfillment of performance targets specified thereunder. Details of the Restricted Share Incentive Scheme were published on the information website of the Shenzhen Stock Exchange (http://www.cninfo.com.cn/). During the reporting year, none of the restricted shares of Mr. Lai Weide and Mr. Liu Tangzhi were lapsed/cancelled.

(b) Share options of the Company

(i) Particulars of the share option schemes of the Company are set out in note 48 to the consolidated financial statements.

(ii) On 15 April 2019, 55,400,000 share options (the "Share Options") were granted to grantees. The particulars of share options granted to the Directors and the movement during the reporting year were as follows:

Under 2014 Share Option Scheme

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Number of share options: Outstanding as at 1 January 2019	Granted during the Reporting Year	Exercised during the Reporting Year	Cancelled/ Lapsed during the Reporting Year	Outstanding as at 31 December 2019
Directors:								
Lai Weide								
8 July 2016	6.320	8 July 2016 to 31 August 2017	1 September 2017 to 20 August 2024	2,500,000	–	–	–	2,500,000
		8 July 2016 to 31 August 2018	1 September 2018 to 20 August 2024	2,500,000	–	–	–	2,500,000
		8 July 2016 to 31 August 2019	1 September 2019 to 20 August 2024	2,500,000	–	–	–	2,500,000
		8 July 2016 to 31 August 2020	1 September 2020 to 20 August 2024	2,500,000	–	–	–	2,500,000
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	–	4,000,000	–	–	4,000,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	–	3,000,000	–	–	3,000,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	–	3,000,000	–	–	3,000,000
Liu Tangzhi								
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	–	4,000,000	–	–	4,000,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	–	3,000,000	–	–	3,000,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	–	3,000,000	–	–	3,000,000
(a) Sub-total (Directors)				**10,000,000**	**20,000,000**	**–**	**–**	**30,000,000**

(c) Employees and/or Consultants

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Number of share options: Outstanding as at 1 January 2019	Granted during the Reporting Year	Exercised during the Reporting Year	Cancelled/ Lapsed during the Reporting Year	Outstanding as at 31 December 2019
Employees and/or Consultants:								
22 January 2016	4.226	22 January 2016 to 31 August 2016	1 September 2016 to 20 August 2024	14,852,000	–	–	–	14,852,000
		22 January 2016 to 31 August 2017	1 September 2017 to 20 August 2024	17,154,000	–	–	–	17,154,000
		22 January 2016 to 31 August 2018	1 September 2018 to 20 August 2024	25,692,000	–	–	–	25,692,000
9 August 2017	4.090	9 August 2017 to 31 August 2018	1 September 2018 to 20 August 2024	500,000	–	–	–	500,000
		9 August 2017 to 31 August 2019	1 September 2019 to 20 August 2024	500,000	–	–	–	500,000
		9 August 2017 to 31 August 2020	1 September 2020 to 20 August 2024	500,000	–	–	–	500,000
		9 August 2017 to 31 August 2021	1 September 2021 to 20 August 2024	500,000	–	–	–	500,000
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	–	14,160,000	–	–	14,160,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	–	10,620,000	–	–	10,620,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	–	10,620,000	–	–	10,620,000
(b) Sub-total (Employees and/or Consultants)				**59,698,000**	**35,400,000**	**–**	**–**	**95,098,000**
Grand Total: (a) Directors + (b) Employees and/or Consultants				**69,698,000**	**55,400,000**	**–**	**–**	**125,098,000**

(d) Awarded shares of the Company

(i) Share Award Scheme

The share award scheme was approved by the Board on 24 June 2014 (the "Share Award Scheme"). The maximum number of shares of the Company that can be awarded or held under the Share Award Scheme is limited to 2% of the issued share capital of the Company from time to time. The maximum number of shares of the Company (including vested and non-vested) which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time. During the reporting year, the Company did not purchase any shares of the Company from market through an independent trustee. As at 31 December 2019, 24,254,601 shares of the Company were held by the independent trustee for the purpose of the Share Award Scheme.

Particulars of the Share Award Scheme are set out in note 49 to the consolidated financial statements.

First batch: Awarded shares granted on 25 July 2014

On 25 July 2014, a total of 27,836,000 shares of the Company were granted by the Board pursuant to the Share Award Scheme. 8,694,000, 8,442,000 and 3,753,000 awarded shares were vested on 31 August 2015, 31 August 2016 and 31 August 2017 respectively.

Second batch: Awarded shares granted on 20 July 2015

On 20 July 2015, a total of 10,312,000 shares of the Company were granted by the Board pursuant to the Share Award Scheme, 2,978,000, 2,874,000 and 3,490,000 awarded shares were vested on 31 December 2015, 31 December 2016 and 31 December 2017 respectively.

Third batch: Awarded shares granted on 12 June 2018

On 12 June 2018, a total of 10,060,000 shares of the Company were granted by the Board pursuant to the Share Award Scheme, 2,400,000 and 3,410,000 awarded shares were vested on 31 July 2018 and 30 April 2019 respectively, and the remaining awarded shares will be vested on 30 April 2020.

During the reporting year, cash dividend of HK$1,455,276.06 had been received in respect of the shares of the Company held upon the trust for the Share Award Scheme and shall form part of the trust fund of such trust. The trustee may, after having taken into consideration the advice of the Company, apply the cash deposited by the Company to purchase shares of the Company in the market, or apply such cash to defray the fees, costs and expenses in relation to the establishment and administration of the Share Award Scheme, or return such cash or shares to the Company.

(ii) As at 31 December 2019, certain Directors had personal interests in the awarded shares granted under the Company's Share Award Scheme as follows:

Name of Director	Capacity	Number of awarded shares held/underlying shares of the Company
Lai Weide	Beneficial owner	1,000,000
Liu Tangzhi	Beneficial owner	1,000,000
Total		**2,000,000**

(iii) The particulars of awarded shares granted to the Directors and the movement during the reporting year were as follows:

		Number of award shares				
Directors/ Date of grant	Vesting date	Outstanding as at 1 January 2019	Granted during the reporting year	Vested during the reporting year	Cancelled/ Lapsed during the reporting year	Outstanding as at 31 December 2019
Lai Weide						
12 June 2018	31 July 2018	–	–	–	–	–
	30 April 2019	1,000,000	–	(1,000,000)	–	–
	30 April 2020	1,000,000	–	–	–	1,000,000
		2,000,000	–	(1,000,000)	–	1,000,000
Liu Tangzhi						
12 June 2018	31 July 2018	–	–	–	–	–
	30 April 2019	1,000,000	–	(1,000,000)	–	–
	30 April 2020	1,000,000	–	–	–	1,000,000
		2,000,000	–	(1,000,000)	–	1,000,000
Total		**4,000,000**	–	**(2,000,000)**	**–**	**2,000,000**

Save as disclosed above and the nominee shares in certain subsidiaries held in trust for the Group, none of the Directors or chief executives, had or was deemed to have any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be recorded in the register maintained by the Company under Section 352 of the SFO; or (iii) to be notified to the Company and Stock Exchange pursuant to the Model Code as at 31 December 2019.

DIRECTORS' RIGHTS TO SUBSCRIBE SHARES OR DEBENTURES

Other than the interests in share options and awarded shares of the Company as disclosed above, and in the share option schemes and the Share Award Scheme disclosed in note 48 and note 49 to the consolidated financial statements respectively, at no time during the reporting year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives, or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debenture of the Company or any other body corporate, and none of them had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the reporting year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company, its subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the reporting year or at any time during the reporting year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the reporting year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the reporting year, none of the executive Directors had any interest in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, so far as is known to the Directors or the chief executive of the Company, the register of interests in shares and short positions maintained by the Company pursuant to Section 336 of the SFO showed that the following persons had, or were deemed to have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Number of issued shares held	Approximate percentage of the total number of issued shares
Target Success Group (PTC) Limited	Trustee *(Note a)*	1,200,958,799	39.23%
Wong Wang Sang, Stephen	Beneficial owner	37,300,000	1.22%
	Interest of spouse *(Note b)*	9,160,382	0.30%
	Interest of controlled corporation *(Note a)*	1,200,958,799	39.23%
		1,247,419,181	40.75%
Lin Wei Ping	Beneficial owner	9,160,382	0.30%
	Held by spouse *(Note c)*	1,238,258,799	40.45%
		1,247,419,181	40.75%

Notes:

(a) *1,200,958,799 shares of the Company are held by Target Success in its capacity as trustee of the Skysource Unit Trust in which all of the units and issued shares of Target Success are held by Mr. Wong Wang Sang, Stephen. As such, Mr. Wong Wang Sang, Stephen is deemed to be interested in 1,200,958,799 shares of the Company.*

(b) *Ms. Lin Wei Ping is interested in 1,247,419,181 shares of the Company, which comprise 9,160,382 shares held by herself and the deemed interests in 1,238,258,799 shares held by her spouse Mr. Wong Wang Sang, Stephen.*

(c) *Mr. Wong Wang Sang, Stephen is interested in 1,247,419,181 shares of the Company, which comprise 37,300,000 shares held by himself, the deemed interests in 1,200,958,799 shares held by Target Success and the deemed interests in 9,160,382 shares held by his spouse Ms. Lin Wei Ping.*

Save as disclosed above, as at 31 December 2019, the Directors or the chief executive of the Company were not aware of any other interests or short positions that any person had, or were deemed to have in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and are recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

The following is the continuing connected transactions of the Group conducted during the year and up to the date of this report:

On 25 April 2019, Shenzhen Chuangwei Financial Leasing Company Limited（深圳創維融資租賃有限公司）("Shenzhen Chuangwei Financial Leasing"), an indirect wholly-owned subsidiary of the Company, entered into a sale and leaseback agreement with Nanjing Golden Dragon Bus Co., Ltd.（南京金龍客車製造有限公司）("Nanjing Golden Dragon Bus"), pursuant to which Shenzhen Chuangwei Financial Leasing has agreed to provide sale and leaseback services in relation to a number of production equipment and motor vehicles in favour of Nanjing Golden Dragon Bus at an initial sale price of RMB260,000,000 (equivalent to approximately HK$302,879,000) commencing on the date of payment of the initial sale price and ends on the date which is 3 years from the date of the sale and leaseback agreement. Details of the transaction were announced by the Company on 25 April 2019.

As at the end of the reporting year, the actual leasing principal amount under the Leaseback Agreement was RMB260,000,000. The maximum leasing principal amount under the Leaseback Agreement at any point of time during the reporting year was RMB260,000,000.

Mr. Wong Wang Sang, Stephen, substantial shareholder of the Company, indirectly held approximately 88% equity interest of Nanjing Golden Dragon Bus and therefore Nanjing Golden Dragon Bus constituted an associate of a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Factoring Agreement and Leaseback Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

During the reporting year, the Company has complied with the relevant disclosure requirements in respect of its continuing connected transactions in accordance with Chapter 14A of the Listing Rules. The independent non-executive Directors have reviewed the continuing connected transaction and confirmed that this transactions was entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms; and (3) in accordance with the terms of the respective agreement which is considered to be fair and reasonable and in the interests of the shareholders of the Company as a whole.

Messrs Deloitte Touche Tohmatsu, the independent auditors of the Company, was engaged to report on the above continuing connected transaction 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 Transaction under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.56 of the Listing Rules, the auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transaction disclosed above by the Company and a copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, a summary of related party transactions made during the reporting year is disclosed in note 59 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the reporting year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has complied with the public float requirement of the Listing Rules throughout the reporting year.

PERMITTED INDEMNITY PROVISIONS

The Company's bye-laws provides that the Directors, secretary and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty in their offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any Directors, secretary and other officers of the Company.

In addition, an appropriate insurance cover had been arranged by the Company in respect of legal action arising from the business of the Group against the Directors.

AUDITOR

The consolidated financial statements of the Group for the reporting year have been audited by Messrs Deloitte Touche Tohmatsu. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs Deloitte Touche Tohmatsu as auditors of the Company.

By order of the Board

LAI Weide
Chairman of the Board
5 April 2020

CORPORATE GOVERNANCE REPORT

Corporate Governance Report

The Company recognises the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, and is committed to maintaining a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practice on corporate governance, and to comply to the extent practicable, with the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

COMPLIANCE WITH THE CG CODE

During the financial year ended 31 December 2019 (herein below also referred as the reporting year) and up to the date of this report, the Company has complied with the code provisions as set out in the CG Code, save and except for the code provision A.5.5(2) and A.6.7 of the CG Code.

Pursuant to code provision A.5.5(2) of the CG Code, where the Board proposes to elect or re-elect an independent non-executive Director (who will be holding their seventh (or more) directorship, the Board should explain why such individual would still be able to devote sufficient time to the board in the relevant shareholders' circular. Mr. Hung Ka Hai, Clement was appointed as an independent non-executive Director with effect from 18 March 2020 after having confirmed fulfilment of the independent requirements set out under Rule 3.13 of the Listing Rules. After reviewing Mr. Hung's confirmation, and that he (i) has not held any other positions in the Group; (ii) does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company; and (iii) does not have any interest in the shares of the Company within the meaning of Part XV of the SFO, the Board considers Mr. Hung to be independent. He holds directorships in more than seven listed companies (including the Company). Notwithstanding this, since his appointment, Mr. Hung has attended all Board and Board committee meetings where his attendance was required, and has made valuable contributions to the board with his experience in the accounting field. On this basis, the Board believes that Mr. Hung will be able to continue to devote sufficient time to the Board.

Also, pursuant to code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders of the Company. Two of our independent non-executive Directors, namely Mr. Cheong Ying Chew, Henry and Mr. Li Ming, were unable to attend the annual general meeting of the Company held on 31 May 2019 due to other business engagements.

KEY CORPORATE GOVERNANCE PRINCIPLES

Board of Directors

The Board is responsible for the leadership and control of, and promoting the success of the Group. This is achieved by the setting up of corporate strategic objectives and policies, and monitoring and evaluating of the operating activities and financial performance of the Group.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain responsibilities to the specific Board committees.

Board Composition

As at the date of this report, the Board consists of 9 members. Among them, 6 are executive Directors and 3 are independent non-executive Directors. The list of Directors are set out on page 227 of this annual report. Their biographical details including their respective interests in the Company and their respective relationships with other Directors and senior management of the Group, are set out on pages 25 to 32 of this annual report.

Mr. Lam Shing Choi, Eric was appointed as executive Director with effect from 28 February 2020. Mr. Li Ming resigned as independent non-executive Director with effect from 18 March 2020. Mr. Hung Ka Hai, Clement was appointed as independent non-executive Director with effect from 18 March 2020.

Executive Directors

All of the executive Directors possess the qualification and experiences in their respective areas of responsibility. Under the leadership of the Chairman of the Board, the Board is able to maintain the success of the Group's business.

Independent Non-Executive Directors

Currently, the 3 independent non-executive Directors are experienced professionals with different expertise in accounting, legal and strategic management. Their mix of skills and experience, and their independent view would definitely provide constructive comments and suggestions to the Board, contributing to the proper functioning of the Board and safeguarding the interests of the shareholders of the Company in general and the Company as a whole. The Board confirms that the Company has received from each of the independent non-executive Directors a confirmation of independence for the reporting year pursuant to Rule 3.13 of the Listing Rules and considers such independent non-executive Directors to be independent.

The Chairman of the Board and Chief Executive Officer of the Company

The chairman of the Board is Mr. Lai Weide and the chief executive officer of the Company is Mr. Liu Tangzhi. The roles of the Chairman of the Board and the chief executive officer of the Company are segregated to ensure their respective independence, accountability and responsibility. The major duties of the Chairman of the Board are to provide leadership to the Board; to ensure the Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable; to ensure the Company established good corporate practice and procedures; and to provide appropriate briefing on the issues arising from Board meetings.

The chief executive officer of the Company is responsible for implementing decisions and strategy approved by the Board and managing day-to-day operations of the Group with the support of the executive Directors and senior management.

Appointment, Re-election and Removal of Directors

A person may be appointed as a member of the Board at any time either by the shareholders of the Company in a general meeting or by the Board upon recommendation of the Nomination Committee. Each of the Directors has entered into a service contract with the Company for a term of not more than 3 years. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment.

According to the bye-laws of the Company as amended from time to time and the CG Code, all Directors are subject to retirement by rotation once every 3 years and one-third of the Directors for the time being (or, if their number is not a multiple of 3, the number nearest to, but not less than one-third) shall retire from office by rotation and shall be eligible for re-election at each annual general meeting.

Board Diversity Policy

The Company recognises the importance of board diversity to corporate governance and the board effectiveness. The Board adopted a board diversity policy ("Policy") which sets out the basic principles to ensure the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standard of corporate governance. Under the Policy, the selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, cultural background, educational background, skills, knowledge and professional experience.

In considering the new appointment of Directors, the Nomination Committee had considered the Policy and with reference to certain criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibilities effectively, etc.

During the reporting year, the Nomination Committee conducted an annual review of the Board's composition taking into account the Policy and formed the view that the Board has maintained an appropriate mix and balance of skills, knowledge, experience and diversity of perspectives necessary to meet the business requirements of the Group. The Nomination Committee will review the Policy from time to time to ensure the effectiveness of the Policy and discuss any revisions that may be required, and make recommendations accordingly to the Board for consideration and approval.

Nomination Policy

The Board adopted a nomination policy (the "Nomination Policy") on 27 November 2018, which sets out the selection criteria and nomination procedures for the appointment of Directors. A summary of the Nomination Policy is disclosed below:

Selection Criteria

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

- Character and integrity
- Accomplishment and experience in the areas of Company's business and public board experience
- Commitment in respect of available time and relevant interest
- 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

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

Nomination Procedures

The Nomination Committee and the Board will take the following procedures in appointing a Director:

1. The Nomination Committee uses multiple sources to identify the individual(s) who are suitably qualified to become Board members.

2. The Nomination Committee reviews the qualification, skills and experience of the individual(s) and, if thought fit, makes recommendation to the Board.

3. The Board considers the individual(s) recommended by the Nomination Committee by assessing and evaluating his/her qualification, skills and experience and, if thought fit, to approve the appointment of individual(s) as Director.

4. According to the Company's bye-laws, any director appointed to fill the causal vacancy or as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Nomination Committee will review the Nomination Policy from time to time to ensure the effectiveness of the Nomination Policy and discuss any revisions that may be required, and recommended such revisions to the Board for consideration and approval.

Access for Supporting

The Directors may have access to the advice and services of the Company Secretary with a view to ensuring that the Board's procedures, and all applicable rules and regulations, are followed. In addition, the Directors may, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide appropriate independent professional advice to the Directors to assist them on discharging their duties and responsibilities.

Appropriate insurance cover has been arranged by the Company in respect of legal action arising from the business of the Group against the Directors.

Continuous Professional Development

On appointment to the Board, each newly appointed Director will attend an introduction covering the general, statutory and regulatory obligations of being a director to ensure sufficient awareness of responsibilities under the Listing Rules and other relevant regulatory requirements. Thereafter, the Company is required to provide the Directors with regular updates relating to the Group's business.

All Directors have complied with the code provision in the CG Code in relation to continuous professional development. This has involved various forms of activities including attending presentation given by external professional advisors and reading materials relevant to the regulatory updates, Company's business, directors' duties and responsibilities. The Company continues to provide the Directors with updates relating to the relevant Listing Rules and regulations, ensuring the Directors have thorough understanding of good corporate governance.

The Directors are required to provide the Company with details of professional training undertaken by them during the reporting year. Based on the details so provided, the professional training undertaken by the Directors during the reporting year is summarised as follows:

	Training Areas		
Name of Director	**Legal and Regulatory**	**Corporate Governance**	**Group's Business/ Directors' Duties**
Executive Directors:			
Mr. Lai Weide	✓	✓	✓
Mr. Liu Tangzhi	✓	✓	✓
Ms. Lin Wei Ping	✓	✓	✓
Mr. Shi Chi	✓	✓	✓
Mr. Lin Jin	✓	✓	✓
Mr. Lam Shing Choi, Eric *(Appointed with effect from 28 February 2020)*	N/A	N/A	N/A
Independent Non-Executive Directors:			
Mr. Li Weibin	✓	✓	✓
Mr. Cheong Ying Chew, Henry	✓	✓	✓
Mr. Li Ming *(Resigned with effect from 18 March 2020)*	✓	✓	✓
Mr. Hung Ka Hai, Clement *(Appointed with effect from 18 March 2020)*	N/A	N/A	N/A

General meetings

The annual general meeting and other general meetings of the Company are the primary communication with its shareholders. All shareholders of the Company are welcomed to attend the general meetings or to appoint proxies to attend and vote at meetings on their behalf. Other than shareholders' participation, independent non-executive Directors should attend general meetings and develop a better understanding of the views of shareholders. During the reporting year, other than annual general meeting, no special general meeting was held by the Company.

The attendance record of the general meetings during the reporting year:

Name of Director	Number of meetings attended/held	Attendance rate
Executive Directors:		
Mr. Lai Weide	1/1	100%
Mr. Liu Tangzhi	1/1	100%
Ms. Lin Wei Ping	1/1	100%
Mr. Shi Chi	0/1	0%
Mr. Lin Jin	1/1	100%
Mr. Lam Shing Choi, Eric *(Appointed with effect from 28 February 2020)*	0/0	0%
Independent Non-Executive Directors:		
Mr. Li Weibin	0/1	0%
Mr. Cheong Ying Chew, Henry	1/1	100%
Mr. Li Ming *(Resigned with effect from 18 March 2020)*	0/1	0%
Mr. Hung Ka Hai, Clement *(Appointed with effect from 18 March 2020)*	0/0	0%

Board Meetings and Corporate Governance Function

The Board held a total of 4 meetings during the reporting year. Of these, 2 meetings were held mainly for approving the 2018 final results and the 2019 interim results of the Group; the other meeting was held to discuss and consider important issues of the Group and review policies related to corporate governance.

Sufficient notices to Board meetings are given to all Directors prior to the meetings for the purpose of providing all Directors with sufficient time to schedule their business for the meetings, and to propose matters to be included in the agenda for the meetings. Agenda and meeting documents are despatched to all Directors at least 3 days before each of the meetings to ensure that the Directors have sufficient time to review documents and be adequately prepared for the meeting. When Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman of the Board prior to the meeting.

Management of the Company has, from time to time, supplied to the Board relevant information, as well as reports relating to operational and financial performance of the Group, enabling the Directors to make informed decisions. Members of the management who are responsible for preparation of the documents for discussion at the Board meetings are usually invited to present the relevant documents and to take any questions or address queries that the Directors may have on the documents. This enables the Board to perform a comprehensive and informed evaluation as part of the Board's decision making processes.

The proceedings of the Board at its meetings are conducted by the Chairman of the Board who is responsible to ensure that sufficient time is allocated for discussion and consideration of each agenda item and that equal opportunities are given to the Directors to speak and express their views and share their concerns. Minutes of the Board meetings are recorded in sufficient detail about the matters considered by the Board and the decisions reached, including any concerns raised by the Directors. The minutes are kept by the Company Secretary or any other personnel appointed by the Board at the meetings. Subsequently, the minutes are circulated to the Directors and are available for inspection by the Directors.

During the reporting year, the Board was responsible for performing the corporate governance functions such as to develop and review the Company's policies and practices on corporate governance; to review and monitor the training and continuous professional development of Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's compliance with the CG Code and make relevant disclosures in the Corporate Governance Report.

The attendance record of the Board meetings during the reporting year:

Name of Director	Number of meetings attended/held	Attendance rate
Executive Directors:		
Mr. Lai Weide	4/4	100%
Mr. Liu Tangzhi	4/4	100%
Ms. Lin Wei Ping	4/4	100%
Mr. Shi Chi	4/4	100%
Mr. Lin Jin	4/4	100%
Mr. Lam Shing Choi, Eric *(Appointed with effect from 28 February 2020)*	0/0	0%
Independent Non-Executive Directors:		
Mr. Li Weibin	4/4	100%
Mr. Cheong Ying Chew, Henry	4/4	100%
Mr. Li Ming *(Resigned with effect from 18 March 2020)*	4/4	100%
Mr. Hung Ka Hai, Clement *(Appointed with effect from 18 March 2020)*	0/0	0%

Securities Transactions of Directors

The Company has adopted the Code of Conduct on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all Directors, the Company received confirmation from each of the Directors that he/she had complied with the Code of Conduct throughout the reporting year.

Board Committees

As an integral part of good corporate governance and to assist the Board in execution of its duties, the Board is supported by 4 board committees, including Executive Committee, Nomination Committee, Remuneration Committee and Audit Committee. Each of these committees oversees particular aspects of the Group's affairs under its defined scope of duties and terms of reference approved by the Board. The terms of reference of the Nomination Committee, Remuneration Committee and Audit Committee are available on the Company's website through the link http://investor.skyworth.com/en/index.php and the website of Hong Kong Exchanges and Clearing Limited. All committees are provided with sufficient resources to discharge their duties.

(1) Executive Committee

The Executive Committee was established by the Board on 5 February 2005 with written terms of reference adopted on the same date. The Executive Committee currently comprises 9 members, including several executive Directors and senior management of the Company.

The Executive Committee has been delegated with powers from the Board to deal with matters of the Group. The authority and major duties of the Executive Committee are summarised as follows:

- to establish strategic planning and financial budgets for Board approval;
- to monitor daily business operations, including sales, productions, brand and product promotion and human resources capital, within the Group;
- to review and approve management reports;
- to evaluate investments opportunities for Board approval; and
- to monitor fund flows and evaluate cash management policies within the Group.

The Executive Committee held monthly meetings during the reporting year to review, discuss and evaluate the monthly business performance and other business and operational matters of each major subsidiary within the Group.

(2) Nomination Committee

The Nomination Committee was set up under the auspices of the Board on 5 February 2005 with written terms of reference adopted on 19 August 2005, which was further updated and approved on 30 March 2012 and 25 August 2017. The Nomination Committee currently comprises 4 members. As at the date of this report, the chairman of the Nomination Committee is Mr. Hung Ka Hai, Clement and the other members are Mr. Li Weibin, Mr. Cheong Ying Chew, Henry and Ms. Lin Wei Ping. Except for Ms. Lin Wei Ping is an executive Director, the remaining 3 members are independent non-executive Directors.

The major duties of the Nomination Committee set out in its terms of reference are summarised as follows:

- to review the structure, size and composition of the Board at least annually and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to be responsible for identifying and nominating suitably qualified candidates as additional Directors or to fill Board vacancies as they arise for approval of the Board;
- to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer;
- in case of appointment and re-appointment of independent non-executive Directors, to assess the independence of the appointees having regard to relevant guidelines or requirements of the Listing Rules in place from time to time; and
- to assess the independence of independent non-executive Directors on an annual basis having regard to relevant guidelines or requirements of the Listing Rules in place from time to time.

The Nomination Committee held 2 meetings during the reporting year for the purposes, including but not limited to the followings:

- reviewed the structure, size and composition of the Board;
- reviewed and assessed the independence of the independent non-executive Directors;
- reviewed and made recommendation to the Board on the proposal for the change of directors and supervisors of Skyworth Group; and
- reviewed and made recommendation to the Board on the appointment of directors of Skyworth Group.

The attendance record of the Nomination Committee meetings held during the reporting year:

Name of Director	Number of meetings attended/held	Attendance rate
Independent Non-Executive Directors:		
Mr. Li Ming *(Chairman) (Resigned with effect from 18 March 2020)*	2/2	100%
Mr. Hung Ka Hai, Clement *(Chairman)* *(Appointed with effect from 18 March 2020)*	0/0	0%
Mr. Li Weibin	2/2	100%
Mr. Cheong Ying Chew, Henry	2/2	100%
Executive Director:		
Ms. Lin Wei Ping	2/2	100%

(3) Remuneration Committee

The Remuneration Committee was set up under the auspices of the Board on 5 February 2005 with written terms of reference adopted on 19 August 2005, which was updated and approved on 30 March 2012 and 25 August 2017. The Remuneration Committee currently comprises 4 members. As at the date of this report, the chairman of the Remuneration Committee is Mr. Li Weibin and the other members are Mr. Cheong Ying Chew, Henry, Mr. Hung Ka Hai, Clement and Ms. Lin Wei Ping. Except for Ms. Lin Wei Ping who is an executive Director, the remaining 3 members of the Remuneration Committee are independent non-executive Directors.

The major duties of the Remuneration Committee set out in its terms of reference are summarised as follows:

- to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedures for developing remuneration policy;
- to review and approve the management's remuneration proposals with reference to Board's corporate goals and objectives;
- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, and to make recommendations to the Board on the remuneration of non-executive Directors;
- to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration; and
- to produce and approve disclosure statements of the Company's remuneration policy and other disclosures in relation to the Remuneration Committee and its work as required by applicable laws and rules where necessary.

The Remuneration Committee held 3 meetings during the reporting year for the purposes of, including but not limited to, the following:

- reviewed and made recommendation to the Board on bonus payable to the Directors and senior management of the Company;
- reviewed and made recommendation to the Board on the proposal for the grant of share option;
- reviewed and made recommendation to the Board on the proposal for the grant of share award;

- reviewed and made recommendation to the Board on the proposal for special bonus to the executive teams of Skyworth Group; and

- reviewed and made recommendation to the Board on the renewal of service contract of an executive Director and an independence non-executive Director.

The attendance record of the Remuneration Committee meetings during the reporting year:

Name of Director	Number of meetings attended/held	Attendance rate
Independent Non-Executive Directors:		
Mr. Li Weibin *(Chairman)*	3/3	100%
Mr. Cheong Ying Chew, Henry	3/3	100%
Mr. Li Ming *(Resigned with effect from 18 March 2020)*	3/3	100%
Mr. Hung Ka Hai, Clement *(Appointed with effect from 18 March 2020)*	0/0	0%
Executive Director:		
Ms. Lin Wei Ping	3/3	100%

Remuneration policy of the Group

The remuneration policy of the Group is formulated to ensure remuneration offered to the Directors or employees is appropriate for the corresponding duties performed, sufficiently compensated for the effort and time dedicated to the affairs of the Group, and competitive and effective in attracting, retaining and motivating employees. The key components of the Company's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme, share options granted under the share option schemes of the Company and awarded shares granted under the Share Award Scheme. Details of the share option schemes of the Company and Share Award Scheme are set out in notes 48 and 49 to the consolidated financial statements.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience, performance of the Directors and prevailing market conditions. They include incentive bonus primarily based on the results of the Group, share options granted under the share option schemes of the Company and awarded shares granted under the Share Award Scheme. The Remuneration Committee performs review on the emoluments of the Directors from time to time. No Director, nor any of his/her associates and executive, is involved in deciding his/her own emoluments.

Employees' remuneration packages are determined with reference to the responsibilities, qualifications and experience of individuals. The packages are reviewed annually and as required from time to time. The Group also continuously spends resources in training, retention and recruitment programs, and encouraging staff for self-development and improvements. The Group uses the "key performance indicators", a methodical system, to monitor and evaluate the performance of managerial staff, aiming to achieve continuous improvements and correction of deficiencies by establishing a measurable benchmark.

The Board recognises that the future success of the Group depends largely on its ability to build up a team of high calibre professional managers as its human resource capital. The Group is committed to building up such human resource capital to enhance its assets for ensuring future growth.

The remuneration of the individual Directors and the 5 highest paid individuals are set out in notes 12 and 13 to the consolidated financial statements.

(4) Audit Committee

The Audit Committee was established by the Board since the listing of the shares of the Company on the Stock Exchange on 7 April 2000. As at the date of this report, the Audit Committee currently comprises 3 independent non-executive Directors. The chairman of the Audit Committee is Mr. Cheong Ying Chew, Henry and the other members are Mr. Li Weibin and Mr. Hung Ka Hai, Clement.

The Audit Committee has its written terms of reference adopted since its establishment. The terms of reference were subsequently revised on 30 March 2012 in order to comply with the then adopted amendments to the CG Code. In light of the amendments made to the CG Code with effect from 1 January 2016, the Board has further adopted the revised terms of reference of the Audit Committee on 15 December 2015 in accordance with such CG Code amendments.

The major duties of the Audit Committee set out in its terms of reference are summarised as follows:

- to ensure and coordinate the relationship with the Company's external auditors and make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors;

- to review the Company's financial information; and

- to oversee the Company's financial reporting system, risk management and internal control systems.

The Audit Committee held 2 meetings during the reporting year for the purposes of, including but not limited to, the following:

- reviewed and commented on the Company's annual and interim financial reports;

- oversaw the Group's financial reporting system, risk management and internal control systems on an ongoing basis;

- reviewed the financial reporting system to ensure the adequacy of resources, qualifications and experience of staff in accounting and financial reporting functions of the Group;
- discussed the Group's internal audit plan with the Risk Management Department;
- reviewed the continuing connected transactions of the Company;
- reviewed and made recommendation to the Board on the adoption of the whistleblowing policy; and
- met and communicated with the external auditors for audit works of the Group.

The attendance record of the Audit Committee meetings during the reporting year:

Name of Director	Number of meetings attended/held	Attendance rate
Independent Non-Executive Directors:		
Mr. Cheong Ying Chew, Henry *(Chairman)*	2/2	100%
Mr. Li Weibin	2/2	100%
Mr. Li Ming *(Resigned with effect from 18 March 2020)*	2/2	100%
Mr. Hung Ka Hai, Clement *(Appointed with effect from 18 March 2020)*	0/0	0%

Accountability and Audit

The Board is accountable to the shareholders of the Company through proper financial reporting, regular internal control reviews, interim reviews and annual audits. These are the most efficient way in assessing the effectiveness of the Board in managing the business and affairs of the Group.

Financial Reporting

The Directors are responsible for overseeing the preparation of the annual consolidated financial statements which give a true and fair view of the state of business affairs and of the results and cash flow of the Group for the reporting year. In preparing the consolidated financial statements, the Directors have:

- approved the adoption of the applicable Hong Kong Financial Reporting Standards;
- selected suitable accounting policies and applied them consistently throughout the year covered by the consolidated financial statements;
- made judgments and estimates that were prudent and reasonable, and ensured the consolidated financial statements were prepared on a going concern basis; and
- ensured that the consolidated financial statements were prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

Corporate Governance Report

The Board recognises that high quality corporate reporting is important in enhancing the relationship between the Company and its stakeholders. The Board aims at presenting a balanced, clear and comprehensible vision of the performance, position and prospects of the Group in all corporate communications. The Company's management provides the Board with monthly updates giving a balanced and understandable assessment of the Group's business and financial performance in sufficient detail to enable the Board to discharge their duties.

The statement of Messrs Deloitte Touche Tohmatsu, being the external auditors of the Company, reporting their responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 68 to 74 to this annual report.

Internal Controls

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The system includes a defined management structure with specified limits of authority, to:

- achieve business objectives and safeguard assets against unauthorised use or disposition;
- ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and
- ensure compliance with the relevant legislation and regulations.

The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and manage, rather than eliminate, risks of failure in operational systems, and to ensure achievement of the Group's objectives.

The Board had performed annual review on the effectiveness and adequacy of the Group's risk management and internal control systems, including but not limited to changes in the any risks since last year's review, the scope and quality of management's ongoing review on risk management and internal control systems of the Group; result of internal audit work; significant failures or weaknesses identified and their impacts on the Group during the reporting year; and the financial reporting and status of compliance with the Listing Rules by the Group, in accordance with its internal control framework set out below with the assistance of the Risk Management Department.

Risk Management and Internal Control Framework

The internal control framework established by the Board is highlighted as follows:

(1) Distinct organisational structure

To allow delegation of authority as well as to enhance accountability, a distinct organisational structure exists which details lines of authority and control responsibilities in each business unit of the Group. Division/Department heads are involved in preparing the strategic plan and the operation plan based on the corporate strategies and annual operational and financial targets determined by the Board. Both of the strategic plan and the annual operating plan laid down the foundation for preparation of the annual budgets, which identify and prioritise business opportunities with reference to the resources allocation.

During the reporting year, the Group continued to implement a series of corporate reorganisation programmes in order to achieve a unit chain of command and improve the operation flow. With the continuous focus on the unit chain of command, the Group anticipates to attain better controls and effectively monitor the management, operational and financial processes.

(2) Comprehensive management reporting

A comprehensive management reporting system is in place providing financial and operational performance measurement indicators to the management and relevant financial information for reporting and disclosure purposes. Variances between actual performances and targets are prepared, analysed and explained, and appropriate actions are taken, if necessary, to rectify the deficiencies noted. This helps the management of the Company to monitor the business operations and enables the Board to formulate a strategic plan in a timely and prudent manner.

(3) Regular risk assessment

Systems and procedures are set up to identify, measure, manage and control risks including but not limited to operational risk, accounting risk, interest rate risk and compliance risk that may have an impact on the business of the Group. The Risk Management Department evaluates whether the Group's risk management is in line with the established strategies, policies and procedures of the Company.

(4) Regulated cash and treasury management

The Group maintains a sound system and clear authority limit to ensure daily cash and treasury operations meet the relevant policies and rules established by the Group.

(5) Regular reviews by Risk Management Department and Internal Audit Department

The Risk Management Department was established by the Company in December 2005. The key function of the Risk Management Department is to provide an independent appraisal function to examine and evaluate operations, the systems of internal control and risk management as a service to the Company and its subsidiaries. The Risk Management Department assists all levels of administrations in the achievement of the organisational goals and objectives by striving to provide a positive impact on:

- efficiency and effectiveness of operating functions;
- reliability of financial reporting;
- status of implementation and effectiveness of the internal control policies and procedures; and
- compliance with applicable laws and regulations.

The Risk Management Department also has a role to assist the Board and the Audit Committee to ensure that the Company maintains a sound system of internal controls by:

- reviewing all aspects of the Group's activities and internal controls with unrestricted right of access;
- conducting comprehensive audits of the practices and procedures of the Group;
- conducting comprehensive audits of income and expenditure, internal controls of all business units of the Group;
- conducting comprehensive audits of cash and operational management for various sales offices on a regular basis with the support by the Internal Audit Department; and
- conducting special reviews and investigations of concerned areas identified by the Board or the management.

The Head of Risk Management has unrestricted direct access to the Audit Committee and reports directly to the Board and the Audit Committee. The Head of Risk Management is invited to attend the Audit Committee meetings and has the right to bring appropriate matters identified during the course of the risk assessment and the internal audits to the attention of the Audit Committee. This reporting structure allows the Risk Management Department to maintain its independence and to have free access to all members of the Board.

During the reporting year and up to the date of this report, the work performed by the Risk Management Department includes:

- reviewed and evaluated major business cycles of several business units; and

- reviewed the effectiveness of all material aspects of the risk management and internal control systems of the Group.

The Internal Audit Department was established since 1996 mainly for examining and evaluating the operations and compliance status of the sales offices and branches in the mainland China TV business unit, which is the largest cash flow and revenue contributor of the Group. Besides, it also carries out special audits when senior staff leaving their positions either due to resignations or job rotations within the Group. During the reporting year, the Internal Audit Department also carried out the audit of certain major business units, in order to enhance the management and operational efficiency. Currently, the Internal Audit Department has approximately 23 staff members, most of them continuously travel all over mainland China and overseas to perform their internal audit work.

During the reporting year, the Internal Audit Department issued over 47 reports to the Board and senior management on its regular reviews of operations and compliance audits of certain business units, sales offices and branches as well as reports on senior staff leaving their positions.

Internal Audit Plan

The Risk Management Department, by considering current status and future development of the Group, would submit an internal audit annual plan ("IA Annual Plan") to the Audit Committee and the Board for review and approval, in order to match with the business strategy of the Group.

Risk Management and Internal Control Review

During the reporting year, the Board, through the work performed by the Risk Management Department, conducted a review on the system of internal controls in accordance with the IA Annual Plan, which covers material controls, including financial, operational and compliance controls and risk management functions. The results of the review indicated that the system of risk management and internal controls of the Group is effective and adequate notwithstanding that there were some improvement opportunities identified. The Board would consider and evaluate those improvement opportunities identified by the Risk Management Department and make corresponding changes to the current system as and when appropriate. The Board would continue to review and improve the internal control system in fulfilment of Group's business objective.

External Auditor

The Group's external auditor is Messrs Deloitte Touche Tohmatsu. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditor. Up to the date of this report, the Audit Committee has considered and approved the engagement of Messrs Deloitte Touche Tohmatsu as auditor of the Group for the reporting year and the corresponding audit fee estimation.

The remuneration paid or payable by the Group to Messrs Deloitte Touche Tohmatsu in respect of their audit and other non-audit services for the reporting year were as follows:

Nature of services	For the year ended 31 December 2019 Amounts RMB million	For the 9 months ended 31 December 2018 Amounts RMB million
Audit service (including review of interim financial statements)	**9**	7
Non-audit and tax related service	**4**	2
Total	**13**	9

Company Secretary

Mr. Lam Shing Choi, Eric ("Mr. Lam") was appointed as the Company Secretary since 1 December 2013. The biographical details of Mr. Lam are set out under the section headed "Directors and Senior Management Profiles" of this annual report.

In accordance with Rule 3.29 of the Listing Rules, Mr. Lam has taken no less than 15 hours of relevant professional training during the reporting year.

Corporate Communication with Stakeholders

The Company has in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its stakeholders, including, inter alia, the general public, analysts, and the institutional and individual shareholders of the Company. The main features of the system are that:

- the Company maintains a website on which comprehensive information about the Group, including corporate structure, management profile, products and services provided, financial reports, announcements and news of the Group, are disclosed;

- the Company establishes and maintains different communication channels with its stakeholders through publication of annual and interim reports, announcements and press releases. To promote effective communication, the shareholders of the Company can obtain corporate communication electronically via the Company's corporate website http://investor.skyworth.com/en/index.php;

- the annual general meeting of the Company provides a good forum for the shareholders to exchange views with the Board. The Chairman of the Board as well as chairman of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, members of the committees will be available to answer questions which may be raised by the shareholders of the Company;

- separate resolutions are proposed at general meetings for each substantial issue, including the election of individual Directors;

- details of the poll voting procedures and the rights of shareholders to demand a poll are included in a circular to the shareholders despatched prior to the date of the relevant general meeting. The circular also includes relevant details of proposed resolutions;

- the poll results are published on the website of Hong Kong Exchanges and Clearing Limited and on the Company's website http://investor.skyworth.com/en/index.php; and

- the Company publishes its own newspapers and magazines, which report up-to-date corporate strategy and business development of the Group, on a regular basis for internal circulation.

Shareholders' Right

Pursuant to the bye-laws of the Company, shareholder(s) holding at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the voting right at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to request a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/themselves may do so in the same manner.

The procedures for shareholders of the Company to convene a special general meeting and put forward proposals at shareholders' meetings are available on the website of the Company, and a summary of which is as follows:

Shareholders can submit a requisition to move a resolution at general meetings pursuant to the Companies Act 1981 of Bermuda. The number of shareholders necessary for a requisition shall be:

- either representing not less than one-twentieth (5%) of the total voting rights of the Company having on the date of the requisition; or

- not less than 100 shareholders of the Company.

The written requisitions must:

- state the resolution, with a statement not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the meeting;

- be signed by all the requisitionists (may consist of several documents in like form each signed by one or more requisitionists); and

- be deposited at the head office of the Company in Hong Kong for the attention of the Company Secretary.

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the Company Secretary at the Company's Hong Kong office at Rooms 1601-04, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong. Shareholders of the Company can also make enquiries to the Board directly at the general meetings.

Constitutional Documents

During the reporting year, there were no changes in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the Members of Skyworth Group Limited
(FORMERLY KNOWN AS SKYWORTH DIGITAL HOLDINGS LIMITED)
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Skyworth Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 75 to 223, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. 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.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Write-down for inventories	
We identified the write-down for inventories as a key audit matter due to the significance of inventories to the consolidated statement of financial position as a whole, combined with significant management judgement associated with the assessment of write-down for inventories. As disclosed in note 27 to the consolidated financial statements, inventories of the Group as at 31 December 2019 comprised of raw materials, work in progress and finished goods amounting to RMB1,692 million, RMB260 million and RMB2,957 million respectively. As further disclosed in note 11 to the consolidated financial statements, an expense of RMB163 million was recognised in profit or loss to write-down the cost of inventories to their net realisable values during the year ended 31 December 2019. As disclosed in note 4 to the consolidated financial statements, the assessment of write-down for inventories requires significant management judgement in determining estimated selling prices, estimated cost to completion and reviewing the usability and saleability of inventories.	Our procedures in relation to the write-down for inventories include: • Obtaining an understanding of management's process of carrying out the assessment of write-down of inventories; • Evaluating the basis of write-down for inventories assessed by management; • Assessing the appropriateness of the estimated selling prices of the inventories by tracing to recent or subsequent selling prices of the same products, on a sample basis; • Evaluating the reasonableness of management's estimated cost to completion and tracing to the supporting documents, on a sample basis; • Obtaining an understanding of how management review the usability and saleability of inventories for identifying slow moving inventories by product types; and • Testing the accuracy of the inventory ageing report used as a basis to calculate the provision.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Estimated provision of expected credit losses for trade receivables	
We identified the estimated provision of expected credit losses for trade receivables as a key audit matter due to the significance of trade receivables to the consolidated statement of financial position as a whole, combined with significant management estimation associated with the assessment of impairment of trade receivables. As disclosed in note 31 to the consolidated financial statements, the carrying amount of trade receivables is RMB9,430 million (net of allowance for credit losses of RMB398 million). An impairment loss of RMB110 million was recognised in profit or loss on trade receivables during the year ended 31 December 2019. As disclosed in note 4 to the consolidated financial statements, the impairment loss assessment requires significant management estimation in determining the expected credit losses for trade receivables. The Group uses provision matrix, through grouping of various debtors that have similar loss patterns, after considering internal credit ratings, repayment history and/or past due status of respective trade receivables, to calculate expected credit losses for trade receivables. The estimated loss rates are based on the average of market corporate default rates taking into consideration forward-looking information that is reasonable, supportable and available without undue costs. In addition, trade receivables that are credit impaired are assessed for expected credit losses individually with reference to the historical settlement experience, future expected settlement plan, business relationship with the customers and credit assessment of customers.	Our procedures in relation to estimated provision of expected credit losses for trade receivables included: • Obtaining an understanding of management's process of assessing the expected credit losses of trade receivables; • Evaluating the appropriateness of groupings of trade debtors having similar loss patterns in the provision matrix and testing the integrity of the information used by the management to develop the provision matrix; • Evaluating the reasonableness of management's determination of the estimated loss rates (with reference to market corporate default rates and publicly available forward-looking information); • Testing the accuracy of management's calculation of the expected credit losses for trade receivables for 31 December 2019; • Evaluating the reasonableness of management's determination of allowance for credit losses for credit impaired trade receivables with reference to, where applicable, the historical settlement experience, subsequent settlements, future expected settlement plan, business relationship with the customers and credit assessment of customers; • Testing subsequent settlements of credit impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to payment receipt from trade debtors subsequent to the end of the current reporting period.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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.

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

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

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

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

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

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

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

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

We communicate with those charged with governance 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.

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

We also provide those charged with governance 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 those charged with governance, 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 the independent auditor's report is Wu Ka Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
5 April 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

Amounts expressed in millions of Renminbi except for earnings per share data

	NOTES	Year ended 31 December 2019	Nine months ended 31 December 2018
Revenue			
Contracts with customers		**36,802**	29,736
Leases		**408**	272
Interest under effective interest method		**67**	184
Total revenue	5	**37,277**	30,192
Cost of sales		**(29,775)**	(24,534)
Gross profit		**7,502**	5,658
Other income	7	**1,071**	628
Other gains and losses	8(a)	**275**	(13)
Impairment loss recognised in respect of financial assets	8(b)	**(223)**	(277)
Selling and distribution expenses		**(3,757)**	(2,862)
General and administrative expenses		**(1,014)**	(833)
Research and development expenses		**(1,843)**	(1,327)
Finance costs	9	**(484)**	(335)
Share of results of associates		**21**	9
Share of results of joint ventures		**5**	–
Profit before taxation		**1,553**	648
Income tax expense	10	**(522)**	(95)
Profit for the year/period	11	**1,031**	553
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**24**	(132)
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")		**(141)**	(1,763)
Income tax relating to item that will not reclassified subsequently		**21**	264
		(120)	(1,499)
Other comprehensive expense for the year/period		**(96)**	(1,631)
Total comprehensive income (expense) for the year/period		**935**	(1,078)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

Amounts expressed in millions of Renminbi except for earnings per share data

	NOTE	**Year ended 31 December 2019**	Nine months ended 31 December 2018
Profit for the year/period attributable to:			
Owners of the Company		**747**	420
Non-controlling interests		**284**	133
		1,031	553
Total comprehensive income (expense) for the year/period attributable to:			
Owners of the Company		**642**	(1,199)
Non-controlling interests		**293**	121
		935	(1,078)
Earnings per share (expressed in Renminbi cents)			
Basic	15	**24.61**	13.85
Diluted	15	**24.52**	11.63

Consolidated Statement of Financial Position

At 31 December 2019

Amounts expressed in millions of Renminbi

	NOTES	As at 31 December 2019	As at 31 December 2018
Non-current Assets			
Property, plant and equipment	16	**7,040**	6,571
Right-of-use assets	17	**2,496**	–
Deposits paid for purchase of property, plant and equipment		**299**	360
Investment properties	18	**4**	4
Prepaid lease payments on land use rights	19	**–**	2,331
Goodwill	20	**410**	384
Intangible assets	21	**91**	92
Interests in associates	22	**196**	79
Interests in joint ventures	23	**19**	22
Equity instruments at fair value through profit or loss ("FVTPL")	24	**1,005**	463
Equity instruments at FVTOCI	24	**1,523**	1,494
Finance lease receivables	33	**5**	–
Loan receivables	25	**585**	41
Deferred tax assets	26	**500**	555
		14,173	12,396
Current Assets			
Inventories	27	**4,909**	6,031
Stock of properties	28	**4,171**	866
Prepaid lease payments on land use rights	19	**–**	50
Investments in debt securities	29	**83**	158
Financial assets at FVTPL	30	**50**	37
Trade receivables	31	**14,265**	16,416
Other receivables, deposits and prepayments	32	**2,045**	2,545
Loan receivables	25	**1,540**	2,730
Finance lease receivables	33	**125**	128
Prepaid tax		**75**	31
Pledged bank deposits	35	**885**	123
Restricted bank deposits	35	**411**	335
Bank balances and cash	35	**4,806**	3,314
		33,365	32,764
Current Liabilities			
Trade payables	36(a)	**6,559**	6,635
Other payables	36(b)	**4,264**	3,821
Bills payables	37	**3,500**	6,182
Derivative financial instruments	38	**4**	3
Lease liabilities	39	**34**	–
Contract liabilities	40	**1,951**	1,443
Corporate bonds	45	**1,990**	–
Provision for warranty	41	**181**	143
Amount due to a non-controlling shareholder of a subsidiary	34	**–**	50
Tax liabilities		**189**	117
Borrowings	42	**7,135**	5,590
Deferred income	43	**170**	144
		25,977	24,128
Net Current Assets		**7,388**	8,636
Total Assets less Current Liabilities		**21,561**	21,032

Consolidated Statement of Financial Position

At 31 December 2019

Amounts expressed in millions of Renminbi

	NOTES	**As at 31 December 2019**	As at 31 December 2018
Non-current Liabilities			
Other financial liabilities	36(c)	**285**	173
Lease liabilities	39	**112**	–
Provision for warranty	41	**91**	80
Borrowings	42	**1,042**	734
Convertible bonds	44	**924**	–
Corporate bonds	45	**–**	1,990
Deferred income	43	**426**	522
Deferred tax liabilities	26	**262**	178
Derivative financial instruments	44	**276**	–
		3,418	3,677
NET ASSETS		**18,143**	17,355
Capital and Reserves			
Share capital	46	**308**	308
Reserves		**15,684**	15,162
Equity attributable to owners of the Company		**15,992**	15,470
Non-controlling interests		**2,151**	1,885
		18,143	17,355

The consolidated financial statements on pages 75 to 223 were approved and authorised for issue by the board of directors on 5 April 2020 and are signed on its behalf by:

LAI WEIDE
DIRECTOR

LIU TANGZHI
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

Amounts expressed in millions of Renminbi

	Attributable to owners of the Company											Attributable to non-controlling interests			
	Share capital	Share premium	Share option reserve	Share award reserve	Shares held for share award scheme	FVTOCI reserve	Surplus account *(Note (a))*	Capital reserve *(Note (b))*	Exchange reserve	Accumulated profits	Sub-total	Share award reserve of a subsidiary	Share of net assets of subsidiaries	Sub-total	Total
Balance at 1 April 2018	308	3,292	198	–	(105)	2,064	40	1,280	18	9,820	16,915	14	1,608	1,622	18,537
Profit for the period	–	–	–	–	–	–	–	–	–	420	420	–	133	133	553
Fair value loss on equity instruments at FVTOCI, net of tax	–	–	–	–	–	(1,499)	–	–	–	–	(1,499)	–	–	–	(1,499)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	(120)	–	(120)	–	(12)	(12)	(132)
Total comprehensive (expense) income for the period	–	–	–	–	–	(1,499)	–	–	(120)	420	(1,199)	–	121	121	(1,078)
Recognition of equity-settled share-based payments *(note 49)*	–	–	4	17	–	–	–	–	–	–	21	21	–	21	42
Transfer to capital reserve	–	–	–	–	–	–	–	336	–	(336)	–	–	–	–	–
Shares vested under the share award schemes of the Company and a subsidiary of the Company	–	–	–	(7)	7	–	–	–	–	42	42	–	17	17	59
Lapse of share option	–	–	(135)	–	–	–	–	–	–	135	–	–	–	–	–
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	–	–	–	–	(241)	(241)	–	–	–	(241)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(32)	(32)	(32)
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	59	59	59
Non-controlling interests arising on disposal of partial interest in a subsidiary that does not result in losing control of the subsidiary *(Note (c))*	–	–	–	–	–	–	–	–	–	(68)	(68)	–	80	80	12
Disposal of a subsidiary *(note 50)*	–	–	–	–	–	–	–	–	–	–	–	–	(2)	(2)	(2)
Acquisition of additional interest in a subsidiary *(Note (d))*	–	–	–	–	–	–	–	–	–	–	–	–	(1)	(1)	(1)
Balance at 31 December 2018	308	3,292	67	10	(98)	565	40	1,616	(102)	9,772	15,470	35	1,850	1,885	17,355
Profit for the year	–	–	–	–	–	–	–	–	–	747	747	–	284	284	1,031
Fair value loss on equity instruments at FVTOCI, net of tax	–	–	–	–	–	(120)	–	–	–	–	(120)	–	–	–	(120)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(3)	–	–	18	–	15	–	9	9	24
Total comprehensive (expense) income for the year	–	–	–	–	–	(123)	–	–	18	747	642	–	293	293	935
Recognition of equity-settled share-based payments *(note 49)*	–	–	28	10	–	–	–	–	–	–	38	10	–	10	48
Transfer to capital reserve	–	–	–	–	–	–	–	137	–	(137)	–	–	–	–	–
Shares vested under the share award schemes of the Company and a subsidiary of the Company	–	–	–	(10)	15	–	–	–	–	(5)	–	(17)	64	47	47
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	–	–	–	–	(160)	(160)	–	–	–	(160)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(63)	(63)	(63)
Deemed acquisition of additional interest in a listed subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(7)	(7)	(7)
Acquisition of additional interest in subsidiaries *(Note (e))*	–	–	–	–	–	–	–	–	–	2	2	–	(14)	(14)	(12)
Balance at 31 December 2019	308	3,292	95	10	(83)	442	40	1,753	(84)	10,219	15,992	28	2,123	2,151	18,143

Notes:

(a) *Surplus account represented the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and other reserves accounts of Skyworth Investment (Holdings) Limited, a subsidiary which was acquired by the Company pursuant to the group reorganisation carried out in 2000.*

(b) *Capital reserve represented the People's Republic of China (the "PRC") statutory reserves. Pursuant to the relevant PRC regulations and the Articles of Association of the PRC subsidiaries of the Company, the PRC subsidiaries are required to transfer not less than 10% of their post-tax profit to statutory reserves (i.e. capital reserve) as reserve funds until the aggregated amounts have reached 50% of their registered capitals. These reserves should only be used for making up losses, capitalisation into capital, and expansion of production and operation.*

(c) *During the nine months ended 31 December 2018, the Company mainly disposed of 7.53% equity interest of Shenzhen Coocaa Network Technology Company Limited ("Shenzhen Coocaa") for a consideration of RMB12 million. The difference between the consideration and the net assets attributable to the interest disposed to the non-controlling shareholders is debited to accumulated profits.*

(d) *During the nine months ended 31 December 2018, the Group acquired 30% equity interest in 深圳市鳳梨科技有限公司 from a non-controlling shareholder for a consideration of RMB1 million, which approximates the carrying amount of the net assets attributable to the additional interest acquired from the non-controlling shareholder.*

(e) *During the year ended 31 December 2019, the Group acquired 2.5% equity interests in Skyworth Electronic Appliance Limited from a non-controlling shareholder for a consideration of RMB6 million. The difference between the consideration and the net assets attributable to the interest acquired from the non-controlling shareholder is credited to accumulated profits.*

During the year ended 31 December 2019, the Group acquired 5.0% equity interests in 創維集團智能裝備有限公司 from a non-controlling shareholder for a consideration of RMB6 million. The difference between the consideration and the net assets attributable to the interest acquired from the non-controlling shareholder is credited to accumulated profits.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

Amounts expressed in millions of Renminbi

	Year ended 31 December 2019	Nine months ended 31 December 2018
OPERATING ACTIVITIES		
Profit before taxation	**1,553**	648
Adjustments for:		
Amortisation of intangible assets	**1**	2
Depreciation of right-of-use assets	**136**	–
Depreciation of property, plant and equipment	**511**	344
Dividend income	**(15)**	(1)
Finance costs	**484**	335
Loss (gain) from changes in fair value of derivative financial instruments	**137**	(10)
Gain on disposal of a joint venture	**(3)**	(1)
Government grants related to assets recognised	**(141)**	(53)
Impairment loss recognised in respect of financial assets	**223**	277
Interest income	**(308)**	(290)
(Gain) loss from changes in fair value of equity instruments at FVTPL	**(387)**	26
Loss on disposal of financial assets at amortised costs	**31**	–
Loss on disposal of land use rights	**–**	8
Loss on disposal of a subsidiary	**–**	30
Loss on disposal of property, plant and equipment	**6**	27
Provision for warranty	**216**	140
Release of prepaid lease payments on land use rights	**–**	50
Share-based payment expenses	**48**	42
Share of results of associates	**(21)**	(9)
Share of results of joint ventures	**(5)**	–
Write-down of inventories	**163**	46
Operating cash flows before movements in working capital	**2,629**	1,611
Cash received on settlement of derivative financial instruments	**1**	11
Decrease (increase) in inventories	**1,213**	(776)
(Increase) decrease in stock of properties	**(3,305)**	259
Decrease in financial assets at FVTPL	**–**	83
Decrease (increase) in trade receivables	**2,035**	(5,158)
Decrease (increase) in other receivables, deposits and prepayments	**433**	(620)
Decrease (increase) in loan receivables	**397**	(159)
Decrease in finance lease receivables	**–**	6
(Decrease) increase in trade payables	**(150)**	2,011
Increase in other payables	**323**	195
(Decrease) increase in bills payables	**(2,680)**	734
Increase (decrease) in contract liabilities	**508**	(228)
Decrease in provision for warranty	**(167)**	(121)
Decrease in amounts due to associates	**–**	(30)
Decrease in deferred income	**(70)**	(220)
Cash generated from (used in) operations	**1,167**	(2,402)
Interest received	**67**	184
Hong Kong income tax paid	**(1)**	(8)
Overseas income tax paid	**(16)**	(1)
PRC income tax paid	**(300)**	(241)
Land appreciation tax paid	**(19)**	(9)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**898**	(2,477)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

Amounts expressed in millions of Renminbi

	NOTE	Year ended 31 December 2019	Nine months ended 31 December 2018
INVESTING ACTIVITIES			
Dividend received		**18**	6
Interest received		**258**	107
Purchase of property, plant and equipment		**(1,013)**	(1,009)
Proceeds on disposal of property, plant and equipment		**46**	64
Addition to right-of-use assets		**(56)**	–
Addition to prepaid lease payments on land use rights		**–**	(63)
Proceeds on disposal of land use right		**–**	46
Investment in an associate		**(96)**	(7)
Investments in equity instruments at FVTPL		**(258)**	(123)
Proceeds on disposal of equity instruments at FVTPL		**103**	–
Investments in debt securities		**(86)**	(151)
Proceeds on redemption of investments in debt securities upon maturity		**153**	50
Investments in financial assets at FVTOCI		**(170)**	–
Repayment from an associate		**–**	26
Advances to finance lease receivables		**(5)**	–
Loan advanced		**(1,495)**	(776)
Repayments of loan receivables		**1,705**	588
Advances to staffs		**(10)**	(101)
Repayments from staffs		**14**	79
Government grants received related to assets		**141**	53
Placement of pledged bank deposits		**(885)**	(123)
Withdrawal of pledged bank deposits		**123**	334
Placement of restricted bank deposits		**(411)**	(335)
Withdrawal of restricted bank deposits		**335**	514
Proceeds on disposal of a joint venture		**8**	18
Investments in financial assets at FVTPL		**(48)**	–
Proceeds on disposal of financial assets at FVTPL		**35**	–
Net cash inflow from acquisition of a subsidiary	50(a)	**14**	–
Net cash inflow from disposal of a subsidiary	50(b)	**–**	14
NET CASH USED IN INVESTING ACTIVITIES		**(1,580)**	(789)
FINANCING ACTIVITIES			
Dividends paid		**(273)**	(283)
Interest paid		**(431)**	(349)
Amounts received for restricted share incentive scheme of a subsidiary		**–**	23
Contributions from non-controlling interests		**–**	59
Repurchase of its own shares by a listed subsidiary		**(7)**	–
Consideration paid in acquisition of additional interests in subsidiaries		**(12)**	(1)
Proceeds from partial disposals of subsidiaries		**–**	12
New convertible bonds raised, net of transaction costs		**1,031**	–
New other financial liability		**98**	–
New borrowings raised		**13,676**	7,080
Repayments of borrowings		**(11,918)**	(7,175)
Repayments of lease liabilities		**(55)**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**2,109**	(634)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,427**	(3,900)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		**3,314**	7,294
Effect of foreign exchange rate changes		**65**	(80)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash		**4,806**	3,314

1. GENERAL

Skyworth Group Limited (the "Company") is an exempted company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company are disclosed in the corporate information section of the annual report.

Pursuant to a special resolution passed by the shareholders at the annual general meeting of the Company held on 31 May 2019, the English name of the Company was changed from "Skyworth Digital Holdings Limited" to "Skyworth Group Limited" and the Chinese name was changed from "創維數碼控股有限公司" to "創維集團有限公司"and was adopted as a secondary name of the Company. The change of name and adoption of secondary name were made both effective from 11 June 2019.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and most of its subsidiaries.

The Group, comprising the Company and its subsidiaries, is principally engaged in the manufacture and sales of smart TV systems, home access systems, smart white appliances, internet value-added services, property development and property holding. Details of the principal activities of the principal subsidiaries, associates and joint ventures are set out in notes 60, 22 and 23 respectively.

Change of financial year end date

Starting from the annual consolidated financial statements for the nine-month period ended 31 December 2018, the financial year end date of the Company was changed from 31 March to 31 December to align with the financial year end date of the Company's principal operating subsidiaries established in the PRC for which their accounts are statutorily required to be prepared with a financial year end date of 31 December. Accordingly, the consolidated financial statements for the current year covers the twelve-month period from 1 January 2019 to 31 December 2019. The corresponding comparative amounts shown for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes covers the nine-month period from 1 April 2018 to 31 December 2018, which may therefore not be comparable with amounts shown for the current year.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied, for the first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current year and prior period and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessee (Continued)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities is ranging from 4.75% to 5.00%.

	1 January 2019 RMB million
Operating lease commitments as at 31 December 2018	165
Lease liabilities discounted at relevant incremental borrowing rates	146
Less: Recognition exemption – short-term leases	(24)
Lease liabilities as at 1 January 2019	122
Analysed as:	
Current	52
Non-current	70
	122

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	1 January 2019 RMB million
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	122
Reclassified from prepaid lease payments on land use rights	2,381
	2,503
By class:	
Leasehold lands	2,381
Land and buildings	122
	2,503

Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments on land use rights as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB50 million and RMB2,331 million respectively were reclassified to right-of-use assets.

Effective from 1 January 2019, leasehold lands which were classified as stock of properties are measured under HKFRS 16 at cost less any accumulated depreciation and any impairment losses.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessor (Continued)

Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets at transition. No adjustment has been made to refundable rental deposits paid and right-of-use assets since the discounting effect is not significant.

Effective on 1 January 2019, the Group has applied HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

Sales and leaseback transactions

The Group acts as a buyer-lessor

In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group as a buyer-lessor does not recognise the transferred asset if such transfer does not satisfy the requirements of HKFRS 15 as a sale. During the current year, several sales and leaseback transactions in which the relevant seller-lessees have an obligation or a right to repurchase the relevant assets were accounted as financing arrangements under HKFRS 9 *Financial Instruments* ("HKFRS 9").

The following tables summarise the impacts on the Group's consolidated statement of financial position as at 31 December 2019 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported RMB million	**Adjustments** RMB million	**Amounts without application of HKFRS 16** RMB million
Non-current Assets			
Loan receivables	585	(575)	10
Finance lease receivables	5	575	580
Current Assets			
Loan receivables	1,540	(25)	1,515
Finance lease receivables	125	25	150

The transition to HKFRS 16 has no material impact on accumulated profits at 1 January 2019 and financial statements disclosure during the current year.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 *Effective for annual periods beginning on or after 1 January 2021.*

2 *Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.*

3 *Effective for annual periods beginning on or after a date to be determined.*

4 *Effective for annual periods beginning on or after 1 January 2020.*

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before the application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 *Impairment of Assets*.

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.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company or its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates and joint ventures (Continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Variable consideration

For contracts that contain variable consideration (i.e. sales rebate), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

Sale with a right of return/exchange

For a sale of products with a right of return/exchange for dissimilar products, the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);

(b) a refund liability/contract liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property and inventory are presented within "investment properties" and "stock of properties" respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

As a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

As a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessor (Continued)

Classification and measurement of leases (Continued)

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions (upon application of HKFRs 16 since 1 January 2019)

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group as a buyer-lessor

For a transfer of asset that does not satisfy the requirements of HKFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred asset and recognises a loan receivable equal to the transfer proceeds within the scope of HKFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Sale and leaseback transactions (prior to 1 January 2019)

The accounting treatment of a sale and leaseback transaction depends on the type of lease involved. The leaseback may be a finance lease if it meets the condition that substantially all the risks and rewards of ownership remain with the lessee, or it may be an operating lease (in which case, some significant risks and rewards of ownership have been transferred to the purchaser).

The Group as a buyer-lessor

For sale and leaseback transactions which are in substance a financing arrangement under HKFRS 9, the Group as a buyer-lessor does not recognise the transferred asset and recognises a finance lease receivable equal to the net investment in the lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB), using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve.

The change in presentation currency of the Company was applied retrospectively, as if the new presentation currency had always been applied.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective from 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes, the Occupational Retirement Scheme and the Mandatory Provident Fund Scheme, are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulated expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Share award

For share award schemes, the fair value of services received, determined by reference to the fair value of awarded shares granted at the grant date, is expensed on a straight-line basis over the vesting period, with a corresponding increase in share award reserve. The cost of acquisition of the Company's share held for the share award scheme is recorded as treasury shares (shares held for share award scheme). At the time when the awarded shares are vested, the amount previously recognised in share award reserve and the amount of the relevant treasury shares will be transferred to accumulated profits.

At the end of each reporting period, the Group revisits its estimates of the number of awarded shares that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to the share award reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of tax profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties which comprise a portion that is held to earn rentals and another significant portion that is held for use in the production or supply of goods or for administration purposes, and the portion of properties rent out under operating lease cannot be sold out separately (or cannot be leased out separately under a finance lease), are accounted for as property, plant and equipment.

Construction in progress includes property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments on land use rights" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination (Continued)

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment losses on property, plant and equipment and investment property measured at cost ("tangible assets"), right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible assets, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash generating units. An impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on property, plant and equipment and investment property measured at cost ("tangible assets"), right-of-use assets and intangible assets other than goodwill (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Stock of properties

Stock of completed properties/properties under development which are intended to be sold upon completion of development and for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets upon the application of HKFRS 16, stock of completed properties/properties under development are carried at the lower of cost and net realisable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Properties under development are transferred to completed properties upon completion.

Provision for warranty

Provision for warranty is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of obligation.

The amount recognised as provision for warranty is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the expected cost of assurance-type warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment under HKFRS 9 (including loan receivables, investments in debt securities, trade receivables, finance lease receivables, other receivables, pledged bank deposits, restricted bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12 months ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

The Group always recognises lifetime ECL for trade receivables and finance lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(i) Significant increase in credit risk (Continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(v) Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and loan receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated profits upon derecognition of the financial liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables, bills payable, amount due to a non-controlling shareholder of a subsidiary, borrowings, corporate bonds and other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible bonds using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

Write-down for inventories

Inventories are stated at the lower of cost and net realisable values. As at 31 December 2019, the carrying amount of inventories is RMB4,909 million (2018: RMB6,031 million). During the year ended 31 December 2019, an expense of RMB163 million (for the nine months ended 31 December 2018: RMB46 million) was recognised in profit or loss to write-down the cost of inventories to their net realisable values.

At the end of each reporting period, management carries out the assessment of write-down of inventories by comparing the carrying amounts of inventories with the net realisable values. The net realisable values are primarily made reference to the estimated selling prices, less the estimated cost to completion, as appropriate. Moreover, management also reviews the usability and saleability of inventories by product types at the end of reporting period, and writes-down for slow moving inventories. The identification of slow moving inventories is based on the inventory ageing and recent or subsequent usages/sales. The assessment of write-down for inventories requires significant management judgement in determining estimated selling prices, estimated cost to completion, and reviewing the usability and saleability of inventories. If the estimates are inaccurate, write-down for inventories may increase or decrease accordingly.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Fair value measurement of financial instruments

The Group's unlisted equity instruments at FVTPL and unlisted equity instruments at FVTOCI amounting to RMB612 million and RMB1,402 million (2018: RMB390 million and RMB1,494 million), respectively, are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. In estimating the fair value of unlisted equity securities, the Group engaged independent qualified external valuers to perform the valuation and worked with the independent qualified external valuers to establish inputs to the valuation. The fair value of unlisted equity instruments was mainly arrived at by using market approach. The valuations are dependent on certain significant unobservable inputs that involve judgements, including trading multiples of comparable companies and discounts for lack of marketability. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 55(c) for further disclosures.

Estimated provision of ECL for trade receivables

The Group uses provision matrix, through grouping of various debtors that have similar loss patterns, after considering internal credit ratings, repayment history and/or past due status of respective trade receivables, to calculate ECL for its trade receivables. The estimated loss rates are based the average of market corporate default rates taking into consideration forward-looking information that is reasonable, supportable and available without undue costs. At every reporting date, the estimated loss rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually with reference to the historical settlement experience, subsequent settlements, future expected settlement plan, business relationship with the customers and credit assessment of customers.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 55(b) and 31 respectively.

5. REVENUE

(i) Disaggregation of revenue from contracts with customers, rental and interest

For the year ended 31 December 2019

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Modern services and others RMB million	Total RMB million
Type of goods					
Smart TV systems	19,555	198	–	112	19,865
Home access systems	12	6,256	–	–	6,268
Smart white appliances	100	–	4,016	2	4,118
Intelligent manufacturing	44	1,684	–	–	1,728
Internet valued-added services of Coocaa system	826	–	–	–	826
Sales of properties	–	–	–	528	528
Automotive electronic systems	–	55	–	–	55
Others *(Note (2))*	968	1,346	279	821	3,414
Contracts with customers *(Note (3))*	21,505	9,539	4,295	1,463	36,802
Rental	–	59	–	349	408
Interest *(Note (4))*	–	–	–	67	67
Segment revenue	21,505	9,598	4,295	1,879	37,277

5. REVENUE (Continued)

(i) *Disaggregation of revenue from contracts with customers, rental and interest (Continued)*

For the nine months ended 31 December 2018 (restated) *(Note (1))*

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Modern services and others RMB million	Total RMB million
Type of goods					
Smart TV systems	17,725	–	–	–	17,725
Home access systems	–	4,938	–	–	4,938
Smart white appliances	–	–	2,101	–	2,101
Intelligent manufacturing	27	799	–	–	826
Internet valued-added services of Coocaa system	447	–	–	–	447
Sales of properties	–	–	–	778	778
Automotive electronic systems	–	129	–	–	129
Others *(Note (2))*	439	667	212	1,474	2,792
Contracts with customers *(Note (3))*	18,638	6,533	2,313	2,252	29,736
Rental	8	40	–	224	272
Interest *(Note (4))*	–	–	–	184	184
Segment revenue	18,646	6,573	2,313	2,660	30,192

Notes:

(1) *In the current year, the Group reorganised its internal reporting structure which resulted in changes to the composition of its reportable segments and groupings on types of goods. Details of the change is set out in note 6 to the consolidated financial statements. Prior period segment disclosures have been represented to confirm with the current year's presentation.*

(2) *Others mainly represents manufacture and sales of lighting products, security system and other electronic products, etc. and trading of other products.*

(3) *Except for certain revenue generated from internet valued-added services of Coocaa system which is recognised over time, the revenue from sales of goods are recognised at a point in time under HKFRS 15.*

(4) *Interest represents interest income from loan receivables and finance lease receivables amounted to RMB67 million (for the nine months ended 31 December 2018: RMB184 million), under group entities in which the loan financing is a principal activity.*

5. REVENUE (Continued)

(ii) Performance obligations for contracts with customers

Manufacture and sales of goods

The Group manufactures and sells smart TV systems, home access systems (mainly digital set-top boxes), smart white appliances, intelligent manufacturing (mainly LCD modules), automotive electronic systems, lighting products, security system and other electronic products etc. and trading of other products, to the customers or directly to retail customers either through its own retail outlets and through internet sales.

For sales to the customers, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customers has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods.

Sales of smart TV system, intelligent manufacturing, smart white appliances, automotive electronic systems, lighting products, security system and other electronic products etc. in the PRC are generally settled by payment on delivery or bills issued by banks with maturity dates ranging from 90 to 180 days. Sales to certain retailers in the PRC are made with credit terms of one to two months after sales. Certain district sales managers in the PRC are authorised to make credit sales for payment at 30 to 60 days up to a limited amount which is determined based on the sales volume of the respective offices.

For sales of home access systems, the credit terms are normally ranging from 90 to 270 days.

Export sales of the Group are mainly by letters of credit with credit term ranging from 30 to 90 days.

For sales to retail customers through the Group's own retail outlets, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

For sales to retail customers through internet sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location. When the customer initially purchases the goods online the transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

5. REVENUE (Continued)

(ii) Performance obligations for contracts with customers (Continued)

Manufacture and sales of goods (Continued)

The amount of consideration the Group receives and revenue the Group recognises varies with changes in sales rebates the Group offers to the customers. The Group estimates the sales rebates based on analysis of historical experience, and adjusts for the most likely amount of consideration to be received. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated rebates which is estimated based on experience. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Refund liabilities (included in other payables) is recognised for expected rebates to customers in relation to sales made at the end of the reporting period. No element of financing is deemed present as the sales rebates are payable on demand from customers.

Under the Group's standard contract terms, customers have a right to exchange for dissimilar products within 30 days. The Group uses its accumulated historical experience to estimate the number of exchange on a portfolio level using the expected value method. Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A contract liability is recognised for sales in which revenue has yet been recognised. The directors considered that there will have no significant reversal of revenue as of the end of the reporting period for exchange of products.

Sales-related warranties associated with electronic products cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Sales of properties

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are based on customer's specifications with no alternative use. Taking into consideration of the relevant contract terms, the legal environment and relevant legal precedent, the directors of the Company considered that the Group does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of properties is therefore recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

5. REVENUE (Continued)

(ii) *Performance obligations for contracts with customers (Continued)*

Sales of properties (Continued)

The Group receives 30% to 70% of the contract value as deposits from customers when they sign the sale and purchase agreement. Such advance payment schemes result in contract liabilities being recognised throughout the property construction period for the full amount of the contract price.

The Group considers the advance payment schemes do not contain significant financing component and accordingly the amount of consideration is not adjusted for the effects of the time value of money taking into consideration the credit characteristics of the Group.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Trading of other products

For trading of other products, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customers' specific location. The credit terms are normally ranging from 120 to 270 days.

(iii) *Transaction price allocated to the remaining performance obligation for contracts with customers*

The expected timing of recognising revenue on transaction price related to the performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and 2018 is within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

The Group is organised into operating business units according to the nature of the goods sold or services provided. The Group determines its operating segments based on these business units by reference to the goods sold or services provided, for the purpose of reporting to the chief operating decision maker ("CODM") (i.e. the executive directors of the Company). In the current year, the Group reorganised its internal reporting structure which resulted in changes to the composition of its reportable segments. The purpose of the change is to align to CODM's current review on each business units to be consistent with the Group's overall strategic direction, and the changes mainly include combining manufacturing and sales of different products into multimedia business segment, smart systems technology business segment and smart appliances business segment as described below. Prior period segment disclosures have been represented to conform to the current year's presentation.

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

1. Multimedia business – manufacture and sale of smart TV systems and lighting products for the PRC and overseas markets and provision and sales of internet valued-added services of Coocaa system

2. Smart systems technology business – manufacture and sale of home access systems, intelligent manufacturing, automotive electronic systems, security system and other electronic products

3. Smart appliances business – manufacture and sale of smart white appliances and other smart appliances

In addition to the above reportable segments, the Group has other operating segments which mainly include sales of properties, loan financing and trading of other products etc. These operating segments individually do not meet any of the quantitative thresholds for determining reportable segments. Accordingly, these operating segments are grouped as "Modern service and others".

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

For the year ended 31 December 2019

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Eliminations RMB million	Total RMB million
Revenue							
Segment revenue from external customers	21,505	9,598	4,295	35,398	1,879	–	37,277
Inter-segment revenue	144	199	85	428	3,837	(4,265)	–
Total segment revenue	21,649	9,797	4,380	35,826	5,716	(4,265)	37,277
Results							
Segment results *(Note)*	360	723	101	1,184	646	–	1,830
Interest income							241
Other gains or losses							250
Unallocated corporate income							25
Unallocated corporate expenses							(335)
Finance costs							(484)
Share of results of associates							21
Share of results of joint ventures							5
Consolidated profit before taxation of the Group							1,553

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the nine months ended 31 December 2018 (restated)

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Eliminations RMB million	Total RMB million
Revenue							
Segment revenue from external customers	18,646	6,573	2,313	27,532	2,660	–	30,192
Inter-segment revenue	39	209	288	536	2,999	(3,535)	–
Total segment revenue	18,685	6,782	2,601	28,068	5,659	(3,535)	30,192
Results							
Segment results *(Note)*	403	247	52	702	161	–	863
Interest income							106
Other gains or losses							(16)
Unallocated corporate income							251
Unallocated corporate expenses							(230)
Finance costs							(335)
Share of results of associates							9
Consolidated profit before taxation of the Group							648

Note: No inter-segment transactions have been included in measuring the segment results.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by each segment without allocation of interest income, certain other gains or losses, certain corporate income and expenses, finance costs and share of results of associates and joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

As at 31 December 2019

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Total RMB million
Assets						
Segment assets	12,273	8,410	1,996	22,679	14,865	37,544
Goodwill						410
Interests in associates						196
Interests in joint ventures						19
Unallocated corporate assets						9,369
Total consolidated assets						47,538
Liabilities						
Segment liabilities	4,128	4,137	1,650	9,915	7,155	17,070
Unallocated corporate liabilities						12,325
Total consolidated liabilities						29,395

As at 31 December 2018 (restated)

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Total RMB million
Assets						
Segment assets	14,439	7,244	2,242	23,925	14,240	38,165
Goodwill						384
Interests in associates						79
Interests in joint ventures						22
Unallocated corporate assets						6,510
Total consolidated assets						45,160
Liabilities						
Segment liabilities	6,021	4,124	1,967	12,112	6,415	18,527
Unallocated corporate liabilities						9,278
Total consolidated liabilities						27,805

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

For the purposes of monitoring segment performances and allocating resources among segments:

- all assets other than inter-segment assets are allocated to reportable segments other than goodwill, interests in associates and joint ventures, equity instruments at FVTPL, equity instruments at FVTOCI, deferred tax assets, investments in debt securities, financial assets at FVTPL, prepaid tax, pledged bank deposits, restricted bank deposits, and bank balances and cash; and

- all liabilities other than inter-segment liabilities are allocated to reportable segments other than derivative financial instruments, tax liabilities, borrowings, deferred income, corporate bonds, convertible bonds and deferred tax liabilities.

Other segment information

For the year ended 31 December 2019

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Total RMB million
Included in measure of segment results or segment assets:						
Amortisation of intangible assets	1	–	–	1	–	1
Capital expenditure on						
– Property, plant and equipment	269	206	129	604	629	1,233
– Right-of-use assets	38	33	–	71	64	135
Depreciation of property, plant and equipment	78	152	67	297	214	511
Depreciation of right-of-use assets	44	23	1	68	68	136
Loss on disposal of property, plant and equipment	6	–	–	6	–	6
Impairment loss recognised in respect of investments in debt securities	–	–	–	–	8	8
Impairment loss recognised in respect of trade receivables	15	91	4	110	–	110
Impairment loss recognised in respect of loan receivables	–	–	–	–	35	35
Impairment loss recognised in respect of other receivables	–	–	–	–	67	67
Impairment loss recognised in respect of finance lease receivables	–	–	–	–	3	3
Write-down of inventories	93	41	4	138	25	163

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the nine months ended 31 December 2018 (restated)

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Total RMB million
Included in measure of segment results or segment assets:						
Amortisation of intangible assets	2	–	–	2	–	2
Capital expenditure on						
– Property, plant and equipment	222	180	93	495	365	860
– Prepaid lease payments on land use rights	–	–	–	–	63	63
Depreciation of property, plant and equipment	72	101	41	214	130	344
Loss on disposal of property, plant and equipment	25	2	–	27	–	27
Impairment loss recognised in respect of investments in debt securities	–	–	–	–	34	34
Impairment loss recognised in respect of trade receivables	14	83	–	97	–	97
Impairment loss recognised in respect of loan receivables	–	–	–	–	131	131
Impairment loss recognised in respect of other receivables	9	1	–	10	1	11
Impairment loss recognised in respect of finance lease receivables	–	–	–	–	4	4
Release of prepaid lease payments on land use rights	6	1	1	8	42	50
Write-down of inventories	24	16	4	44	2	46

6. SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are located in the PRC, Asia region (other than the PRC), America, Europe and other regions.

For segments other than sales of properties included in modern service and others, the Group's geographical analysis of revenue from external customers is determined based on the location of customers. For the sales of properties included in modern service and others, the Group's revenue from external customers is determined based on the location of assets. Information about its non-current assets by physical location of the assets is also detailed below.

	Revenue from external customers		**Non-current assets** *(Note 1)*	
	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million	**As at 31 December 2019 RMB million**	As at 31 December 2018 RMB million
PRC	**26,006**	22,279	**9,823**	9,050
Asia region (other than the PRC) *(Note 2)*	**6,115**	4,410	**643**	747
America	**709**	372	**–**	–
Europe	**1,637**	970	**17**	16
Other regions	**2,810**	2,161	**72**	30
	37,277	30,192	**10,555**	9,843

Notes:

1. *Non-current assets excluded equity instruments at FVTPL, equity instruments at FVTOCI, finance lease receivables, loan receivables and deferred tax assets.*

2. *Asia region (other than PRC) includes Vietnam, Indonesia, India, etc, which individually contributed less than 10% of total revenue.*

Information about major customers

There was no customer who individually accounted for over 10% of the total revenue during both year/period.

7. OTHER INCOME

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Dividend income from unlisted investments	**15**	1
Government grants *(note 43)*		
– related to assets	**141**	53
– related to expense items	**231**	166
	372	219
Interest income from		
– bank deposits	**90**	52
– investments in debt securities	**3**	1
– loan receivables	**148**	53
	241	106
Repairs and maintenance income	**1**	10
Value-added-tax ("VAT") refund	**296**	227
Sales of scrap and raw materials and accessories	**54**	24
Others	**92**	41
	1,071	628

8. OTHER GAINS AND LOSSES AND IMPAIRMENT LOSS RECOGNISED IN RESPECT OF FINANCIAL ASSETS

(a) Other gains and losses

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Other gains and losses comprise of:		
Exchange gain, net	**59**	67
(Loss) gain from change in fair value of derivative financial instruments *(notes 38 and 44)*	**(137)**	10
Gain on disposal of a joint venture *(note 23)*	**3**	1
Gain (loss) from changes in fair value of equity instruments at FVTPL *(note 24)*	**387**	(26)
Loss on disposal of a subsidiary *(note 50)*	**–**	(30)
Loss on disposal of financial assets at amortised cost	**(31)**	–
Loss on disposal of land use rights *(note 19)*	**–**	(8)
Loss on disposal of property, plant and equipment	**(6)**	(27)
	275	(13)

8. OTHER GAINS AND LOSSES AND IMPAIRMENT LOSS RECOGNISED IN RESPECT OF FINANCIAL ASSETS (Continued)

(b) Impairment loss recognised in respect of financial assets

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Impairment loss recognised in respect of financial assets comprise of:		
Impairment loss recognised in respect of finance lease receivables	**(3)**	(4)
Impairment loss recognised in respect of investments in debt securities	**(8)**	(34)
Impairment loss recognised in respect of loan receivables	**(35)**	(131)
Impairment loss recognised in respect of other receivables	**(67)**	(11)
Impairment loss recognised in respect of trade receivables	**(110)**	(97)
	(223)	(277)

9. FINANCE COSTS

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Interest on customer deposits from associates	**–**	7
Interest on corporate bonds	**111**	83
Interest on convertible bonds	**36**	–
Interest on borrowings	**315**	235
Imputed interest expenses on other financial liabilities *(note 36(c))*	**14**	10
Interest expense on lease liabilities	**8**	–
	484	335

10. INCOME TAX EXPENSE

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
PRC Enterprise Income Tax ("EIT")		
Current year/period	**308**	232
Overprovision in prior years	**–**	(8)
	308	224
PRC withholding tax	**26**	53
Hong Kong Profits Tax		
Current year/period	**5**	7
Taxation arising in other jurisdictions		
Current year/period	**6**	2
Land appreciation tax ("LAT")	**14**	25
Deferred taxation *(note 26)*	**163**	(216)
	522	95

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of corporations not qualifying for the two tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the year/period. For those PRC subsidiaries approved as High and New Technology Enterprise by the relevant government authorities, they are subject to a preferential rate of 15%.

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use right and all property development expenditures.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Deferred tax is recognised based on the tax rates that are expected to apply to the year/period when the asset is realised or the liability is settled. Details of deferred taxation are set out in note 26.

10. INCOME TAX EXPENSE (Continued)

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui [2008] No. 1, dividend distributed out of the profits generated since 1 January 2008 by the PRC entity shall be subject to EIT pursuant to Articles 3 and 27 of the EIT Law of the PRC and Article 91 of the Implementation Rules of EIT Law of the PRC. RMB26 million (for the nine months ended 31 December 2018: RMB53 million) of the previously provided deferred tax had been reversed and charged as current tax upon distributions by the PRC subsidiaries during the year ended 31 December 2019.

In August 2018, a new notice with the name of Caishui [2018] No. 99 "Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses" was released, according to which certain PRC subsidiaries are entitled to an additional 75% tax deduction on eligible research costs incurred by them for the year ended 31 December 2019 and the nine months ended 31 December 2018.

Subsequent to the end of the reporting period, the Hong Kong Inland Revenue Department (''IRD") has issued additional assessments for the year of assessment 2013/14 to certain subsidiaries of the Company solely because of the time-bar concern. Without further information from the IRD, the directors of the Company are in progress to assess the financial effects of the additional assessments and unable to ascertain any degree of accuracy on the outcome.

The income tax expense for the year/period can be reconciled from the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Profit before taxation	**1,553**	648
Tax at applicable tax rate at 25% *(Note)*	**388**	162
Tax effect of expenses not deductible for tax purpose	**113**	46
Tax effect of income not taxable for tax purpose	**(171)**	(59)
Tax effect of additional tax deduction of research costs	**(125)**	(99)
Overprovision in prior years	**–**	(8)
Tax effect of tax losses not recognised	**320**	124
Utilisation of tax losses previously not recognised	**(62)**	(64)
Tax effect of share of results of associates	**(5)**	(2)
Tax effect of share of results of joint ventures	**(1)**	–
PRC withholding tax	**59**	(19)
PRC LAT	**14**	25
Tax effect of LAT	**(4)**	(6)
Effect of different tax rates applicable to subsidiaries operating in Hong Kong and regions in the PRC other than Hong Kong	**(3)**	1
Income tax at concessionary rate	**(54)**	(27)
Others	**53**	21
Income tax expense for the year/period	**522**	95

Note: The applicable tax rate is with reference to the prevailing PRC tax rate of 25% under the EIT Law and Implementation Regulation of the EIT Law for the year/period.

11. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Profit for the year/period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**1**	2
Auditors' remunerations	**9**	6
Cost of inventories recognised as an expense including write-down of inventories of RMB163 million (for the nine months ended 31 December 2018: RMB46 million)	**29,310**	23,870
Cost of stock of properties recognised as an expense	**322**	568
Depreciation of right-of-use assets	**136**	–
Depreciation of property, plant and equipment	**733**	489
Less: capitalised in cost of inventories	**(222)**	(145)
	511	344
Operating lease rentals in respect of land and buildings		
– included in selling and distribution expenses	**–**	98
– included in general and administrative expenses	**–**	36
	–	134
Release of prepaid lease payments on land use rights	**–**	50
Rental income from leasing of properties less related outgoings of RMB144 million (for the nine months ended 31 December 2018: RMB97 million)	**(264)**	(175)
Research and development costs recognised as an expense (including staff costs of RMB950 million (for the nine months ended 31 December 2018: RMB628 million))	**1,843**	1,327
Staff costs:		
– Directors' and chief executive's emoluments *(note 12)*	**44**	38
– Related staff costs for research and development activities	**950**	628
– Other staffs salaries, bonus, retirement benefits and others	**3,274**	2,026
	4,268	2,692
Less capitalised in:		
– Cost of inventories	**(1,023)**	(733)
– Stock of properties	**(6)**	–
– Property, plant and equipment	**(11)**	–
	3,228	1,959

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	Year ended 31 December 2019 RMB'000	Nine months ended 31 December 2018 RMB'000
Directors' fees	**3,977**	2,899
Other emoluments:		
Basic salaries and allowances	**7,476**	9,712
Performance related incentive payments *(Note)*	**18,926**	12,734
Retirement benefits scheme contributions	**390**	135
Share-based payments	**12,904**	12,537
	43,673	38,017

Note: The performance related incentive payments are determined based on the results of the Group and/or the performance of the directors.

There was no arrangement under which a director or the chief executive waived or agreed to waive any emoluments during the year ended 31 December 2019 and the nine months ended 31 December 2018.

The emoluments paid or payable to each of the directors and the chief executive of the Company are set out below:

	Directors' fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Performance related incentive payments RMB'000	Share-based payments RMB'000	Total RMB'000
For the year ended 31 December 2019						
Executive directors *(Note (i))*:						
Lai Weide	511	2,073	127	6,139	7,454	16,304
Lin Wei Ping	511	1,465	96	2,473	–	4,545
Lin Jin	511	1,109	39	1,911	–	3,570
Liu Tangzhi *(Note (iii))*	511	2,001	77	5,166	5,450	13,205
Shi Chi	511	828	51	3,237	–	4,627
	2,555	7,476	390	18,926	12,904	42,251
Independent non-executive directors *(Note (ii))*:						
Cheong Ying Chew	474	–	–	–	–	474
Li Weibin	474	–	–	–	–	474
Li Ming *(Note (v))*	474	–	–	–	–	474
	1,422	–	–	–	–	1,422
Total directors' emoluments	3,977	7,476	390	18,926	12,904	43,673

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

	Directors' fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Performance related incentive payments RMB'000	Share-based payments RMB'000	Total RMB'000
For the nine months ended 31 December 2018						
Executive directors *(Note (i))*:						
Lai Weide	377	2,253	–	5,229	8,970	16,829
Lin Wei Ping	377	1,907	67	1,710	–	4,061
Lin Jin *(appointed on 1 April 2018)*	377	1,372	14	445	–	2,208
Liu Tangzhi *(Note (iii))*	377	2,259	12	4,276	3,567	10,491
Shi Chi	377	1,921	42	1,074	–	3,414
	1,885	9,712	135	12,734	12,537	37,003
Independent non-executive directors *(Note (ii))*:						
Cheong Ying Chew	338	–	–	–	–	338
Li Weibin	338	–	–	–	–	338
Li Ming	338	–	–	–	–	338
	1,014	–	–	–	–	1,014
Total directors' emoluments	2,899	9,712	135	12,734	12,537	38,017

Notes:

(i) The executive directors' emoluments shown above were for their services in connection with the management of the Group.

(ii) The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(iii) Liu Tangzhi is the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the chief executive.

(iv) Lam Shing Choi, Eric was appointed as an executive director of the Company on 28 February 2020.

(v) Li Ming retired as an independent non-executive director of the Company on 18 March 2020.

(vi) Hung Ka Hai, Clement was appointed as an independent non-executive director of the Company on 18 March 2020.

13. EMPLOYEES' EMOLUMENTS

The five highest paid employees of the Group during the year included four (for the nine months ended 31 December 2018: four) existing directors, details of whose emoluments are set out in note 12 above. Details of the emoluments of the remaining highest paid employee who is neither an existing director nor chief executive of the Company are as follows:

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Basic salaries, allowances and benefits in kind	**1**	2
Performance related incentive payments *(Note)*	**2**	1
	3	3

Note: The performance related incentive payments are determined based on the results of the Group and/or the performance of the individual.

The number of the highest paid employee who is not a director of the Company whose remuneration fell within the following bands is as follows:

	Year ended 31 December 2019 No. of employee	Nine months ended 31 December 2018 No. of employee
HK$3,000,001 to HK$3,500,000	**1**	1

No emoluments were paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2019 and the nine months ended 31 December 2018.

14. DIVIDENDS

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Dividends recognised as distribution during the year/period:		
2018 Final – 6 HK cents (for the nine months ended 31 December 2018: 2017 Final dividend 9 HK cents) per share	**160**	241

The Board has determined not to declare any dividend for the year ended 31 December 2019 (for the nine months ended 31 December 2018: 6.0 HK cents, totalling approximately RMB157 million).

No interim dividend was paid or proposed during the year ended 31 December 2019 and the nine months ended 31 December 2018.

The final dividend paid during the year ended 31 December 2019 and the nine months ended 31 December 2018 was distributed in the form of cash.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Earnings		
Profit for the year/period attributable to owners of the Company for the purpose of basic earnings per share	**747**	420
Effect of dilutive potential ordinary shares arising from:		
– restricted share incentive scheme of Skyworth Digital Co., Ltd. ("Skyworth Digital"), an indirect non-wholly owned subsidiary of the Company established in the PRC whose shares are listed on the Shenzhen Stock Exchange *(note 49(iii))*	**(2)**	(67)
Profit for the year/period attributable to owners of the Company for the purpose of diluted earnings per share	**745**	353

15. EARNINGS PER SHARE (Continued)

	Year ended 31 December 2019	Nine months ended 31 December 2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,035,576,545**	3,032,208,819
Effect of dilutive potential ordinary shares in respect of outstanding share options	**–**	1,699,643
Effect of dilutive potential ordinary shares in respect of outstanding share awards	**3,212,895**	1,801,311
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,038,789,440**	3,035,709,773

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the average market price per share for the year ended 31 December 2019 and the nine months ended 31 December 2018 and the conversion of Skyworth Digital's convertible bonds which results in an increase in earnings per share for the year ended 31 December 2019.

The weighted average number of ordinary shares shown above has been arrived at after deducting shares held by share award scheme trust as set out in note 49(ii).

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB million	Construction in progress RMB million	Plant and machinery RMB million	Furniture, equipment and motor vehicles RMB million	Total RMB million
COST					
At 1 April 2018	4,398	1,582	2,120	1,166	9,266
Additions	60	325	255	220	860
Disposals	(106)	–	(55)	(60)	(221)
Disposal of a subsidiary	(33)	–	(69)	(9)	(111)
Reclassification	929	(929)	–	–	–
Exchange realignment	17	–	6	1	24
At 31 December 2018	5,265	978	2,257	1,318	9,818
Additions	44	742	287	160	1,233
Acquisition of a subsidiary *(note 50(a))*	5	–	–	13	18
Disposals	(9)	–	(48)	(55)	(112)
Reclassification	676	(774)	98	–	–
Exchange realignment	2	–	2	1	5
At 31 December 2019	5,983	946	2,596	1,437	10,962
DEPRECIATION					
At 1 April 2018	1,172	–	1,108	642	2,922
Provided for the period	202	–	152	135	489
Eliminated on disposals	(34)	–	(47)	(49)	(130)
Eliminated on disposal of a subsidiary	(6)	–	(37)	(6)	(49)
Exchange realignment	9	–	5	1	15
At 31 December 2018	1,343	–	1,181	723	3,247
Provided for the year	296	–	234	203	733
Eliminated on disposals	(6)	–	(14)	(40)	(60)
Exchange realignment	1	–	1	–	2
At 31 December 2019	1,634	–	1,402	886	3,922
CARRYING VALUES					
At 31 December 2019	4,349	946	1,194	551	7,040
At 31 December 2018	3,922	978	1,076	595	6,571

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

Included in leasehold land and buildings of the Group are certain properties with carrying value of approximately RMB1,492 million (2018: RMB1,208 million) held under operating leases to earn rentals during the year/period. These properties do not qualify as investment properties, as more than insignificant portions of the entire properties are held for use by the Group in the production or supply of goods or services or for administrative purposes and these portions could not be sold separately according to the premises permit.

The carrying values of leasehold land and buildings, and construction in progress shown above comprise:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Leasehold land and buildings:		
In the PRC	**1,532**	1,395
In Hong Kong	**17**	17
Overseas	**6**	6
	1,672	1,418
Buildings:		
In the PRC	**2,763**	2,472
Overseas	**31**	32
	2,794	2,504
	4,349	3,922
Construction in progress:		
In the PRC	**946**	978
	5,295	4,900

17. RIGHT-OF-USE ASSETS

For the year ended 31 December 2019, the Group leases various offices, warehouses and retail stores for its operations. Lease contracts are entered into for fixed term of 1 to 6 years, and majority of the contracts are with no extension or termination option. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

17. RIGHT-OF-USE ASSETS (Continued)

	Leasehold lands RMB million	Leased properties RMB million	Total RMB million
As at 1 January 2019			
Carrying amount	2,381	122	2,503
As at 31 December 2019			
Carrying amount	2,361	135	2,496
For the year ended 31 December 2019			
Depreciation charge	63	73	136
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16			24
Total cash outflow for leases			142
Additions to right-of-use assets			135

The Group regularly entered into short-term leases for motor vehicles and office equipment. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed this note.

The Group has obtained the land use right certificates for all leasehold lands.

Restrictions or covenants on leases

Lease liabilities of RMB146 million are recognised with related right-of-use assets of RMB135 million as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in note 39.

18. INVESTMENT PROPERTIES

	RMB million
COST	
At 1 April 2018, 31 December 2018 and 31 December 2019	5
DEPRECIATION	
At 1 April 2018, 31 December 2018 and 31 December 2019	1
CARRYING VALUES	
At 31 December 2019 and 31 December 2018	4

The above investment properties are depreciated on a straight-line basis over the shorter of the term of the lease or 50 years.

The investment properties shown above represent leasehold land and buildings in Hong Kong.

18. INVESTMENT PROPERTIES (Continued)

The fair value of the Group's investment properties at 31 December 2019 was approximately RMB36 million (2018: RMB38 million). The fair values at 31 December 2019 and 2018 have been arrived at based on valuations carried out by ValQuest Advisory Group Limited, independent valuers not connected with the Group.

At 31 December 2019 and 2018, the fair value was determined based on direct comparison method whereby comparison based on prices information of comparable properties is obtained. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values and was classified as Level 3 of the fair value hierarchy.

Valuation technique and key input	Unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
Valuation technique: Direct comparison method; Key input: Market unit rate	Market unit rate, taking into account the size, character and location, between the investment properties and the comparable, ranging from RMB7,332 per sq.ft. to RMB8,705 per sq.ft. (2018: RMB7,766 per sq.ft. to RMB9,236 per sq. ft.)	The higher the market unit rate, the higher the fair value	A significant increase in the market unit rate used would result in a significant increase in fair value, and vice versa.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2019 and 2018 are as follows:

	As at 31 December 2019		As at 31 December 2018	
	Carrying amount RMB million	**Level 3 fair value RMB million**	Carrying amount RMB million	Level 3 fair value RMB million
Completed investment properties located in Hong Kong	**4**	**36**	4	38

19. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	RMB million
At 1 April 2018	2,484
Additions	63
Disposal	(54)
Disposal of a subsidiary *(note 50(b))*	(74)
Released during the period	(50)
Exchange realignment	12
At 31 December 2018	2,381

	As at 31 December 2018 RMB million
Analysed for reporting purposes as:	
Non-current assets	2,331
Current assets	50
	2,381

As at 31 December 2018, the Group's prepaid lease payments on land use rights represent lands situated in the PRC and Indonesia of RMB2,308 million and RMB73 million respectively.

During the nine months ended 31 December 2018, the Group has disposed part of the prepaid lease payment on land use rights in Indonesia and recognised a loss on disposal of land use rights of RMB8 million.

20. GOODWILL

	RMB million
At 1 April 2018	422
Disposal of a subsidiary *(note 50(b))*	(39)
Exchange realignment	1
At 31 December 2018	384
Acquisition of a subsidiary *(note 50(a))*	16
Exchange realignment	10
At 31 December 2019	410

20. GOODWILL (Continued)

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Arising from:		
– acquisition of Skyworth Digital *(Note (a))*	**286**	286
– acquisition of Strong Media Group Limited *(Note (b))*	**84**	84
– others	**40**	14
	410	384

Notes:

For the purposes of impairment testing, goodwill have been allocated to individual CGUs.

During the year ended 31 December 2019, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

(a) For the goodwill arising from acquisition of Skyworth Digital for the operation of digital set-top boxes business during the year ended 31 December 2019 with the carrying amount of RMB286 million (2018: RMB286 million), the recoverable amount of the CGU has been determined by a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 12.8% (2018: 12.1%). Cash flows beyond the five-year period are extrapolated with zero (2018: 3.0%) growth rate. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the goodwill to exceed the aggregate recoverable amount of goodwill.

(b) For the goodwill arising from acquisition of Strong Media Group Limited ("Strong Media") during the year ended 31 December 2019 with the carrying amount of RMB84 million (2018: RMB84 million), the recoverable amount of the CGU has been determined by a value-in-use calculations. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 14.20% (2018: 15.50%). Cash flows beyond the five-year period are extrapolated with zero growth. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the goodwill to exceed the aggregate recoverable amount of goodwill.

21. INTANGIBLE ASSETS

	Patent RMB million *(Note (a))*	Trademarks RMB million *(Note (b))*	Total RMB million
COST			
At 1 April 2018	9	97	106
Additions	3	–	3
Exchange realignment	–	(9)	(9)
At 31 December 2018 and 31 December 2019	12	88	100
AMORTISATION			
At 1 April 2018	6	–	6
Charge for the period	2	–	2
At 31 December 2018	8	–	8
Charge for the year	1	–	1
At 31 December 2019	9	–	9
CARRYING VALUES			
At 31 December 2019	3	88	91
At 31 December 2018	4	88	92

Notes:

(a) The patent have finite useful lives and are amortised at 10% to 20% on a straight-line basis.

(b) The above trademarks were purchased as part of a business combination related to Strong Media during year ended 31 March 2016.

21. INTANGIBLE ASSETS (Continued)

Notes: (Continued)

(b) (Continued)

The trademarks have a legal life ranging from 10 to 21 years but are renewable every upon expiration at minimal cost. The directors of the Company are of the opinion that the Group has the intention and ability to renew the trademarks continuously. As a result, the trademarks are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademarks will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

As at 31 December 2019 and 2018, the directors of the Company determines that there is no impairment indicator on the trademarks with indefinite useful lives.

The recoverable amounts of the trademarks with indefinite useful lives has been determined on the basis of value in use calculations. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 14.20% (2018: 15.50%). Cash flows beyond the five-year period are extrapolated with no growth. Cash flow projections during the budget period are based on the most recent financial budget that cover a five-year period approved by the management. Expected cash inflows/ outflows, which include budgeted sales, gross margin and raw material price inflation have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of trademarks to exceed the aggregate recoverable amount of trademarks.

22. INTERESTS IN ASSOCIATES

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Cost of unlisted investments	**160**	64
Share of post-acquisition profits and other comprehensive income, net of dividends received	**36**	15
	196	79

22. INTERESTS IN ASSOCIATES (Continued)

The following set out the particulars of the associates of the Group as at 31 December 2019 and 2018 which, in the opinion of the directors, principally affected the results or net assets of the Group.

Name of associates	Form of business structure	Place of registration and operation	Paid up registered capital	Effective interest held by the Group As at 31 December 2019	Effective interest held by the Group As at 31 December 2018	Principal business
江蘇達創電器有限公司	Equity joint venture	PRC	RMB10,000,000	**34%**	34%	Manufacturing and sales of consumer electronic products
北京新七天電子商務技術股份有限公司 ("New Seven Days")	Equity joint venture	PRC	RMB37,000,000	**25%**	49%	Provision of technological and network promotion services and sales of consumer electronic products
天津光電通信技術有限公司	Equity joint venture	PRC	RMB37,000,000	**49%**	N/A	Manufacturing and sales of electronic and telecommunication products

All of these associates are accounted for using the equity method in these consolidated financial statements.

Aggregate information of associates that are not individually material

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
The Group's share of profit and total comprehensive income for the year/period	**21**	9

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Aggregate carrying amount of the Group's interests in these associates	**196**	79

23. INTERESTS IN JOINT VENTURES

Details of the Group's investments in joint ventures are as follows:

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Cost of unlisted investments	**62**	67
Share of post-acquisition losses and other comprehensive expense, net of dividends received	**(43)**	(45)
	19	22

The following set out the particulars of the joint ventures of the Group as at 31 December 2019 and 2018 which, in the opinion of the directors, principally affected the results or net assets of the Group.

Name of joint ventures	Form of business structure	Place of registration and operation	Paid up registered capital	Effective interest held by the Group As at 31 December 2019	As at 31 December 2018	Principal business
廣州新視界光電科技有限公司	Equity joint venture	PRC	RMB33,583,664	**36%**	36%	Provision of research and development, lease and consultation service of mechanical and electronics products
廣東創華投資有限公司	Equity joint venture	PRC	RMB25,000,000	**40%**	40%	Provision of investment consultation services

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Aggregate information of joint ventures that are not individually material

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
The Group's share of loss and total comprehensive expense for the year/period	**5**	–

During the year ended 31 December 2019, the Group has disposed a joint venture and recognised a gain on disposal of a joint venture of RMB3 million (for the nine months ended 31 December 2018: RMB1 million).

24. EQUITY INSTRUMENTS AT FVTPL/EQUITY INSTRUMENTS AT FVTOCI

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Equity instruments at FVTPL comprise of:		
Unlisted equity securities, at fair values		
– in the PRC	**612**	390
Listed equity securities, at fair values		
– in Hong Kong	**12**	55
– in the PRC	**381**	18
	393	73
	1,005	463

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Equity instruments at FVTOCI comprise of:		
Unlisted equity securities, at fair values		
– in the PRC *(Note)*	**1,402**	1,494
Listed equity securities, at fair values		
– in Hong Kong *(Note)*	**121**	–
	1,523	1,494

Note: *The above unlisted and listed equity investments represent the Group's equity interest in private entities established in the PRC and an entity listed in Hong Kong respectively. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.*

25. LOAN RECEIVABLES

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Fixed-rate loan receivables		
Secured	**1,828**	2,048
Unsecured	**297**	723
	2,125	2,771
Analysed for reporting purpose as		
Non-current assets	**585**	41
Current assets	**1,540**	2,730
	2,125	2,771

Included in the carrying amount of loan receivables as at 31 December 2019 is allowance for credit losses of RMB310 million (2018: RMB275 million). Details of the impairment assessment are set out in note 55(b).

As at 31 December 2019, loan receivables of RMB454 million (2018: RMB885 million) are advanced by subsidiaries with principal activity of loan financing, in which the corresponding interest income is included as revenue. The remaining balances of RMB1,671 million (2018: RMB1,886 million) are advanced by other subsidiaries, the related interest income is included as other income.

Included in the loan receivables as at 31 December 2019 amounted to RMB258 million (net of allowance for credit losses of RMB42 million) (2018: RMB688 million (net of allowance for credit losses of RMB112 million)) is a loan advanced to a company for which the Group has 20% equity interests. The directors of the Company considered that the Group does not have significant influence over that investee company because the Group does not have the power to participate in the financial and operating policy decision of that investee company, accordingly, such investment is classified as "equity instruments at FVTOCI".

As at 31 December 2019, included in the Group's loan receivables balance are debtors with aggregate carrying amount of RMB145 million (2018: RMB221 million) which has been past due 90 days or more as at the reporting date. The directors of the Company considers credit risks have increased significantly and those with evidence indicating that the debtor is in severe financial difficulties are considered as credit-impaired.

25. LOAN RECEIVABLES (Continued)

Included in the Group's loan receivables balance with aggregate carrying amount of RMB1,828 million (2018: RMB1,691 million) are secured by borrowers' charge over equity instruments, trade receivables, properties, land use right and plant and machineries.

Included in the carrying amount of loan receivables as at 31 December 2019 is an amount of approximately RMB261 million (2018: nil) due from a related party controlled by a substantial shareholder of the Company which is secured, interest bearing at 8% per annum and repayable in instalments up to 25 April 2022.

Included in the carrying amounts of loan receivables as at 31 December 2019 of approximately RMB465 million (2018: nil) are secured by motor vehicles and guaranteed by a substantial shareholder of the Company in respect of amounts owed by third parties to the Group, interest-bearing at 8% per annum and repayable in instalments up to final maturity dates ranging from 28 March 2022 to 27 June 2022.

The exposure of the Group's fixed-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Fixed-rate loan receivables:		
Within one year	**1,540**	2,730
More than one year but not more than two years	**200**	27
More than two years but not more than five years	**385**	14
	2,125	2,771

The ranges of effective interest rates (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

	As at 31 December 2019	As at 31 December 2018
Effective interest rate:		
Fixed-rate loan receivables	**4.50% – 12.00%**	4.50% – 12.00%

26. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation RMB million	Accrued sales rebate RMB million	Allowance for credit losses RMB million	Allowance on inventories RMB million	Undistributed earnings of PRC subsidiaries RMB million *(Note (b))*	Fair value adjustments on equity instruments at FVTPL and equity instruments at FVTOCI RMB million	Fair value adjustment in business combination RMB million	Others RMB million *(Note (c))*	Total RMB million
At 1 April 2018	(7)	(132)	(28)	(62)	93	377	36	(177)	100
Charge (credit) to profit or loss	4	(105)	(65)	(7)	(72)	7	–	22	(216)
Credit to other comprehensive income	–	–	–	–	–	(264)	–	–	(264)
Exchange realignment	–	–	–	–	–	–	–	3	3
At 31 December 2018	(3)	(237)	(93)	(69)	21	120	36	(152)	(377)
(Credit) charge to profit or loss	(1)	(50)	(129)	(37)	33	71	–	276	163
Credit to other comprehensive income	–	–	–	–	–	(21)	–	–	(21)
Acquisition	–	–	–	–	–	–	–	1	1
Exchange realignment	–	–	–	–	–	(3)	–	(1)	(4)
At 31 December 2019	(4)	(287)	(222)	(106)	54	167	36	124	(238)

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

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Deferred tax assets	**(500)**	(555)
Deferred tax liabilities	**262**	178
	(238)	(377)

26. DEFERRED TAXATION (Continued)

Notes:

(a) *At the end of the reporting period, the Group has unutilised tax losses of RMB3,091 million (2018: RMB2,152 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses of RMB3,091 million (2018: RMB2,152 million) due to the unpredictability of future profit streams.*

Unutilised tax losses for which no deferred tax assets is recognised will expire as follows:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
2019	**N/A**	142
2020	**149**	172
2021	**247**	302
2022	**431**	537
2023	**282**	301
2024	**1,124**	–
Carried forward indefinitely	**858**	698
	3,091	2,152

(b) *Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation of RMB820 million (2018: RMB224 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to certain accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.*

(c) *Amounts mainly include deductible temporary difference from the unrealised profit arising from intragroup transactions, and deductible temporary difference arising from government grants not yet recognised in profit or loss whilst the relevant tax charge had already been paid upon receipt of the government grants.*

27. INVENTORIES

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Raw materials	**1,692**	1,820
Work in progress	**260**	328
Finished goods	**2,957**	3,883
	4,909	6,031

28. STOCK OF PROPERTIES

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Under development	**4,100**	796
Completed	**71**	70
	4,171	866

Included in the stock of properties under development are amounts of RMB4,006 million (2018: RMB99 million) which are not expected to be substantially realised within one year from the end of the reporting period. Sales deposits of RMB841 million (2018: RMB290 million) received from purchasers at the end of the reporting period are included in contract liabilities as disclosed in note 40.

Analysis of leasehold lands:

	RMB million
As at 1 January 2019	
Carrying amount	515
As at 31 December 2019	
Carrying amount	3,655
For the year ended 31 December 2019	
Total cash outflow	3,140
Additions	3,140

Effective from 1 January 2019, the carrying amount of leasehold lands is measured under HKFRS 16 at cost less any accumulated depreciation and any impairment losses. The residual values are determined as the estimated disposal value of the leasehold land component. No depreciation charge is made on the leasehold lands taking into account the estimated residual values as at 31 December 2019.

29. INVESTMENTS IN DEBT SECURITIES

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Debt securities		
– in the PRC	**83**	158

The Group's investments in debt securities represent unlisted debt securities that carry fixed interest at 3.45% to 9.00% per annum (2018: 4.55% to 9.00% per annum). None of these assets has been past due at the end of the reporting period. The maturity profile of the above debt securities categorised by the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Remaining maturity:		
Less than three months	**83**	8
Three months to one year	**–**	150
	83	158

Details of impairment assessment are set out in note 55(b).

30. FINANCIAL ASSETS AT FVTPL

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Unlisted securities, at fair value:		
– Investment funds	**50**	37

31. TRADE RECEIVABLES

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Trade receivables		
– goods and services	**9,727**	9,719
– lease receivables	**101**	52
	9,828	9,771
Less: allowance for credit losses	**(398)**	(297)
	9,430	9,474
Bills receivables	**4,835**	6,942
	14,265	16,416

As at 1 April 2018, trade receivables from contracts with customers amounted to RMB7,146 million.

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Within 30 days	**4,386**	4,610
31 to 60 days	**1,329**	1,795
61 to 90 days	**889**	824
91 to 180 days	**1,252**	854
181 to 270 days	**506**	505
271 to 365 days	**383**	348
Over 365 days	**685**	538
Trade receivables	**9,430**	9,474
Bills receivables	**4,835**	6,942
	14,265	16,416

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB2,229 million (2018: RMB1,938 million) which are past due as at the reporting date. Out of the past due balances, RMB1,094 million (2018: RMB951 million) has been past due 90 days or more and is not considered as in default based on historical experience. Other than bills received, the Group does not hold any collateral over these balances.

31. TRADE RECEIVABLES (Continued)

For customers who used bills to settle their trade receivables upon the expiry of the initial credit period, the ageing analysis of bills receivables at the end of the reporting period was presented based on the date of issuance of the bills. The date of issuance of all bills receivables are within one year at the end of the reporting period.

The maturity dates of bills receivables at the end of the reporting period are analysed as follows:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Within 30 days	**419**	916
31 to 60 days	**558**	817
61 to 90 days	**946**	1,434
91 days or over	**2,226**	3,275
Bills discounted to banks with recourse	**686**	500
	4,835	6,942

The carrying values of the above bills discounted to banks with recourse continue to be recognised as assets in the consolidated financial statements as the Group has not transferred substantially all the risks and rewards of ownership of the bills receivables taking into account the credit rating of the issuers of the bills. Accordingly, the liabilities associated with such bills, mainly borrowings as disclosed in note 42, are recognised in the consolidated financial statements as well.

As at 31 December 2019, total bills received amounting to RMB84 million (2018: RMB8 million), were further endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of each reporting period and details are disclosed in note 47.

The maturity dates of bills discounted to banks with recourse are within six months at the end of the reporting period.

All bills receivables at the end of the reporting period are not yet due.

At 31 December 2019, other than bills discounted or endorsed as disclosed above, carrying amount of trade receivables amounted to RMB19 million (2018: RMB25 million) have been pledged as security for the Group's borrowings.

Details of impairment assessment of trade receivables are set out in note 55(b).

32. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Other receivables, deposits and prepayments are analysed as follows:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Other deposits paid and prepayments	**375**	222
Other receivables	**613**	827
Purchase deposits paid for materials	**472**	983
Rental deposits paid	**12**	5
VAT receivables	**573**	508
	2,045	2,545

Details of impairment assessment of other receivables are set out in note 55(b).

33. FINANCE LEASE RECEIVABLES

As at 31 December 2019, the Group entered finance lease contacts with principal amount of approximately RMB130 million (2018: RMB128 million) to lease out certain plant and machinery of the Group. All interest rate inherent in the lease are fixed at the contract date over the lease terms.

	Minimum lease payments		**Present value of minimum lease payments**	
	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million	**As at 31 December 2019 RMB million**	As at 31 December 2018 RMB million
Finance lease receivables comprise:				
Within one year	**125**	128	**125**	128
Over one year but less than two years	**5**	–	**5**	–
Less: unearned finance income	**–**	–	**N/A**	N/A
Present value of minimum lease payment receivables	**130**	128	**130**	128

Effective interest rate of the above finance lease is 9.02% (2018: 9.02%) per annum.

33. FINANCE LEASE RECEIVABLES (Continued)

Included in the carrying amount of finance lease receivables as at 31 December 2019 is accumulated impairment loss of RMB12 million (2018: RMB9 million). No repayment is received during the current year and the finance lease receivables is in default. During the year ended 31 December 2019, an additional allowance of RMB3 million was provided (for the nine months ended 31 December 2018: RMB4 million).

Finance lease receivables are secured over the plant and machinery leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee. However, in the event of default, the Group is entitled to sell the asset, and has rights to any proceeds from such a sale up to the total amount receivable from the lessee.

Details of impairment assessment are set out in note 55(b).

34. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amount due to a non-controlling shareholder of a subsidiary as at 31 December 2018 was unsecured, interest-free and repayable on demand. The amount was fully repaid in 2019.

35. PLEDGED BANK DEPOSITS, RESTRICTED BANK DEPOSITS, AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, which carry interest at variable market rates ranging from 0.01% to 2.40% per annum (2018: 0.01% to 2.75% per annum).

Pledged bank deposits are pledged to secure the short term bank borrowings, which carry interest at market rates ranging from 0.30% to 1.95% per annum (2018: 0.35% to 2.75% per annum).

Restricted bank deposits represent reserve deposits a finance company of the Group placed with the People's Bank of China (the "PBOC"). The balances of the reserve deposits were calculated at certain percentage of qualified deposits made from customers to the finance company of the Group as determined by the PBOC against unexpected events such as unusually large net withdrawal by customers. These reserve deposits are required by local regulation and not available for the Group's daily operations.

Details of impairment assessment are set out in note 55(b).

36. TRADE AND OTHER PAYABLES, AND OTHER FINANCIAL LIABILITIES

(a) Trade payables

The following is an aged analysis of trade payables based on invoice date at the end of the reporting period, and other payables:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Within 30 days	**3,291**	4,237
31 to 60 days	**1,664**	1,343
61 to 90 days	**1,012**	656
91 days or over	**592**	399
Trade payables *(Note)*	**6,559**	6,635

Note:

As at 31 December 2019, RMB84 million of trade payables (2018: RMB8 million),which had been settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of each reporting period (see note 47).

(b) Other payables

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Accruals and other payables	**1,282**	1,125
Accrued staff costs	**729**	592
Accrued selling and distribution expenses	**203**	151
Amounts received for restricted share incentive scheme of a subsidiary *(note 49(iii))*	**84**	168
Customer deposits *(Note (1))*	**29**	25
Interest payables on corporate bonds	**39**	36
Other deposits received	**407**	545
Payables for purchase of property, plant and equipment	**218**	59
Refund liabilities *(Note (2))*	**1,147**	999
Rental deposits received	**74**	66
VAT payable	**52**	55
	4,264	3,821

Notes:

(1) *The customer deposits bear interest at 0.35% per annum (2018: 0.35% per annum) which are repayable on demand.*

As at 31 December 2019, RMB13 million (2018: RMB10 million) of the customer deposits is placed by the associate, New Seven Days, which bear interest at 0.35% per annum (2018: 0.35% per annum) and is repayable on demand.

(2) *The refund liabilities are arisen from outstanding rebates in relation to the goods sold to certain customers.*

36. TRADE AND OTHER PAYABLES, AND OTHER FINANCIAL LIABILITIES (Continued)

(c) Other financial liabilities

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Advance from a third party *(Note (1))*	**187**	173
Interest-free loan received from government *(Note (2))*	**98**	–
	285	173

Notes:

(1) During the year ended 31 March 2017, Shenzhen Chuangwei-RGB Electronics Co., Ltd. ("RGB"), an indirect-wholly owned subsidiary of the Company, entered into an agreement with 北京愛奇藝科技有限公司 ("iQIYI"), a third party not connected to the Group, for a RMB150 million capital injection. Pursuant to the agreement, Shenzhen Coocaa, an indirect non-wholly owned subsidiary of the Company, received the first capital injection of RMB100 million from iQIYI on 2 December 2016. During the year ended 31 March 2018, Shenzhen Coocaa received the second capital injection of RMB50 million from iQIYI.

Based on the terms of the agreement, RGB and iQIYI agreed that if the shares of Shenzhen Coocaa are not listed on any stock exchange within 60 months after 2 December 2016, and the market value of Shenzhen Coocaa is less than RMB3 billion before listing, iQIYI can require RGB to transfer its investments in Shenzhen Coocaa to equivalent value of investments in Skyworth Digital, or require RGB to buy back its investments in Shenzhen Coocaa at the original consideration paid plus interest of 8% per annum at the end of 60 months. As the Group cannot unconditionally avoid the delivery of cash or other financial assets to fulfil the contractual obligations, the capital injection received is recognised as a financial liability. Imputed interest expenses of RMB14 million (for the nine months ended 31 December 2018: RMB10 million) has been recognised in respect of this financial liability during the year ended 31 December 2019.

(2) During the year ended 31 December 2019, the Group entered into an interest-free loan agreement with 全椒縣人民政府 amounted to a total of RMB500 million in supporting the Group's certain capital investments in the municipal of 全椒縣. According to the agreement, a branch of 全椒縣人民政府 shall make advances to the Group in stages that is in line with various investment milestones to be achieved by the Group. As at 31 December 2019, an amount of RMB98 million has been received by the Group and the amount is payable within three years from the date of receipt. In the opinion of the directors, the difference between proceeds received and the fair value of the loan is insignificant.

37. BILLS PAYABLES

The maturity dates of bills payables at the end of the reporting period are analysed as follows:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Within 30 days	**622**	979
31 to 60 days	**784**	885
61 to 90 days	**549**	864
91 days or over	**1,545**	3,454
	3,500	6,182

All bills payables at the end of the reporting period are not yet due.

38. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Derivative financial instruments are analysed as:		
Foreign currency forward contracts *(Note (b))*	**4**	3

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
(Loss) gain from changes in fair value of derivative financial instruments:		
Interest rate swap contracts *(Note (a))*	**–**	2
Foreign currency forward contracts *(Note (b))*	**(1)**	8
	(1)	10

38. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Notes:

(a) Interest rate swap contracts

During the year ended 31 March 2017, the Group entered into interest rate swap contracts with banks, of which the purpose is to manage the Group's cash flow interest rate risk in relation to the floating interest rates in relation to its bank borrowings denominated in Euro ("EUR").

The interest rate swap contracts with notional amount ranging from EUR80 million to EUR180 million has fixed interest payments in EUR ranging from 2.29% to 2.35% per annum and floating interest receipts in EUR ranging from 2.3% to 2.5% plus 1-month Euro Interbank Offered Rate ("EURIBOR") per annum for periods up to August and December 2018.

During the nine months ended 31 December 2018, a gain arising from changes in fair value of the interest rate swap contract of RMB2 million has been recognised in profit or loss.

(b) Foreign currency forward contracts

During the year ended 31 December 2019 and the nine months ended 31 December 2018, the Group entered into foreign currency forward contracts with an established commercial bank in PRC to purchase US$ in South African Rand ("ZAR") at predetermined forward rates.

Aggregate principal amount	Maturity	Forward exchange rate (net settlement)
As at 31 December 2019		
US$17 million	From 10 January 2020 to 10 November 2020	Buy US$/sell ZAR at 14.290 to 15.550
As at 31 December 2018		
US$19 million	From 7 January 2019 to 10 December 2019	Buy US$/sell ZAR at 12.543 to 15.013

As at 31 December 2019, the fair value of the Group's foreign currency forward contracts was estimated to be a liability of RMB4 million (2018: RMB3 million). These amounts were determined based on the discounted future cash flows using the applicable yield curve for the remaining duration of the instruments.

39. LEASE LIABILITIES

Lease liabilities payable:

	As at 31 December 2019 RMB million
Within one year	**34**
Within a period of more than one year but not more than two years	**32**
Within a period of more than two years but not more than five years	**78**
Within a period of more than five years	**2**
	146
Less: Amount due for settlement with 12 months shown under current liabilities	**(34)**
Amount due for settlement after 12 months shown under non-current liabilities	**112**

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	EUR RMB million	**ZAR** RMB million	**GBP** RMB million
As at 31 December 2019	12	10	2

40. CONTRACT LIABILITIES

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Deposits received for sales of goods	**1,110**	1,153
Deposits received for sales of properties	**841**	290
	1,951	1,443

40. CONTRACT LIABILITIES (Continued)

Movements in contract liabilities:

	RMB million
At 1 April 2018	1,671
Decrease in contract liabilities as a result of recognising revenue during the period that was included in the contract liabilities at the beginning of the period	(1,485)
Increase in contract liabilities as a result of receiving deposits from the customers	1,257
At 31 December 2018	1,443
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(1,193)
Increase in contract liabilities as a result of receiving deposits from the customers	1,701
At 31 December 2019	1,951

41. PROVISION FOR WARRANTY

	RMB million
At 1 April 2018	204
Additional provision	140
Utilised	(121)
At 31 December 2018	223
Additional provision	216
Utilised	(167)
At 31 December 2019	272

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Analysed for reporting purposes as:		
Current liabilities	**181**	143
Non-current liabilities	**91**	80
	272	223

The Group provides one to five years product warranty to its customers depending on the product type, under which faulty products are repaired or replaced. The estimate of the provision for the warranty is based on sales volumes and past experience of the level of repairs and returns. The estimation is reviewed on an ongoing basis and revised by reference to the current defective rate of products sold.

42. BORROWINGS

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Borrowings comprise the following:		
Financial liabilities on bills discounted with recourse	**686**	500
Other bank borrowings	**7,491**	5,824
	8,177	6,324
Secured	**2,003**	829
Unsecured	**6,174**	5,495
	8,177	6,324
Carrying amount of borrowings that contain a repayment on demand clause (shown under current liabilities) but are repayable based on scheduled repayment dates set out in the loan agreements:		
Within one year	**101**	299
Carrying amount of other borrowings repayable based on scheduled repayment dates set out in the loan agreements:		
Within one year	**7,034**	5,291
More than one year but not more than two years	**28**	–
More than two years but not exceeding five years	**1,014**	732
Over five years	**–**	2
	8,076	6,025
	8,177	6,324
Less: Amounts due within one year shown under current liabilities	**(7,135)**	(5,590)
Amounts shown under non-current liabilities	**1,042**	734

42. BORROWINGS (Continued)

Included in the balance as at 31 December 2019 are fixed-rate borrowings of RMB3,842 million (2018: RMB1,882 million) which carry interest at rates ranging from 0.81% to 5.75% per annum (2018: 0.50% to 10.00% per annum).

All other borrowings are carried interest at variable market interest rates, which are based on EURIBOR, London Interbank Offered Rate ("LIBOR") or People's Bank of China ("PBOC") lending rate plus a specific margin, ranging from 0.50% to 5.60% per annum (2018: 1.58% to 5.23% per annum).

As at the 31 December 2019, the Group had foreign currencies denominated borrowings of US$413 million (equivalent to approximately RMB2,879 million) (2018: US$232 million (equivalent to approximately RMB1,590 million)) and EUR19 million (equivalent to approximately RMB148 million) (2018: EUR33 million (equivalent to approximately RMB257 million). As at 31 December 2018, the Group also had HK$ denominated borrowings of 568 million (equivalent to approximately RMB498 million). All other borrowings are denominated in the respective functional currencies of the group entities.

43. DEFERRED INCOME

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Deferred income	**596**	666
Less: Amount to be recognised as income within one year included in current liabilities	**(170)**	(144)
Amount to be recognised as income after one year	**426**	522

Deferred income consists of government grants provided by the relevant PRC government authorities for the purposes of financing the purchase of plant and machinery and the related expenses to be incurred for the development of new products or technology and relates to certain current assets. The amounts are recognised as income to match with related expenses or on systematic basis over the useful lives of the relevant assets upon completing inspection by the related government authorities. The policy has resulted in a credit to profit or loss of RMB372 million (for the nine months ended 31 December 2018: RMB219 million) during the year ended 31 December 2019.

44. CONVERTIBLE BONDS

On 15 April 2019, Skyworth Digital issued 10,400,000 convertible bonds at a par value of RMB100 each, which are listed on the Shenzhen Stock Exchange. The convertible bonds are interest bearing at 0.40%, 0.60%, 1.00%, 1.50%, 1.80% and 2.00% per annum for the first, second, third, fourth, fifth and sixth year per annum respectively with a maturity date on the sixth anniversary on the date of their issue (i.e. 15 April 2025) and entitle the holders to convert them, in whole or in part, into ordinary shares of Skyworth Digital at an initial conversion price of RMB11.56 per share (subject to anti-dilutive provision) at any time from the first trading day immediately after the expiry of six months from the date of issuance of the convertible bonds until maturity date. The conversion price shall be adjusted if (i) Skyworth Digital resolved to issue bonus shares, increased its share capital, placing or issue of new shares (other than issue of conversion shares) or the distribution of cash dividends or (ii) subject to the approval by a two-third majority of the shareholders of Skyworth Digital present at a general meeting, the conversion price may be adjusted downwards if the closing price of the A-shares of Skyworth Digital as quoted on the Shenzhen Stock Exchange for at least 10 trading days during a continuous period of 20 trading Days are less than 90% of the prevailing conversion price at that time. Interest will be paid annually up until settlement date. The redemption price will be par value of the convertible bonds and the interest for that period.

Skyworth Digital has the right to redeem all or part of the convertible bonds at any time during the conversion period if the closing prices of the shares of Skyworth Digital as quoted on the Shenzhen Stock Exchange for any 15 trading days in a consecutive period of 30 trading days are higher than or equal to 130% of the conversion price at the time or the outstanding amount of the convertible bonds is less than RMB30 million. The bondholders shall have the right to request for Skyworth Digital to repurchase all or any part of the outstanding convertible bonds at the face value together with the coupon rate due for that period if the closing price of the shares of Skyworth Digital as quoted on the Shenzhen Stock Exchange is less than 70% of the conversion price at the time for any 30 consecutive trading days during the fifth and sixth year or there is any substantial change to the use of proceeds from the issue of the convertible bonds.

The convertible bonds contain two components, debt component and derivative (including conversion and early redemption options) component. The effective interest rate of the debt component is 5.62%. The derivative component is measured at fair value with changes in fair value recognised in profit or loss. At initial recognition, both the debt component and derivative component are recognised at fair value and the fair value of the debt component and derivative component is approximately RMB891 million and RMB140 million respectively, measured at market price netted of transaction costs.

44. CONVERTIBLE BONDS (Continued)

The movements of the convertible bonds and derivative financial instruments for the year ended 31 December 2019 are set out as below:

	Convertible bonds RMB million	Derivative financial instruments RMB million
At 1 April 2018 and 31 December 2018	–	–
Issued during the year, net of transaction costs	891	140
Interest on convertible bond	36	–
Less: included as interest payables on convertible bonds	(3)	–
Fair value change	–	136
At 31 December 2019	924	276

45. CORPORATE BONDS

	RMB million
At 1 April 2018	1,990
Interest on corporate bonds	83
Interest paid	(107)
Decrease in interest payables on corporate bonds	24
At 31 December 2018	1,990
Interest on corporate bonds	111
Interest paid	(108)
Increase in interest payables on corporate bonds	(3)
At 31 December 2019	1,990

On 15 September 2017, the Company issued secured corporate bonds with principal value of RMB2,000 million. The corporate bonds bear interest at 5.36% per annum and fall due on 14 September 2022. Pursuant to the terms of the subscription agreement of the corporate bond, the Group has the right to adjust the coupon rate and the bond holders have the right to put the bond back to the Group after 14 September 2020. The management considers the fair value of these options are insignificant.

The corporate bonds are subsequently measured at amortised cost, using effective interest rate of 5.48% (2018: 5.48%). As at 31 December 2019, the carrying amount of the corporate bonds was approximately RMB1,990 million (2018: RMB1,990 million).

46. SHARE CAPITAL

	Number of shares	Share capital RMB million
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 April 2018, 31 December 2018 and 31 December 2019	10,000,000,000	1,063
Issued and fully paid:		
At 1 April 2018, 31 December 2018 and 31 December 2019	3,060,929,420	308

The new shares rank pari passu with the then existing shares in all respects.

Details of the movements of share options during the year ended 31 December 2019 and the nine months ended 31 December 2018 are set out in note 48.

47. TRANSFERRED FINANCIAL ASSETS

The following were the Group's bills receivables, that were transferred to banks or suppliers by discounting or endorsing those receivables on a full recourse basis. For certain bills receivables that were discounted to banks on a full recourse basis but the substantial risks and rewards of the ownership of the bills receivables have not been transferred taking into account the credit quality of the issuing counterparties, the Group continues to recognise the full carrying amount of those discounted receivables and has recognised the associated liabilities as borrowings as disclosed in note 42 or it continues to recognise the full carrying amount of the bills receivables and the full carrying amount of the trade payables (see note 36) for endorsed bills receivables.

These bills receivables and associated liabilities are carried at amortised cost in the Group's consolidated statement of financial position. The directors consider that the carrying amounts of such bills receivables and associated liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

	As at 31 December 2019		As at 31 December 2018	
	Bills endorsed to suppliers with recourse RMB million	**Bills discounted to banks with recourse RMB million**	Bills endorsed to suppliers with recourse RMB million	Bills discounted to banks with recourse RMB million
Carrying amount of transferred assets	**84**	**686**	8	500
Carrying amount of associated liabilities	**(84)**	**(686)**	(8)	(500)
Net position	**–**	**–**	–	–

All the bills receivables discounted to banks have maturity dates of less than six months from the end of the respective reporting period.

No gain or loss was recognised at the date of transfer of the assets.

48. SHARE OPTIONS

The Company adopted certain share option schemes mainly for the purpose of providing incentives to directors, eligible employees and selected eligible persons. Particulars of the share option schemes are detailed below.

Pursuant to a special resolution passed on 28 August 2002, the Company adopted a share option scheme under which the directors of the Company may grant options to eligible person, including any directors, whether executive or non-executive (including any independent non-executive directors), and any employee, whether full time or part time, of any member of the Group (the "2002 Share Option Scheme").

The Company terminated 2002 Share Option Scheme and adopted a new share option scheme ("2008 Share Option Scheme") at its 2008 Annual General Meeting held on 30 September 2008. The principal terms of 2002 Share Option Scheme and 2008 Share Option Scheme are basically the same.

The Company terminated 2008 Share Option Scheme and adopted a new share option scheme ("2014 Share Option Scheme") at its 2014 Annual General Meeting held on 20 August 2014. The principal terms of 2008 Share Option Scheme and 2014 Share Option Scheme are basically the same.

Under each of 2002 Share Option Scheme, 2008 Share Option Scheme and 2014 Share Option Scheme, options granted must be taken up within a period of 30 days from the date of grant, upon payment of HK$1 per grant. Options may be exercised in portions and in the exercisable period determined by the directors of the Company at the date of grant. All of the options, if not otherwise exercised, amended or cancelled, lapsed on 28 August 2012 under 2002 Share Option Scheme, on 30 September 2018 under 2008 Share Option Scheme and on 30 September 2018 and 20 August 2024 under 2014 Share Option Scheme.

Each grant of an option to a director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive directors, excluding any independent non-executive director who is the grantee of the option.

Under each of 2002 Share Option Scheme, 2008 Share Option Scheme and 2014 Share Option Scheme, the maximum number of shares issuable upon exercise of all options to be granted under the aforesaid schemes and any other share option scheme of the Company as from the commencement of the scheme period, excluding those options which have lapsed in accordance with the terms of 2002 Share Option Scheme, 2008 Share Option Scheme or 2014 Share Option Scheme or any other share option schemes of the Company, must not in aggregate exceeds 10% of the Company's shares in issue as at the date of adoption of the respective Share Option Schemes or exceed any of the refreshed limit.

No option shall be granted to an eligible person which would cause the aggregate number of shares already issued and to be issued upon exercise of options granted to such eligible person under 2002 Share Option Scheme, 2008 Share Option Scheme and 2014 Share Option Scheme and any other share option scheme of the Company (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant exceeding 1% of the shares in issue. Any further grant of options in excess of this limit may be made only with the separate approval of the shareholders in general meeting with that eligible person and his associates abstaining from voting.

48. SHARE OPTIONS (Continued)

The total number of share option that were granted and remained outstanding under the share option schemes of the Company is 125,098,000 (2018: 69,698,000) representing approximately 4.09% (2018: 2.28%) of the issued share capital of the Company as at 31 December 2019.

The following tables show the movements in the Company's share options granted under 2014 Share Option Scheme during the year:

For the year ended 31 December 2019

Under 2014 Share Option Scheme

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2019
22 January 2016	4.226	22 January 2016 to 30 August 2016	1 September 2016 to 20 August 2024	14,852,000	–	–	–	**14,852,000**
		22 January 2016 to 30 August 2017	1 September 2017 to 20 August 2024	17,154,000	–	–	–	**17,154,000**
		22 January 2016 to 30 August 2018	1 September 2018 to 20 August 2024	25,692,000	–	–	–	**25,692,000**
8 July 2016	6.320	8 July 2016 to 31 August 2017	1 September 2017 to 20 August 2024	2,500,000	–	–	–	**2,500,000**
		8 July 2016 to 31 August 2018	1 September 2018 to 20 August 2024	2,500,000	–	–	–	**2,500,000**
		8 July 2016 to 31 August 2019	1 September 2019 to 20 August 2024	2,500,000	–	–	–	**2,500,000**
		8 July 2016 to 31 August 2020	1 September 2020 to 20 August 2024	2,500,000	–	–	–	**2,500,000**
9 August 2017	4.090	9 August 2017 to 31 August 2018	1 September 2018 to 20 August 2024	500,000	–	–	–	**500,000**
		9 August 2017 to 31 August 2019	1 September 2019 to 20 August 2024	500,000	–	–	–	**500,000**
		9 August 2017 to 31 August 2020	1 September 2020 to 20 August 2024	500,000	–	–	–	**500,000**
		9 August 2017 to 31 August 2021	1 September 2021 to 20 August 2024	500,000	–	–	–	**500,000**
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	–	22,160,000	–	–	**22,160,000**
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	–	16,620,000	–	–	**16,620,000**
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	–	16,620,000	–	–	**16,620,000**
				69,698,000	55,400,000	–	–	**125,098,000**

48. SHARE OPTIONS (Continued)

For the nine months ended 31 December 2018

The following tables show the movements in the Company's share options granted under 2008 Share Option Scheme and 2014 Share Option Scheme during the nine months ended 31 December 2018:

Under 2008 Share Option Scheme

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1 April 2018	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2018
6 November 2008	0.374	6 November 2008 to 5 November 2009	6 November 2009 to 30 September 2018	315,000	–	–	(315,000)	–
		6 November 2008 to 5 November 2010	6 November 2010 to 30 September 2018	475,000	–	–	(475,000)	–
		6 November 2008 to 5 November 2011	6 November 2011 to 30 September 2018	578,000	–	–	(578,000)	–
		6 November 2008 to 5 November 2012	6 November 2012 to 30 September 2018	1,496,500	–	–	(1,496,500)	–
26 November 2008	0.415	26 November 2008 to 25 November 2012	26 November 2012 to 30 September 2018	24,000	–	–	(24,000)	–
21 June 2010	6.580	21 June 2010 to 20 June 2011	21 June 2011 to 30 September 2018	1,500,000	–	–	(1,500,000)	–
		21 June 2010 to 20 June 2012	21 June 2012 to 30 September 2018	1,500,000	–	–	(1,500,000)	–
		21 June 2010 to 20 June 2013	21 June 2013 to 30 September 2018	1,500,000	–	–	(1,500,000)	–
		21 June 2010 to 20 June 2014	21 June 2014 to 30 September 2018	1,500,000	–	–	(1,500,000)	–
24 March 2011	4.440	24 March 2011 to 31 August 2012	1 September 2012 to 30 September 2018	5,262,000	–	–	(5,262,000)	–
		24 March 2011 to 31 August 2013	1 September 2013 to 30 September 2018	4,664,000	–	–	(4,664,000)	–
		24 March 2011 to 31 August 2014	1 September 2014 to 30 September 2018	5,266,000	–	–	(5,266,000)	–
		24 March 2011 to 31 August 2015	1 September 2015 to 30 September 2018	6,400,000	–	–	(6,400,000)	–
		24 March 2011 to 31 August 2016	1 September 2016 to 30 September 2018	7,558,000	–	–	(7,558,000)	–

48. SHARE OPTIONS (Continued)

For the nine months ended 31 December 2018 (Continued)

Under 2008 Share Option Scheme (Continued)

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1 April 2018	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2018
16 September 2011	4.080	16 September 2011 to 31 August 2012	1 September 2012 to 30 September 2018	1,000,000	–	–	(1,000,000)	–
		16 September 2011 to 31 August 2016	1 September 2016 to 30 September 2018	1,000,000	–	–	(1,000,000)	–
26 September 2011	3.310	26 September 2011 to 31 August 2012	1 September 2012 to 30 September 2018	120,000	–	–	(120,000)	–
		26 September 2011 to 31 August 2014	1 September 2014 to 30 September 2018	120,000	–	–	(120,000)	–
		26 September 2011 to 31 August 2015	1 September 2015 to 30 September 2018	120,000	–	–	(120,000)	–
		26 September 2011 to 31 August 2016	1 September 2016 to 30 September 2018	120,000	–	–	(120,000)	–
31 October 2011	4.190	31 October 2011 to 31 August 2012	1 September 2012 to 30 September 2018	60,000	–	–	(60,000)	–
		31 October 2011 to 31 August 2013	1 September 2013 to 30 September 2018	60,000	–	–	(60,000)	–
		31 October 2011 to 31 August 2014	1 September 2014 to 30 September 2018	60,000	–	–	(60,000)	–
		31 October 2011 to 31 August 2015	1 September 2015 to 30 September 2018	60,000	–	–	(60,000)	–
		31 October 2011 to 31 August 2016	1 September 2016 to 30 September 2018	60,000	–	–	(60,000)	–
14 February 2012	3.810	14 February 2012 to 31 August 2012	1 September 2012 to 30 September 2018	400,000	–	–	(400,000)	–
		14 February 2012 to 31 August 2013	1 September 2013 to 30 September 2018	400,000	–	–	(400,000)	–
		14 February 2012 to 31 August 2014	1 September 2014 to 30 September 2018	400,000	–	–	(400,000)	–
		14 February 2012 to 31 August 2015	1 September 2015 to 30 September 2018	400,000	–	–	(400,000)	–
		14 February 2012 to 31 August 2016	1 September 2016 to 30 September 2018	400,000	–	–	(400,000)	–

48. SHARE OPTIONS (Continued)

For the nine months ended 31 December 2018 (Continued)

Under 2008 Share Option Scheme (Continued)

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1 April 2018	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2018
29 November 2012	4.582	29 November 2012 to 31 August 2013	1 September 2013 to 30 September 2018	120,000	–	–	(120,000)	–
		29 November 2012 to 31 August 2014	1 September 2014 to 30 September 2018	120,000	–	–	(120,000)	–
		29 November 2012 to 31 August 2015	1 September 2015 to 30 September 2018	220,000	–	–	(220,000)	–
		29 November 2012 to 31 August 2016	1 September 2016 to 30 September 2018	220,000	–	–	(220,000)	–
		29 November 2012 to 31 August 2017	1 September 2017 to 30 September 2018	220,000	–	–	(220,000)	–
28 June 2013	3.982	28 June 2013 to 31 August 2017	1 September 2017 to 30 September 2018	2,000,000	–	–	(2,000,000)	–
		28 June 2013 to 31 August 2018	1 September 2018 to 30 September 2018	2,000,000	–	–	(2,000,000)	–
29 July 2013	3.990	29 July 2013 to 31 August 2014	1 September 2014 to 30 September 2018	100,000	–	–	(100,000)	–
		29 July 2013 to 31 August 2015	1 September 2015 to 30 September 2018	100,000	–	–	(100,000)	–
		29 July 2013 to 31 August 2016	1 September 2016 to 30 September 2018	140,000	–	–	(140,000)	–
		29 July 2013 to 31 August 2017	1 September 2017 to 30 September 2018	260,000	–	–	(260,000)	–
		29 July 2013 to 31 August 2018	1 September 2018 to 30 September 2018	260,000	–	–	(260,000)	–
9 September 2013	4.368	9 September 2013 to 31 August 2014	1 September 2014 to 30 September 2018	40,000	–	–	(40,000)	–
		9 September 2013 to 31 August 2015	1 September 2015 to 30 September 2018	240,000	–	–	(240,000)	–
		9 September 2013 to 31 August 2016	1 September 2016 to 30 September 2018	240,000	–	–	(240,000)	–
		9 September 2013 to 31 August 2017	1 September 2017 to 30 September 2018	240,000	–	–	(240,000)	–
		9 September 2013 to 31 August 2018	1 September 2018 to 30 September 2018	240,000	–	–	(240,000)	–

48. SHARE OPTIONS (Continued)

For the nine months ended 31 December 2018 (Continued)

Under 2008 Share Option Scheme (Continued)

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1 April 2018	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2018
9 September 2013	4.368	9 September 2013 to 31 August 2015	1 September 2015 to 30 September 2018	2,500,000	–	–	(2,500,000)	–
		9 September 2013 to 31 August 2016	1 September 2016 to 30 September 2018	2,500,000	–	–	(2,500,000)	–
		9 September 2013 to 31 August 2017	1 September 2017 to 30 September 2018	2,500,000	–	–	(2,500,000)	–
19 September 2013	4.212	19 September 2013 to 31 August 2014	1 September 2014 to 30 September 2018	400,000	–	–	(400,000)	–
		19 September 2013 to 31 August 2015	1 September 2015 to 30 September 2018	400,000	–	–	(400,000)	–
		19 September 2013 to 31 August 2016	1 September 2016 to 30 September 2018	400,000	–	–	(400,000)	–
		19 September 2013 to 31 August 2017	1 September 2017 to 30 September 2018	400,000	–	–	(400,000)	–
		19 September 2013 to 31 August 2018	1 September 2018 to 30 September 2018	400,000	–	–	(400,000)	–
24 April 2014	4.022	24 April 2014 to 31 August 2015	1 September 2015 to 30 September 2018	266,000	–	–	(266,000)	–
		24 April 2014 to 31 August 2016	1 September 2016 to 30 September 2018	266,000	–	–	(266,000)	–
		24 April 2014 to 31 August 2017	1 September 2017 to 30 September 2018	268,000	–	–	(268,000)	–
9 July 2014	3.870	9 July 2014 to 31 August 2015	1 September 2015 to 30 September 2018	750,000	–	–	(750,000)	–
		9 July 2014 to 31 August 2016	1 September 2016 to 30 September 2018	750,000	–	–	(750,000)	–
		9 July 2014 to 31 August 2017	1 September 2017 to 30 September 2018	750,000	–	–	(750,000)	–
		9 July 2014 to 31 July 2018	1 August 2018 to 30 September 2018	750,000	–	–	(750,000)	–
				62,878,500	–	–	(62,878,500)	–

48. SHARE OPTIONS (Continued)

For the nine months ended 31 December 2018 (Continued)

Under 2014 Share Option Scheme

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1 April 2018	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2018
15 December 2015	4.830	15 December 2015 to 14 December 2016	15 December 2016 to 30 September 2018	3,300,000	–	–	(3,300,000)	–
		15 December 2015 to 14 December 2017	15 December 2017 to 30 September 2018	3,300,000	–	–	(3,300,000)	–
		15 December 2015 to 30 March 2018	31 December 2018 to 30 September 2018	3,400,000	–	–	(3,400,000)	–
22 January 2016	4.226	22 January 2016 to 30 August 2016	1 September 2016 to 20 August 2024	14,852,000	–	–	–	**14,852,000**
		22 January 2016 to 30 August 2017	1 September 2017 to 20 August 2024	17,154,000	–	–	–	**17,154,000**
		22 January 2016 to 30 August 2018	1 September 2018 to 20 August 2024	25,692,000	–	–	–	**25,692,000**
8 July 2016	6.320	8 July 2016 to 31 August 2017	1 September 2017 to 20 August 2024	2,500,000	–	–	–	**2,500,000**
		8 July 2016 to 31 August 2018	1 September 2018 to 20 August 2024	2,500,000	–	–	–	**2,500,000**
		8 July 2016 to 31 August 2019	1 September 2019 to 20 August 2024	2,500,000	–	–	–	**2,500,000**
		8 July 2016 to 31 August 2020	1 September 2020 to 20 August 2024	2,500,000	–	–	–	**2,500,000**
9 August 2017	4.090	9 August 2017 to 31 August 2018	1 September 2018 to 20 August 2024	500,000	–	–	–	**500,000**
		9 August 2017 to 31 August 2019	1 September 2019 to 20 August 2024	500,000	–	–	–	**500,000**
		9 August 2017 to 31 August 2020	1 September 2020 to 20 August 2024	500,000	–	–	–	**500,000**
		9 August 2017 to 31 August 2021	1 September 2021 to 20 August 2024	500,000	–	–	–	**500,000**
				79,698,000	–	–	(10,000,000)	**69,698,000**
				142,576,500	–	–	(72,878,500)	**69,698,000**

49. SHARE-BASED PAYMENTS

The Company has applied HKFRS 2 *Share-based Payment* to account for its share options *(Note (i))* and share awards *(Note (ii))* and Skyworth Digital's share awards *(Note (iii))*. Amounts of share-based payment expenses of RMB28 million (for the nine months ended 31 December 2018: RMB4 million) for share options, RMB10 million (for the nine months ended 31 December 2018: RMB17 million) for share awards of the Company and RMB10 million (for the nine months ended 31 December 2018: RMB21 million) for restricted share incentive scheme of Skyworth Digital have been recognised in the profit or loss in the year ended 31 December 2019.

Note (i): Share options of the Company

The particulars of the share option schemes of the Company, and the details of and the movements in share options during the year ended 31 December 2019 and the nine months ended 31 December 2018 are disclosed in note 48. A summary of which is presented below:

	Year ended 31 December 2019		Nine months ended 31 December 2018	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year/period	**69,698,000**	**4.523**	142,576,500	4.460
Granted during the year/period	**55,400,000**	**2.680**	–	–
Lapsed during the year/period	**–**	**–**	(72,878,500)	4.400
Outstanding at the end of the year/period	**125,098,000**	**3.707**	69,698,000	4.523
Exercisable at the end of the year/period	**88,358,000**		63,198,000	

The share options outstanding as at 31 December 2019 have a weighted average remaining contractual life of 4.64 years (31 December 2018: 5.64 years) and the exercise prices of which range from HK$2.680 to HK$6.320 (31 December 2018: HK$4.090 to HK$6.320).

Share option expenses charge to profit or loss are based on valuation determined using the Black-Scholes Model. Share options granted during the year ended 31 December 2019 were valued based on the following assumptions:

Date of grant	Number of share options granted	Vesting period	Exercisable period	Fair value per option HK$	Total fair value of options granted HK$	Share price at date of grant HK$	Exercise price HK$	Expected volatility %	Dividend yield %	Expected interest rate %	Risk free rate %
15 April 2019	22,160,000	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	0.7707	17,078,468	2.62	2.68	44.47	3.57	1.62	0.75
15 April 2019	16,620,000	15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	0.7930	13,179,843	2.62	2.68	44.47	3.57	1.62	0.75
15 April 2019	16,620,000	15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	0.8014	13,319,348	2.62	2.68	44.47	3.57	1.62	0.75
	55,400,000				43,577,659						

49. SHARE-BASED PAYMENTS (Continued)

Note (i): Share options of the Company (Continued)

Expected volatility was determined by using the historical volatility of the Company's share price over previous years. The effects of time to vest, non-transferability, exercise restrictions and behavioural considerations have been taken into account in the model. The variables and assumptions used in computing the fair value of the share options are based on management's best estimate. The value of share options varies with different variables of certain subjective assumptions.

The Group recognised in the total expense of RMB28 million (for the nine months ended 31 December 2018: RMB4 million) for the year ended 31 December 2019 in relation to share options granted by the Company.

Note (ii): Share awards of the Company

On 24 June 2014, an employees' share award scheme was adopted by the Company. The share award scheme is valid and effective for a period of 10 years commencing from 24 June 2014. Pursuant to the rules of the scheme, the Group has set up a trust for the purpose of administering the share award scheme and holding the awarded shares before they vest.

During the year ended 31 December 2019, a total of 3,430,000 shares were vested and allotted (for the nine months ended 31 December 2018: 10,060,000 shares are awarded and 2,400,000 awarded shares were vested and allotted).

Vesting dates	Outstanding at 1 April 2018	Awarded	Movement during the period Allotted	Lapsed	Outstanding at 31 December 2018	Movement during the year Allotted	Lapsed	Outstanding at 31 December 2019
31 July 2018	–	2,400,000	(2,400,000)	–	–	–	–	**–**
30 April 2019	–	3,830,000	–	(400,000)	3,430,000	(3,410,000)	(20,000)	**–**
30 April 2020	–	3,830,000	–	(400,000)	3,430,000	–	–	**3,430,000**
	–	10,060,000	(2,400,000)	(800,000)	6,860,000	(3,410,000)	(20,000)	**3,430,000**
Weighted average fair value	–	HK$3.63	HK$3.63	HK$3.63	HK$3.63	HK$3.63	HK$3.63	**HK$3.63**

During the year ended 31 December 2019 and the nine months period ended 31 December 2018, no share of the Company was acquired for this scheme. As at 31 December 2019, there are 24,234,000 shares (2018: 27,664,000 shares) held for such scheme with carrying amount of RMB83 million (2018: RMB98 million) accumulated in equity under the heading of "shares held for share award scheme".

The total fair value of the awarded shares determined at the date of grant is RMB31 million for the nine months ended 31 December 2018. The fair value of the awarded shares granted during the nine months ended 31 December 2018 was determined by reference to the closing share price of the Company at date of grant, which was HK$3.63 per share.

The Group recognised in the total expense of RMB10 million (for the nine months ended 31 December 2018: RMB17 million) for the year ended 31 December 2019 in relation to share awards granted by the Company.

49. SHARE-BASED PAYMENTS (Continued)

Note (iii):Restricted share incentive scheme of Skyworth Digital

The restricted share incentive scheme was approved and adopted by the shareholders of Skyworth Digital, an indirect non-wholly owned subsidiary of the Company established in the PRC whose shares are listed on the Shenzhen Stock Exchange at the special general meeting held on 31 August 2017. The restricted share incentive scheme is valid and effective for a period of 4 years commencing from 31 August 2017.

During the year ended 31 December 2019, no restricted shares of Skyworth Digital have been awarded to certain directors and employees of Skyworth Digital and 11,994,500 awarded shares were vested and allotted. RMB84 million have been received for this restricted share incentive scheme as at 31 December 2019 as disclosed in note 36(b).

During the nine months ended 31 December 2018, 4,608,000 restricted shares of Skyworth Digital have been awarded to certain directors and employees of Skyworth Digital at RMB4.66 per share with a vesting period of 1 year, 2 years or 3 years without dividend entitlement during the vesting period and 10,454,100 awarded shares were vested and allotted. RMB159 million have been received for this restricted share incentive scheme as at 31 December 2018 as disclosed in note 36(b).

Vesting dates	Outstanding at 1 April 2018	Awarded	Movement during the period Allotted	Lapsed	Outstanding at 31 December 2018	Movement during the year Allotted	Lapsed	Outstanding at 31 December 2019
3 September 2018	10,911,900	–	(10,454,100)	(457,800)	–	–	–	**–**
3 September 2019	10,911,900	–	–	(457,800)	10,454,100	(9,745,500)	(708,600)	**–**
3 September 2020	14,549,200	–	–	(520,400)	14,028,800	–	(1,034,800)	**12,994,000**
11 June 2019	–	2,304,000	–	–	2,304,000	(2,249,000)	(55,000)	**–**
11 June 2020	–	2,304,000	–	–	2,304,000	–	(55,000)	**2,249,000**
	36,373,000	4,608,000	(10,454,100)	(1,436,000)	29,090,900	(11,994,500)	(1,853,400)	**15,243,000**
Weighted average fair value	RMB1.12	RMB2.53	RMB2.10	RMB1.14	RMB1.30	RMB1.39	RMB0.82	**RMB0.73**

The total fair value of the restricted shares granted by Skyworth Digital determined at the date of grant was RMB12 million during the nine months ended 31 December 2018.

The fair value of restricted shares granted are based on valuation determined by reference to the closing share price of Skyworth Digital at date of grant, which was RMB9.65 per share for the nine months ended 31 December 2018 and adjusted for the exercise price.

The Group recognised in the total expense of RMB10 million (for the nine months ended 31 December 2018: RMB21 million) for the year ended 31 December 2019 in relation to restricted share incentive scheme of Skyworth Digital.

50. ACQUISITION OF A SUBSIDIARY AND DISPOSAL OF A SUBSIDIARY

(a) Acquisition of 深圳神彩物流有限公司 ("神彩物流")

On 22 February 2019, a sales and purchase agreement was entered into between (i) Skyworth Group Co., Ltd, a subsidiary of the Company, and (ii) China Electronics Corporation (the "Seller"), in relation to the acquisition of equity interest in 神彩物流 by Skyworth Group Co., Ltd from the Seller.

Pursuant to the sales and purchase agreement, Skyworth Group Co., Ltd acquired 100% equity interest in 神彩物流.

On 1 March 2019, all the conditions precedent under the sales and purchase agreement have been fulfilled. 神彩物流 becomes an indirect wholly-owned subsidiary of the Company thereafter.

The total consideration for the acquisition is RMB38 million, which is satisfied in cash.

神彩物流 is principally engaged in the business of provision of logistics services. Acquisition of 神彩物流 is to accelerate the strategic layout and improve the logistics performance of the Group in the PRC.

Acquisition-related costs relating the above acquisition are excluded from the cost of acquisition and have been recognised as an expense in the profit or loss.

The net assets acquired in the transaction were as follows:

	RMB million
Non-current Asset	
Property, plant and equipment	18
Current Assets	
Inventories	38
Trade receivables	43
Other receivables, deposits and prepayments	20
Bank balances and cash	52
Current Liabilities	
Trade payables	(28)
Other payables	(60)
Bank borrowings	(60)
Non-current Liability	
Deferred tax liabilities	(1)
	22

50. ACQUISITION OF A SUBSIDIARY AND DISPOSAL OF A SUBSIDIARY (Continued)

(a) Acquisition of 深圳神彩物流有限公司 ("神彩物流") (Continued)

The trade receivables acquired with a fair value of RMB43 million at the date of acquisition had gross contractual amounts of RMB43 million. The best estimate at acquisition date of contractual cash flows not expected to be collected is insignificant.

The goodwill arising on the acquisition is as follows:

	RMB million
Consideration	38
Less: Net assets acquired	(22)
Goodwill arising on acquisition	16

Goodwill arose in the acquisition of 神彩物流 because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of 神彩物流. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for the identifiable intangible assets.

Net cash inflow arising on acquisition is as follows:

	RMB million
Cash consideration paid	(38)
Less: bank balances and cash acquired	52
Net cash inflow for the year	14

Included in the profit during the year ended 31 December 2019 is RMB7 million attributable to 神彩物流. Revenue during the year ended 31 December 2019 includes RMB185 million is attributable to 神彩物流.

Had the acquisition been completed on 1 January 2019, total group revenue during the year ended 31 December 2019 would have been RMB37,320 million, and profit during the year ended 31 December 2019 would have been RMB1,028 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

50. ACQUISITION OF A SUBSIDIARY AND DISPOSAL OF A SUBSIDIARY (Continued)

(b) Disposal of 遂寧錦華紡織有限公司 ("Suining")

On 11 June 2018, the Group disposed 94% equity interest in a non-wholly owned subsidiary, Suining, which engaged in spinning, weaving, manufacture and sales of textiles at a consideration of RMB30 million.

The assets and liabilities over which control was lost at the date of disposal are as follow:

	RMB million
Property, plant and equipment	62
Prepaid lease payments on land use rights	74
Equity instruments at FVTPL	1
Inventories	23
Trade receivables	46
Bank balances and cash	16
Trade payables	(31)
Borrowings	(160)
Deferred income	(8)
	23

The loss on disposal of a subsidiary arising on the disposal is as follows:

	RMB million
Consideration	30
Less: Net assets disposed of	(23)
Less: Derecognised goodwill	(39)
Add: Non-controlling interests	2
Loss on disposal of Suining	(30)

Net cash inflow arising on the disposal is as follows:

	RMB million
Cash consideration received	30
Less: bank balances and cash disposed	(16)
Net cash inflow for the period	14

51. PLEDGE OF ASSETS

At 31 December 2019, the Group's borrowings were secured by the following:

(a) legal charges over right of use assets (2018: prepaid lease payments on land use rights), and leasehold land and buildings with carrying value of RMB202 million (2018: RMB17 million) and RMB202 million (2018: RMB225 million), respectively;

(b) pledged bank deposits of RMB885 million (2018: RMB123 million);

(c) trade receivables of RMB19 million (2018: RMB25 million); and

(d) bills receivables of RMB686 million (2018: RMB500 million).

52. OPERATING LEASE ARRANGEMENTS

The Group as lessee

As at 31 December 2018, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented land and buildings which fall due as follows:

	As at 31 December 2018 RMB million
Within one year	72
In the second to fifth year inclusive	81
Over five years	12
	165

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for terms ranging from one to six years and rentals are fixed over the term of the relevant leases.

52. OPERATING LEASE ARRANGEMENTS (Continued)

The Group as lessor

During the year, the Group earned rental income of RMB408 million (for the nine months ended 31 December 2018: RMB272 million) from the lease of the Group's properties. The leased properties have committed tenants for terms ranging from one to five years.

Minimum lease payments receivable on leases are as follows:

	As at 31 December 2019 RMB million
Within one year	**355**
In the second year	**263**
In the third year	**199**
In the fourth year	**152**
In the five year	**92**
After five years	**371**
	1,432

As at 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December 2018 RMB million
Within one year	283
In the second to fifth year inclusive	583
Over five years	537
	1,403

53. CAPITAL COMMITMENTS

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

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Contracted but not provided for, in respect of:		
Purchase of property, plant and equipment	**126**	155
Factory buildings and office premises under development	**455**	414
	581	569

54. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt which includes lease liabilities, borrowings, convertible bonds and corporate bonds disclosed in note 39, 42, 44 and 45, respectively, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The Group will also balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if necessary.

55. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Financial assets		
Financial assets at amortised cost	**23,188**	23,944
Equity instruments at FVTPL	**1,005**	463
Equity instruments at FVTOCI	**1,523**	1,494
Financial assets at FVTPL	**50**	37
Finance lease receivables	**130**	128
Financial liabilities		
Amortised cost	**23,178**	22,725
Derivative financial instruments	**280**	3

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTPL, equity instruments at FVTOCI, loan receivables, finance lease receivables, investments in debt securities, financial assets at FVTPL, trade receivables, other receivables, pledged bank deposits, restricted bank deposits, bank balances and cash, trade payables, other payables, bills payables, lease liabilities, derivative financial instruments, amount due to a non-controlling shareholder of a subsidiary, borrowings, corporate bonds, convertible bond and other financial liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (i.e. currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rate, interest rate and other price.

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk

The Group's sales in the PRC represent over 70% (for the nine months ended 31 December 2018: 74%) of the Group's total turnover. All of these sales transactions are conducted and denominated in RMB. The Group needs to convert revenue in RMB into foreign currencies from time to time in order to meet its ongoing obligations and payment of dividends. Although RMB is not a freely convertible currency, the Group did not experience any difficulties in such conversion to meet operational requirements.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million	**As at 31 December 2019 RMB million**	As at 31 December 2018 RMB million
US$ against RMB	**1,402**	1,206	**3,524**	1,606
HK$ against RMB	**15**	–	**72**	404
EUR against HK$	**1**	1	**148**	195
RMB against HK$	**2**	18	**–**	1

Currency risk sensitivity analysis

The directors of the Company considered that the Group's exposure to RMB against HK$ is limited as amounts involved are immaterial. Accordingly, no sensitivity to fluctuation in RMB against HK$ is presented.

The Group therefore exposes to fluctuations in US$ and HK$ against RMB and EUR against HK$. The following table only details the Group's sensitivity to a 5% increase and decrease in US$ and HK$ against RMB and EUR against HK$. 5% is the sensitivity rate used when it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis mainly includes trade receivables, other receivables, pledged bank deposits, restricted bank deposits, bank balances and cash, trade payables, other payables, as well as borrowings. A positive number below indicates an increase in profit for the year/period where US$ weaken 5% against RMB, HK$ weaken 5% against RMB and EUR weaken 5% against HK$. For a 5% strengthening of US$ against RMB, 5% strengthening of HK$ against RMB and 5% strengthening of EUR against HK$, there would be an equal and opposite impact on the profit for the year/period.

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

Currency risk sensitivity analysis (Continued)

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Profit for the year/period		
US$ against RMB	**90**	17
HK$ against RMB	**2**	(17)
EUR against HK$	**6**	8

In management's opinion, the sensitivity analysis is unrepresentative of the foreign exchange risk inherent in the financial assets and liabilities, as the exposure at the end of the reporting period does not represent the exposure during the year/period.

Interest rate risk

The Group is exposed to cash flow interest rate risk as certain of its pledged bank deposits, restricted bank deposits, bank balances and borrowings are subject to floating interest rates (see note 42 for details of the borrowings). It is the Group's policy to keep majority of its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Management will also consider hedging significant interest rate exposure should the need arise.

The Group is exposed to fair value interest rate risk in relation to its loan receivables, finance lease receivables, investments in debt securities, customer deposits, corporate bonds, convertible bonds, lease liabilities and borrowings which are interest bearing at fixed-rate.

The management considered that the exposure to cash flow interest rate risk in relation to pledged bank deposits, restricted bank deposits, and bank balances is minimal, accordingly, no sensitivity analysis is presented for both year/period.

The Group's cash flow interest rate risk is mainly related to the fluctuation of Euro Interbank Offered Rate, PBOC lending rate and LIBOR against the Group's borrowings.

55. FINANCIAL INSTRUMENTS (Continued)

(b) *Financial risk management objectives and policies (Continued)*

Market risk (Continued)

Interest rate risk (Continued)

Interest rate risk sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to floating interest rates for borrowings at the end of the reporting period and assumed the amounts outstanding at the end of the reporting period were outstanding for the whole year/period and held constant throughout the financial year/period. If interest rates on interest bearing borrowings had been 50 basis points higher/lower and all other variables were held constant, the post-tax profit for the year would decrease/increase by approximately RMB16 million (for the nine months ended 31 December 2018: RMB19 million).

Other price risk

(i) Price risk on listed and unlisted equity securities and unlisted investment funds

The Group is exposed to other price risk through its investments in listed and unlisted equity securities and unlisted investment funds (as disclosed in notes 24 and 30). In addition, the Group has appointed the management to monitor the price risk and will consider hedging the risk exposure should the need arise.

Price risk sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective equity instruments had been 10% (2018: 10%) higher/lower:

- post-tax profit for the year ended 31 December 2019 would increase/decrease by RMB84 million as a result of the changes in fair value of equity instruments at FVTPL and financial assets at FVTPL (for the nine months ended 31 December 2018: RMB43 million); and

- FVTOCI reserve would increase/decrease by RMB129 million (for the nine months ended 31 December 2018: RMB127 million) as a result of the changes in fair value of equity instruments at FVTOCI investments.

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Other price risk (Continued)

(ii) Price risk on derivative component of the convertible bonds (note 44)

For the year ended 31 December 2019, the Company is required to estimate the fair value of the derivative component of the convertible bonds, including conversion options, with changes in fair value to be recognised in the consolidated statement of profit or loss as long as the convertible bonds are outstanding. The fair value will be affected either positively or negatively, amongst others, by the changes in the share price of Skyworth Digital, expected volatility and risk free rate.

Sensitivity analysis

If the share price of Skyworth Digital had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's post-tax profit for the year ended 31 December 2019 would increase/decrease by RMB102 million, as a result of changes in fair value of the derivative component of the convertible bonds.

If the expected volatility of share prices of Skyworth Digital had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's post-tax profit for the year ended 31 December 2019 would increase/decrease by RMB231 million, as a result of changes in fair value of the derivative component of the convertible bonds.

In management's opinion, the sensitivity analyses above are unrepresentative of the inherent price risk as the pricing model used in the valuation of these derivatives involves multiple variables and certain variables are interdependent.

Credit risk and impairment assessment

As at 31 December 2019, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on financial assets at amortised cost individually or collectively based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

In order to minimise the credit risk on bills received from customers, the Group will only accept bills issued by certain licensed banks with high credit ratings. Before accepting any bills from customers, the Group will verify the validity of each bill. In this regard, the directors of the Company consider that the Group's credit risk associated with its bills receivable is limited.

The credit risk on investments in debt securities and other receivables is limited because the directors of the Company have monitored the settlement and expect that the general economic conditions will not significantly change for the 12 months after the reporting date.

The credit risk on finance lease receivables are limited because all receivables are secured over the plant and machinery leased.

The pledged bank deposits, restricted bank deposits and bank balances are placed in a number of counterparties, most of which are licensed banks with high credit ratings. As such, the credit risk on liquid funds is limited.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 79% (2018: 89%) and 100% (2018: 100%) of the total trade receivables and loan receivable respectively at the end of the reporting period.

The Group has no other significant concentration of credit risk with exposure spread over a number of counterparties and customers, and industries.

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables and finance lease receivables	Other financial assets/ other items
P 1	Listed companies, subsidiaries of listed companies or large private company with over 3 years business relationship with no history of default or the counterparty has a low risk of default	Life time ECL – not credit impaired	12m ECL
P 2	Large private company with less than 3 years business relationship with no history of default	Life time ECL – not credit impaired	12m ECL
P 3	Small private company with less than 3 years business relationship with no history of default	Life time ECL – not credit impaired	12m ECL
P 4	There is evidence indicating the asset is credit-impaired but the Group has realistic prospect of recovery	Life time ECL – credit impaired	Life time ECL – credit impaired
P 5	There is evidence indicating the asset is credit-impaired for more than 12 months but the Group has realistic prospect of recovery	Life time ECL – credit impaired	Life time ECL – credit impaired
P 6	There is evidence indicating that the debtor is in severe financial difficulty	Life time ECL – credit impaired	Life time ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets and finance lease receivables, which are subject to ECL assessment:

31 December 2019	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount RMB million	RMB million
Financial assets at amortised cost					
Loan receivables	25	P 1	12m ECL	1,699	
		P 2	12m ECL	22	
		P 3	12m ECL	2	
		P 4	Lifetime ECL – credit-impaired	300	
		P 5	Lifetime ECL – credit-impaired	290	
		P 6	Lifetime ECL – credit-impaired	122	2,435
Investments in debt securities *(note (ii))*	29	P 1	12m ECL	83	83
Trade receivables	31	P 1	Lifetime ECL – not credit-impaired	8,767	
		P 2	Lifetime ECL – not credit-impaired	2,262	
		P 3	Lifetime ECL – not credit-impaired	3,035	
		P 4	Lifetime ECL – credit-impaired	408	
		P 5	Lifetime ECL – credit-impaired	89	
		P 6	Lifetime ECL – credit-impaired	102	14,663
Other receivables *(note (ii))*	32	P 1	12m ECL	522	
		P 2	12m ECL	11	
		P 3	12m ECL	62	
		P 5	Lifetime ECL – credit-impaired	30	625
Pledged bank deposits	35	*(Note (i))*	12m ECL	885	885
Restricted bank deposits	35	*(Note (i))*	12m ECL	411	411
Bank balances	35	*(Note (i))*	12m ECL	4,806	4,806
Other items					
Finance lease receivables *(note (ii))*	33	P 5	Lifetime ECL – credit-impaired	130	130

55. FINANCIAL INSTRUMENTS (Continued)

(b) *Financial risk management objectives and policies (Continued)*

Credit risk and impairment assessment (Continued)

31 December 2018	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount RMB million	RMB million
Financial assets at amortised cost					
Loan receivables	25	P 1	12m ECL	1,728	
		P 2	12m ECL	94	
		P 3	12m ECL	43	
		P 4	Lifetime ECL – credit-impaired	1,090	
		P 5	Lifetime ECL – credit-impaired	10	
		P 6	Lifetime ECL – credit-impaired	81	3,046
Investments in debt securities *(note (ii))*	29	P 1	12m ECL	150	
		P 5	Lifetime ECL – credit-impaired	8	158
Trade receivables	31	P 1	Lifetime ECL – not credit-impaired	7,577	
		P 2	Lifetime ECL – not credit-impaired	6,475	
		P 3	Lifetime ECL – not credit-impaired	1,793	
		P 4	Lifetime ECL – credit-impaired	720	
		P 5	Lifetime ECL – credit-impaired	55	
		P 6	Lifetime ECL – credit-impaired	93	16,713
Other receivables *(note (ii))*	32	P 1	12m ECL	820	
		P 4	Lifetime ECL – credit-impaired	7	827
Pledged bank deposits	35	*(Note (i))*	12m ECL	123	123
Restricted bank deposits	35	*(Note (i))*	12m ECL	335	335
Bank balances	35	*(Note (i))*	12m ECL	3,314	3,314
Other items					
Finance lease receivables *(note (ii))*	33	P 4	Lifetime ECL – credit-impaired	128	128

Notes:

(i) The counterparties are licensed banks with high credit ratings and the risk of default on liquid funds is limited.

(ii) Gross carrying amounts of investments in debt securities, other receivables and finance lease receivables are adjusted for their corresponding impairment loss.

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

As part of the Group's credit risk management, the Group applies internal credit rating. The following table provides information about the exposure to credit risk which are assessed based on provision matrix as at the end of the reporting period. Credit-impaired trade receivables, loan receivables, investments in debt securities, other receivables and finance lease receivables with gross carrying amounts of RMB599 million, RMB712 million, nil, RMB30 million and RMB130 million respectively as at 31 December 2019 (2018: RMB868 million, RMB1,181 million, RMB8 million, RMB7 million and RMB128 million) were assessed individually.

Gross carrying amount

As at 31 December 2019

Internal credit rating	Average loss rate	Trade receivables RMB million	Loan receivables RMB million	Investments in debt securities RMB million	Other receivables RMB million
P 1	**0.03%**	**8,767**	**1,699**	**83**	**522**
P 2	**1.32%**	**2,262**	**22**	**–**	**11**
P 3	**3.24%**	**3,035**	**2**	**–**	**64**
		14,064	**1,723**	**83**	**595**

As at 31 December 2018

Internal credit rating	Average loss rate	Trade receivables RMB million	Loan receivables RMB million	Investments in debt securities RMB million	Other receivables RMB million
P 1	0.02%	7,577	1,728	150	820
P 2	1.24%	6,475	94	–	–
P 3	2.79%	1,793	43	–	–
		15,845	1,865	150	820

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Gross carrying amount (Continued)

The estimated loss rates are estimated based on average of market corporate default rates and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2019, the Group provided RMB110 million (for the nine months ended 31 December 2018: RMB97 million) net impairment allowance for trade receivables.

The following table shows the movement in allowance for credit losses that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL – not credit-impaired RMB million	Lifetime ECL – credit-impaired RMB million	Total RMB million
As at 1 April 2018	26	174	200
Change due to financial instruments recognised as at 1 April 2018:			
– Impairment loss recognised	–	98	98
– Impairment loss reversed	(14)	(123)	(137)
New financial assets originated or purchased	136	–	136
As at 31 December 2018	148	149	297
Change due to financial instruments recognised as at 1 January 2019:			
– Transfer to credit-impaired *(Note (1))*	(25)	25	–
– Impairment loss recognised	–	170	170
– Impairment loss reversed	(123)	(67)	(190)
– Written-off *(Note (2))*	–	(9)	(9)
New financial assets originated or purchased	130	–	130
As at 31 December 2019	130	268	398

Notes:

(1) Certain trade receivables with gross carrying amount of RMB25 million (2018: nil) are defaulted and transferred to credit impaired during the year ended 31 December 2019.

(2) The Group writes off a trade receivable when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the borrower has been placed under liquidation or has entered into bankruptcy proceedings. The Group has taken legal action against the borrowers to recover the amount due.

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Gross carrying amount (Continued)

The following table shows the movement in allowance for credit losses that has been recognised for loan receivables.

	12m ECL RMB million	**Lifetime ECL – credit-impaired** RMB million	**Total** RMB million
As at 1 April 2018	111	98	209
Change due to financial instruments recognised as at 1 April 2018:			
Transfer to credit-impaired *(Note (1))*	(109)	109	–
– Impairment loss recognised	–	130	130
– Written-offs *(Note (2))*	–	(65)	(65)
New financial assets originated or purchased	1	–	1
As at 31 December 2018	3	272	275
Change due to financial instruments recognised as at 1 January 2019:			
– Impairment loss recognised	–	109	109
– Impairment loss reversed	(2)	(72)	(74)
As at 31 December 2019	1	309	310

Notes:

(1) *Certain loan receivables with gross carrying amount of RMB109 million were defaulted and transferred to credit impaired during the nine months ended 31 December 2018.*

(2) *The Group writes off a loan receivable when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the borrower has been placed under liquidation or has entered into bankruptcy proceedings. The Group has taken legal action against the borrowers to recover the amount due.*

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

In addition,

- the Group recognised impairment for credit losses for its credit-impaired investments in debt securities amounted to RMB8 million (for the nine months ended 31 December 2018: RMB34 million) for the year ended 31 December 2019 under lifetime ECL. There is no transfer of loss allowances from 12m ECL to lifetime ECL (not credit-impaired) or lifetime ECL (credit-impaired) occurred during the period;

- the Group recognised impairment for credit losses for its credit-impaired other receivables amounted to RMB66 million (for the nine months ended 31 December 2018: RMB11 million) for the year ended 31 December 2019; and

- the Group recognised impairment for credit losses for its credit-impaired finance lease receivables amounted to RMB3 million (for the nine months ended 31 December 2018: RMB4 million) for the year ended 31 December 2019.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2019, the Group has available unutilised borrowing facilities of approximately RMB8,552 million (2018: RMB10,621 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from prevailing market interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows (inflows) on derivative financial instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	Repayable on demand or less than 1 month RMB million	1 to 3 months RMB million	Over 3 months but not more than 1 year RMB million	Over 1 year but not more than 5 years RMB million	Over 5 years RMB million	Total undiscounted cash flows RMB million	Carrying amount at 31 December 2019 RMB million
31 December 2019								
Non-derivative financial liabilities								
Trade payables	–	2,675	2,451	1,433	–	–	6,559	6,559
Other payables	–	551	166	1,026	–	–	1,743	1,743
Other financial liabilities	8%	–	–	–	371	–	371	285
Bills payable	–	555	1,273	1,672	–	–	3,500	3,500
Borrowings – variable rate	3.70%	414	1,099	1,987	1,135	–	4,635	4,335
Borrowings – fixed rate	3.69%	368	513	2,891	189	–	3,961	3,842
Corporate bonds	5.48%	–	–	2,185	–	–	2,185	1,990
Convertible bonds	5.62%	–	–	4	51	1,196	1,251	924
Lease liabilities	4.15%	6	11	19	128	2	166	146
		4,569	5,513	11,217	1,874	1,198	24,371	23,324
Derivatives financial instruments, net								
Foreign currently forward contracts		–	–	4	–	–	4	4

	Weighted average effective interest rate	Repayable on demand or less than 1 month RMB million	1 to 3 months RMB million	Over 3 months but not more than 1 year RMB million	Over 1 year but not more than 5 years RMB million	Over 5 years RMB million	Total undiscounted cash flows RMB million	Carrying amount at 31 March 2019 RMB million
31 December 2018								
Non-derivative financial liabilities								
Trade payables	–	3,018	2,957	660	–	–	6,635	6,635
Other payables	–	1,184	19	168	–	–	1,371	1,371
Other financial liabilities	8%	1	2	10	236	–	249	173
Bills payable	–	979	1,749	3,454	–	–	6,182	6,182
Amounts due to a non-controlling shareholder of a subsidiary	–	50	–	–	–	–	50	50
Borrowings – variable rate	4.46%	335	1,545	1,880	841	–	4,601	4,442
Borrowings – fixed rate	2.96%	520	715	660	–	2	1,897	1,882
Corporate bonds	5.48%	–	–	218	2,185	–	2,403	1,990
		6,087	6,987	7,050	3,262	2	23,388	22,725
Derivatives financial instruments, net								
Foreign currently forward contracts		–	–	3	–	–	3	3

55. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Borrowings with a repayment on demand clause are included in the "Repayable on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2019, the aggregate undiscounted principal amounts of these borrowings amounted to RMB101 million (2018: RMB299 million). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB102 million (2018: RMB300 million).

		Maturity Analysis – borrowings subject to a repayment on demand clause based on scheduled repayments					
	Weighted average effective interest rate	Less than 1 month RMB million	1 to 3 months RMB million	Over 3 months but not more than 1 year RMB million	Over 1 year but not more than 5 years RMB million	Total undiscounted cash flows RMB million	Carrying amount RMB million
31 December 2019	**1.10%**	**–**	**–**	**102**	**–**	**102**	**101**
31 December 2018	1.47%	141	–	159	–	300	299

55. FINANCIAL INSTRUMENTS (Continued)

(c) *Fair value measurements of financial instruments*

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used),as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ (financial liabilities)	Fair value as at 31 December 2019 RMB million	31 December 2018 RMB million	Fair value hierarchy	Valuation technique(s) and key input(s)
Equity instruments at FVTPL				
Listed equity securities	**393**	73	Level 1	Quoted bid prices in an active market
Unlisted equity securities	**612**	390	Level 3 *(Note (a))*	Market approach Valuations are derived by the earnings attributable to owners of the investment, price of earnings multiples of comparable and discount for the marketability.
	1,005	463		

55. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ (financial liabilities)	Fair value as at 31 December 2019 RMB million	31 December 2018 RMB million	Fair value hierarchy	Valuation technique(s) and key input(s)
Equity instruments at FVTOCI				
Listed equity securities	**121**	–	Level 1	Quoted bid prices in an active market
Unlisted equity securities	**1,402**	1,494	Level 3 *(Note (b))*	Market approach Valuations are derived by the earnings attributable to owners of the investment, price of earnings multiples of comparable and discount for the marketability.
	1,523	1,494		
Financial assets at FVTPL				
Unlisted investment funds	**50**	37	Level 3 *(Note (c))*	Discounted cash flow Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustments of related expenses, discounted at a rate that reflects the credit risk of various counterparties.

55. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ (financial liabilities)	Fair value as at 31 December 2019 RMB million	31 December 2018 RMB million	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial instruments:				
Foreign currency forward contract	**(4)**	(3)	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange (from observable forward exchange at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivative component of the convertible bonds	**(276)**	–	Level 3 *(Note (d))*	Binomial option pricing model Fair value is estimated based on share price, exercise price of Skyworth Digital, risk free rate, expected volatility and dividend yield.
	(280)	(3)		

55. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Notes:

(a) A slight decrease in discount rate on discount for lack of marketability used in valuation would result in a significant increase in the fair value measurement of the unlisted equity securities at FVTPL, and vice versa. A 5% decrease in the discount for lack of marketability holding all other variables constant would increase the carrying amount of the unlisted equity securities at FVTPL by RMB31 million (2018: RMB20 million).

(b) A slight decrease in discount rate on discount for lack of marketability used in valuation would result in a significant increase in the fair value measurement of the unlisted equity securities at FVTOCI, and vice versa. A 5% decrease in the discount for lack of marketability holding all other variables constant would increase the carrying amount of the unlisted equity securities at FVTOCI by RMB76 million (2018: RMB75 million).

(c) A slight increase in the expected yield would result in a significant increase in the fair value measurement of the unlisted investment fund, and vice versa. A 5% increase in the expected yield holding all other variables constant would increase the carrying amount of the unlisted investment fund by RMB3 million (2018: RMB2 million).

(d) A slight increase in the expected volatility and share price of Skyworth Digital used in isolation would result in significant increase in the fair value measurement of the derivative component, and vice versa. A 5% increase in the share price of Skyworth Digital and expected volatility holding all other variables constant would increase the carrying amount of the derivative component by RMB102 million and RMB231 million respectively.

55. FINANCIAL INSTRUMENTS (Continued)

(c) *Fair value measurements of financial instruments (Continued)*

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 fair value measurements of financial assets and financial liability

	Unlisted equity securities		Unlisted investment funds
	Equity instruments at FVTPL RMB million	Equity instruments at FVTOCI RMB million	Financial assets at FVTPL RMB million
At 1 April 2018	305	3,257	120
Loss from changes in fair value of equity instruments at FVTPL	(26)	–	–
Fair value loss on investments in equity instruments at FVTOCI	–	(1,763)	–
Investments	123	–	5
Disposals	–	–	(88)
Exchange realignment	(12)	–	–
At 31 December 2018	390	1,494	37
Gain from changes in fair value of equity instruments at FVTPL	285	–	–
Fair value loss on investments in equity instruments at FVTOCI	–	(92)	–
Investments	258	–	48
Disposals	(48)	–	(35)
Transfer out of level 3 *(note)*	(273)	–	–
At 31 December 2019	612	1,402	50

All gains and losses included in other comprehensive income relate to equity instruments at FVTOCI held at the end of the reporting period and are reported as changes of "FVTOCI reserve".

Reconciliation of Level 3 fair value measurement of financial liability, representing the derivative component of the convertible bonds, is disclosed in note 44.

Note: During the year ended 31 December 2019, certain equity securities were transferred out of Level 3 of the fair value hierarchy upon the listing of the related assets on the Sci-Tech Innovation Board in the PRC. Details of the fair value measurement upon listing are disclosed in note 55(c).

During the nine months ended 31 December 2018, there were no transfers between levels of the fair value hierarchy.

55. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The accounting team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The fluctuations in the fair value of the assets and liabilities are explained to the board of directors of the Company.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

No changes in the business or economic circumstances that significantly affect the fair value of financial instruments is considered by the directors of the Company.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

The fair values of the above financial assets and financial liabilities (categorised with Level 3 hierarchy) have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

56. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payables RMB million	Amounts received for share award scheme of a subsidiary RMB million	Interest payables RMB million	Other financial liabilities RMB million	Amount due to a non-controlling shareholder of a subsidiary RMB million	Lease liabilities RMB million	Borrowings RMB million *(note 42)*	Convertible bonds RMB million	Derivative financial instruments RMB million	Corporate bonds RMB million	Total RMB million
At 1 April 2018	–	204	60	163	60	–	7,476	–	–	1,990	9,953
Non cash transactions:											
Exchange realignment	–	–	–	–	–	–	(125)	–	–	–	(125)
Dividend recognised as distribution	241	–	–	–	32	–	–	–	–	–	273
Finance costs	–	–	325	10	–	–	–	–	–	–	335
Bills discounted to banks with recourse	–	–	–	–	–	–	(932)	–	–	–	(932)
Shares vested under the restricted share incentive scheme of Skyworth Digital	–	(59)	–	–	–	–	–	–	–	–	(59)
Financing cash flows:											
Dividend paid	(241)	–	–	–	(42)	–	–	–	–	–	(283)
Interest paid	–	–	(349)	–	–	–	–	–	–	–	(349)
Amounts received for share award scheme of a subsidiary	–	23	–	–	–	–	–	–	–	–	23
New borrowings raised	–	–	–	–	–	–	7,080	–	–	–	7,080
Repayments of borrowings	–	–	–	–	–	–	(7,175)		–	–	(7,175)
At 31 December 2018	–	168	36	173	50	–	6,324	–	–	1,990	8,741
Adjustment upon application of HKFRS 16	–	–	–	–	–	122	–	–	–	–	122
As at 1 January 2019 (restated)	–	168	36	173	50	122	6,324	–	–	1,990	8,863
Non cash transactions:											
Exchange realignment	–	–	–	–	–	–	35	–	–	–	35
Dividend recognised as distribution	160	–	–	–	63	–	–	–	–	–	223
Finance costs	–	–	429	14	–	8	–	33	–	–	484
New leases entered	–	–	–	–	–	79	–	–	–	–	79
Acquisition of a subsidiary	–	–	–	–	–	–	60	–	–	–	60
Shares vested under the restricted share incentive scheme of Skyworth Digital	–	(84)	–	–	–	–	–	–	–	–	(84)
Change in fair value of derivative financial instruments	–	–	–	–	–	–	–	–	136	–	136
Financing cash flows:											
Dividend paid	(160)	–	–	–	(113)	–	–	–	–	–	(273)
Interest paid	–	–	(423)	–	–	(8)	–	–	–	–	(431)
Repayments of lease liabilities	–	–	–	–	–	(55)	–	–	–	–	(55)
New other financial liability raised	–	–	–	98	–	–	–	–	–	–	98
New borrowings raised	–	–	–	–	–	–	13,676	–	–	–	13,676
Repayments of borrowings	–	–	–	–	–	–	(11,918)	–	–	–	(11,918)
New convertible bonds raised, net of transaction costs	–	–	–	–	–	–	–	891	140	–	1,031
At 31 December 2019	–	84	42	285	–	146	8,177	924	276	1,990	11,924

57. CONTINGENT LIABILITIES

There are individual patent disputes which arise from time to time in the ordinary course of the business of the Group. The Group is in the course of processing these matters. The directors of the Company are of the view that these patent disputes will not have a material adverse impact on the consolidated financial statements of the Group.

58. RETIREMENT BENEFITS SCHEMES

The employees of the Company's Hong Kong subsidiaries participate in a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSON Scheme") or a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Scheme Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Certain employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme remained with the ORSO Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income capped at $1,500 per month. The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employees' basic salary. The pension costs charged to profit or loss represent contributions payable to these funds by the Group at rates specified in the rules of these schemes.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The aggregate retirement benefits scheme contributions and pension costs for the Group's employees, net of forfeited contributions, which have been dealt with in profit or loss, are as follows:

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Retirement benefit scheme contributions in Hong Kong	**1**	1
Pension costs in the PRC	**298**	235
Total retirement benefit scheme contributions	**299**	236

At both 31 December 2019 and 2018, there were no forfeited contributions available to offset future employers' contributions to the schemes.

59. RELATED PARTY TRANSACTIONS

During the year/period, in addition to the related party transactions disclosed elsewhere in the consolidated financial statements, the Group also has the following transactions with related parties:

Trading transactions

Joint ventures

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Sales of finished goods	**10**	1
Repair and maintenance service fee income	**1**	1

Associates

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Interest paid	**–**	7
Sales of finished goods	**956**	1,003
Repair and maintenance service fee paid	**1**	1

Related parties

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Interest income from loan receivables from a related party *(Note)*	**16**	22
Consultancy fee paid to a substantial shareholder of the Company	**3**	2

Note: The related party is controlled by a substantial shareholder of the Company.

59. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management including chief executive of the Company during the year/period was as follows:

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Short-term benefits	**39**	31
Post-employment benefits	**1**	1
Share-based payments	**21**	14
	61	46

The remuneration of directors and key management is reviewed by the remuneration committee having regard to the responsibilities and performance of the relevant individuals and market trends.

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following lists the subsidiaries of the Company as at 31 December 2019 and 31 December 2018 which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/paid up registered capital	Effective interest held by the Company (Note (a)) As at 31 December 2019	As at 31 December 2018	Principal activities
Skyworth Holdings Limited 創維控股有限公司	Samoa	Ordinary shares US$1	**100%**	100%	Investment holding
Skyworth Enterprises Limited 創維實業有限公司	Samoa	Ordinary shares US$1	**100%**	100%	Investment holding
Skyworth Investment (Holdings) Limited 創維投資(控股)有限公司	The British Virgin Islands	Ordinary shares HK$893 Preference shares HK$990	**100%**	100%	Investment holding
Skyworth TV Holdings Limited 創維電視控股有限公司	Hong Kong	Ordinary shares HK$30,600,000 Non-voting deferred shares HK$2,500,000 *(Note (b))*	**100%**	100%	Investment holding
深圳創維－RGB電子有限公司 Shenzhen Chuangwei – RGB Electronics Co., Ltd.	PRC *(Note (c))*	Registered capital RMB700,000,000	**100%**	100%	Manufacture and sale of consumer electronic products
新創維電器(深圳)有限公司 Skyworth Electrical Appliances (Shenzhen) Co., Ltd.	PRC *(Note (d))*	Registered capital US$21,180,000	**100%**	100%	Manufacture of consumer electronic products and property holding
呼和浩特市創維建設發展有限公司	PRC *(Note (c))*	Registered capital US$24,400,000	**100%**	100%	Manufacture and sale of consumer electronic products
創維集團科技園管理有限公司	PRC *(Note (c))*	Registered capital US$39,500,000	**100%**	100%	Manufacture of consumer electronic products and property holding
創維集團有限公司	PRC *(Note (c))*	Registered capital HK$1,830,000,000	**100%**	100%	Investment holding

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/paid up registered capital	Effective interest held by the Company (Note (a)) As at 31 December 2019	Effective interest held by the Company (Note (a)) As at 31 December 2018	Principal activities
Skyworth Multimedia International Limited 創維多媒體國際有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	Manufacture and sale of consumer electronic products
Skyworth Overseas Development Limited 創維海外發展有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	Manufacture and sale of consumer electronic products
Skyworth Overseas Limited 創維海外有限公司	Hong Kong	Ordinary shares HK$2	**100%**	100%	Trading of consumer electronic products
創維數字股份有限公司 Skyworth Digital	PRC *(Note (f))*	Registered capital RMB1,070,931,280	**57.8%** *(Note (g))*	58.8% *(Note (g))*	Investment holding
深圳創維數字技術有限公司 Shenzhen Skyworth Digital Technology Co., Ltd.	PRC *(Note (e))*	Registered capital RMB300,000,000	**57.8%** *(Note (g))*	58.8% *(Note (g))*	Manufacture and sale of consumer electronic products and research and products development
深圳市酷開網絡科技有限公司 Shenzhen Coocca	PRC *(Note (c))*	Registered capital RMB127,487,687	**56.79%**	56.79%	Manufacturing and sale of consumer electronic products
創維液晶器件(深圳)有限公司	PRC *(Note (d))*	Registered capital HK$25,000,000	**57.21%** *(Note (g))*	58.8% *(Note (g))*	Manufacture and sale of consumer electronic products and research and products development
Skyworth Intellectual Property Holdings Limited	The British Virgin Islands	Ordinary share US$1	**100%**	100%	Intellectual property holding
Winform Inc.	The British Virgin Islands/ Hong Kong	Ordinary share US$1	**100%**	100%	Property holding
Skyworth Moulds Industrial Company Limited	The British Virgin Islands	Ordinary shares US$10	**100%**	100%	Investment holding
Skyworth Display Technology Holdings Limited 創維光顯科技控股有限公司	Bermuda	Ordinary shares HK$100,000	**83%**	83%	Investment holding
Skyworth Electronic Appliance Limited 創維電器有限公司	Hong Kong	Ordinary shares HK$93,114,000	**71.25%**	68.75%	Investment holding

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/paid up registered capital	Effective interest held by the Company (Note (a)) As at 31 December 2019	As at 31 December 2018	Principal activities
南京創維家用電器有限公司	PRC *(Note (d))*	Registered capital US$50,000,000	**77%**	75%	Manufacture and sale of consumer electronic products and research and products development
創維集團財務有限公司	PRC *(Note (d))*	Registered capital RMB1,152,670,000	**100%**	100%	Financing
深圳創維科技諮詢有限公司	PRC *(Note (d))*	Registered capital RMB100,000,000	**100%**	100%	Investment holding
Skyworth Financial Management Company Limited 創維財資管理有限公司	Hong Kong	Ordinary shares HK$500,000,000	**100%**	100%	Treasury management and investment holding
Skyworth International Trading Limited 創維國際貿易有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	Trading

Notes:

(a) *The Company directly holds the entire interest in Skyworth Holdings Limited and Skyworth LCD Holdings Limited. The interests of all other companies are indirectly held by the Company.*

(b) *The non-voting deferred shares practically carry no rights to dividends nor receive notice of nor to attend or vote at any general meeting of the relevant company nor to participate in any distribution on winding up.*

(c) *The subsidiaries are sino-foreign equity joint ventures registered in the PRC.*

(d) *The subsidiaries are wholly foreign owned enterprises registered in the PRC.*

(e) *The subsidiary is a joint stock limited company registered in the PRC.*

(f) *The subsidiary is a joint stock limited company established under the law of the PRC whose shares are listed on the Shenzhen Stock Exchange.*

(g) *The effective interest held by the Company included 0.83% (2018: 1.59%) equity interest held under treasury shares of a subsidiary of the Company.*

None of the subsidiaries had issued any debt securities outstanding at 31 December 2019 and 2018 or at any time during the year/period, except for the issuance of convertible bonds as disclosed in note 44 in which the Group has no interest.

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ establishment operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		As at 31 December 2019	As at 31 December 2018	**Year ended 31 December 2019**	Nine Months ended 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
				RMB million	RMB million	**RMB million**	RMB million
Skyworth Digital	PRC	**41.20%**	41.20%	**218**	85	**1,239**	1,016
Shenzhen Coocaa	PRC	**43.21%**	43.21%	**62**	30	**682**	655
Individually immaterial subsidiaries with non-controlling interest				**4**	18	**230**	214
				284	133	**2,151**	1,885

Summarised financial informations in respect of the Group's subsidiaries that have material non-controlling interests are set out below. The summarised financial informations below represent amounts before intragroup eliminations.

Skyworth Digital

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Current assets	**9,015**	7,061
Non-current assets	**1,257**	1,128
Current liabilities	**(6,675)**	(5,193)
Non-current liabilities	**(461)**	(161)
	3,136	2,835
Equity attributable to owners of the Company	**1,770**	1,450
Non-controlling interests of Skyworth Digital	**1,239**	1,016
Non-controlling interest of Skyworth Digital's subsidiary	**127**	369
	3,136	2,835

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Skyworth Digital (Continued)

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Revenue	**9,011**	6,068
Expenses	**(8,497)**	(5,854)
Profit for the year/period	**514**	214
Profit attributable to owners of the Company	**311**	122
Profit attributable to the non-controlling interests of Skyworth Digital	**218**	85
(Loss) profit attributable to the non-controlling interests of Skyworth Digital's subsidiaries	**(15)**	7
Profit for the year/period	**514**	214
Other comprehensive (expense) income attributable to owners of the Company	**(263)**	2,492
Other comprehensive (expense) income attributable to the non-controlling interests of Skyworth Digital	**(186)**	1,746
Other comprehensive (expense) income for the year/period	**(449)**	4,238
Total comprehensive income attributable to owners of the Company	**48**	2,614
Total comprehensive income attributable to the non-controlling interests of Skyworth Digital	**32**	1,831
Total comprehensive (expense) income attributable to the non-controlling interests of Skyworth Digital's subsidiaries	**(15)**	7
Total comprehensive income for the year/period	**65**	4,452
Net cash inflow from operating activities	**22**	673
Net cash outflow from investing activities	**(145)**	(32)
Net cash inflow (outflow) from financing activities	**1,014**	(294)
Net cash inflow	**891**	347

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Shenzhen Coocaa

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Current assets	**1,878**	1,829
Non-current assets	**462**	203
Current liabilities	**(503)**	(280)
Non-current liabilities	**(204)**	(191)
	1,633	1,561
Equity attributable to owners of the Company	**897**	860
Non-controlling interests of Shenzhen Coocaa	**682**	655
Non-controlling interests of Shenzhen's Coocaa's subsidiary	**54**	46
	1,633	1,561

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Revenue	**948**	529
Expenses	**(800)**	(460)
Profit for the year/period	**148**	69
Profit attributable to owners of the Company	**82**	39
Profit attributable to the non-controlling interests of Shenzhen Coocaa	**62**	30
Profit attributable to the non-controlling interests of Shenzhen Coocaa's subsidiaries	**4**	–
Profit for the year/period	**148**	69

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Shenzhen Coocaa (Continued)

	Year ended 31 December 2019 RMB million	Nine months ended 31 December 2018 RMB million
Other comprehensive expense attributable to owners of the Company	**(22)**	(9)
Other comprehensive expense attributable to the non-controlling interests of Shenzhen Coocaa	**(13)**	(7)
Other comprehensive expense for the year/period	**(35)**	(16)
Total comprehensive income attributable to owners of the Company	**60**	30
Total comprehensive income attributable to the non-controlling interests of Shenzhen Coocaa	**49**	23
Total comprehensive income attributable to non-controlling interests of Shenzhen Coocaa's subsidiaries	**4**	–
Total comprehensive income for the year/period	**113**	53
Net cash inflow (outflow) from operating activities	**132**	(88)
Net cash outflow from investing activities	**(137)**	(479)
Net cash inflow from financing activities	**94**	51
Net cash inflow (outflow)	**89**	(516)

61. FINANCIAL INFORMATION OF THE COMPANY

The following are the statement of financial position of the Company:

	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Non-current Assets		
Interests in subsidiaries	**5,797**	5,773
Amounts due from subsidiaries	**–**	1,990
	5,797	7,763
Current Assets		
Other receivables	**10**	9
Amounts due from subsidiaries	**2,542**	540
Bank balances and cash	**1**	1
	2,553	550
Current Liabilities		
Other payables	**76**	75
Amounts due to subsidiaries	**1,137**	1,070
Corporate bonds	**1,990**	–
	3,203	1,145
Net Current Liabilities	**(650)**	(595)
Total Assets less Current Liabilities	**5,147**	7,168
Non-current Liability		
Corporate bonds	**–**	1,990
Net Assets	**5,147**	5,178
Capital and Reserves		
Share capital	**308**	308
Reserves	**4,839**	4,870
	5,147	5,178

61. FINANCIAL INFORMATION OF THE COMPANY (Continued)

The followings are the movements in reserves of the Company for the current year and prior period:

	Share premium RMB million	Share option reserve RMB million	Share award reserve RMB million	Shares held for share award scheme RMB million	Surplus account RMB million	Accumulated profits RMB million	Total RMB million
Balance at 1 April 2018	3,292	198	–	(105)	1,006	549	4,940
Profit and total comprehensive income for the period	–	–	–	–	–	150	150
Recognition of equity-settled share-based payments *(note 49)*	–	4	17	–	–	–	21
Lapse of share option	–	(135)	–	–	–	135	–
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	(241)	(241)
Share vested under share award scheme of the Company	–	–	(7)	7	–	–	–
Balance at 31 December 2018	3,292	67	10	(98)	1,006	593	4,870
Profit and total comprehensive income for the period	–	–	–	–	–	91	91
Recognition of equity-settled share-based payments *(note 49)*	–	28	10	–	–	–	38
Lapse of share option	–	–	–	–	–	–	–
Share vested under share award scheme of the Company	–	–	(10)	15	–	(5)	–
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	(160)	(160)
Balance at 31 December 2019	3,292	95	10	(83)	1,006	519	4,839

62. COMPARATIVE FIGURES

Comparative figures for the line item of research and development expenses on the face of the consolidated statement of profit or loss and other comprehensive income and other payables on the face of the consolidated statement of financial position have been reclassified to conform with the current year's presentation.

63. EVENTS AFTER THE REPORTING PERIOD

Except as disclosed elsewhere in the consolidated financial statements, the following event took place after the reporting period:

The outbreak of COVID-19 in the mainland China and the subsequent quarantine measures imposed by the mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group, as most of the Group's operations are located in various cities in mainland China. The Group had to stop some of its manufacturing and other business activities since January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic.

The Group had resumed its manufacturing and other business activities gradually since February and March 2020. Up to the date of these consolidated financial statements are authorised to issue, the manufacturing and other business activities of the Group are fully resumed and operating at normal capacity level. As the quarantine measures imposed by the China government effectively controlled the spread of COVID-19 in China, the director of the Company expect the economic activities in China will bounce back in the coming future.

As the operations of most of the Group's customers, suppliers, associates, joint ventures and investees are located in mainland China, the outbreak of the COVID-19 is expected to have a negative impact on these entities. Due to the potential negative impact on the debtors, prepayments and advances to suppliers, the Group will perform impairment review and ECL assessments to review the recoverability of such balances. Moreover, the Group will review the recoverability of the Group's inventories and stock of properties which may be negatively affected by the outbreak of COVID-19.

As the situation remains fluid as at the date these financial statements are authorised for issue, the directors of the Company are in progress to assess the financial effects of the COVID-19 on the Group's consolidated financial statements. Nevertheless, the COVID-19 outbreak is expected to affect the consolidated results of the Group for the year ending 31 December 2020.

Financial Summary

RESULTS

	For the year ended 31 December 2019 RMB million	For the nine months ended 31 December 2018 RMB million	For the year ended 31 March 2018 RMB million	2017 RMB million	2016 RMB million
Revenue	**37,277**	30,192	39,271	37,147	35,010
Cost of sales	**(29,775)**	(24,534)	(32,726)	(29,719)	(27,332)
Gross profit	**7,502**	5,658	6,545	7,428	7,678
Other income	**1,071**	628	1,139	1,331	1,157
Other gains and losses	**275**	(13)	(178)	252	(2)
Impairment loss recognised in respect of financial assets	**(223)**	(277)	(77)	(79)	(43)
Selling and distribution expenses	**(3,757)**	(2,862)	(3,873)	(4,414)	(3,900)
General and administrative expenses	**(1,014)**	(833)	(868)	(1,151)	(1,061)
Research and development expenses	**(1,843)**	(1,327)	(1,604)	(1,333)	(1,055)
Finance costs	**(484)**	(335)	(322)	(311)	(196)
Share of results of associates	**21**	9	10	–	2
Share of results of joint ventures	**5**	–	(1)	(3)	3
Profit before taxation	**1,553**	648	771	1,720	2,583
Income tax expense	**(522)**	(95)	(272)	(394)	(511)
Profit for the year/period	**1,031**	553	499	1,326	2,072
Attributable to:					
Owners of the Company	**747**	420	459	1,136	1,779
Non-controlling interests	**284**	133	40	190	293
	1,031	553	499	1,326	2,072

ASSETS AND LIABILITIES

	As at 31 December 2019 RMB million	2018 RMB million	As at 31 March 2018 RMB million	2017 RMB million	2016 RMB million
Total consolidated assets	**47,538**	45,160	43,101	38,193	35,078
Total consolidated liabilities	**(29,395)**	(27,805)	(26,557)	(23,280)	(21,150)
Net assets	**18,143**	17,355	16,544	14,913	13,928
Attributable to:					
Owners of the Company	**15,992**	15,470	14,922	13,730	12,587
Non-controlling interests	**2,151**	1,885	1,622	1,183	1,341
	18,143	17,355	16,544	14,913	13,928

Amounts expressed in RMB millions (except for share data and items specifically stated)

	Year ended 31 December	Nine months ended 31 December	Year ended 31 March		
	2019	2018	2018	2017	2016
OPERATING RESULTS					
Revenue	**37,277**	30,192	39,271	36,515	34,508
EBIT	**2,037**	973	1,083	1,993	2,739
Profit attributable to owners of the Company	**747**	420	459	1,116	1,754
DATA PER SHARE (CENTS)					
Earnings per share – basic (RMB)	**24.61**	13.85	15.21	38.04	61.34
Dividend per share (HK$)	**–**	6.0	9.0	14.6	24.0
Dividend payout ratio	**0.0%**	38.3%	50.9%	33.6%	32.4%
KEY STATISTICS					
Equity attributable to owners of the Company	**15,992**	15,470	14,922	13,730	12,587
Working capital	**7,388**	8,636	9,731	8,247	8,903
Cash position*	**6,102**	3,772	8,142	4,528	4,600
Borrowings	**8,177**	6,324	7,476	7,089	6,760
Corporate bonds (inclusive of interest)	**2,029**	2,026	2,050	–	–
Convertible bonds (inclusive of interest)	**927**	–	–	–	–
Bills receivables	**4,835**	6,942	5,414	5,745	6,042
Trade receivables	**9,430**	9,474	7,003	5,030	4,412
Inventories	**4,909**	6,031	5,202	5,913	4,582
Depreciation and amortisation	**870**	541	676	597	534
KEY RATIOS					
ROE (%)	**4.7**	2.7	3.1	8.1	13.9
ROA (%)	**2.2**	1.2	1.0	3.0	5.2
Debt to equity (%)**	**61.4**	48.1	57.6	47.5	48.5
Current ratio (times)	**1.3**	1.4	1.4	1.4	1.5
Trade receivable turnover period excluding portion arising from discounted bills receivable (days)***	**150**	131	105	102	106
Inventories turnover period (days)***	**72**	65	62	65	55
Gross profit margin (%)	**20.1**	18.7	16.7	20.0	21.9
EBITDA margin (%)	**7.8**	5.0	4.5	7.1	9.5
EBIT margin (%)	**5.5**	3.2	2.8	5.5	7.9
Profits margin (%)	**2.8**	1.8	1.3	3.6	5.9

* *Cash position refers to pledged bank deposits, restricted bank deposits, bank balances and cash*

** *(Borrowings + corporate bonds + convertible bonds)/total equity*

*** *Calculation based on average inventories; average sum of bills receivables and trade receivables*

Investor Relations

CALENDAR OF MAJOR IR ACTIVITIES

January – December 2019

Time	Events
March	• 2018 (April – December 2018) Annual Results Announcement, Hong Kong • Annual results group meeting, arranged by CCBI, Hong Kong
May	• J.P. Morgan Global China Summit 2019, Beijing China • CLSA China Forum 2019, Qingdao China • 2018 Annual General Meeting, Hong Kong
August	• 2019 (January – June, 2019) Interim Results Announcement
September	• 26th CLSA Investors' Forum, Hong Kong • UBS Tech Tour, Hong Kong • Conference Call for US Investors, arranged by CLSA US (A CITIC Securities Company)
October	• Interim Results Luncheon, arranged by Daiwa Capital Markets HK, Hong Kong • Daiwa Tokyo based Economist led Tour, Japanese and World Economy, arranged by Daiwa Capital Markets, Shenzhen China

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lai Weide *(Chairman of the Board)*
Mr. Liu Tangzhi *(Chief Executive Officer)*
Ms. Lin Wei Ping
Mr. Shi Chi
Mr. Lin Jin
Mr. Lam Shing Choi, Eric
(Appointed with effect from 28 February 2020)

Independent Non-executive Directors

Mr. Li Weibin
Mr. Cheong Ying Chew, Henry
Mr. Li Ming *(Resigned with effect from 18 March 2020)*
Mr. Hung Ka Hai, Clement
(Appointed with effect from 18 March 2020)

MEMBERS OF COMMITTEES

Audit Committee

Mr. Cheong Ying Chew, Henry *(Chairman)*
Mr. Li Weibin
Mr. Li Ming *(Resigned with effect from 18 March 2020)*
Mr. Hung Ka Hai, Clement
(Appointed with effect from 18 March 2020)

Executive Committee

Mr. Lai Weide *(Chairman of the Board)*
Mr. Liu Tangzhi
Ms. Lin Wei Ping
Mr. Shi Chi
Mr. Lin Jin
Mr. Huang Mingyan
Mr. Wang Zhiguo
Mr. Wu Qinan
Mr. Lam Shing Choi, Eric
Mr. Wu Wei
Mr. Ying Yiming

Nomination Committee

Mr. Li Ming *(Chairman)*
(Resigned with effect from 18 March 2020)
Mr. Hung Ka Hai, Clement *(Chairman)*
(Appointed with effect from 18 March 2020)
Mr. Li Weibin
Mr. Cheong Ying Chew, Henry
Ms. Lin Wei Ping

Remuneration Committee

Mr. Li Weibin *(Chairman)*
Mr. Cheong Ying Chew, Henry
Mr. Li Ming *(Resigned with effect from 18 March 2020)*
Mr. Hung Ka Hai, Clement
(Appointed with effect from 18 March 2020)
Ms. Lin Wei Ping

COMPANY SECRETARY

Mr. Lam Shing Choi, Eric

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISOR

Reed Smith Richards Butler
Michael Li & Co.

PRINCIPAL BANKERS

Bank of China Limited
China Construction Bank Corporation
China Guangfa Bank Co., Ltd.
China Merchants Bank Co., Ltd.
DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
Postal Savings Bank of China Co., Ltd.
Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1601-04 Westlands Centre
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Quarry Bay
Hong Kong

Corporate Information

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
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Wan Chai, Hong Kong

SHARES LISTING

Shares of the Company are listed on The Stock Exchange of Hong Kong Limited
Stock Code: 00751

COMPANY WEBSITE

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