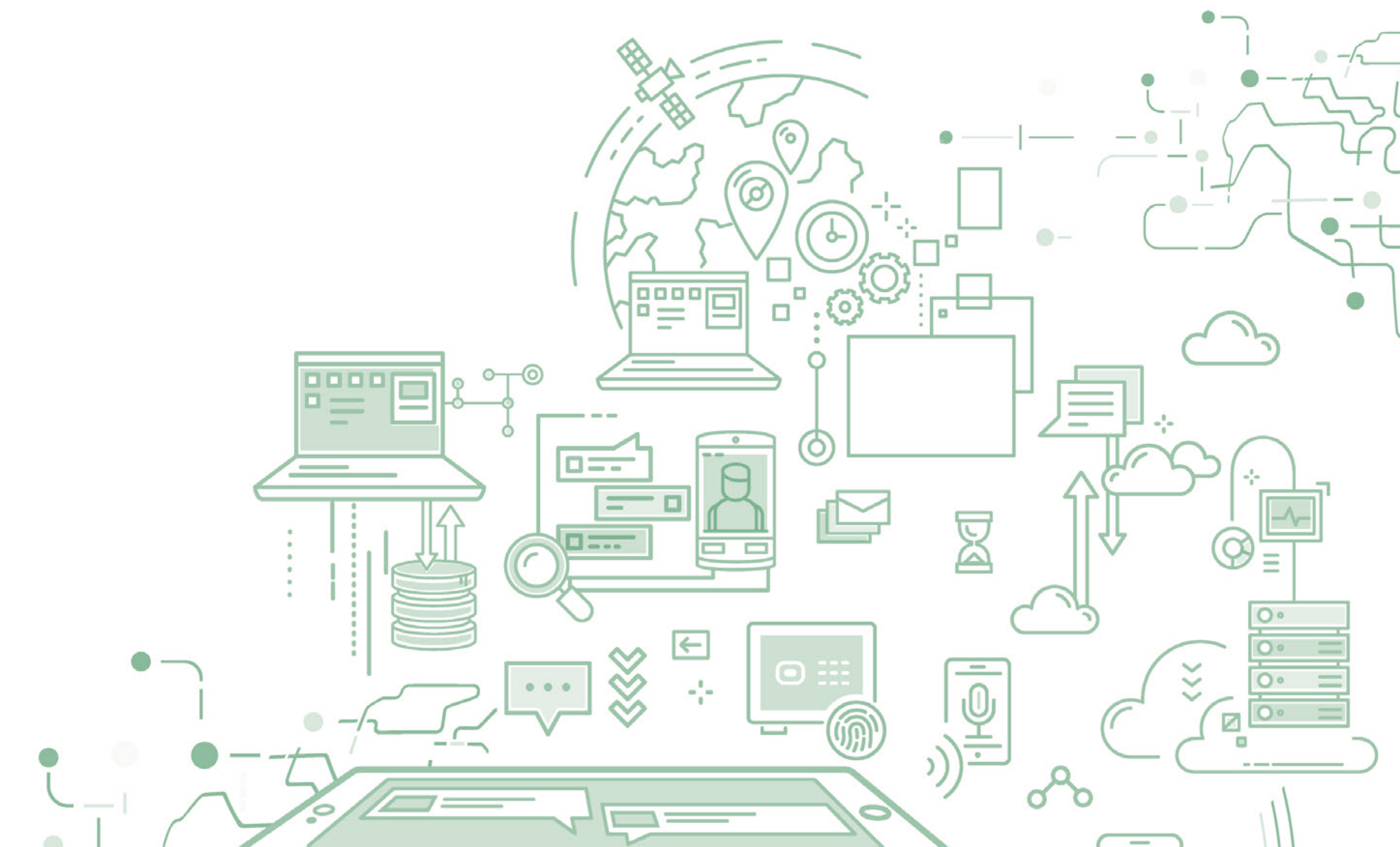
China Display Optoelectronics Technology Holdings Limited
華顯光電技術控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 334)

Annual Report

2019



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Executive Director

Mr. LIAO Qian (Chairman)

Executive Directors

Mr. LI Jian *(resigned on 7 March 2019)*
Mr. OUYANG Hongping
(re-designated as CEO on 7 March 2019)
Mr. WEN Xianzhen
Mr. ZHAO Jun *(appointed on 7 March 2019)*
Mr. ZHAO Yong *(resigned on 7 March 2019)*

Independent Non-Executive Directors

Ms. HSU Wai Man Helen
Mr. LI Yang
Mr. XU Yan

COMPANY SECRETARY

Ms. CHEUNG Bo Man, Solicitor, Hong Kong

AUDITOR

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

LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Building 22E
Phase Three
Hong Kong Science Park
Pak Shek Kok
New Territories
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

INVESTOR AND MEDIA RELATIONS

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

TICKER SYMBOL

Listed on The Stock Exchange of Hong Kong Limited
under the share ticker number 334

WEBSITE

http://www.cdoth8.com

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

(RMB Million)	**Year ended 31 December 2019**	Year ended 31 December 2018
Revenue	**5,456**	5,281
Gross profit	**187**	248
Gross profit margin (%)	**3.4%**	4.7%
Profit attributable to owners of the parent	**52**	82
Basic earnings per share (RMB cents)	**2.51**	3.95

FINANCIAL POSITION

(RMB Million)	**31 December 2019**	31 December 2018
Property, plant and equipment	**831**	603
Cash and cash equivalents	**101**	277
Total assets	**3,204**	3,813
Total liabilities	**2,459**	3,133
Net assets	**745**	680

OPERATION INDICATORS

	Year ended 31 December 2019	Year ended 31 December 2018
Inventory turnover (days)	**27**	29
Trade receivables turnover (days)	**86**	88
Trade payables turnover (days)	**105**	121
Current ratio	**0.95**	1.03

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

CHAIRMAN'S STATEMENT

LIAO Qian
Chairman

Dear Shareholders,

On behalf of China Display Optoelectronics Technology Holdings Limited ("Company", and together with its subsidiaries, "Group"), I hereby present to you the annual report of the Group for the year ended 31 December 2019 ("Review Period").

NEW PRODUCTS AND NEW BUSINESS BECOME THE DRIVING FORCE

2019 was a year of global economic turbulence and also a year for the Group to deepen its reform and transformation. Throughout the year, global economic growth has entered a deep structural adjustment and the Sino-US trade friction has brought uncertainties to the macro economy. The smartphone market was in a downward phase and the development of the industry was adversely affected. Under such a difficult industry environment, the Group cooperated with TCL China Star Optoelectronics Technology Co., Ltd* (TCL華星光電技術有限公司, formerly known as Shenzhen China Star Optoelectronics Technology Co., Ltd*（深圳市華星光電技術有限公司）, "TCL CSOT") to focus on semiconductor display technology and provided display technology services to global first-tier brands by taking advantage of its scale and efficiency.

During the Review Period, in terms of research and development capabilities, the Group strived to be innovative and continued to invest in new display module technology with the synergy with TCL CSOT. The Group also developed new customised products, such as 5G, slim bezel modules, etc., to fulfil clients' increasing demand for customised products. Regarding business development, the Group officially commenced the processing business in order to stabilise the cost structure in the long run. It also reduced procurement and inventory management costs, strengthened the Group's resource utilisation capabilities and enhanced its competitive advantage. As to customers, the Group was successfully listed as a qualified supplier of the global top six end customer brands, including Samsung, Huawei, Xiaomi, OPPO and vivo by virtue of the one-stop business model that combines panel and module from the Group and TCL CSOT.

In 2019, the Group recorded a revenue of RMB5,456 million, up by 3.3% year-on-year. Driven by orders from first-tier brand customers, the Group's sales volume reached 111 million units, up by 83.5% year-on-year. During the Review Period, the sales volume of newly launched processing business accounted for 42.2% of the total sales volume with a revenue of RMB508 million. The Group's profit attributable to owners of the parent was RMB52.4 million.

STRENGTHEN COMPETITIVE ADVANTAGE AND SEIZE MARKET OPPORTUNITIES

Looking ahead, the display screen, as the main interface for information transmission and interaction, is an important factor in fundamental technological development, which constantly enriches new display technologies and applications. With the rapid development of technologies including 5G and the Internet of Things, the Group will focus on the semiconductor display business and seize the opportunities arising form industrial adjustment and reshuffle. The Group will fully leverage on its own advantages and strengthen its leading position in ecosystem with TCL CSOT, in order to reinforce its partnership with first-tier brand customers. At the same time, the Group will continue to pay close attention to the smart home and automotive display markets to further expand its market share horizontally and to diverse the uncertain risk stemming from the prospects of the smartphone industry. On the other hand, the Group will also actively reduce costs and increase efficiency to maximise production efficacy and effectiveness, so as to lay a solid foundation for future development.

CONCERTED EFFORTS IN FIGHTING THE EPIDEMIC

In 2020, the country and the world are in a state of high alert to combat and control the coronavirus (COVID-19) outbreak. Due to the particularity of the production process in the semiconductor display industry, the Group's production line operated ceaselessly throughout 2019 and in 2020 amid the outbreak of the coronavirus. The Group has actively responded to the government's call since the outbreak and prioritised the protection of the health and safety of its employees and the prevention of the epidemic. The Group has also quickly launched a prevention and control plan, as well as set up a leadership group and an executive team to ensure the safety, stability and high quality of production. The Group will strive to maintain safe production and provide stable supply to clients.

Last but not least, I would like to express my sincere gratitude to the shareholders, business partners and all employees for their long-term support. The Group will work tirelessly to promote our business and create the best returns for shareholders.

LIAO Qian
Chairman
Hong Kong, 26 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

TCL Building in Hong Kong

INDUSTRY REVIEW

During the Review Period, the global political situation has been complex and volatile. Against the backdrop of trade protectionism, global economic growth was subject to a deep structural adjustment and clouded by the Sino-US trade friction. Throughout the year, the smartphone market was in a downward phase, adversely affecting the development of the industry. According to the data issued by the China Academy of Information and Communications Technology, 372 million units of smartphones were shipped from Mainland China in 2019, marking a year-on-year decline of 4.7%. According to the latest report from global market researcher IDC, the global smartphone shipment volume for the year of 2019 decreased by 2.3% year-on-year to approximately 1,371 million units. Furthermore, during the Review Period, the market share of the top five global manufacturers has further increased to 70.5%.

During the Review Period, Huawei became the target of US sanctions due to the Sino-US trade dispute, and the smartphone industry chain entered a period of short-term adjustment. The top six manufacturers in the smartphone market have re-calibrated their market shares, some of which sought expansion in overseas markets. In 2019, full-screen products with Low Temperature Poly-silicon ("LTPS") or Active-Matrix Organic Light-Emitting Diode ("AMOLED") panel remained the leading products in the market. As the domestic supply of foldable AMOLED progressively increased, more and more smartphone manufacturers have launched foldable smartphones, injecting vitality into the industry. In addition, the 5G concept became known to a wider public, which accelerated the development of the smart home and the Internet of Things market, and propelled the development of the smartphone market.

BUSINESS REVIEW

During the Review Period, the Group entered into the supply chain of a number of first-tier smartphone brands, which drove up the Group's overall sales volume significantly by 83.5% year-on-year to 111 million units. The Group achieved a revenue of RMB5,456 million during the Review Period, representing a year-on-year increase of 3.3%.

In order to improve operating efficiency and customised experience, panel manufacturers accelerate the development of panel module integration business. Aiming to seize industry opportunities, the Group launched its processing LCD modules service in June 2019. During the Review Period, the sales volume of processing business accounted for 42.2% of the total sales volume of the Group, with its turnover reaching RMB508 million. As the processing business can reduce the Group's procurement and inventory management costs, as well as mitigate the risks caused by fluctuations in raw material costs, it helps to stabilise the Group's cost structure. With that in mind, the Group will gradually increase the proportion of processing business where practicable. During the Review Period, due to the addition of the processing business, the revenue from the sale of laminated LCD module products (i.e. non-processing products) decreased by 3.4% year-on-year to RMB4,231 million and the revenue from the sale of non-laminated LCD module products decreased by 20.4% year-on-year to RMB716 million. During the Review Period, the Group's overall average selling price (excluding processing module products) decreased by 11.7% to RMB77.2, since the raw materials of certain products had been provided by customers directly in the first half of 2019 hence pushing down the selling price of such products.

The Group's gross profit was RMB187 million, representing a decrease of 24.8% year-on-year. The gross profit margin decreased by 1.3 percentage point year-on-year to 3.4%. The slight decrease in gross profit margin was mainly because of i) intense market competition during the Review Period; ii) raw material costs remained high; and iii) the Group had adopted a relatively aggressive pricing strategy in order to actively seize larger market share, increase the scale of the sales, and establish long-term and stable relationships with customers. During the Review Period, the Group's profit attributable to owners of the parent was RMB52.4 million.

Sales volume by product segment and their respective year-on-year comparisons:

	For the year ended 31 December				
	2019		2018		Change
	'000 units	**%**	'000 units	%	%
Sale of TFT LCD module					
Non-laminated modules	**15,897**	**14.3**	18,788	31.1	−15.4
Laminated modules	**48,171**	**43.5**	41,596	68.9	+15.8
Processing TFT LCD module					
Non-laminated modules	**5,320**	**4.8**	–	–	N/A
Laminated modules	**41,399**	**37.4**	–	–	N/A
Total	**110,787**	**100.0**	60,384	100.0	+83.5

Revenue by product segment and their respective year-on-year comparisons:

	For the year ended 31 December				
	2019		2018		Change
	RMB'000	**%**	RMB'000	%	%
Sale of TFT LCD module					
Non-laminated modules	**716,460**	**13.1**	900,028	17.0	–20.4
Laminated modules	**4,231,497**	**77.6**	4,380,833	83.0	–3.4
Processing TFT LCD module					
Non-laminated modules	**42,843**	**0.8**	–	–	N/A
Laminated modules	**464,990**	**8.5**	–	–	N/A
Total	**5,455,790**	**100.0**	5,280,861	100.0	+3.3

During the Review Period, China remained the main market for the Group. The revenue from Hong Kong and China were RMB471 million and RMB4,884 million, respectively, which together accounted for 98.1% of the Group's total revenue.

Revenue by geographical segment and their respective year-on-year comparisons:

	For the year ended 31 December				
	2019		2018		Change
	RMB'000	**%**	RMB'000	%	%
Hong Kong	**471,188**	**8.6**	737,309	14.0	–36.1
China	**4,884,225**	**89.5**	4,179,043	79.1	+16.9
South Korea	**96,739**	**1.8**	357,524	6.8	–72.9
Others	**3,638**	**0.1**	6,985	0.1	–47.9
Total	**5,455,790**	**100**	5,280,861	100.0	+3.3

SYNERGISTIC DEVELOPMENT WITH TCL CSOT

1) Improved product research and development capabilities

The Group has actively devoted its efforts to the research and development of new products and new technologies to increase the sales proportion of mid-to high-end products and strengthen its core competitiveness. It has developed various customised products with TCL CSOT, to meet customers' increasing demands for customised products. During the Review Period, the Group's full-screen products accounted for approximately 90% of the overall sales volume and the proportion of the sales volume of LTPS products increased from 64% for the same period last year to 87%.

The Group has been closely following the direction of industry development. During the Review Period, the Group developed a number of high-end full-screen module products with TCL CSOT, including slim bezel modules, high-frame rate screens and 5G etc.,. As the automotive display applications matured, automotive panels have become the second largest application, only trailing smartphone panels in the small and medium-sized panel market. The Group has capitalised on high-growth market segments such as automotive, high-end laptop and electronic education, and launched interactive touch automotive display modules with slim bezel in small batches.

2) Reinforced partnership with first-tier brands

The Group has been striving to deepen its cooperation with TCL CSOT. Leveraging the one-stop business model that combines panel and module from each party, the Group has built partnerships with global top smartphone brand customers, including Samsung, Huawei, Xiaomi, OPPO and vivo. Given that the market shares in the global smartphone industry have become increasingly concentrated, the Group will continue to strengthen its synergy with TCL CSOT by utilising its progressively sophisticated panel production techniques and networks, so as to deepen partnerships with first-tier brand customers and drive the long-term and stable development of the Group.

3) Upgraded production line automation to enhance management efficiency

In order to fully optimise production line efficiency and enhance management innovation and decision-making capabilities, the Group has purchased software and equipment from Foxconn Technology Group and its subsidiaries (collectively, the "Foxconn Group") to gradually set up a smart factory by leveraging the technical skills of the Foxconn Group. The first phase of this project was formally launched in 2018 in Huizhou and the production line renovation has been completed. Through the collaboration with the Foxconn Group, the Group will build on its existing production line to enhance its equipment data collection and analysis capabilities, and develop big data applications to gradually increase the interconnectivity between labour and machines. During the Review Period, the Group's overall production capacity increased by 38.7% year-on-year.

4) Broadened the production capacity of medium sized display modules to explore the smart home market

According to the report published by global market intelligence firm IDC, it is estimated that the sales volume of smart home equipment is approximately 815 million units in 2019 and will exceed 1,390 million units by 2023, and China will become the second largest market with a compound annual growth rate of 22.6%, the highest rate in the world. As early as March 2018, the Group cooperated with Baidu to introduce its first smart speaker with interactive touch display module, which marked the Group's first foray into the smart home market. During the Review Period, the Group expanded the production line of medium sized display modules. The shipment volume of smart home-related products in the full year reached 4.5 million units, representing a year-on-year increase of 837%.

OUTLOOK

Looking ahead, according to the latest report from global market researcher TrendForce, demand for 5G, AI and automotive displays in 2020 will drive the development of the semiconductor industry. According to an IDC report, global smartphone shipment volume will increase by 1.5% year-on-year next year, and it will increase by 7.7% to 1,489 million units by 2023. The Group will reinforce its strength and continue to make investment to enhance and prepare for advanced display technology, including in-display fingerprints and foldable AMOLED technologies, to seize the huge business opportunities in the 5G era. The Group will also continue to pay attention to and develop the high-end laptop and tablet markets, and strategically deploy smart home and automotive modules to seize market opportunities and expand market share horizontally.

At the beginning of 2020, the coronavirus (COVID-19) outbreak started in China and spread worldwide. Due to the particularity of the production process of the semiconductor display industry, notwithstanding the outbreak, the Group's production line operated ceaselessly and the production progressed as planned during the Chinese New Year. Nevertheless, the Group has taken heightened precautionary measures to safeguard employees' lives and health since the outbreak, and has adopted a series of measures to prevent and control the epidemic and safeguarding production. At present, affected by the epidemic, certain raw material supplies may experience a short-term shortage due to factors including suppliers' postponed resumption of work and logistic delays. The Group has actively negotiated with strategic suppliers and logistic partners to find suitable solutions to reduce such risks. Impacted by the spread of the epidemic, the global economic system has suffered serious adverse effect and consumers' purchasing desire has been reduced as well. Certain manufacturers have begun to adjust production and operation strategies in response to changes in the epidemic and the market, which may affect the Group's production and operation in the first half of 2020.

The Group believes that the Sino-US trade war will continue to bring uncertainties to the macroeconomy and the situation and impact of the global epidemic will remain unsettled. Facing the treacherous economic environment, the Group will actively strengthen its core competitiveness. With the vertical integration with TCL CSOT, the Group will continue to be able to secure orders from first-tier customers in order to maintain stable sales. In the long run, the Group remains cautiously optimistic about the development prospects of the display module business and is confident that it will further enhance its strengths in technology and scale by improving the industrial value chain, so as to create greater value for the Group and its shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank loans.

The Group's cash and cash equivalents balance as at 31 December 2019 amounted to RMB101 million, of which 34.5% was in US dollar, 54.8% was in RMB and 10.7% was in HK dollar.

As at 31 December 2019, the Group's interest-bearing bank loans were RMB1,009 million, which are denominated in RMB. The Group's other borrowings and lease liabilities were RMB42 million, which are denominated in RMB with a fixed interest rate.

As at 31 December 2019, total equity attributable to owners of the parent was RMB614 million (31 December 2018: RMB545 million), and the gearing ratio was 33.1% (31 December 2018: 11.7%). The gearing ratio is calculated based on the Group's total interest-bearing loans (including bank borrowings, other borrowings and bonds payable) divided by its total assets.

Pledge of Assets

As at 31 December 2019, the Group did not pledge trade receivables (2018: RMB48,040,000) to banks with recourse in exchange for cash.

Capital Commitments and Contingent Liabilities

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contracted, but not provided for:		
Plant and machinery	**22,726**	80,179

As at 31 December 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

Pending Litigation

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

Foreign Exchange Risk

The Group's business and operations is facing the international market, thus it is inevitable for the Group to be exposed to the risk of foreign exchange transactions and conversion.

The Group is committed to striking a balance among trades, assets and liabilities that are denominated in foreign currencies to achieve a natural hedging effect. The Group also used forward currency contracts to reduce the foreign currency exposures. In addition, pursuant to the principle of prudent financial management, the Group has not conducted or engaged in any high-risk derivative transactions during the Review Period.

Significant Investments Held

There were no significant investment held by the Group as at 31 December 2019.

Material Acquisitions and Disposals

The Group did not undertake any other significant acquisition or disposal of subsidiaries or assets during the Review Period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 6,101 employees. During the Review Period, the total staff costs amounted to RMB448 million. The Group has reviewed the remuneration policy by reference to the existing legislations, market conditions, as well as the performances of employees and the Company. In order to align the interests of staff with those of shareholders, share options and restricted shares would be granted to relevant grantees, including employees of the Group, under the Company's Share Option Scheme and Share Award Scheme respectively. Share options carrying rights to subscribe for a total of 36,407,486 shares of the Company ("Shares") remained outstanding as at 31 December 2019.

ENVIRONMENTAL POLICY AND COMPLIANCE

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

The Group also encourages its employees to protect the environment. To promote environmental awareness among employees, new staff shall attend induction training on energy saving. During the Review Period, the Group improved its management efficiency and implemented various energy saving measures, which effectively reduced the use of resources and further created a safe and healthy workplace and living environment for its staff.

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

The Environmental, Social and Governance Report of the Company for the year ended 31 December 2019 prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") will be published separately pursuant to the requirements under Appendix 27 to the Listing Rules.

CUSTOMERS AND SUPPLIERS

The Group recognises maintaining good and stable relationship with customers and business partners is key for the sustainable development of the Group. Therefore, the Group keeps good partnership with its major customers and suppliers. During the year, the Group's largest customer and the top five customers contributed approximately 45% and 82% (for the year ended 31 December 2018: 44% and 77%) to the revenue of the Group, respectively. Those customers have been cooperating with the Group for 1-11 years. The Group's largest supplier and the top five suppliers accounted for approximately 21% and 43% (for the year ended 31 December 2018: 17% and 41%) of the purchases of the Group, respectively. Those suppliers have been cooperating with the Group for 3-4 years.

Major customers

The Group's major customers are all from consumer mobile device industry, which is characterised by its cycles of integration and emergence of new brands. Any loss of or changes in market position of any of these customers may materially and adversely affect the business, financial condition and operating results of the Group. In light of this, the Group adopts the following strategies to reduce the risk from reliance on one single customer. On one hand, the Group strengthens the relationship with its existing customers. One of the major customers is a subsidiary of TCL Technology Group Corporation (formerly known as TCL Corporation, "TCL Corp"), the ultimate controlling shareholder of the Company, and has established solid partnership with the Group over the years. The other major customers also make relatively stable contribution to the revenue of the Group. On the other hand, the Group endeavours to expand business and acquire new customers by improving its product mix and integrating industry chain. Given the synergies generated with TCL CSOT, the Group has been producing modules for major brand customers, including Samsung, Huawei, Xiaomi, OPPO and vivo, since the second half of 2018.

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is normally required. The credit period generally ranges from 30 to 90 days, depending on the size and credibility of the customers. Each customer has its own specific credit limit. The Group also maintains credit insurance for trade receivables from customers.

Suppliers

There are numerous suppliers providing materials required for the Group's production and other businesses operations. However, the Group can only rely on a limited number of suppliers for certain materials which are exclusively manufactured by such suppliers. Failure of suppliers to timely deliver adequate production materials may disrupt the Group's production process, and hence adversely affect to the business and financial performance of the Group. The Group therefore adopts multiple sourcing policy and strategic inventory management to ensure sufficient supply of materials for production. In June 2019, the Group started providing processing service, which improve the procurement process of the Group. In addition, one of the major suppliers, Wuhan China Star Optoelectronics Technology Company Limited ("Wuhan CSOT"), is the Group's fellow subsidiary, which helps to stabilise the upstream panel supply of the Group.

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. LIAO Qian

aged 40, was appointed as a non-executive director and the chairman of the Company, and also the chairman of the nomination committee and a member of the remuneration committee of the Company on 1 January 2017. Mr. Liao is currently the executive director, the chief of staff, the vice president and the secretary of the board of directors of TCL Corp. Mr. Liao Qian possesses a master degree qualification and he also holds a Chinese legal professional qualification certificate. Mr. Liao obtained the degree of bachelor of economics from Fuzhou University in 2002. He further obtained the master degree of laws from Yunnan University in 2006. Mr. Liao joined TCL Corp in March 2014, and appointed as an independent director of Shenzhen Jiawei Photovoltaic Lighting Co., Ltd. (stock code: 300317.SZ) in November 2016, the chairman and non-executive director of Tonly Electronics Holdings Limited (stock code: 1249.HK) in January 2017, a non-executive director of Fantasia Holdings Group Co., Limited (stock code: 1777.HK) in March 2017, and the vice-chairman of Tianjin 712 Communication and Broadcasting Co., Limited (stock code: 603712.SH) in June 2019.

EXECUTIVE DIRECTORS

Mr. OUYANG Hongping

aged 43, was appointed as an executive director in June 2015, was re-designated from the position of Chief Operating Officer ("COO") to the Chief Executive Officer ("CEO"), and was appointed as a member of the remuneration committee and a member of the nomination committee of the Company on 7 March 2019. Mr. Ouyang is also a director of certain subsidiaries of the Company. He joined the TCL Corp and its subsidiaries (together "TCL Group") in 2004. From August 2004 to December 2008, he was the chief engineer of China Display Optoelectronics Technology (Huizhou) Company Limited ("CDOT Huizhou"), responsible for supervising engineering related matters, including production planning and management. Since January 2009, he has also been the deputy general manager of CDOT Huizhou, responsible for supervising engineering related matters, including research and development, procurement, production planning and management. Mr. Ouyang graduated from the University of Nanchang in July 1999 with a Bachelor's degree in industrial automation.

Mr. WEN Xianzhen

aged 47, was appointed as an executive director of the Company on 23 March 2018 and the finance director of the Company and CDOT Huizhou in November 2017. Mr. Wen joined TCL Group in 2004 and has over 20 years of experience in the field of accounting and finance. Mr. Wen held the position of finance manager of Huizhou Shenghua Industrial Co. Ltd.*（惠州市昇華工業有限公司, a subsidiary of TCL Corp）from September 2004 to February 2008. Mr. Wen was appointed as the finance director of Huizhou TCL King High Frequency Electronics Co. Ltd.*（惠州TCL王牌高頻電子有限公司）from March 2008 to June 2010. From July 2010 to April 2012, Mr. Wen held the positions of deputy general manager and finance director of TCL Air-Conditioner (Zhongshan) Co., Ltd.*（TCL空調器（中山）有限公司）and was responsible for finance management and analysis. From April 2012 to October 2017, Mr. Wen held the positions of deputy general manager and finance director of Huizhou TCL Environmental Resource Co., Ltd.*（惠州TCL環保資源有限公司）, then he was appointed as the finance director, deputy general manager and general manager of Huizhou TCL Environment Technology Co., Ltd.*（惠州TCL環境科技有限公司）. Mr. Wen graduated with a Bachelor of Accounting from Central South Institute of Technology*（中南工學院）(now merged into Nanhua University*（南華大學））in June 1997 and currently is a certified public accountant of the Chinese Institute of Certified Public Accountants and a Hong Kong certified financial planner.

Mr. ZHAO Jun

aged 47, Mr. Zhao was appointed as an executive director of the Company on 7 March 2019. Mr. Zhao joined TCL Group in 2018 and has been the general manager of Wuhan CSOT from May 2018 to December 2019. He was appointed as the vice president of TCL CSOT since September 2018 and redesignated to the senior vice president and the general manager of large-size business group and the general manager of TV division of TCL CSOT and vice president of TCL Corp since January 2019. Mr. Zhao graduated from Northwestern Polytechnical University with a bachelor degree and a Master's degree in chemical engineering, specializing in polymer materials. From April 1997 to January 2018, Mr. Zhao Jun held various positions in Tianma Microelectronics Co., Ltd. (which shares are listed on the Shenzhen Stock Exchange, stock code: SZ000050, "Tianma"), including assistant vice president from August 2013 to June 2016 and vice president of Tianma from July 2016 to January 2018. During his tenure with Tianma, Mr. Zhao was responsible for sales and sales management, quality control and procurement.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. HSU Wai Man, Helen

aged 50, was appointed as an independent non-executive director and the chairlady of the audit committee of the Company ("Audit Committee"), and also a member of the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee") of the Company in June 2015. Ms. Hsu has over 20 years' experience in accounting. Ms. Hsu graduated from The Chinese University of Hong Kong with a Bachelor's degree in business administration. Ms. Hsu had worked with Ernst & Young for 18 years and was a partner before she retired from the firm in February 2011. Ms. Hsu is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Ms. Hsu is currently an independent non-executive director of the following companies whose shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"): Perfect Shape (PRC) Holdings Limited (stock code: 1830.HK) and Richly Field China Development Limited (stock code: 313.HK). Besides, Ms. Hsu is also an independent non-executive director of Circle International Holdings Limited (stock code: CCH) whose shares are listed on the National Stock Exchange of Australia (NSX).

Mr. LI Yang

aged 51, was appointed as an independent non-executive director of the Company and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee in June 2015. Mr. Li obtained PRC lawyer qualification in 1998 and was admitted as a practicing lawyer in 2002, and has served as professor and doctoral tutor of the School of Law, Sun Yat-sen University since January 2016. Mr. Li graduated from the Zhongnan Institution of Political Science and Law*（中南政法學院）(now known as Zhongnan University of Economics and Law) in 1990 with a Bachelor's degree in law. He received his Master's degree and Doctorate degree in law from the Peking University Law School in 1996 and 2003 respectively and finished the post-doctoral research fellowship in Wuhan University in 2006. Mr. Li has rich experiences in intellectual property law (including patent, trademark, copyright, anti-unfair competition and antitrust), intellectual property management and intellectual property personnel training. Mr. Li is currently an arbitrator of the Shenzhen International Arbitration Commission and the vice president and deputy secretary-general of China Intellectual Property Law Association, and a part time researcher of the Intellectual Property Judicial Protection Research Center of the Supreme People's Court*（最高人民法院知識產權司法保護研究中心）.

Mr. XU Yan

aged 56, was appointed as an independent non-executive director of the Company and the chairman of the Remuneration Committee, and also a member of the Audit Committee and the Nomination Committee in June 2015. Mr. Xu has been associate professor and professor successively of the Department of Information Systems, Business Statistics and Operations Management of the Hong Kong University of Science and Technology from 2004 up to the present day. Mr. Xu as well as associate dean of the School of Business of the Hong Kong University of Science and Technology for the courses of EMBA for Chinese Executives, Executive Programs and China Strategy since 2011. Mr. Xu has rich experiences in management of technology innovation as well as research in telecommunication regulations and policies. He is currently a member of the board of directors of the International Telecommunications Society, and was appointed as a member of the Communications Authority of Hong Kong by the Chief Executive from 2017-2019. Mr. Xu graduated from Beijing Institute of Posts and Telecommunications*（北京郵電學院）, now known as Beijing University of Posts and Telecommunications, in July 1984 with a Bachelor's degree in telecom engineering. He obtained a Master's degree in telecom management from Beijing University of Posts and Telecom in April 1987 and a Doctor of Philosophy degree in research in telecommunications policy in the Department of Human Resource Management from Strathclyde University, the United Kingdom, in July 1997.

SENIOR MANAGEMENT

Mr. HU Yudong

aged 44, is the human resources director of the Company. Mr. Hu joined TCL Group in 1998 and has more than 16 years experience in human resource management. From July 1998 to June 2010, he served as the regional sales manager, deputy director of human resource department, director of human resource department and other management roles successively at TCL International Electronics (Huizhou) Co., Ltd. From July 2010 to August 2012, he served as vice general manager of Guangzhou Zhi Zhiyuan Oil Industry Co., Ltd.*（廣州植之元油脂實業有限公司）, responsible for the Company's human resource and administrative work. From September 2012 to February 2019, he served as director of the human resources department of TCL CSOT. Since March 2019, Mr. Hu was appointed as the human resource director of CDOT Huizhou. Mr. Hu graduated from Nankai University in June 1998 and obtained his bachelor's degree in economics; and graduated from Shanghai University of Finance and Economics in May 2010 and obtained his master's degree in business administration.

Mr. WANG Xinfu

aged 46, is the person in charge of the delivery centre of the Company. He joined the TCL Group in 2004. Since March 2004, he has held the positions of engineer and the head of facility section in CDOT Huizhou, in charge of the engineering and facility section. Since August 2008, he has served as the head of production department of CDOT Huizhou. Since 2015, he assumed the role of manufacturing director, responsible for the engineering management of manufacturing and production engineering management of CDOT Huizhou. Since December 2016, he has been the person in charge of the delivery centre of CDOT Huizhou, responsible for the operation and management of the delivery centre. In 2016, he received the Award of Outstanding Leader of HZZK Hi-tech Industrial Development Zone*（惠州仲愷高新技術開發區凱旋人才領軍人物獎）. Mr. Wang graduated from Changchun University of Technology in July 1999, with a Bachelor's degree in engineering.

Mr. ZHANG Hongjun

aged 44, is the marketing director of the Company. He graduated from Inner Mongolia Agriculture and Animal Husbandry College (內蒙古農牧學院) (currently known as Inner Mongolia Agricultural University (內蒙古農業大學)) with his bachelor's degree in 1996. He has more than 20 years' experience in sales. Mr. Zhang worked as business director at Pudong company of Shanghai Volkswagen Motor Sales Co., Ltd. (上海大眾汽車銷售有限公司) in 1996. He joined TCL Group in 1998 and successively held several positions of Inner Mongolia TCL Electrical Appliance Sales Co., Ltd. (內蒙古TCL電器銷售有限公司), i.e. business manager, general manager of branch AV business center, assistant to the general manager of the branch, manager of Hohhot business department. He served as manager of Hengshui business department and manager of Baoding business department of Shijiazhuang TCL Electrical Appliance Sales Co., Ltd. (石家莊TCL電器銷售有限公司) in 2000 and 2003 respectively, and served as general manager of Harbin TCL Electrical Appliance Sales Co., Ltd. (哈爾濱TCL電器銷售有限公司) in 2004. Mr. Zhang served as general manager of Inner Mongolia Hongsheng Agriculture and Animal Husbandry Co. Ltd. (內蒙古宏晟農牧業有限公司) from 2007 to 2010, and director of CDOT Huizhou marketing department from 2010 to 2017. Since 2017, he has been the marketing director of the Company.

COMPANY SECRETARY

Ms. CHEUNG Bo Man

aged 31, was appointed as the Company Secretary of the Company on 25 April 2017. She is a practising lawyer in Hong Kong and a partner of Messrs. Cheung Tong & Rosa Solicitors, Hong Kong. Ms. Cheung graduated from the University of Hong Kong with the Bachelor of Business Administration (Law) and Bachelor of Laws in 2009 and 2011 respectively and obtained a Postgraduate Certificate in Laws from the University of Hong Kong in 2012.

INTRODUCTION

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

The Company has adopted a corporate governance code prepared based on the code provisions (the "Code Provisions") of the latest revised code on corporate governance (the "CG Code") as set out in Appendix 14 to the Listing Rules from time to time as the guidelines for corporate governance of the Company, and has taken steps to comply with the CG Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2019, the Company has complied with the Code Provisions of the CG Code as set out in Appendix 14 to the Listing Rules except for the following deviations:

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

The company secretary of the Company, Ms. CHEUNG Bo Man is a partner of the Company's legal advisor, Cheung Tong & Rosa Solicitors ("CTR").

During the year ended 31 December 2019, the Company has assigned Ms. Clara SIU, the Vice Director of Finance and Investor Relations Department of the Company as the contact person with Ms. Cheung to ensure that information in relation to the performance, financial position and other major developments of the Group are speedily delivered to Ms. Cheung through the contact person assigned, to enable the company secretary to get hold of the Group's development promptly without material delay. With CTR's respective expertise and experience, the Company is confident that having Ms. Cheung as its company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company had not, throughout the year ended 31 December 2019, fully complied with the Code Provisions set out in the CG Code.

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received the respective confirmations signed by (i) TCL Corp, (ii) T.C.L. Industries Holdings (H.K.) Limited on 10 March 2020 and 28 February 2020, respectively, and (iii) Taibang Investment Limited, Ketai Investment Limited, Litai Investment Limited, Taigang Investment Limited, Liyuan Holdings Limited, Gaosheng Holdings Limited, Zhuoxian Investment Limited, Jinyuan Investment Limited, Taihua Investment Limited and Shengmao Holdings Limited (collectively, the "BVI Companies") (with TCL Corp and T.C.L. Industries Holdings (H.K.) Limited, collectively the "Covenantors") on 28 February 2020 (collectively, the "Confirmations") confirming that for the year ended 31 December 2019 and up to the date of signing the Confirmations by the relevant Covenantor, save for holding direct or indirect interest in the Company and Wuhan China Display Optoelectronics Technology Company Limited ("Wuhan CDOT"), which is owned as to 70% by CDOT Huizhou and 30% by Wuhan CSOT, each of the Covenantors has fully complied with the deed of non-competitions respectively executed by the Covenantors in favour of the Group on 17 April 2015 (the "Deed of Non-Competition") and, in particular, each of them and their respective close associates have not, directly or indirectly, carried on or engaged or interested in the research and development, manufacturing, sales and distribution of LCD modules for use in mobile phones, which is from time to time carried on or engaged or interested in by the Group.

The Independent Non-Executive Directors of the Company (the "Independent Non-Executive Director(s)") have reviewed the Confirmations and all of them are satisfied that the Deed of Non-Competition have been complied with during the year ended 31 December 2019.

DIRECTORS

The Board

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

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

Board Composition

There are currently 7 Directors as at the date of this report, all with professional backgrounds and/or extensive expertise for the direction and oversight of the Group's strategic priorities. The Board during the year ended 31 December 2019 and as at the date of this report comprises the following Directors:

Non-Executive Director

Mr. LIAO Qian (Chairman)

Executive Directors

Mr. LI Jian *(resigned on 7 March 2019)*
Mr. OUYANG Hongping *(re-designated as CEO on 7 March 2019)*
Mr. WEN Xianzhen
Mr. ZHAO Jun *(appointed on 7 March 2019)*
Mr. ZHAO Yong *(resigned on 7 March 2019)*

Independent Non-Executive Directors

Ms. HSU Wai Man Helen
Mr. LI Yang
Mr. XU Yan

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

The Company identifies the Independent Non-Executive Directors in all corporate communications which disclose the names of Directors.

Details of the biographies of the Directors are given under the section "Directors and Senior Management" of this annual report on pages 13 to 16.

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

The Independent Non-Executive Directors play an important role on the Board. Accounting for more than one-third of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole. In the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications on accounting or related financial management expertise. The number of Independent Non-Executive Directors has at all material times represented at least one-third of the Board.

Number of meetings attended/eligible to attend during the year ended 31 December 2019

During the year of 2019, the Board held 4 regular meetings and 4 additional meetings. The Company held 3 general meetings during the year ended 31 December 2019.

Attendance of individual Directors at the Board meetings and general meetings in 2019 is as follows:

	Regular Board Meetings	Additional Board Meetings concerning Special Matters requiring the Board's Decisions	General Meetings
Non-Executive Director			
Mr. LIAO Qian (Chairman)	3/4	2/4	2/3
Executive Directors			
Mr. LI Jian *(resigned on 7 March 2019)*	0/0	0/1	0/0
Mr. OUYANG Hongping *(re-designated as CEO on 7 March 2019)*	4/4	4/4	3/3
Mr. WEN Xianzhen	4/4	4/4	3/3
Mr. ZHAO Jun *(appointed on 7 March 2019)*	4/4	4/4	3/3
Mr. ZHAO Yong *(resigned on 7 March 2019)*	0/0	0/1	0/0
Independent Non-Executive Directors			
Ms. HSU Wai Man Helen	3/4	4/4	3/3
Mr. LI Yang	4/4	4/4	3/3
Mr. XU Yan	4/4	4/4	3/3

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

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

The Board and each Director, upon reasonable request, have access to independent professional advice to assist them in performing their duties to the Company, at the Company's expense. When needed and upon making request to the Board, Directors may obtain independent professional advice at the Company's expense in carrying out their duties.

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

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

According to the current Board practice, any transaction, which involves a conflict of interests between a substantial shareholder or a Director on the one part and the Company on the other part, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the Independent Non-Executive Directors who have no material interest in the said transaction. The relevant Directors shall abstain from voting and not be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

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

Chairman and CEO

The Company fully supported the division of responsibility between the Chairman of the Board and the CEO to ensure a balance of power and authority. The position of the Chairman was held by Mr. LIAO Qian during the year ended 31 December 2019 while the position of the CEO was held by Mr. LI Jian (since 25 June 2015 up to 7 March 2019), and Mr. OUYANG Hongping (since 7 March 2019).

This ensures a clear distinction between the Chairman's duty to manage the Board and the CEO's duty to oversee the overall internal operation of the Company.

Appointments, re-election and removal of members of the Board

Under bye-law 84 of the bye-laws of the Company ("Bye-Laws"), at each Annual General Meeting ("AGM"), one-third of the Directors for the time being shall retire from office by rotation and every director shall be subject to retirement by rotation at least once every 3 years while those retiring directors shall be eligible for re-election. Any Director who has not been subject to retirement by rotation in the 3 years preceding the AGM shall retire by rotation at such AGM.

Independent Non-Executive Directors

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

The Company confirms that the year of service of all the Independent Non-Executive Directors is less than 9 years.

Non-Executive Directors

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

Each of the non-executive Directors namely Mr. LIAO Qian and the three Independent Non-Executive Directors namely Ms. HSU Wai Man Helen, Mr. XU Yan and Mr. LI Yang, has been appointed for a specific term of 3 years subject to re-election in accordance with Code Provision A.4.1.

Nomination of Directors

On 25 June 2015, the Board has established the Nomination Committee to provide a framework and set the standards for the appointment of Directors of high calibre and with the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s).

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

Responsibilities of Directors

If any new Director is appointed, the officers of the Company, with assistance from the Company's external legal advisor as to Hong Kong law, will work closely with the newly appointed Director(s) both immediately before and after his/her appointment to acquaint the newly appointed Director(s) with the duties and responsibilities as a Director of the Company and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisor as to Hong Kong law setting out such duties and responsibilities of a director under the Listing Rules, Hong Kong Companies Ordinance (Cap. 622) and other related law and relevant regulatory requirements of Hong Kong is provided to each newly appointed Director. The officers of the Company would also provide each newly appointed Director with a package which includes information relating to the operations and business of the Group. The Directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time. Guidelines for directors issued by the Companies Registry of Hong Kong have been forwarded to each Director for his/her information and easy reference.

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

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

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

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

Induction and Continuous Professional Development

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

Directors	Read materials	Attend seminars/ briefings
Non-Executive Director		
Mr. LIAO Qian (Chairman)	✓	✓
Executive Directors		
Mr. LI Jian *(resigned on 7 March 2019)*	✓	✓
Mr. OUYANG Hongping *(re-designated as CEO on 7 March 2019)*	✓	✓
Mr. WEN Xianzhen	✓	✓
Mr. ZHAO Jun *(appointed on 7 March 2019)*	✓	✓
Mr. ZHAO Yong *(resigned on 7 March 2019)*	✓	✓
Independent Non-Executive Directors		
Ms. HSU Wai Man Helen	✓	✓
Mr. LI Yang	✓	✓
Mr. XU Yan	✓	✓

Securities Transactions guidelines

The Board has adopted a code of conduct regarding Directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that for the year ended 31 December 2019, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

On 25 February 2019, Mr. Li Jian, then executive Director and chief executive officer of the Company, has (i) exercised option ("Option") granted to him on 18 March 2016 pursuant to the share option scheme of the Company to subscribe for 80,000 Shares (representing approximately 0.0038% of the total number of issued Shares as at 25 February 2019) at the exercise price of HK$0.74 per Share (which was determined at the time of grant), and (ii) disposed on-market of the same parcel of 80,000 Shares at a price of HK$0.75 per Share ("Disposal") without first notifying the designated Director pursuant to Appendix 10 to the Listing Rules. Whilst the exercise of Option did not constitute a dealing under the Model Code, the Disposal constituted a dealing within the Blackout Period and hence a breach of Rule A.3(a)(i) of the Model Code.

Mr. Li confirmed that he had inadvertently instructed the broker to place such order for the Disposal before notifying and obtaining clearance from the designated Director under Appendix 10 to the Listing Rules. Mr. Li undertook with the Company that he will comply with the required standards as set out in Appendix 10 to the Listing Rules in future. Mr. Li has resigned as an executive Director and from all positions he held in the Company with effect from 7 March 2019.

The Board is of the view that the Company has maintained an effective system in monitoring the Directors' dealings (including a notification mechanism) to ensure compliance with Appendix 10 to the Listing Rules. In particular, the Company has on 10 January 2019 notified all Directors of the Blackout Period. In order to avoid similar incidents in the future, the Company has implemented and will implement the following actions:

(i) Remind all Directors the importance of complying with Appendix 10 to the Listing Rules in their dealings of the Shares and in particular the importance of giving written notice prior to conducting any intended dealings. The Company will also provide briefings to develop and refresh the Directors' knowledge and enhance their awareness of good corporate governance practices.

(ii) As all options granted by the Company to the Directors pursuant to its share option scheme are managed by a broker designated by the Company, the Company has (with consent of and on behalf of the Directors) instructed the relevant broker to refrain from processing and carrying out any instructions for exercising options and any subsequent dealings in such Shares by Directors during any prohibition period under Appendix 10 to the Listing Rules.

The Directors' interests in Shares as at 31 December 2019 are set out on page 42 of this annual report.

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

DELEGATION BY THE BOARD

Management Functions

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

Board Committees

For the year ended 31 December 2019, the Board had 3 Board committees, namely the Remuneration Committee, the Audit Committee and the Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

Attendance of the relevant members of the Board committee at the meetings of the respective Board committees for the year ended 31 December 2019 is as follows:

	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Non-Executive Director			
Mr. LIAO Qian (Chairman)	N/A	1/2	1/2
Executive Directors			
Mr. LI Jian *(resigned on 7 March 2019)*	N/A	0/1	0/1
Mr. OUYANG Hongping *(re-designated as CEO on 7 March 2019)*	N/A	1/1	1/1
Mr. WEN Xianzhen	N/A	N/A	N/A
Mr. ZHAO Jun *(appointed on 7 March 2019)*	N/A	N/A	N/A
Mr. ZHAO Yong *(resigned on 7 March 2019)*	N/A	N/A	N/A
Independent Non-Executive Directors			
Ms. HSU Wai Man Helen	2/2	2/2	2/2
Mr. LI Yang	2/2	2/2	2/2
Mr. XU Yan	2/2	2/2	2/2

Nomination Committee

The Nomination Committee was established on 25 June 2015. The majority of the members are Independent Non-Executive Directors. This committee is chaired by Mr. LIAO Qian, a non-executive Director, with Mr. LI Jian (from 25 June 2015 to 7 March 2019) and subsequently Mr. OUYANG Hongping, an executive Director (since 7 March 2019), Ms. HSU Wai Man Helen, Mr. XU Yan and Mr. LI Yang, being Independent Non-executive Directors, as the other members. The committee held 2 meetings for the year ended 31 December 2019.

The Nomination Committee is governed by its terms of reference, which are closely aligned with the relevant Code Provisions requirements and are available on both the Company's website at http://www.cdoth8.com and the Stock Exchange's website at http://www.hkex.com.hk.

The main duties of the Nomination Committee include the followings:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the Independent Non-Executive Directors;
- make recommendations to the Board on the appointment, re-appointment and succession of directors, and any proposed change to the composition of the Board to implement the Company's corporate strategy;
- review the board diversity policy ("Board Diversity Policy"); and
- review the sufficiency of time commitment of Directors to perform their responsibilities.

The work performed by the Nomination Committee for the year ended 31 December 2019 included:

– reviewing the current Board structure, diversity and composition taking into account of the resignation of Mr. LI Jian and Mr. ZHAO Yong, and the appointment of Mr. ZHAO Jun;

– considering making a recommendation to the Board on the appointment of Mr. ZHAO Jun as an executive Director;

– assessing the independence of the Independent Non-Executive Directors; and

– discussing and considering the Board composition during the said period and Board succession plan.

The Nomination Committee adopted a Nomination Policy which sets out the following procedures for nomination of Directors:

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

2. The Nomination Committee will consider the role and capabilities required for the particular vacancy.

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

4. Arrange interview(s) with each candidate for the Nomination Committee to evaluate whether he/she meets the established selection and nomination criteria.

5. Conduct verification on information provided by the candidate.

6. Make recommendations to the Board on the appointment or re-appointment of Directors.

The Nomination Policy also provides the following criteria for nomination of Directors:

1. Common criteria for all Directors:

    (a) Reputation for character and integrity;

    (b) the willingness to assume principal fiduciary responsibility;

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

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

    (e) significant business or public experience relevant and beneficial to the Board and the Company;

    (f) breadth of knowledge about issues affecting the Company;

    (g) ability to objectively analyse complex business problems and exercise sound business judgement;

(h) ability and willingness to contribute special competencies to Board activities;

(i) fit with the Company's culture; and

(j) 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.

2. Criteria applicable to non-executive Directors/Independent Non-Executive Directors:

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

(b) accomplishments of the candidate in his/her field;

(c) outstanding professional and personal reputation; and

(d) the candidate's ability to meet the independence criteria for directors established in the Listing Rules (for Independent Non-Executive Directors).

Board Diversity Policy

The Company has adopted the Board Diversity Policy which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

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

The Board has set measurable objectives (in terms of gender, skills and experience) to implement the Board Diversity Policy and has reviewed such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Board Diversity Policy, as and when appropriate, to ensure its continued effectiveness from time to time.

The Nomination Committee considers that the current composition of the Board is diversified after taking into account its own business model and specific needs, both in terms of professional background and skills.

Remuneration Committee

The Remuneration Committee is chaired by Mr. XU Yan, an Independent Non-Executive Director. It currently consists of 5 members, including Mr. XU Yan, Mr. LIAO Qian, Mr. LI Jian (from 25 June 2015 to 7 March 2019) and subsequently Mr. OUYANG Hongping (since 7 March 2019), Ms. HSU Wai Man Helen and Mr. LI Yang, the majority of whom are Independent Non-Executive Directors.

The Remuneration Committee is governed by its terms of reference, which are made available on the Company's website at http://www.cdoth8.com and the Stock Exchange's website at http://www.hkex.com.hk.

The Remuneration Committee was established on 25 June 2015 pursuant to Rule 3.25 of the Listing Rules. It meets from time to time to make recommendations to the Board on the Group's policy and structure for remuneration of all Directors and senior management, and on the establishment of a formal and transparent procedure for developing a policy on such remuneration. The Remuneration Committee also reviews and approves the performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time, and determines, with delegated responsibility, the remuneration packages of individual executive directors and senior management.

For the year ended 31 December 2019, the Remuneration Committee held 2 meetings and accomplished the following:

– review of the remuneration policy and structure for all Directors and senior management;

– discussion of long-term incentive scheme;

– exercised the delegated powers of the Board to determine the remuneration packages of Mr. ZHAO Jun as an executive Director of the Company, as well as all executive Directors and senior management of the Company; and

– made recommendations to the Board on the remuneration of the non-executive Directors.

The remuneration of Directors and the senior management by band for the year ended 31 December 2019 is set out below:

	Number of persons
Nil to HK$500,000	8
HK$500,001 to HK$1,000,000	2
HK$1,000,001 to HK$1,500,000	2

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

Emolument Policy and Long-Term Incentive Plan

The Group provides a competitive remuneration package to its Directors to attract and retain talents. A large portion of the package for executive Directors is linked to their performance, which in turn is aligned with the interests of the shareholders, so as to provide an incentive for the executive Directors to achieve the best performance for the Group. Part of the remuneration of executive Directors may comprise of a long-term incentive plan which includes share options and restricted shares. The emoluments payable to the Directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The purpose of the long-term incentive plan of the Group is to reward outstanding performance measured by achieved targets, which is closely linked with the performance of the Group. The benefit or award granted under the plan will only be vested over a period of time so as to provide an incentive for the executives or employees to consistently perform at a high standard and bring about long-term benefits to the Group.

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

- directors' fee; and

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

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

Dividend Policy

Pursuant to the Dividend Policy of the Company, in considering whether to declare any dividend, the Board would consider factors in all aspects whether on the operating results, cash flow, financial condition and capital requirements of the Group and the interests of the shareholders of the Company, including but not limited to:

– the Company's actual and expected financial performance;

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

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

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

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

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

– any other factors that the Board deem appropriate.

If the Group records a profit and the Board, having considered factors of all aspects (including but not limited to those factors set out in above), is satisfied that the declaration and distribution of dividends does not affect the Group's normal operations, and subject to compliance with any restrictions under the Companies Act of Bermuda and the Bye-Laws:

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

– the Company will take priority to distributing dividends in cash and shares its profits with the Shareholders;

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

Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system being in place for internal controls and for fulfilling the Group's external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee currently comprises 3 members, namely Ms. HSU Wai Man Helen, Mr. XU Yan and Mr. LI Yang, all of whom are Independent Non-Executive Directors. Ms. HSU Wai Man Helen is the chairlady of the Audit Committee.

The Audit Committee usually meets at least 2 times a year to review the Company's interim and annual results and the integrity of the Group's financial statements. In addition, in order to review and monitor the effectiveness of the audit process in accordance with applicable standards, the Audit Committee will meet with the external auditors of the Company before the commencement of the annual audit to discuss the nature and scope of audit and reporting obligations of the Company.

The Audit Committee is governed by its terms of reference, which are made available on the Company's website at http://www.cdoth8.com and the Stock Exchange's website at http://www.hkex.com.hk.

The work performed by the Audit Committee for the year ended 31 December 2019 included considering the following matters:

- the completeness and accuracy of the 2018 annual report and the 2019 interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and their effect on the Group;
- the effectiveness of the risk management and internal control systems of the Group;
- the internal control reports submitted by the internal control team of the Company;
- the internal audit reports submitted by the internal audit team of the Company;
- the audit fees payable to external auditors, the scope and timetable of the audit for year 2019; and
- adoption of the procedure to ensure compliance with the deed of non-competitions in favour of the Group.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Audit Committee is also supported by the members of the internal audit team of the Company.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" on pages 50 to 54.

The Directors, having made appropriate and reasonable enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the financial statements set out on pages 55 to 131 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "Management Discussion and Analysis" set out in pages 6 to 12 in this annual report.

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

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

Internal Control and Risk Management Systems

The Board is responsible for ensuring that an appropriate and effective internal control and risk management system are established and maintained within the Group. Whilst the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss, the directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's internal control and risk management systems. The Company establishes an annual risk management and internal control plan every year. Every year, staff at the relevant departments are requested by the Company's internal control task force to conduct a self-evaluation on internal control, to allow the Company to identify any deficiencies in its internal control practices. Results of the risk management and internal control evaluation are reported to the management and independent directors by email on a quarterly basis, and are submitted to the Board half-yearly for the preparation of risk management and internal control report. Being a subsidiary of TCL Corp, the Company's risk management and internal control systems are annually reviewed by Da Hua Certified Public Accountants, the external auditor engaged by TCL Corp, to determine their effectiveness. During the year ended 31 December 2019, due the mistaken belief of staff members of the Group in relation to the restructuring of TCL Corp, continuing connected transactions conducted with subsidiaries of TCL Communication Technology Holdings Limited during the period from January to March 2019 had not been counted towards the actual utilisation of the relevant annual cap and had resulted in the actual transaction amount of sale of products to TCL Group exceeding the relevant annual cap for the year ended 31 December 2019 under the Master Sale and Purchase (2018 Renewal) Agreement. Further details of the exceed in annual cap are set out in the announcement of the Company dated 18 March 2020. Subsequently, noting that the incident was a result of staff members' misunderstanding on the TCL restructuring which is an unusual and complicated transaction, the Company will implement the measures disclosed in the announcement of the Company dated 18 March 2020, in particular will enhance training to its staff members on corporate transaction procedures in order to effectively prevent the re-occurrence of similar incident in the future. The Directors, through the Audit Committee, have reviewed the effectiveness of all material aspects of the internal control and risk management systems of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function. In view of the enhanced internal measures and policies to be adopted by the Group subsequent to the aforementioned incident, the Directors concluded that, notwithstanding such incident, the risk management and internal control systems were adequate and effective during the year ended 31 December 2019.

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

The Company exercises audit control over its business activities by developing corporate mechanisms, management measures and operating guidelines, and creating segregated posts. In addition, internal control investigations are regularly conducted by the Company's internal control task force. The Company's risk management and internal control systems are regularly reviewed by external audit firms (quality control organisations and auditors).

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

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

The Company has adopted its own Information Disclosure Guideline (approved by the Board on 19 June 2015) which, among others, sets out the procedures and internal controls for handling and dissemination of inside information. The Company has established the Disclosure Executive Committee which has been authorised by the Board to coordinate and organise disclosure of the inside information of the Company.

Internal Audit Functions:

The Company's internal audit team independently reviewed the effectiveness of the Company's risk management and internal control systems, including the financial, operational and compliance aspects of the Company's key business activities. The head of the Company's internal audit team reports to the Audit Committee, and submits regular reports for its review in accordance with the approved review and audit mechanisms. The department submits a detailed report at least once a year to the Board for its review and monitors the effectiveness of the of internal control systems of the Group.

The Audit Committee had reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's internal audit function.

Connected Transactions:

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in relation to connected transactions. Accordingly, the Company had implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are conducted under normal commercial terms or better and on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the Shareholders in accordance with Listing Rules. The relevant connected persons will be required to abstain from voting in the general meetings. Details of the connected transactions of the Company during the year are set out in the Report of the Directors at pages 46 to 48.

Auditors' Remuneration

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

Statutory audit services	HK$1,400,000
Non-audit services (including agreed-upon procedures on interim financial statements)	HK$590,000

COMPANY SECRETARY

The position of company secretary is held by Ms. CHEUNG Bo Man, a practising solicitor of Hong Kong, who is not an employee of the Company. During the year ended 31 December 2019, the Company has assigned Ms. Clara SIU, the Vice Director of Finance and Investor Relations of the Company as the contact person with the company secretary. The company secretary is responsible to the Board and reports to the Board Chairman from time to time. All Directors have access to the advice and services of the company secretary to ensure that Board procedures, and all applicable laws, rules and regulations are followed and complied with.

Since Ms. CHEUNG was appointed on 25 April 2017, she has to take no less than 15 hours of relevant professional training during the year 2019. She has fulfilled such requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group recognizes the importance of the principles of timeliness, fairness and transparency regarding information disclosure, and ensures that the information disclosure is in compliance with the Listing Rules and other regulatory requirements. We also highly value investor feedback and comments for establishing operational strategies to facilitate the Group's growth and sustainable development and to enhance shareholder value.

The objectives of our investor relations programs are to promote effective communication with the investment community through various channels to enhance their knowledge and understanding of the Group's development and strategies. The investor relations team conducts in-depth discussion on the Group's latest developments and future business plans with institutional investors and analysts through different channels, including investor meetings, conference calls, non-deal roadshows and factory visits. During the Review Period, the Group had arranged non-deal road shows and investor conferences in Hong Kong, and Shenzhen in which research analysts and institutional investors attended with favorable response.

The general meetings of the Company provide the best opportunity for communication between the Board and the Shareholders.

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the members of the independent Board committee, are available to answer questions at the Shareholders' meetings. Representatives of the Company's external auditor, Ernst & Young also attended the annual general meeting held on 6 June 2019 to answer questions in relation to the audit process, the preparation and contents of the auditors' report, the relevant accounting policies and auditor independence.

All published information, including all the statutory announcements and press releases, is promptly posted on the Company's website at http://www.cdoth8.com. For inquiries and suggestions, please send an email to ir.cdot@tcl.com or cdot@cornerstonescom.com, or directly by raising questions at the general meeting of the Company.

Voting by Poll

The chairman of the meeting would explain the voting procedure and answer any questions from the Shareholders regarding voting by poll at the general meetings. The poll results of the general meetings were published on the websites of the Stock Exchange and the Company respectively on the same day after the relevant general meetings were held.

Shareholders' Rights to Convene a Special General Meeting

Under bye-law 58 of the Bye-Laws, shareholders at the date of deposit of the requisition holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

A shareholders communication policy was formulated and adopted on 25 June 2015 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with Shareholders.

All published information, including all the statutory announcements and press releases, is promptly posted on the Company's website at http://www.cdoth8.com. Shareholders can also send enquiries and proposals putting forward for shareholders' consideration at shareholder meetings to the Board or senior management.

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

Constitutional Documents

During the Review Period, no amendment had been made to the Bye-Laws.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency possible. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements and press releases are available on the Company's website at http://www.cdoth8.com. Enquiries and proposals to be put forward at shareholder meetings can also be sent to the Board or senior management by contacting the investor relations team via e-mail to ir.cdot@tcl.com or cdot@cornerstonescom.com, or directly through the questions and answers session at shareholder meetings or press conference.

HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

HUMAN RESOURCES

In 2019, the Group embraced its business approach of "progressive revolution and solid foundation". It launched a series of human resources management practices, which serve as a direct and effective support for the Group's strategy implementation, organisational performance improvement and staff development.

Basic Information on Human Resources

As at 31 December 2019, the Group had a total of 6,101 employees. The male-to-female ratio was 1.7:1 The overall turnover rate was 8.5%.

Employees by Geographic Region as of 31 December 2019:

China	6,099
Hong Kong	2

Employees by Age as of 31 December 2019:

Employees aged 18 to 30	4,276
Employees aged above 30	1,825

Key Efforts on Human Resources

To align with its development strategies, the Group took a range of proactive and corresponding measures to improve its staff appraisal and incentives, recruitment, training and development, strategic communication and morale:

– The Group's remuneration philosophy is "ability-oriented, performance-oriented and value-contribution-oriented". The Group has developed a set of tactics to realise its strategic objectives, together with a complementary appraisal and incentive mechanism, which further strengthen results orientation.

– In light of the development of the industry and the changing competition landscape, cultivating and selecting talents for future promotion have become top priorities for the Group's development. The Group values the development of employees and is committed to providing special and professional development channels for employees. In 2019, the Company recruited a total of 19 college graduates, and launched the Young Eagle Power Camp, an important training project of the TCL Group, as an important part of the cultivation process for them. During the cultivation period, young eagles will receive a series of systematic training of the Company, thus laying a solid foundation for their work and life in the Company.

– The Group has established the following "professional development channels" to cultivate and promote talents

  In 2019, the Group increased the employment channel for technicians on the basis of the existing professional channel for engineers. The channel covers engineering, manufacturing, quality, and safety modules, providing a guarantee for technicians' capability enhancement. So far, 123 employees from five departments including R&D department, engineering department, manufacturing department, quality control department and product management department have participated in and passed the qualification certifications at all levels in the five channels. These colleagues have met the standard capability requirements of the corresponding levels after being reviewed and reexamined by professional panels.

– Training

An enterprise is undoubtedly a university for its employees and their growth is inextricably related to the training of the enterprise. During the Reporting Period, the Group sponsored 19 employees to participate in external professional and public courses in Huizhou, in addition to providing various internal professional training for employees. The Group also engaged external professional trainer to Huizhou to conduct 6 training sessions. Training topics covered four areas, namely safety, quality, professional management/skills, and general studies. A total of 346 employees attended these training sessions, with cumulative hours of training exceeding 2,915 hours. Expert's training enables technical managers to become more professional and capable.

The Group believes that these trainings will develop the individual potential of managers, increase team vitality, cohesion and creativity, give knowledge to middle managerial staff on modern business management, and inspire them to fully use their creativity to drive corporate efficiency.

– In 2019, the Group engaged external professional instructors to provide employees with "FMEA" (Failure Mode and Effect Analysis) training and project coaching. "FMEA" is a systematic activity involving conducting analysis on subsystems and parts to manufacture products and all manufacturing procedures, and discovering all potential ineffective modes and analyzing their possible consequences to take necessary measures in advance for the purpose of improving product quality and reliability. In 2019, a total of 105 technicians from various departments participated in the systematic training and initiated the "FMEA" project. The Group will keep tracking the project, one of the annual key trainings, to ensure its implementation, thus by generating practical results for the Group's lean improvement.

SOCIAL RESPONSIBILITY

– The Group actively advocates caring for the disabled, and was awarded the "Advanced Enterprise Award for Employment Security of the Disabled" by Huizhou Disabled Persons' Federation in 2019.

– The Group cares about its employees, offering various interest classes such as swimming, badminton, basketball and yoga regularly and even hosts annual contests for certain sports. Starting from 2018, the Group holds regular monthly birthday parties for employees whose birthdays fall in the same month, sharing the joy of their birthdays.

School-Enterprise Cooperation

The Group has launched a range of "Eagle Series" and "P Series" training schemes through campus recruitment, building a pool of qualified technical talents for the Company's development. In 2019, the Group extended the collaboration with Beijing Normal University, Zhuhai, and progressively accelerated the cooperation with tertiary institutions. In addition to the "Young Eagle Project" designed for fresh college graduates, the Group also continued to focus on higher and secondary vocational institutions, aiming to offer more outstanding graduate interns the opportunity to join the Group and become potential management members of the Company.

Environmental Protection

In order to better fulfill its social responsibilities, the Group has successively established multiple systems including environmental management, toxic and hazardous substance management, occupational health and safety management, social responsibility management, energy management, and greenhouse gas management since 2008 and continued their optimization.

HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

The Group adheres to a highly responsible attitude towards its employees, customers, stakeholders and the environment. In the entire production process from raw material sourcing to marketing, the Group has put in place strict regulation and control on toxic and hazardous substances. In 2019, the Group aimed at the environmental management and control standards of tier-one brand customers, optimized management processes, allocated considerable manpower, materials and financial resources, and complied with international standards such as EU's updated Restriction of Hazardous Substances 2.0 (RoHS2.0) and Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) to prohibit the circulation of toxic and hazardous substances into production, packaging, distribution and marketing stages, so as to avoid any occurrence of harmful incidents that may cause physical and health injuries to employees, risks to consumers' safety, and destructions to the natural environment. In 2019, the production process was optimized, and the discharge of dangerous waste decreased by approximately 70% year-on-year.

The Directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 55 to 131.

The Board do not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: none).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out on pages 7 to 9 of this annual report. Discussions on non-financial performance including human resources management initiatives are disclosed in the section headed "Human Resources and Social Responsibility" of this annual report. The above discussions form part of this Report of the Directors.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a review of the business of the Group, discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position, and an indication of the outlook of the business of the Group, is set out under sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 12 of this annual report. Those discussions form part of this Report of the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

As disclosed in the Company's announcement dated 18 March 2020, the Company only became aware of the incident after the end of 2019 regarding the exceeding of annual cap for sales of products to TCL Corp and its subsidiaries for year 2019 under the Master Sales and Purchase (2018 Renewal) Agreement, and therefore has not fully complied with Rule 14A.54(1) of the Listing Rules which requires that listed issuers must re-comply with the announcement and approval requirements before the annual cap is exceeded. As at the date of this report, the Company is in the course of recomplying with the relevant requirements.

Save as disclosed above, as at 31 December 2019 and up to the date of this report, the Board was unaware of any non-compliance with the relevant laws and regulations which had a significant impact on the Company.

SIGNIFICANT RISKS AND UNCERTAINTIES

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

Novel coronavirus disease 2019 pandemic

At the beginning of 2020, the novel coronavirus disease outbreak started in China and spread worldwide, while the WHO has already increased the global risk assessment of the spread and impact to "very high". At present, affected by the epidemic, certain raw material supplies may experience a short-term shortage due to factors including suppliers' postponed resumption of work and logistic delays. The Group has actively negotiated with strategic suppliers and logistics partners to find suitable solutions to reduce risks.

However, as the epidemic has spread, the COVID-19 outbreak has already caused major economic disruption. According to the Organisation for Economic Co-operation and Development (OECD), it is predicted that COVID-19 will lower global GDP growth by 0.5 percentage point for 2020 (from 2.9 to 2.4 percent).Due to the very uncertain global economic prospects, the customers started to adjust production and operation strategies in a timely manner based on changes in the epidemic and the market, thus the Group expects that the production and operation of production lines will be affected in the first half of 2020.

Market competition

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

To minimise the risks stated above, the Group continues its efforts on research and development to broaden its product range and technology platforms and enhance its product competitiveness, which enable the Group to extend its reach to different end products so as to diversify its source of revenue and profit, and in turn reduce its dependency on one single type of product. In addition, the Group continues to strengthen its customer relationship and refine its sales strategy, in order to maintain robust profitability of the Group.

Foreign Exchange Risks

The Group reports its results in Renminbi but the Group's business and operations is facing the international market. Consequently, the Group is exposed to potential adverse impact of currency fluctuations on translation of the accounts. Although the Group actively manages its currency exposures, depreciation or fluctuation of the currencies in which the Group conducts its operations relative to the Renminbi could have a material adverse effect on the Group's financial condition and operational results.

The Group is committed to striking a balance among trades, assets and liabilities that are denominated in foreign currencies to achieve a natural hedging effect. The Group enters into various forward currency contracts from time to time to manage its exchange rate exposure. In addition, pursuant to the principal of prudent financial management, the Group has not conducted or engaged in any high-risk derivative transactions.

As regards the risks concerning the Group's customers and suppliers, please refer to the paragraph headed "Customers and Suppliers" under Management Discussion and Analysis on page 12, which discussions form part of this Report of the Directors.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results, assets, liabilities and non-controlling interest of the Group for the last five financial years, as extracted from the relevant financial statements is set out on page 132. This summary does not form part of the audited financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 June 2020, Thursday to 23 June 2020, Tuesday (both dates inclusive), for the purposes of determining the entitlements of the shareholders of the Company to attend and vote at the AGM. No transfer of the shares may be registered during the said period. In order to qualify to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 17 June 2020, Wednesday.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 13 to the financial statements.

SHARES ISSUED IN THE YEAR

Details of the shares issued during the year ended 31 December 2019, together with the reasons therefore are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2019 are set out in note 39 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution amounted to RMB167,911,000, none of which has been proposed as a final dividend for the year. Under Bermuda Law, a company may make distribution to its shareholders out of contributed surplus.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2019, the Group did not make any charitable contributions.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2019 attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	21%
– the five largest suppliers combined	43%

Sales

– the largest customer	45%
– the five largest customers combined	82%

TCL Corp, the ultimate controlling shareholder of the Company, is interested in approximately 88.82% of TCL CSOT, which subsidiaries are one of the five largest suppliers and customers of the Group. As at 31 December 2019, Mr. OUYANG Hongping, an executive Director of the Company, is interested in 26,600 shares in TCL Corp (representing approximately 0.0002% of the issued share capital of TCL Corp). Save as aforesaid, none of the Directors of the Company, their associates or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

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

Non-Executive Director

Mr. LIAO Qian (Chairman)

Executive Directors

Mr. LI Jian *(resigned on 7 March 2019)*
Mr. OUYANG Hongping *(re-designated as CEO on 7 March 2019)*
Mr. WEN Xianzhen
Mr. ZHAO Jun *(appointed on 7 March 2019)*
Mr. ZHAO Yong *(resigned on 7 March 2019)*

Independent Non-Executive Directors

Ms. HSU Wai Man Helen
Mr. LI Yang
Mr. XU Yan

Mr. LI Jian resigned as a Director of the Company with effect from 7 March 2019 due to his other personal commitments which require more of his dedication and time commitment. Mr. LI had confirmed that he had no claim whatsoever against the Company for fees, compensation for loss of office, remuneration, severance payments, pension, expenses or otherwise and there had been no disagreement with the Board and there had been no matter relating to his resignation that had needed to be brought to the attention of the shareholders of the Company.

Mr. ZHAO Yong resigned as a Director of the Company with effect from 7 March 2019 due to his other personal commitments which require more of his dedication and time commitment. Mr. ZHAO had confirmed that he had no claim whatsoever against the Company for fees, compensation for loss of office, remuneration, severance payments, pension, expenses or otherwise and there had been no disagreement with the Board and there had been no matter relating to his resignation that had needed to be brought to the attention of the shareholders of the Company.

According to bye-law 83(2) of the Bye-laws, any person appointed as a Director to fill a casual vacancy on the Board shall hold office until the first general meeting of members of the Company after his appointment and be subject to re-election at such meeting.

Given Mr. ZHAO Jun was appointed on 7 March 2019 to fill the casual vacancy arising from the resignation of Mr. LI Jian and Mr. ZHAO Yong, Mr. ZHAO Jun shall hold office until the first general meeting of members of the Company after his appointment, and be subject to re-election at such annual general meeting. Mr. ZHAO Jun was re-elected as an executive Director at the annual general meeting of the Company held on 6 June 2019.

According to bye-law 84(1) of the Bye-laws, at each annual general meeting, one-third of the Directors for the time being, or if their number is not a multiple of three (3), then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

According to bye-law 84(2) of the Bye-laws, a retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed pursuant to bye-law 83(2) of the Bye-laws shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Accordingly, Mr. LIAO Qian, Mr. OUYANG Hongping and Mr. XU Yan shall retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

The proposed re-election of each of Mr. LIAO Qian, Mr. OUYANG Hongping and Mr. XU Yan will be considered by separate resolutions at the forthcoming AGM. An ordinary resolution will also be proposed at the forthcoming AGM for the purpose of authorizing the Board to fix their remuneration.

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

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

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

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on page 27 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the remuneration payable to the Directors.

PENSION SCHEMES

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 13 to 16 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

None of the Directors or their connected entities had a material interest, either directly or indirectly, in any transactions, arrangements and contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year ended 31 December 2019.

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

As at 31 December 2019, the interests and/or short position of the Directors and chief executives of the Company in Shares in the Company, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571, Laws of Hong Kong) ("SFO"), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

Interests in the Company – Long Positions

Name of Director	Number of Ordinary Shares Held Personal Interest	Number of Shares Held under Equity Derivatives *(Note 1)*	Total	Approximate Percentage of Issued Share Capital of the Company *(Note 2)*
OUYANG Hongping	14,037,998	9,076,528	23,114,526	1.09%
HSU Wai Man, Helen	–	260,000	260,000	0.01%
LI Yang	–	260,000	260,000	0.01%
XU Yan	–	260,000	260,000	0.01%

Notes:

1. These equity derivatives were outstanding share options granted to the relevant Directors under a share option scheme of the Company.

2. Such percentage was calculated based on the number of Shares and underlying Shares of the Company in which the relevant Director was interested as notified to the Company and disclosed on the website of the Stock Exchange pursuant to Part XV of the SFO, against the number of issued Shares of the Company as at 31 December 2019, being 2,114,117,429 Shares in issue.

Interests in Associated Corporation of the Company – Long Positions

TCL Technology Group Corporation (formerly known as TCL Corporation, "TCL Corp") *(Note 1)*

Name of Director	Number of Ordinary Shares Held Personal Interest	Number of Ordinary Shares Held Other Interest	Number of Shares Held under Equity Derivatives	Total	Approximate Percentage of Issued Share Capital of TCL Corp *(Note 2)*
OUYANG Hongping	26,600	–	–	26,600	0.0002%

Notes:

1. TCL Corp, a joint stock company established under the laws of the PRC, is the ultimate controlling shareholder of the Company.

2. Such percentage was calculated based on the number of issued share capital of TCL Corp as at 31 December 2019, being 13,528,438,719 Shares in issue, as informed by TCL Corp.

Save as disclosed above, as at 31 December 2019, none of the Directors nor the chief executives of the Company had registered an interest and/or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were required to be recorded pursuant to Section 352 of the SFO; or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDER'S AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests and short positions of the person (other than a director or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in shares of the Company

Name of Shareholder	Nature of Interest	Number of Shares held	Approximate percentage of issued share capital of the Company *(Note 3)*
TCL Corp	Interest of controlled corporation	1,357,439,806 *(Note 1)*	64.21%
TCL CSOT	Interest of controlled corporation	1,357,439,806 *(Note 2)*	64.21%

Notes:

1. For the purpose of the SFO, TCL Corp is deemed to be interested in 1,357,439,806 Shares, all of which are indirectly held through High Value Ventures Limited, a wholly owned subsidiary of China Star Optoelectronics International (HK) Limited, which in turn is wholly owned by TCL CSOT which is owned as to 88.82% by TCL Corp.

2. For the purpose of the SFO, TCL CSOT, Ltd. is deemed to be interested in 1,357,439,806 Shares, all of which are indirectly held through High Value Ventures Limited, a wholly owned subsidiary of China Star Optoelectronics International (HK) Limited, which in turn is wholly-owned by TCL CSOT.

3. Such percentage was calculated based on the total number of Shares in which each of the substantial shareholders was interested as disclosed on the website of the Stock Exchange against the number of issued shares of the Company as at 31 December 2019, being 2,114,117,429 Shares.

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any other persons who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions in Division 2 and 3 of Part XV of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Share Option Scheme and Share Award Scheme as disclosed under the heading "Share Option Scheme" and "Share Award Scheme", at no time during the year ended 31 December 2019 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; nor was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

By way of a resolution of the shareholders of the Company passed on the further special general meeting of the Company on 11 March 2015, the Company adopted a share option scheme ("Share Option Scheme") with effect from the resumption of trading in the Company's shares on the Stock Exchange on 25 June 2015, the purpose of which is to recognise and motivate the contribution of the eligible participants and to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group.

The major terms of the Share Option Scheme, in conjunction with the requirements of Chapter 17 of the Listing Rules, are set out in note 28 to the financial statements in this annual report. As at 31 December 2019, the number of shares of the Company available for issue in respect thereof was 172,149,980 shares, representing approximately 8.14% of the then issued shares of the Company.

The Directors have estimated the values of the share options granted, calculated using the binomial option pricing model as at the date of grant of the share options as set out in note 28 to the financial statements in this annual report, which are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

As at 31 December 2019, total number of Shares of the Company that could be issued upon exercise of (i) all outstanding share options and; (ii) all share options that could be granted under the then available scheme mandate limit was 208,557,466 Shares, which represented about 9.86% of the issued share capital of the Company as at 31 December 2019.

Movements of the share options under the Share Option Scheme during the year ended 31 December 2019 are as follows:

	Number of share options										
Name or category of participant	As at 1 January 2019	Granted during the period	Exercised during the period *(Note 4)*	Lapsed during the period *(Note 5)*	Cancelled during the period	Forfeited during the period	As at 31 December 2019	Date of grant of share options	Closing price of Shares immediately before the date of grant of share options HK$	Exercise price of share options HK$	Exercise period of share options
OUYANG Hongping	9,076,528	–	–	–	–	–	9,076,528	18 March 2016	0.73	0.74	*Note 1*
HSU Wai Man, Helen	260,000	–	–	–	–	–	260,000	18 March 2016	0.73	0.74	*Note 1*
LI Yang	260,000	–	–	–	–	–	260,000	18 March 2016	0.73	0.74	*Note 1*
XU Yan	260,000	–	–	–	–	–	260,000	18 March 2016	0.73	0.74	*Note 1*
Other employees of the Group	51,448,403	–	26,631,210	1,373,734	–	–	23,443,459	18 March 2016	0.73	0.74	*Note 1*
Employees of TCL Group *(Note 2)*	3,875,499	–	768,000	–	–	–	3,107,499	18 March 2016	0.73	0.74	*Note 3*

Notes:

1. (i) 50% of such share options are exercisable commencing from 18 December 2016 to 17 March 2022; (ii) 30% of such share options are exercisable commencing from 18 December 2017 to 17 March 2022; and (iii) the remaining 20% of such share options are exercisable commencing from 18 December 2018 to 17 March 2022. In any event, no share option can be exercised after 17 March 2022.

2. This represents participants who have contributed to the Group and who are also employees of TCL Corp (the ultimate controlling shareholder of the Company) and/or its subsidiaries.

3. Subject to the fulfillment of the conditions that the relevant holder (i) has paid the costs incurred or to be incurred by the Company for the relevant part of the share options and (ii) remains to be an employee of TCL Group on 31 December 2016, 31 December 2017 and 31 December 2018 respectively, (a) 50% of such share options are exercisable commencing from 18 December 2016 to 17 March 2022; (b) 30% of such share options are exercisable commencing from 18 December 2017 to 17 March 2022; and (c) the remaining 20% of such share options are exercisable commencing from 18 December 2018 to 17 March 2022. In any event, no share option can be exercised after 17 March 2022.

4. The weighted average closing price of the shares immediately before the dates on which share options were exercised was HK$0.9662.

5. The 1,373,734 share options lapsed in accordance to the terms of the Share Option Scheme, were regarded as forfeited under applicable accounting standards. For further details, please refer to note 28 to the financial statements.

SHARE AWARD SCHEME

The Board on 17 March 2016 resolved to adopt the share award scheme (the "Share Award Scheme"), for the purposes of providing incentives to the participants under Share Award Scheme. The share award scheme was subsequently approved by the special general meeting on 11 May 2016.

Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its sole and absolute discretion designate an award ("Award" and collectively "Awards") to be made to a selected participant ("Selected Person" and collectively "Selected Persons"). Participants of the Share Award Scheme cover any employee, adviser, consultant, agent, contractor, client or supplier of any member of the Group and any employee or officer of any affiliated company whom the Board in its sole discretion considers may contribute or have contributed to the Group.

Awards may be satisfied by (i) existing shares to be acquired by the trustee engaged by the Company for the purpose of administrating the Share Award Scheme (the "Trustee"), from the market, or (ii) new shares to be allotted and issued to the Trustee by the Company, in both case the costs of which will be borne by the Company, and will be held on trust by the trustee for the Selected Persons until the end of each vesting period subject to fulfilment of the vesting conditions (if any) in accordance with the provisions of the Share Award Scheme. For further details, please see note 27 to the financial statements.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group entered into a number of continuing connected transactions with TCL Corp (being the ultimate controlling shareholder of the Company) and its associates (as defined in the Listing Rules).

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

(a) Pursuant to the Master Factoring (2018 Renewal) Agreement dated 6 November 2018 entered into between the Company, TCL Corp and TCL Commercial Factoring (Shenzhen) Co. Ltd. ("Factoring Co", an associate of TCL Corp) for a term commencing from 6 November 2018 to 31 December 2020, Factoring Co has provided factoring services to the Group ("Factoring Services") and the Group has provided promotion services to Factoring Co ("Promotion Services").

During the year ended 31 December 2019, account receivables of the Group in the amount of nil have been factored and the Group paid nil as service fees to Factoring Co for the Factoring Services provided by Factoring Co, and received RMB1,316,000 from Factoring Co as service fees for the Promotion Services provided by the Group.

Further details of the Master Factoring Agreement were set out in the announcements of the Company dated 6 November 2018 and 19 November 2018.

(b) Pursuant to the Master Sale and Purchase (2018 Renewal) Agreement dated 6 November 2018 entered into between the Company and TCL Corp for a three-year term commencing from 1 January 2019, the Group (i) purchased materials which are produced or manufactured in the PRC for its products from TCL Group amounting to RMB840,357,000, and (ii) sold products to TCL Group amounting to RMB2,390,836,000, during the year ended 31 December 2019.

The actual transaction amount of approximately RMB2,390,836,000 for sale of products to TCL Group had exceed the relevant annual cap of RMB2,300,000,000 for the year ended 31 December 2019. Further details of the exceed in annual cap are set out in the announcement of the Company dated 18 March 2020.

The respective aggregate amount of purchase of materials from TCL Group by the Group and sales of products to TCL Group did not exceed 50% of the Group's then total revenue in the year ended 31 December 2019.

Further details of the Master Sale and Purchase (2018 Renewal) Agreement are set out in the circular of the Company dated 11 December 2018.

(c) Pursuant to the Import Agency (2018 Renewal) Agreement dated 6 November 2018 entered into between the Company and Shenzhen Qianhai Sailing Supply Chain Management Co. Ltd. (an associate of TCL Corp, "Qianhai Sailing", together with its subsidiaries "Qianhai Sailing Group") for a three-year term commencing from 1 January 2019, the Group utilised the import handling services provided by Qianhai Sailing Group and paid nil to Qianhai Sailing Group as administrative fee for such services during the year ended 31 December 2019.

Further details of the Import Agency (2018 Renewal) Agreement are set out in the announcement of the Company dated 6 November 2018.

(d) Pursuant to the Logistics Services (2018 Renewal) Agreement dated 6 November 2018 entered into between the Company and Qianhai Sailing for a three-year term commencing from 1 January 2019, the Group utilised the logistics services provided by Qianhai Sailing Group and paid RMB1,527,000 to Qianhai Sailing Group as logistics fee during the year ended 31 December 2019.

Further details of the Logistics Services (2018 Renewal) Agreement are set out in the announcement of the Company dated 6 November 2018.

(e) Pursuant to the Master Import Agency and Logistics Services Agreement dated 18 December 2019 entered into between the Company and Qianhai Sailing for a three-year term commencing from 18 December 2019, the Group utilised the logistics services and import agency services provided by Qianhai Sailing and paid nil to Qianhai Sailing as service fees during the year ended 31 December 2019.

Further details of the Master Import Agency and Logistics Services Agreement are set out in the announcement of the Company dated 18 December 2019.

(f) Pursuant to the Master Financial Services (2017 Renewal) Agreement dated 18 August 2017 entered into among the Company, TCL Corp, Finance Company and TCL Finance (Hong Kong) Co., Limited ("Finance Company (HK)", an associate of TCL Corp) with a term from 13 October 2017 to 31 December 2019, the Company may from time to time utilise the financial services provided by the Finance Company including deposit services and other financial services.

During the year ended 31 December 2019, (i) the maximum total outstanding daily balance of deposits (including interest receivables in respect of these deposits) due from the Finance Company was RMB768,264,000 and (ii) financial service charges of nil in respect of other financial services has been paid by the Group and (iii) promotion fee of nil has been received by the Group pursuant to the Master Financial Services (2017 Renewal) Agreement.

Further details of the Master Financial Services (2017 Renewal) Agreement are set out in the circular of the Company 20 September 2017.

(g) Pursuant to the Master Processing Agreement dated 18 June 2019 entered into between the Company and TCL Corp and the Master Processing (2019 Renewal) Agreement dated 23 August 2019 entered into between the Company and TCL Corp, the Group received processing fee from TCL Group amounting to RMB43,074,000 and RMB464,744,000 during the year ended 31 December 2019 respectively.

Further details of the Master Processing Agreement and the Master Processing (2019 Renewal) Agreement are set out in the announcement and the circular of the Company dated 18 June 2019 and 28 August 2019 respectively.

(h) Pursuant to the Staff Quarter Lease Agreement dated 9 August 2019 entered into between Wuhan CSOT and Wuhan CDOT, Wuhan CDOT as tenant may from time to time lease various types of rooms from Wuhan CSOT as landlord, and rent amounting to RMB3,149,000 had been paid by the Group to Wuhan CSOT during the year ended 31 December 2019.

Further details of the Staff Quarter Lease Agreement are set out in the announcement of the Company dated 9 August 2019.

The related party transactions set out in note 33 to the financial statements include transactions that constitute connected/ continuing connected transactions. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules (If applicable).

The Independent Non-Executive Directors of the Company have confirmed that save for exceeding the annual cap for sale of products to TCL Group under the Master Sale and Purchase (2018 Renewal) Agreement for the year ended 31 December 2019, the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Mr. Zhao Jun, an executive Director, has also been a director of Wuhan CSOT since April 2018 and the general manager of Wuhan CSOT from May 2018 to December 2019 respectively, which business may involve placing orders for LTPS LCD modules with the Group on behalf of its customers and then selling the finished LTPS LCD modules manufactured by the Group to its customers. While such onward sale of LTPS LCD modules by Wuhan CSOT competes with the business of the Group and is restricted by the Deed of Non-Competition, Wuhan CSOT has complied/will comply with the Non-Competition Deed before Wuhan CSOT participates in such business opportunity.

Save as aforesaid, during the year ended 31 December 2019 and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group.

MANAGEMENT CONTRACT

Save for employment contracts, no contracts concerning the management and administration of the whole or any principal business of the Company were entered into or subsisted during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

The Bye-laws provides that each Director or other officer of the Company shall be entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he or she may incur or sustain in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate Directors and officers liability insurance in respect of relevant legal actions against the Directors.

Such permitted indemnity provisions have been in force throughout the year ended 31 December 2019 and is currently in force at the time of approval of this report.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and the Share Award Scheme as disclosed in the paragraph headed "SHARE OPTION SCHEME" and "SHARE AWARD SCHEME" in this Report of the Directors, no equity linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2019 or subsisted at the end of the said period.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 17 to 33 in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on the same terms as set out in the Model Code. Having made specific enquiry with all Directors, the Directors confirmed that they have complied with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2019.

Please refer to the paragraph headed "Securities Transactions Guidelines" under the Corporate Governance Report on pages 22 to 23 for details of the non-compliance with the Model Code after the year ended 31 December 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, at least 25% of the Company's total number of issued Shares was held by the public for the year ended 31 December 2019 and up to the date of this annual report.

AUDIT COMMITTEE

The Company has an audit committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three members, namely, Ms. HSU Wai Man, Helen (as the chairlady), Mr. XU Yan and Mr. LI Yang, all of whom are independent non-executive Directors of the Company. The Group's results for the year ended 31 December 2019 have been reviewed by the audit committee, which is of the opinion that the preparation of such financial information complies with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

LIAO QIAN
Chairman

Hong Kong
26 March 2020

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the shareholders of China Display Optoelectronics Technology Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Display Optoelectronics Technology Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 131, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Inventories provision	
The Group is principally engaged in the research and development, manufacture, sale and distribution of liquid crystal display ("LCD") modules. The Group's inventories are subject to the significant risk of obsolescence accompanying with the rapid technology development of the LCD modules industry. Significant management judgement was accordingly involved when determining the extent of write-down of inventories to net realisable value. Management is required to estimate the respective future selling prices and selling costs to determine if any provision should be made or should be reversed. Details of the inventory provision are disclosed in note 3 and note 6 to the consolidated financial statements.	We assessed the process and methods used by management to make provision for obsolete inventories. Our assessment included evaluating management's inventory ageing profiles, selecting samples covering each ageing period of the ageing reports and agreeing to the original goods receipt notes and invoices. We also evaluated the inventory's net realisable value by comparing the forecast selling price to existing contracts and recent market prices. Furthermore, we considered the subsequent sales trend analysis and assessed the management's sales plan.
Impairment of trade receivables	
Trade receivable balances were significant to the Group, the gross amount of which amounted to RMB814,722,000 and represented approximately 25% of the total assets in the consolidated statement of financial position as at 31 December 2019. Assessment of the recoverability of trade receivables involves a high level of management judgement. During the year, management used a provision matrix to calculate expected credit losses ("ECLs") for receivables. The calculation of ECLs is based on the Group's historical default rates and forward looking information, and specific factors that management considered in the estimation of ECLs including the type of customers, ageing of the balances, recent historical payment patterns and forecast economic conditions. The accounting policies and disclosures in respect of impairment assessment of trade receivables are included in notes 2.4, 3, 17 and 36 to the consolidated financial statements.	We evaluated the design and implementation of internal controls which govern credit control and debt collection. We assessed the ECL provision by: (i) evaluating management's assumptions used in establishing the ECL provision matrix; (ii) examining the information used by management to form such judgements, including testing the accuracy of historical default data and ageing of trade receivables, evaluating the information related to the forecast economic conditions and (iii) examining the actual losses recorded during the current year. We also inspected cash receipts from customers after the year end relating to trade receivable balances as at 31 December 2019, on a sample basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Ernst & Young
Certified Public Accountants
Hong Kong
26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**5,455,790**	5,280,861
Cost of sales		**(5,269,211)**	(5,032,604)
Gross profit		**186,579**	248,257
Other income and gains, net	5	**40,867**	44,515
Selling and distribution expenses		**(29,175)**	(27,226)
Administrative expenses		**(85,107)**	(97,152)
Impairment losses on financial assets		**2,688**	(1,856)
Other expenses		**(11,512)**	(10,469)
Finance costs	7	**(33,607)**	(18,100)
PROFIT BEFORE TAX	6	**70,733**	137,969
Income tax expense	10	**(23,257)**	(36,081)
PROFIT FOR THE YEAR		**47,476**	101,888
Attributable to:			
Owners of the parent		**52,448**	81,782
Non-controlling interests		**(4,972)**	20,106
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	12		
Basic			
For profit for the year		**RMB2.51 cents**	RMB3.95 cents
Diluted			
For profit for the year		**RMB2.51 cents**	RMB3.95 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**47,476**	101,888
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**533**	(670)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**533**	(670)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**533**	(670)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**48,009**	101,218
Attributable to:		
Owners of the parent	**52,981**	81,112
Non-controlling interests	**(4,972)**	20,106
	48,009	101,218

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**831,412**	602,543
Intangible assets	15	**5,889**	5,664
Deposits paid for purchase of items of property, plant and equipment	18	**11,628**	60,736
Deferred tax assets	25	**21,205**	17,545
Right-of-use assets	14	**47,257**	–
Total non-current assets		**917,391**	686,488
CURRENT ASSETS			
Inventories	16	**229,453**	574,606
Trade and bills receivables	17	**1,862,040**	2,145,233
Prepayments and other receivables	18	**93,035**	129,242
Derivative financial instruments	19	**624**	–
Cash and cash equivalents	20	**101,054**	277,437
Total current assets		**2,286,206**	3,126,518
CURRENT LIABILITIES			
Trade payables	21	**815,697**	2,256,864
Other payables and accruals	22	**523,915**	371,868
Derivative financial instruments	19	**491**	–
Interest-bearing bank and other borrowings	23	**1,017,651**	360,683
Tax payable		**39,215**	47,557
Bonds payable	24	**8,959**	–
Total current liabilities		**2,405,928**	3,036,972
NET CURRENT (LIABILITIES)/ASSETS		**(119,722)**	89,546
TOTAL ASSETS LESS CURRENT LIABILITIES		**797,669**	776,034
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	**33,271**	24,000
Deferred income		**13,395**	10,357
Bonds payable	24	**–**	61,341
Deferred tax liabilities	25	**6,300**	–
Total non-current liabilities		**52,966**	95,698
Net assets		**744,703**	680,336

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	**2019 RMB'000**	2018 RMB'000
Net assets		**744,703**	680,336
EQUITY			
Equity attributable to owners of the parent			
Share capital	*26*	**172,118**	169,768
Reserves	*29*	**442,326**	375,333
		614,444	545,101
Non-controlling interests	*30*	**130,259**	135,235
Total equity		**744,703**	680,336

Ouyang Hongping
Director

Wen Xianzhen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent											
	Share capital RMB'000 (note 26)	Share premium account RMB'000 (note 26)	Capital reserve RMB'000 (note 29)	Contributed surplus RMB'000 (note29)	Share option reserve RMB'000 (note 28)	Awarded share reserve RMB'000 (note 27)	Shares held for the Share Award Scheme RMB'000 (note 27)	Statutory surplus reserve RMB'000 (note 29)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017	169,536	55,936	(77,680)	202,357	15,009	5,515	(16,909)	46,637	(1,715)	99,616	115,104	613,406
Effect of adoption of HKFRS 9	–	–	–	–	–	–	–	–	–	(1,534)	–	(1,534)
At 1 January 2018 (restated)	169,536	55,936	(77,680)	202,357	15,009	5,515	(16,909)	46,637	(1,715)	98,082	115,104	611,872
Profit for the year	–	–	–	–	–	–	–	–	–	81,782	20,106	101,888
Other comprehensive income for the year:												
Exchange differences on translation of financial statements	–	–	–	–	–	–	–	–	(670)	–	–	(670)
Total comprehensive income for the year	–	–	–	–	–	–	–	–	(670)	81,782	20,106	101,218
Appropriations to statutory surplus reserve	–	–	–	–	–	–	–	1,309	–	(1,309)	–	–
Repurchase shares under Share Award Scheme	–	–	–	–	–	–	(1,518)	–	–	–	–	(1,518)
Share Award Scheme arrangements	–	–	–	–	–	517	–	–	–	–	25	542
Vesting shares under the Share Award Scheme	–	(80)	–	–	–	(5,972)	6,052	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	950	–	–	–	–	–	–	950
Share options exercised	232	2,144	–	–	(658)	–	–	–	–	–	–	1,718
2017 final dividend declared	–	–	–	(34,446)	–	–	–	–	–	–	–	(34,446)
At 31 December 2018	**169,768**	**58,000**	**(77,680)**	**167,911**	**15,301**	**60**	**(12,375)**	**47,946**	**(2,385)**	**178,555**	**135,235**	**680,336**

	Attributable to owners of the parent											
	Share capital ***RMB'000 (note 26)***	**Share premium account** ***RMB'000 (note 26)***	**Capital reserve** ***RMB'000 (note 29)***	**Contributed surplus** ***RMB'000 (note29)***	**Share option reserve** ***RMB'000 (note 28)***	**Awarded share reserve** ***RMB'000 (note 27)***	**Shares held for the Share Award Scheme** ***RMB'000 (note 27)***	**Statutory surplus reserve** ***RMB'000 (note 29)***	**Exchange fluctuation reserve** ***RMB'000***	**Retained profits** ***RMB'000***	**Non-controlling interests** ***RMB'000***	**Total equity** ***RMB'000***
At 1 January 2019	**169,768**	**58,000***	**(77,680)***	**167,911***	**15,301***	**60***	**(12,375)***	**47,946***	**(2,385)***	**178,555***	**135,235**	**680,336**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**52,448**	**(4,972)**	**47,476**
Other comprehensive income for the year:												
Exchange differences on translation of financial statements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**533**	**–**	**–**	**533**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**533**	**52,448**	**(4,972)**	**48,009**
Appropriations to statutory surplus reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,759**	**–**	**(8,759)**	**–**	**–**
Share Award Scheme arrangements	**–**	**–**	**–**	**–**	**–**	**(10)**	**(705)**	**–**	**–**	**–**	**(4)**	**(719)**
Equity-settled share option arrangements	**–**	**–**	**–**	**–**	**(315)**	**–**	**–**	**–**	**–**	**–**	**–**	**(315)**
Share options exercised	**2,350**	**21,331**	**–**	**–**	**(6,289)**	**–**	**–**	**–**	**–**	**–**	**–**	**17,392**
At 31 December 2019	**172,118**	**79,331***	**(77,680)***	**167,911***	**8,697***	**50***	**(13,080)***	**56,705***	**(1,852)***	**222,244***	**130,259**	**744,703**

* *These reserve accounts comprise the reserves of RMB442,326,000 (2018: RMB375,333,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**70,733**	137,969
Adjustments for:			
Finance costs	7	**33,607**	18,100
Bank interest income	5	**(9,405)**	(5,738)
Loss on disposal of items of property, plant and equipment	6	**–**	5,288
Depreciation	6	**120,892**	72,013
Amortisation of intangible assets	6	**1,670**	1,301
Depreciation of right-of-use assets	14	**10,475**	–
(Reversal of Impairment)/impairment of trade and bills receivables	6	**(2,600)**	1,856
Write-down of inventories to net realisable value	6	**1,660**	5,206
Equity-settled share option expense	6	**(315)**	950
Equity-settled share award expense	6	**(14)**	542
Exchange losses, net	6	**5,086**	2,727
		231,789	240,214
Decrease/(increase) in inventories		**343,493**	(355,146)
Decrease/(increase) in trade and bills receivables		**285,793**	(1,034,627)
Decrease/(increase) in prepayments		**36,207**	(38,711)
(Decrease)/increase in trade payables		**(1,441,167)**	1,129,261
Increase in other payables and accruals		**247,620**	117,450
Decrease in derivative financial instruments		**(133)**	(26)
Increase in deferred income		**3,038**	6,947
Cash (used in)/from operations		**(293,360)**	65,362
Mainland China taxes paid		**(33,954)**	(26,427)
Net cash flows (used in)/from operating activities		**(327,314)**	38,935
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**9,405**	5,738
Purchases of leasehold land	14	**(30,168)**	–
Purchases of items of property, plant and equipment		**(397,116)**	(195,626)
Purchases of items of intangible assets	15	**(1,895)**	(1,368)
Proceeds from disposal of items of property, plant and equipment		**–**	736
Net cash flows used in investing activities		**(419,774)**	(190,520)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options	26	**17,392**	1,718
Purchase of shares for the Share Award Scheme		**–**	(1,518)
New bank loans		**1,110,894**	515,588
Repayment of bank loans		**(462,683)**	(544,514)
Repayment of bonds payable		**(52,800)**	–
Interest paid		**(32,736)**	(15,203)
Principal portion of lease payments	14	**(10,222)**	–
Dividends paid		**–**	(34,446)
Net cash flows from/(used in) financing activities		**569,845**	(78,375)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(177,243)**	(229,960)
Cash and cash equivalents at beginning of year	20	**277,437**	507,622
Effect of foreign exchange rate changes, net		**860**	(225)
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**101,054**	277,437

1. CORPORATE AND GROUP INFORMATION

China Display Optoelectronics Technology Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business in Hong Kong is located at 8/F, Building 22E, Phase 3, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.

During the year ended 31 December 2019, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the manufacture and sale of LCD modules for mobile phones and tablets, and providing processing service of LCD modules.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company are High Value Ventures Limited, a limited liability company incorporated in the British Virgin Islands, and TCL Technology Group Corporation (formerly known as "TCL Corp"), a limited liability company registered in the People's Republic of China (the "PRC") and listed on the Shenzhen Stock Exchange, respectively.

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital	Registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
China Display Optoelectronics Technology (Huizhou) Co., Ltd. ("CDOT Huizhou")*	PRC/Mainland China	RMB231,900,000	RMB231,900,000	–	100	Manufacture and sale of LCD modules for mobile phones and tablets and providing processing service of LCD modules
Wuhan China Display Optoelectronics Technology Co., Ltd. ("Wuhan CDOT ")*	PRC/Mainland China	RMB400,000,000	RMB500,000,000	–	70	Manufacture and sale of LCD modules for mobile phones and tablets and providing processing service of LCD modules
China Display Software Development Services (Xi'an) Co., Ltd.*^	PRC/Mainland China	RMB20,000,000	RMB20,000,000	–	100	Development and sale of software and technical consultancy services
Taijia Investment Limited	Hong Kong	HK$10,000	HK$10,000	–	100	Investment holding, merchandising and sales
TCL Display Technology (Hong Kong) Limited	Hong Kong	HK$1	HK$1	–	100	Investment holding, merchandising and sales
TCL Intelligent Display Electronics Limited	Bermuda	HK$1	HK$1	100	–	Investment holding
TCL Display Technology (BVI) Limited	British Virgin Islands	US$1	US$1	–	100	Investment holding
Taixing Investment Limited	Bermuda	HK$10,000	HK$10,000	100	–	Investment holding

* *These entities are registered as limited liability companies under PRC law.*

^ *This entity is registered as a wholly-owned subsidiary of CDOT Huizhou and has been winded up on 28 November 2019.*

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2019, the Group had total current liabilities in excess of total current assets of RMB119,722,000. The Group's ability to repay its debts when they fall due relies on its future operating cash flows and its ability to renew the bank loans.

In view of the above, the Board has carefully assessed the Group's liquidity position having taken into account (i) the revolving bank facilities of RMB970,000,000 which will not expire until 31 December 2020, and (ii) the Company's intermediate holding company, TCL China Star Optoelectronics Technology Co., Ltd. has agreed to provide financial support to the Group to meet in full its financial obligations for at least the next 12 months from the date of approval of the Company's financial statements.

On the basis of the above considerations, the Board believed that the Group can satisfy its financial obligation in the foreseeable future and accordingly, the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PREPARATION (Continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and Annual Improvements to HKFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

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

New definition of a lease

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impact on transition

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impact on transition (Continued)

Financial impact at 1 January 2019

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

	Increase *RMB'000*
Assets	
Increase in right-of-use assets	27,526
Increase in total assets	27,526
Liabilities	
Increase in interest-bearing bank and other borrowings – current	9,349
Increase in interest-bearing bank and other borrowings – non-current	18,177
Increase in total liabilities	27,526

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

	RMB'000
Operating lease commitments as at 31 December 2018:	10,028
Add: Payments for optional extension periods not recognised at 31 December 2018	20,046
	30,074
Weighted average incremental borrowing rate as at 1 January 2019	4.742%
Discounted operating lease commitments as at 1 January 2019	27,526
Lease liabilities as at 1 January 2019	27,526

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at these financial statements set out in this report are set out below:

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Plant and machinery	14%-32%
Office and other equipment	14%-32%
Leasehold improvements	19%-32%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

Construction in progress represents plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction for the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

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

Computer software

The purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 3 to 5 years.

Research and development costs

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

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(a) *Right-of-use assets*

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

Leasehold land	50 years
Plant and properties	2 to 3 years

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

(b) *Lease liabilities*

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

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

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable before 1 January 2019)

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

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

This category includes derivative financial instruments which the Group had not irrevocably elected to classify at fair value through other comprehensive income.

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

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

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

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

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and other borrowings, financial liabilities at fair value through profit or loss and payables.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

Inventories

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each year of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the statement of profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each year and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each year and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods as necessary to match the grant on a systematic basis to the costs that it is intended to compensate are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

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

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

Sale of industrial products

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

Processing and manufacturing services

Revenue from processing and manufacturing service is recognised at the point in time when control of the product is transferred to the customer, generally on delivery of the LCD module products.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Other income

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

Contract liabilities

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

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company operates the Share Award Scheme and the Share Option Scheme (as defined in note 27 and note 28 to the financial statements, respectively) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

As disclosed in note 27 to the financial statements, the Group has engaged a trustee to administer the Share Award Scheme, where the trustee may purchase shares issued by the Company from the market as awards to the relevant participants. The consideration paid by the Company, including any directly attributable incremental costs, is presented as "shares held for the Share Award Scheme" and deducted from the Group's equity.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries in accordance with the statutory limits prescribed by the Mandatory Provident Fund Schemes Ordinance and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme at the applicable rates based on the amounts stipulated by the local government organisations. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Dividends

Dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the note 11 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company is HKD and these financial statements are presented in RMB. The turnover of the Group is entirely contributed by the business in Mainland China and the presentation currency of RMB could provide users of the financial statements with more comparable information with other companies in similar industries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

The New PRC Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors in respect of its earnings, from 1 January 2008 or thereafter, shall be subject to withholding corporate income tax at an applicable rate of 5% or 10%. The Group evaluates the necessity of dividend distribution of its subsidiaries established in Mainland China out of profits earned after 1 January 2008 and makes decisions on such dividend distributions based on senior management's judgement. As at 31 December 2019, the aggregate unremitted earnings of RMB248,850,000 (31 December 2018: RMB223,601,000) of the Group's subsidiaries established in Mainland China that are subject to withholding taxes were considered to be not probable to distribute in the foreseeable future and accordingly, the related deferred tax liabilities of RMB12,442,000 as at 31 December 2019 (31 December 2018: RMB11,180,000) were not recognised. For details, please refer to note 25 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer' s actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the financial statements.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2019 and 31 December 2018 were RMB831,412,000 and RMB602,543,000, respectively. Further details are given in note 13 to the financial statements.

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes a provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of each year and makes a provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each year. The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will have an impact on the carrying value of inventories and the write-down of inventory amount in the year in which such estimates have been changed. During the year ended 31 December 2019, the amount of the write-down of the inventories recognised in the consolidated statement of profit or loss was RMB1,660,000 (2018: RMB5,206,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provisions for product warranties

The Group generally accrue provisions on certain of its products, under which faulty products are returned for repair or replacement. The amount of provisions is estimated based on the sales volume and past experience of the level of the raw material costs incurred for the repair and return. The estimation basis is reviewed on an ongoing basis and revised where appropriate. As at 31 December 2019 and 31 December 2018, the carrying amounts of the provisions were RMB617,000 and RMB850,000, respectively.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group operates in one business unit based on its products, and has one reportable operating segment being the display products segment which principally engages in the processing, manufacture and sale of LCD module products.

No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

(a) Revenue from external customers

	2019 *RMB'000*	2018 *RMB'000*
Mainland China*	**4,884,225**	4,179,043
Other countries/areas	**571,565**	1,101,818
	5,455,790	5,280,861

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

* *Mainland China means any part of the People's Republic of China excluding Hong Kong, Macau and Taiwan.*

(b) Non-current assets

All significant operating assets of the Group are located in Mainland China. Accordingly, no geographical information of segment assets is presented.

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

Revenue of approximately RMB3,136,167,000 during the year ended 31 December 2019 (2018: RMB2,580,597,000) was derived from sales to related parties of the Company.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**5,455,790**	5,280,861

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2019

Segments	LCD modules RMB'000
Type of goods or services	
Sale of industrial products	**4,947,972**
Processing and manufacturing services	**507,818**
Total revenue from contracts with customers	**5,455,790**
Geographical markets	
Mainland China	**4,884,225**
Hong Kong	**471,188**
South Korea	**96,739**
Turkey	**3,024**
Thailand	**590**
Taiwan	**24**
Total revenue from contracts with customers	**5,455,790**
Timing of revenue recognition	
Goods and services transferred at a point in time	**5,455,790**

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(a) Disaggregated revenue information (Continued)

For the year ended 31 December 2018

Segments	LCD modules *RMB'000*
Type of goods	
Sale of industrial products	5,280,861
Geographical markets	
Mainland China	4,179,043
Hong Kong	737,309
South Korea	357,524
Taiwan	4,783
Turkey	2,202
Total revenue from contracts with customers	5,280,861
Timing of revenue recognition	
Goods transferred at a point in time	5,280,861

(b) Performance obligations

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

Sale of industrial products

The performance obligation is satisfied upon delivery of the LCD module products and the payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Processing and manufacturing services

The performance obligation is satisfied upon delivery of the LCD module products.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

An analysis of other income and gains is as follows:

	2019 RMB'000	2018 RMB'000
Other income, net		
Bank interest income	**9,405**	5,738
Subsidy income*	**4,113**	7,749
Gain on disposal of raw materials, samples and scraps	**17,192**	21,337
Others	**9,362**	1,647
	40,072	36,471
Gains, net		
Fair value gains, net:		
Derivative financial instruments – transactions not qualifying as hedges	**795**	8,044
	40,867	44,515

* *Subsidy income represents various government grants received from the relevant government authorities to support the development of the relevant project of the Group in Mainland China. In the opinion of management, there are no unfulfilled conditions or contingencies relating to these grants.*

6. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold*		**5,269,211**	5,032,604
Depreciation of property, plant and equipment	*13*	**120,892**	72,013
Amortisation of intangible assets	*15*	**1,670**	1,301
Depreciation of right-of-use assets	*14(a)*	**10,475**	–
Auditor's remuneration		**1,214**	1,168
Research and development costs^:			
Current year expenditures		**22,990**	34,792
Minimum lease payments under operating leases		**–**	12,702
Lease payments not included in the measurement of lease liabilities	*14(d)*	**30,943**	–
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**376,439**	244,453
Equity-settled share option expense	*28*	**(315)**	950
Equity-settled share award expense		**(14)**	542
Pension scheme contributions**		**72,189**	45,762
		448,299	291,707
Exchange losses, net		**5,086**	2,727
(Reversal of impairment)/impairment of trade and bills receivables	*17*	**(2,600)**	1,856
Write-down of inventories to net realisable value***		**1,660**	5,206
Loss on disposal of items of property, plant and equipment		**–**	5,288

^ *Research and development costs are included in "Administrative expenses" in the consolidated statement of profit or loss.*

* The *amount included wages and salaries, depreciation, amortisation and lease payments of RMB610,433,000 (2018: RMB321,408,000) in aggregate which have been included in the respective expense items disclosed below.*

** *As at 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: Nil).*

*** *Write-down of inventories to net realisable value are included in "Cost of sales" in the consolidated statement of profit or loss.*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans and bonds	**5,167**	11,667
Interest on lease liabilities	**686**	–
Interest on discounted bills	**27,754**	6,433
	33,607	18,100

8. DIRECTORS' REMUNERATION

Directors' remuneration during the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	**474**	456
Other emoluments:		
Salaries, allowances and benefits in kind	**2,508**	1,989
Equity-settled share option expense	**–**	435
Equity-settled share award expense	**–**	–
Pension scheme contributions	**50**	111
	2,558	2,535
	3,032	2,991

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	Fees *RMB'000*	Equity-settled share option expense *RMB'000*	Total remuneration *RMB'000*
2019			
Ms. HSU Wai Man Helen	**158**	**–**	**158**
Mr. XU Yan	**158**	**–**	**158**
Mr. LI Yang	**158**	**–**	**158**
	474	**–**	**474**

	Fees *RMB'000*	Equity-settled share option expense *RMB'000*	Total remuneration *RMB'000*
2018			
Ms. HSU Wai Man Helen	152	3	155
Mr. XU Yan	152	3	155
Mr. LI Yang	152	3	155
	456	9	465

All the independent non-executive directors were appointed with effect from 25 June 2015.

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

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Equity-settled share option expense *RMB'000*	Equity-settled share award expense *RMB'000*	Total remuneration *RMB'000*
2019						
Executive directors:						
Mr. LI Jian*	–	1,009	–	–	–	1,009
Mr. OUYANG Hongping*	–	883	25	–	–	908
Mr. WEN Xianzhen	–	616	25	–	–	641
Mr. ZHAO Jun**	–	–	–	–	–	–
Mr. ZHAO Yong**	–	–	–	–	–	–
	–	2,508	50	–	–	2,558
Non-executive director:						
Mr. LIAO Qian	–	–	–	–	–	–
	–	2,508	50	–	–	2,558

* *Mr. LI Jian was the chief executive officer of the Company during 2018. Mr. LI Jian resigned as the chief executive officer and an executive director of the Company, and Mr. OUYANG Hongping was re-designated as the chief executive officer of the Company with effect from 7 March 2019.*

** *Mr. ZHAO Yong resigned as an executive director of the Company and Mr. ZHAO Jun was appointed as an executive director of the Company with effect from 7 March 2019.*

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director (Continued)

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Equity-settled share option expense *RMB'000*	Equity-settled share award expense *RMB'000*	Total remuneration *RMB'000*
2018						
Executive directors:						
Mr. LI Jian	–	613	37	147	–	797
Mr. OUYANG Hongping	–	791	37	116	–	944
Mr. WEN Xianzhen	–	585	37	–	–	622
Ms. YANG Yunfang	–	–	–	89	–	89
Mr. ZHAO Yong	–	–	–	74	–	74
	–	1,989	111	426	–	2,526
Non-executive director:						
Mr. LIAO Qian	–	–	–	–	–	–
	–	1,989	111	426	–	2,526

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

9. FIVE HIGHEST PAID EMPLOYEES

During the year, three (2018: three) directors including the chief executive were counted in the five highest paid employees, details of whose remuneration during their appointment as a director of the Company are set out in note 8 above. Details of the remuneration during the year of the remaining two (2018: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Salaries, allowances and benefits in kind	**2,066**	977
Equity-settled share option expense	**–**	89
Equity-settled share award expense	**–**	–
Pension scheme contributions	**15**	52
	2,081	1,118

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

	Number of employees **2019**	 2018
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	–
	2	2

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019 **RMB'000**	2018 RMB'000
Current		
Charge for the year	**23,140**	41,036
Adjustment in respect of current tax of previous periods	**(2,523)**	(3,073)
Deferred *(note 25)*	**2,640**	(1,882)
Total tax charge for the year	**23,257**	36,081

A reconciliation of the income tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

2019

	Mainland China		Hong Kong		British Virgin Islands and Bermuda		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	61,996		3,683		5,054		70,733	
Tax at the statutory tax rate	15,545	25	608	16.5	–	–	16,153	22.8
Income not subject to tax	–	–	(1,529)	(41.5)	–	–	(1,529)	(2.2)
Expenses not deductible for tax and others	10,541	17	137	3.7	–	–	10,678	15.1
Adjustment in respect of current tax of previous periods	(2,523)	(4.1)	–	–	–	–	(2,523)	(3.6)
Tax losses utilised from previous periods	(525)	(0.8)	–	–	–	–	(525)	(0.7)
Tax loss not recognised	–	–	1,003	27.2	–	–	1,003	1.4
Tax charge at the effective rate	23,038	37.1	219	5.9	–	–	23,257	32.9

10. INCOME TAX (Continued)

2018

	Mainland China		Hong Kong		British Virgin Islands and Bermuda		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit/(loss) before tax	100,652		44,183		(6,866)		137,969	
Tax at the statutory tax rate	25,163	25	7,290	16.5	–	–	32,453	23.5
Income not subject to tax	–	–	(1,217)	(2.7)	–	–	(1,217)	(0.9)
Expenses not deductible for tax and others	9,342	9.3	7	–	–	–	9,349	6.8
Adjustment in respect of current tax of previous periods	(3,016)	(3.0)	(57)	(0.1)	–	–	(3,073)	(2.2)
Deductible temporary differences not recognised	–	–	16	–	–	–	16	–
Tax losses utilised from previous periods	(3,788)	(3.8)	–	–	–	–	(3,788)	(2.7)
Tax loss not recognised	1,921	1.9	420	0.9	–	–	2,341	1.7
Tax charge at the effective rate	29,622	29.4	6,459	14.6	–	–	36,081	26.2

The Group has tax losses of RMB10,988,000 arising in Hong Kong (Year ended 31 December 2018: RMB4,910,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has no tax losses arising in Mainland China (Year ended 31 December 2018: RMB7,683,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Dividends recognised as distribution	–	34,446

The Board does not recommend to declare any final dividends for the year ended 31 December 2019.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings per share amount for the year ended 31 December 2019 is based on the profit for the year attributable to owners of the parent of RMB52,448,000 (2018: RMB81,782,000), and the weighted average number of ordinary shares of the Company in issue less shares held for the Share Award Scheme during the year of 2,090,435,766 (2018: 2,070,804,618).

The Company had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019.

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to owners of the parent, used in the basic and diluted earnings per share calculations	52,448	81,782

	Number of shares 2019	2018
Shares		
Weighted average number of ordinary shares in issue less shares held for the Share Award Scheme during the year used in the basic earnings per share calculation	2,090,435,766	2,070,804,618
Effect of dilution – weighted average number of ordinary shares: Awarded shares	–	169,907
	2,090,435,766	2,070,974,525

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Office and other equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019					
At 31 December 2018:					
Cost	**693,466**	**56,185**	**68,925**	**10,759**	**829,335**
Accumulated depreciation	**(164,578)**	**(16,452)**	**(45,762)**	**–**	**(226,792)**
Net carrying amount	**528,888**	**39,733**	**23,163**	**10,759**	**602,543**
At 1 January 2019, net of accumulated depreciation	**528,888**	**39,733**	**23,163**	**10,759**	**602,543**
Additions	**99,629**	**16,764**	**13,735**	**219,633**	**349,761**
Depreciation provided during the year	**(100,321)**	**(10,279)**	**(10,292)**	**–**	**(120,892)**
Transfers	**33,030**	**(508)**	**632**	**(33,154)**	**–**
At 31 December 2019 net of accumulated depreciation	**561,226**	**45,710**	**27,238**	**197,238**	**831,412**
At 31 December 2019:					
Cost	**826,279**	**72,264**	**83,315**	**197,238**	**1,179,096**
Accumulated depreciation	**(265,053)**	**(26,554)**	**(56,077)**	**–**	**(347,684)**
Net carrying amount	**561,226**	**45,710**	**27,238**	**197,238**	**831,412**
31 December 2018					
At 31 December 2017:					
Cost	399,873	25,210	58,220	178,029	661,332
Accumulated depreciation	(151,981)	(12,018)	(34,129)	–	(198,128)
Net carrying amount	247,892	13,192	24,091	178,029	463,204
At 1 January 2018, net of accumulated depreciation	247,892	13,192	24,091	178,029	463,204
Additions	111,474	18,813	12,878	74,211	217,376
Disposals	(5,187)	(67)	(770)	–	(6,024)
Depreciation provided during the year	(54,711)	(5,764)	(11,538)	–	(72,013)
Transfers	229,420	13,559	(1,498)	(241,481)	–
At 31 December 2018 net of accumulated depreciation	528,888	39,733	23,163	10,759	602,543
At 31 December 2018:					
Cost	693,466	56,185	68,925	10,759	829,335
Accumulated depreciation	(164,578)	(16,452)	(45,762)	–	(226,792)
Net carrying amount	528,888	39,733	23,163	10,759	602,543

14. LEASES

The Group as a lessee

The Group has lease contracts for plant and properties used in its operations. Leases of plant and machinery generally have lease terms between 2 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Right-of-use assets		
	Prepaid land lease payments *RMB'000*	Plant and properties *RMB'000*	Total *RMB'000*
As at 1 January 2019	–	27,526	27,526
Additions	30,168	–	30,168
Depreciation charge	(503)	(9,972)	(10,475)
Exchange realignment	–	38	38
As at 31 December 2019	29,665	17,592	47,257

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2019 *RMB'000*
Carrying amount at 1 January	27,526
Accretion of interest recognised during the year	686
Payments	(10,222)
Exchange realignment	38
Carrying amount at 31 December	18,028
Analysed into:	
Current portion	9,255
Non-current portion	8,773

The maturity analysis of lease liabilities is disclosed in note 36 to the financial statements.

14. LEASES (Continued)

The Group as a lessee (Continued)

(c) The total cash outflow for leases are disclosed in note 31 to the financial statements.

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

	2019 *RMB'000*
Interest on lease liabilities	**686**
Depreciation charge of right-of-use assets	**10,475**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	**30,943**
Total amount recognised in profit or loss	**42,104**

15. INTANGIBLE ASSETS

	Computer software *RMB'000*
31 December 2019	
Cost at 1 January 2019, net of accumulated amortisation	**5,664**
Additions	**1,895**
Amortisation provided during the year	**(1,670)**
At 31 December 2019	**5,889**
At 31 December 2019:	
Cost	**10,453**
Accumulated amortisation	**(4,564)**
Net carrying amount	**5,889**
31 December 2018	
Cost at 1 January 2018, net of accumulated amortisation	5,597
Additions	1,368
Amortisation provided during the year	(1,301)
At 31 December 2018	5,664
At 31 December 2018:	
Cost	8,558
Accumulated amortisation	(2,894)
Net carrying amount	5,664

16. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**101,865**	329,779
Work in progress	**17,613**	63,540
Finished goods	**109,975**	181,287
	229,453	574,606

17. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**814,722**	1,819,415
Bills receivable	**1,048,619**	337,752
Impairment	**(1,301)**	(11,934)
	1,862,040	2,145,233

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is normally required. The credit period is generally 30 to 90 days, depending on the size and credibility of the customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

Included in the Group's trade and bills receivables are amounts due from the Group's related parties of RMB1,225,591,000 (2018: RMB760,658,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

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

	2019 RMB'000	2018 RMB'000
Within 1 month	**350,994**	965,618
1 to 2 months	**419,924**	819,391
2 to 3 months	**249,843**	152,122
Over 3 months	**841,279**	208,102
	1,862,040	2,145,233

17. TRADE AND BILLS RECEIVABLES (Continued)

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

	2019 RMB'000	2018 RMB'000
At beginning of year	**11,934**	10,078
Impairment losses, net	**(2,600)**	1,856
Amount written off as uncollectible	**(8,033)**	–
At end of year	**1,301**	11,934

The decrease (2018: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Decrease in the loss allowance of RMB2,600,000 (2018: increase in the loss allowance of RMB1,856,000) as a result of a net decrease (2018: increase) in the gross carrying amount after the settlement of trade receivables and origination of new trade receivables; and

(ii) Decrease in the loss allowance of RMB8,033,000 (2018: nil) as a result of the write-off of certain trade receivables.

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

17. TRADE AND BILLS RECEIVABLES (Continued)

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

As at 31 December 2019

	Past due		
	Less than 6 months	**Over 6 months**	**Total**
Expected credit loss rate	**0.16%**	**–**	**0.16%**
Gross carrying amount *(RMB'000)*	**814,722**	**–**	**814,722**
Expected credit losses *(RMB'000)*	**1,301**	**–**	**1,301**

As at 31 December 2018

	Past due		
	Less than 6 months	Over 6 months	Total
Expected credit loss rate	0.21%	98%	0.66%
Gross carrying amount *(RMB'000)*	1,811,237	8,178	1,819,415
Expected credit losses *(RMB'000)*	3,886	8,048	11,934

The Group's bills receivable have been accepted by notable banks with high credit ratings. As at 31 December 2019, the probability of default and the loss given default were estimated to be minimal.

18. PREPAYMENTS AND OTHER RECEIVABLES

	2019 ***RMB'000***	2018 *RMB'000*
Non-current:		
Deposits and other receivables	**11,628**	60,736
Current:		
Prepayments	**4,820**	18,862
Deposits and other receivables	**88,215**	110,380
	93,035	129,242

None of the above assets is either past due or impaired. Deposits and other receivables mainly represent deposits paid for purchase of items of property and equipment, deposits paid for value added tax and deposits with suppliers. The expected credit losses are estimated with reference to the historical loss record of the Group. As at 31 December 2019, the probability of default and the loss given default of deposits and other receivables were estimated to be minimal.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	2019		2018	
	RMB'000		*RMB'000*	
	Assets	**Liabilities**	Assets	Liabilities
Forward currency contracts	**624**	**491**	–	–

The Group has entered into various forward currency contracts to manage its exchange rate exposure. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The net gains, including the realised and unrealised, on changes in the fair value of the forward currency contracts amounting to RMB795,000 (2018: net gains of RMB8,044,000) were recognised in the consolidated financial statement of profit or loss during the year.

20. CASH AND CASH EQUIVALENTS

	2019	2018
	RMB'000	*RMB'000*
Cash and bank balances denominated in		
– RMB	**55,336**	131,946
– HK$	**10,855**	2,817
– United States dollars ("US$")	**34,863**	142,674
Cash and cash equivalents	**101,054**	277,437

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2019, included in the Group's cash and bank balances were deposits of RMB77,041,342 (31 December 2018: RMB221,392,899), placed with TCL Finance Co., Ltd., a fellow subsidiary of the Company and a financial institution approved by the People's Bank of China. The interest rate for the deposits placed with TCL Finance Co., Ltd. was 0.42% (2018: 0.42%) per annum, being the savings rate offered by the People's Bank of China during the year. Further details of the interest income from the deposits in the related parties are set out in note 33 to the financial statements.

21. TRADE PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**815,697**	2,256,864

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

	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**470,441**	1,795,450
31 to 60 days	**194,020**	209,835
61 to 90 days	**123,484**	243,594
Over 90 days	**27,752**	7,985
	815,697	2,256,864

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 150 days.

22. OTHER PAYABLES AND ACCRUALS

		2019	2018
		RMB'000	*RMB'000*
Contract liabilities	*(a)*	**27,537**	62,548
Salaries and welfare payables		**143,168**	82,402
Tax payables other than current income tax liabilities		**12,574**	23,804
Interest payable		**15,005**	14,820
Other payables	*(b)*	**325,014**	187,444
Accruals		**617**	850
		523,915	371,868

22. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*	1 January 2018 *RMB'000*
Short-term advances received from customers			
Sale of goods	**27,537**	62,548	8,157

Contract liabilities include short-term advances received to deliver LCD module products. The fluctuation in contract liabilities in 2019 and 2018 was mainly due to the fluctuation in short-term advances received from customers in relation to the sale of LCD module products at the end of the year.

(b) Other payables are non-interest-bearing and have an average term of three months.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	**Maturity**	***RMB'000***	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*
Current							
Lease liabilities *(note 14(b))*	**4.75**	**2020**	**9,255**	9,349	–	–	–
Bank loans – secured	**3.40-3.60**	**2020**	**908,396**	220,682	3.40-3.60	2019	220,682
Collateralised bank advances							
– unsecured	**3.60**	**2020**	**100,000**	105,001	3.70-5.44	2019	105,001
Collateralised bank advances							
– secured	**–**	**–**	**–**	35,000	4.20	2019	35,000
			1,017,651	370,032			360,683
Non-current							
Lease liabilities *(note 14(b))*	**4.75**	**2021**	**8,773**	18,177	–	–	–
Other secured bank loans	**4.75**	**2024**	**498**	–	–	–	–
Other borrowings	**0.44**	**2022**	**24,000**	24,000	0.44	2020	24,000
			33,271	42,177			24,000
			1,050,922	412,209			384,683

23. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	**Maturity**	***RMB'000***	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*
Analysed into:							
Bank loans repayable							
Within one year			**1,008,396**	360,683			360,683
In the third to fifth years, inclusive			**498**	–			–
			1,008,894	360,683			360,683
Other borrowings repayable							
Within one year			**9,255**	9,349			–
In the second year			**8,773**	18,177			24,000
In the third to fifth years, inclusive			**24,000**	24,000			–
			42,028	51,526			24,000
			1,050,922	412,209			384,683

Notes:

(a) The Group had banking facilities of RMB2,460,000,000 (2018: RMB3,495,223,000), of which RMB399,901,000 (2018: RMB546,921,000) has been utilised as at the end of the year.

(b) The Company's ultimate holding company has guaranteed certain of the Group's interest-bearing bank borrowings of up to RMB100,498,000 (2018: RMB140,001,000) as at the end of the year.

The Group's interest-bearing bank borrowings were secured by trade receivables of RMB48,040,000 as at 31 December 2018.

(c) The other borrowings are with a tenure of 3 years starting from 2017. Interest is chargeable at 0.44% per annum and payable annually in arrears. The Group had obtained an extension of the repayment date for another two years, and such borrowing will be payable on 22 February 2022.

(d) The other secured bank loans are with a tenure of 5 years starting from 2019. Interest is chargeable at 4.75% and payable quarterly.

(e) All borrowings are denominated in RMB as of 31 December 2019.

24. BONDS PAYABLE

The amount mainly represented bonds hold by the immediate holding company of the Company which is unsecured, interest bearing at 7.5%, per annum and repayable in 2020.

25. DEFERRED TAX

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

Deferred tax assets

	Impairments *RMB'000*	Depreciation in excess of related depreciation allowance *RMB'000*	Accruals *RMB'000*	Government grants *RMB'000*	Fair Value adjustments from financial instruments *RMB'000*	Total *RMB'000*
At 1 January 2018	5,421	8,741	392	1,102	188	15,844
Credited/(charged) to the statement of profit or loss during the year *(note 10)*	1,404	(949)	(178)	1,612	(188)	1,701
At 31 December 2018 and 1 January 2019	6,825	7,792	214	2,714	–	17,545
Credited/(charged) to the statement of profit or loss during the year *(note 10)*	(1,576)	1,457	3,020	759	–	3,660
At 31 December 2019	5,249	9,249	3,234	3,473	–	21,205

Deferred tax liabilities

	Depreciation in excess of related depreciation allowance *RMB'000*	Fair value adjustments on financial investments *RMB'000*	Total *RMB'000*
At 1 January 2019	–	–	–
Charged to the statement of profit or loss during the year *(note 10)*	**6,267**	**33**	**6,300**
At 31 December 2019	**6,267**	**33**	**6,300**

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB12,442,000 as at 31 December 2019 (31 December 2018: RMB11,180,000).

26. SHARE CAPITAL

	2019	2018
Authorised:		
4,000,000,000 (31 December 2018: 4,000,000,000) ordinary shares of HK$0.10 each *(HK$'000)*	**400,000**	400,000
Issued and fully paid:		
2,114,117,429 (31 December 2018: 2,086,718,219) ordinary shares *(HK$'000)*	**211,412**	208,672
Equivalent to RMB'000	**172,118**	169,768

	Number of shares in issue	**Share capital** ***RMB'000***	**Share premium account** ***RMB'000***
At 1 January 2019	**2,086,718,219**	**169,768**	**58,000**
Share options exercised *(Note (a))*	**27,399,210**	**2,350**	**21,331**
At 31 December 2019	**2,114,117,429**	**172,118**	**79,331**

	Number of shares in issue	Share capital *RMB'000*	Share premium account *RMB'000*
At 1 January 2018	2,083,850,619	169,536	55,936
Vesting shares under the Share Award Scheme	–	–	(80)
Share options exercised	2,867,600	232	2,144
At 31 December 2018	2,086,718,219	169,768	58,000

26. SHARE CAPITAL (Continued)

Notes:

(a) The subscription rights attaching to 27,399,210 (2018: 2,867,600) share options were exercised at the subscription price of HK$0.74 per share *(note 28)*, resulting in the issue of 27,399,210 (2018: 2,867,600) shares for a total cash consideration, before expenses, of RMB17,392,000 (2018: RMB1,718,000). An amount of RMB6,289,000 (2018: RMB658,000) was transferred from the share option reserve to share premium account upon the exercise of the share options.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

27. SHARE AWARD SCHEME

On 17 March 2016 (the "Adoption Date"), the Board (for the purposes of the Share Award Scheme, defined below, also including such committee or such sub-committee or person(s) delegated with the power and authority by the board of directors of the Company to administer) resolved to adopt a restricted share award scheme (the "Share Award Scheme") for the purpose of providing incentives to the participants under the Share Award Scheme. Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its sole and absolute discretion, designate an award ("Award" and collectively "Awards") to be made to a selected participant ("Selected Person" and collectively "Selected Persons"). Participants of the Share Award Scheme cover any employee, adviser, consultant, agent, contractor, client or supplier of any member of the Group and any employee or officer of any affiliated company whom the Board in its sole discretion considers may contribute or have contributed to the Group. Awards may be satisfied by (i) existing shares to be acquired by the trustee engaged by the Company for the purpose of administrating the Share Award Scheme (the "Trustee") from the market, or (ii) new shares to be allotted and issued to the Trustee by the Company (collectively "Awarded Shares"), in both case the costs of which will be borne by the Company, and will be held on trust by the Trustee for the Selected Persons until the end of each vesting period, subject to fulfilment of the vesting conditions (if any). The specific mandate for the issuance and allotment of new shares as Awarded Shares pursuant to the Share Award Scheme was approved by the shareholders of the Company at the special general meeting of the Company held on 11 May 2016 (the "Approval Date"). On 9 August 2017, the Share Award Scheme was amended by the Group, pursuant to which, the Board may accelerate the vesting of the unvested Awarded Shares for grantees on a date prior to the original vesting date and waive or alter any or all of the vesting conditions attached to such Awarded Shares.

Subject to the refreshment of the scheme limit and the adjustment in the event of consolidation or subdivision of shares, the Board shall not make any further award of Awarded Shares which will result in: (i) the aggregate number of the Awarded Shares granted under the Share Award Scheme exceeding 10% of the issued share capital of the Company as at the Adoption Date (i.e. 172,149,980 shares); and (ii) the aggregate number of the Shares held by public shareholders of the Company falling below the minimum percentage as prescribed under the Listing Rules. Unless otherwise approved by the shareholders of the Company, the aggregate number of new shares to be granted as Awarded Shares in each financial year shall not exceed 3% of the total number of issued shares of the Company as at the Approval Date (i.e. 51,644,994 shares) or the latest new approval date (i.e. latest date on which the relevant shareholders' approval is obtained), as the case may be.

On 20 May 2016, the Company entered into a trust deed with BOCI-Prudential Trustee Limited thereby appointing it as the Trustee.

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27. SHARE AWARD SCHEME (Continued)

On 17 March 2016, the Board resolved to conditionally grant Awards with new shares to certain grantees (the "Shares Grant A") pursuant to the terms of the Share Award Scheme. This involves granting Awards for a total of 51,644,994 Awarded Shares being new shares to 97 Selected Persons. The Shares Grant A was subject to (i) the approval of the specific mandate for the issuance and allotment of new shares as Awarded Shares pursuant to the Share Award Scheme by the shareholders; and (ii) the approval by the listing committee of the Stock Exchange for the listing of, and permission to deal in, such new shares. The conditions were all fulfilled on 11 May 2016.

On 9 August 2017, the Board resolved to conditionally grant Awards with new shares to certain grantees (the "Shares Grant B") pursuant to the terms of the Share Award Scheme. This involves conditionally granting Awards for a total of 44,813,829 Awarded Shares being new shares and 6,831,165 Awarded Shares being existing shares from the market to 145 Selected Persons, who are all employees, and 2 Selected Persons, who are all non-employees, respectively. Out of the 145 Selected Persons of the Shares Grant B, 4 are connected persons of the Company (the "Connected Grantees") who are conditionally granted a total of 15,364,499 Awarded Shares being new Shares. The proposed Awards to such Connected Grantees constitute connected transactions and are therefore also subject to the approval by the independent shareholders, which has been obtained on 13 October 2017.

In aggregate, 103,289,988 shares have been granted under the Share Award Scheme of the Company, of which 102,946,488 shares had been vested, and 343,500 shares had been forfeited as at 31 December 2018. During the year ended 31 December 2019, 1,710,704 shares of the originally vested Awarded Shares were returned by certain Selected Persons to the Company. Accordingly, an amount of RMB705,000 was charged to the Shares held for the Share Award Scheme reserve.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of recognising and providing incentives and rewards to eligible participants who contribute to the success of the Group's operations, helping the Group in retaining its existing employees, recruiting additional employees and providing them with a direct economic interest in attaining the long-term business objectives of the Group. Eligible participants of the Share Option Scheme include employees of the Company or any of its subsidiaries (including any executive and non-executive director or proposed executive and non-executive director of the Company), adviser, consultant, agent, contractor, client or supplier of any member of the Group or any other person whom the Board in its sole discretion considers may contribute or have contributed to the Group. The Share Option Scheme became effective on 25 June 2015 and, unless otherwise terminated, will remain in force for 10 years from that date.

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

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

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

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

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

28. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Share Option Scheme of the Company during the year:

	2019		2018	
	Weighted average exercise price *HK$ per share*	**Number of options** *'000*	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**0.74**	**65,180**	0.74	69,678
Exercised during the year	**0.74**	**(27,399)**	0.74	(2,868)
Forfeited during the year	**0.74**	**(1,374)**	0.74	(1,630)
At 31 December	**0.74**	**36,407**	0.74	65,180

The exercise price and exercise period of the share options outstanding at the end of 2019 are as follows:

31 December 2019

Date of grant	Number of options *'000*	Exercise price *HK$ per share*	Exercise period
18 March 2016	36,407	0.74	18 December 2016 to 17 March 2022

The fair value of the share options granted during 2016 was RMB18,502,000 (HK$0.28 each). During the year, 1,373,734 share options were forfeited, the Group reversed the share option expense of RMB315,000 accordingly..

At the end of the reporting period, the Company had 36,407,486 share options outstanding under the Share Option Scheme which have not yet been exercised. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 36,407,486 additional ordinary share of the Company and additional share capital of HK$3,641,000 and share premium of HK$23,301,000 (before issue expenses).

According to the scheme limit of the Share Option Scheme as refreshed at the annual general meeting held on 11 May 2016, the Company may further grant 172,149,980 share options, representing approximately 8.14% of the issued share capital of the Company as at 31 December 2019.

At the date of approval of these consolidated financial statements, the Company had 36,407,486 share options outstanding under the Share Option Scheme, which represented approximately 1.72% of the Company' shares in issue as at that date.

29. RESERVES

The amount of the Group's reserves and the movements therein during the years ended 31 December 2019 and 2018 are presented in the consolidated statement of changes in equity on page 59 of the financial statements.

Capital reserve

The capital reserve with the amount of RMB77,970,000 arose from the Reverse Takeover Transaction in 2015, the adjustment of CDOT Huizhou's legal capital to reflect the Company's legal capital, and the capital reserve with the amount of RMB290,000 arose from the contribution from a non-controlling shareholder.

Statutory surplus reserve

In accordance with the PRC Company Law, the subsidiaries registered in the PRC are required to allocate 10% of its profit after tax to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the PRC Company Law, part of the SSR may be converted to increase share capital of the subsidiaries registered in the PRC, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Contributed surplus

Upon compliance with Section 4b(2) of the Companies Act 1981 of Bermuda, the annual general meeting had passed the resolution to cancel the amount standing to the credit of the share premium amount of RMB237,632,000 and transfer the amount to the contributed surplus account in 2017, adjustments were made standing to the debit of the share premium account each time when the Company declared dividend since then.

30. NON-WHOLLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2019	2018
Percentage of equity interest held by non-controlling interests:		
Wuhan CDOT	**30%**	30%
(Loss)/profit for the year allocated to non-controlling interests:		
Wuhan CDOT *(RMB'000)*	**(4,972)**	20,107
Accumulated balances of non-controlling interests at the reporting date:		
Wuhan CDOT *(RMB'000)*	**130,259**	135,235

30. NON-WHOLLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

The following table illustrates the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2019 *RMB'000*	2018 *RMB'000*
Revenue	**2,496,190**	2,971,774
Total expenses	**(2,512,764)**	(2,904,754)
(Loss)/profit for the year	**(16,574)**	67,020
Total comprehensive (loss)/income for the year	**(16,574)**	67,020
Current assets	**1,095,716**	1,750,410
Non-current assets	**530,858**	351,745
Current liabilities	**1,180,188**	1,644,201
Non-current liabilities	**12,189**	7,169
Net cash flows used in operating activities	**(321,484)**	(131,686)
Net cash flows used in investing activities	**(329,274)**	(76,129)
Net cash flows from financing activities	**665,015**	134,960
Effect of foreign exchange rate	**(5,588)**	470
Net increase/(decrease) in cash and cash equivalents	**8,669**	(72,385)

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	2019 Bond payable RMB'000	Interest-bearing bank and other borrowings RMB'000	Lease Liabilities RMB'000	Interest payables RMB'000
At 31 December 2018	61,343	384,683	–	14,820
Effect of adoption of HKFRS 16	–	–	27,526	–
At 1 January 2019 (restated)	61,343	384,683	27,526	14,820
Changes from financing cash flows	(52,800)	648,211	(10,222)	(32,736)
Interest expense	–	–	686	32,921
Effect of foreign exchange rate changes, net	416	–	38	–
At 31 December 2019	8,959	1,032,894	18,028	15,005

	2018 Bond payable RMB'000	Interest-bearing bank and other borrowings RMB'000	Interest payables RMB'000
At 1 January 2018	58,506	413,610	11,923
Changes from financing cash flows	–	(28,927)	(15,203)
Interest expense	–	–	18,100
Effect of foreign exchange rate changes, net	2,837	–	–
At 31 December 2018	61,343	384,683	14,820

(b) Total cash outflow for leases

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

	2019 RMB'000
With operating activities	(30,943)
With investing activities	(30,168)
With financing activities	(10,222)
	(71,333)

32. COMMITMENTS

(a) The Group had the following capital commitments as at the end of the year:

	2019 *RMB'000*	2018 *RMB'000*
Contracted, but not provided for:		
Plant and machinery	**22,726**	80,179

(b) Operating lease commitments as at 31 December 2018

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

	2018 *RMB'000*
Within one year	9,624
In the second to fifth years, inclusive	404
	10,028

33. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties, which was classified into TCL Technology Group Corporation ("TCL Technology") & affiliates and TCL Industries Holdings Co., Ltd. ("TCL Holdings") & affiliates during the year:

	2019 ***RMB'000***	2018 *RMB'000*
TCL Technology and the then affiliates:		
Sales of products	**1,924,027**	2,321,667
Processing services	**507,818**	–
Sales of raw materials and samples	**350,060**	52,399
Purchases of products	**840,350**	1,604,191
Purchases of plant, vehicles, furniture and fixtures	**–**	181
Purchases of services	**1,527**	2,725
Rental and other related charges	**3,149**	–
Interest income	**6,169**	3,715
Interest expense	**1,890**	6,183
Guarantee fee	**12**	75
	3,635,002	3,991,136
TCL Holdings and the then affiliates:		
Sales of products	**704,322**	258,930
Sales of raw materials and samples	**68,142**	7,319
Purchases of products	**514**	90
Purchases of plant, vehicles, furniture and fixtures	**4,400**	510
Purchases of services	**1,601**	1,163
Rental and other related charges	**256**	222
Interest income	**263**	624
Interest expense	**54**	–
	779,552	268,858

(b) Other transactions with related parties

The Company's ultimate holding company has guaranteed certain bank loans made to the Group of up to RMB1,008,894,000 (2018: RMB360,684,000) as at the end of the year, as further detailed in note 23 to the financial statements.

33. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Outstanding balances with related parties

	Due from related companies		Due to related companies	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current:				
TCL Technology and the then affiliates:	**1,077,440**	637,666	**63,107**	293,125
TCL Holdings and the then affiliates:	**148,321**	123,807	**13,921**	20,879
	1,225,761	761,473	**77,028**	314,004
Non-current:				
TCL Technology and the then affiliates:	**–**	–	**–**	52,578
TCL Holdings and the then affiliates:	**629**	–	**–**	–
	629	–	**–**	52,578
	1,226,390	761,473	**77,028**	366,582

As at 31 December 2019, the current balance with the immediate holding company, an affiliate of TCL Technology, comprised bonds payable of RMB8,959,000, interest of the bonds payable of RMB14,503,000 and an amount of RMB33,902,000 relating to the reimbursement for the listing expense which was paid by the immediate holding company on behalf of the Company. The remaining balances with TCL Technology & affiliates and TCL Holdings & affiliates are mainly trading balances which are repayable on credit terms similar to those offered to the major customers of the Group.

(d) Compensation of key management personnel of the Group

	2019	2018
	RMB'000	*RMB'000*
Short-term employee benefits	**3,930**	3,423
Equity-settled share option expense	**–**	543
	3,930	3,966

Further details of directors' emoluments are included in note 8 to the financial statements.

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2019	**Financial assets at fair value through profit or loss Designated as such upon initial recognition** *RMB'000*	**Financial assets at amortised cost** *RMB'000*
Financial assets		
Trade and bills receivables	**–**	**1,862,040**
Financial assets included in prepayments and other receivables	**–**	**5,832**
Cash and cash equivalents	**–**	**101,054**
Derivative financial instruments	**624**	**–**
	624	**1,968,926**

31 December 2018	Financial assets at amortised cost *RMB'000*
Financial assets	
Trade and bills receivables	2,145,233
Financial assets included in prepayments and other receivables	12,914
Cash and cash equivalents	277,437
	2,435,584

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2019	Financial assets at fair value through profit or loss Designated as such upon initial recognition RMB'000	Financial assets at amortised cost RMB'000
Financial liabilities		
Trade payables	–	815,697
Financial liabilities included in other payables and accruals	–	340,019
Interest-bearing bank borrowings and other borrowings	–	1,050,922
Bonds payable	–	8,959
Derivative financial instruments	491	–
	491	2,215,597

31 December 2018	Financial liabilities at amortised cost RMB'000
Financial liabilities	
Trade payables	2,256,864
Financial liabilities included in other payables and accruals	202,264
Interest-bearing bank borrowings and other borrowings	384,683
Bonds payable	61,341
	2,905,152

35. FAIR VALUE MEASUREMENT

The carrying amounts and fair values of the Group's instruments, other than those with carrying amounts that reasonable approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Derivative financial instruments	**624**	–	**624**	–

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial liabilities				
Other borrowings (other than lease liabilities)	**24,000**	24,000	**22,176**	23,033
Derivative financial instruments	**491**	–	**491**	–
	24,491	24,000	**22,667**	23,033

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

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

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

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

The fair values of the other borrowings have been calculated by discounting the expected future cash flows using rates applicable for the instruments. The Group's own non-performance risk for the other borrowings as at 31 December 2019 was assessed to be insignificant.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are foreign currency risk, market risk, credit risk and liquidity risk. The board of directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 10% (2018: 20%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 13% (2018: 12%) of costs were denominated in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each year to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in US$ rate *%*	Increase/ (decrease) in profit before tax *RMB'000*
31 December 2019		
If RMB weakens against US$	5	4,765
If RMB strengthens against US$	(5)	(4,765)
31 December 2018		
If RMB weakens against US$	5	(1,730)
If RMB strengthens against US$	(5)	1,730

Market risk

The Group's production process requires a significant amount of LCD, IC circuits and other materials, and the Group's success depends significantly on its ability to secure sufficient and constant supply of these principal raw materials for its production at acceptable price levels. LCD is the most significant raw material used in the Group's production. The Group does not have long-term, fixed-cost supply contracts of raw materials with its suppliers. Since many of the Group's sales are priced by reference to the market price at the time of a particular order, its exposure to the risk of changes in the price is reduced.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group had concentrations of credit risk as 91% (31 December 2018: 80%) of the Group's trade and bills receivables were due from the Group's five largest customers as at 31 December 2019.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	814,722	814,722
Bills receivable					
– Not yet past due	1,048,618	–	–	–	1,048,618
Financial assets included in prepayments and other receivables					
– Normal **	5,832	–	–	–	5,832
Cash and cash equivalents					
– Not yet past due	101,054	–	–	–	101,054
	1,155,504	–	–	814,722	1,970,226

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2018

	12-month ECLs		Lifetime ECLs		
				Simplified approach	
	Stage 1	Stage 2	Stage 3		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	1,819,415	1,819,415
Bills receivable					
– Not yet past due	337,752	–	–	–	337,752
Financial assets included in prepayments and other receivables					
– Normal **	12,914	–	–	–	12,914
Cash and cash equivalents					
– Not yet past due	277,437	–	–	–	277,437
	628,103	–	–	1,819,415	2,447,518

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the financial statements.*

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and financial support from related parties and bank borrowings.

The maturity profile of financial liabilities as at 31 December 2019, based on the contractual undiscounted payments, was as follows:

	Less than 1 year *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
31 December 2019			
Trade payables	**815,697**	**–**	**815,697**
Financial liabilities included in other payables and accruals	**340,019**	**–**	**340,019**
Lease liabilities	**9,920**	**9,180**	**19,100**
Interest-bearing bank and other borrowings (excluding lease liabilities)	**1,008,396**	**24,498**	**1,032,894**
Bonds payable	**8,959**	**–**	**8,959**
	2,182,991	**33,678**	**2,216,669**
31 December 2018			
Trade payables	2,256,864	–	2,256,864
Financial liabilities included in other payables and accruals	202,264	–	202,264
Interest-bearing bank and other borrowings	360,683	24,000	384,683
Bonds payable	8,763	52,578	61,341
	2,828,574	76,578	2,905,152

Taking into account the Group's financial position, the directors do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors believe that interest-bearing bank and other borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, trade payables, financial liabilities included in other payables and accruals and bonds payable less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The Group's policy is to keep the gearing ratio at a reasonable level. The gearing ratios at the end of the years are as follows:

	31 December 2019 ***RMB'000***	**1 January 2019** ***RMB'000***	31 December 2018 *RMB'000*
Trade payables	**815,697**	**2,256,864**	2,256,864
Other payables and accruals	**340,019**	**202,264**	202,264
Interest-bearing bank and other borrowings *(note 23)*	**1,050,922**	**412,209**	384,683
Bonds payable	**8,959**	**61,341**	61,341
Less: Cash and cash equivalents	**(101,054)**	**(277,437)**	(277,437)
Net debt	**2,114,543**	**2,655,241**	2,627,715
Equity attributable to owners of the parent	**614,444**	**545,101**	545,101
Capital and net debt	**2,728,987**	**3,200,342**	3,172,816
Gearing ratio	**77%**	**83%**	83%

37. TRANSFERS OF FINANCIAL ASSETS

(a) Transferred financial assets that are not derecognised in their entity

As part of its normal business, the Group entered into trade receivable factoring arrangements and transferred certain trade receivables to banks for cash. In the opinion of the directors, the Group retained substantially all risks and rewards of the transferred trade receivables, and accordingly, it continued to recognise the full carrying amounts of the transferred trade receivables and the associated liabilities which were the collateralised bank advances. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties.

As at 31 December 2019, the amounts of pledged trade receivables and the collateralised bank advances were nil (2018: RMB48,040,000) and nil (2018: RMB35,000,000) *(note 23)*, respectively.

At 31 December 2019, the Group discounted certain bills receivable to banks in exchange for cash (the "Discounted Bills") with a carrying amounts of RMB1,272,222,000 (2018: RMB220,681,000). In the opinion of the directors, the Group had retained the substantial risks and rewards, which include default risks relating to such Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills and the associated interest-bearing bank borrowings.

(b) Transferred financial assets that are derecognised in their entity

The Group had endorsed certain bills receivable accepted by banks amounting to RMB57,869,766 to certain of its suppliers (the "Derecognised Bills"). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of resource against the Group if the PRC banks default (the "Continuing involvement"). In the opinion of the directors, the Group had transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it had derecognised the full carrying amounts of the Derecognised Bills and associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the year ended 31 December 2019, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing involvement, both during the year or cumulatively.

38. EVENTS AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus (COVID-19) continues to spread throughout China and to countries across the world. The COVID-19 has certain impact on the business operations of the Group. The Group has taken prompt preventive and protective measures to mitigate the adverse impact of the outbreak on its business. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019 **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**268,749**	264,900
Total non-current assets	**268,749**	264,900
CURRENT ASSETS		
Cash and cash equivalents	**7,846**	563
Prepayments and other receivables	**133,180**	122,827
Total current assets	**141,026**	123,390
CURRENT LIABILITIES		
Other payables and accruals	**148,662**	98,617
Bonds payable	**8,959**	–
Total current liabilities	**157,621**	98,617
NET CURRENT ASSETS	**(16,595)**	24,773
TOTAL ASSETS LESS CURRENT LIABILITIES	**252,154**	289,673
NON-CURRENT LIABILITIES		
Bonds payable	**–**	61,341
Total non-current liabilities	**–**	61,341
Net assets	**252,154**	228,332
EQUITY		
Share capital	**172,118**	169,768
Reserves *(Note)*	**80,036**	58,564
	252,154	228,332

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Shares held for the Share Award Scheme RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total equity RMB'000
At 1 January 2018	55,936	202,357	15,009	5,515	(4,534)	(185,786)	3,560	92,057
Loss for the year	–	–	–	–	–	(7,102)	–	(7,102)
Exchange differences on translation of financial statements	–	–	–	–	–	–	6,680	6,680
Loss and total comprehensive loss for the year	–	–	–	–	–	(7,102)	6,680	(422)
Repurchase of shares under the Share Award Scheme	–	–	–	–	(1,518)	–	–	(1,518)
Share Award Scheme arrangements	–	–	–	457	–	–	–	457
Vesting shares under the Share Award Scheme	(80)	–	–	(5,972)	6,052	–	–	–
Equity-settled share option arrangements	–	–	950	–	–	–	–	950
Share options exercised	2,144	–	(658)	–	–	–	–	1,486
2017 final dividend declared	–	(34,446)	–	–	–	–	–	(34,446)
At 31 December 2018	58,000	167,911	15,301	–	–	(192,888)	10,240	58,564

	Share premium account ***RMB'000***	**Contributed surplus** ***RMB'000***	**Share option reserve** ***RMB'000***	**Accumulated losses** ***RMB'000***	**Exchange fluctuation reserve** ***RMB'000***	**Total equity** ***RMB'000***
At 1 January 2019	**58,000**	**167,911**	**15,301**	**(192,888)**	**10,240**	**58,564**
Profit for the year	**–**	**–**	**–**	**2,894**	**–**	**2,894**
Exchange differences on translation of financial statements	**–**	**–**	**–**	**–**	**3,851**	**3,851**
Total comprehensive income for the year	**–**	**–**	**–**	**2,894**	**3,851**	**6,745**
Equity-settled share option arrangements	**–**	**–**	**(315)**	**–**	**–**	**(315)**
Share options exercised	**21,331**	**–**	**(6,289)**	**–**	**–**	**15,042**
At 31 December 2019	**79,331**	**167,911**	**8,697**	**(189,994)**	**14,091**	**80,036**

The Company's contributed surplus represents the cancellation of the amount standing to the credit of the share premium and transferred to the contributed surplus account with effect from the resolution approved at the annual general meeting held on 22 June 2017. Pursuant to Bermuda company law, a company may make distributions to its members out of the contributed surplus in certain circumstances. Adjustments were made standing to the debit of the share premium account each time when the Company declared dividend since then.

The share option reserve comprise the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related share options are vested and exercised.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2020.

FIVE YEAR FINANCIAL SUMMARY

A summary of the audited results, assets and liabilities of the Group for the last five years ended 31 December 2019 is set out as below:

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**5,455,790**	5,280,861	3,464,573	3,678,153	2,242,822
Cost of sales	**(5,269,211)**	(5,032,604)	(3,184,754)	(3,472,630)	(2,103,219)
Gross profit	**186,579**	248,257	279,819	205,523	139,603
Other income and gains	**40,867**	44,515	49,340	51,971	31,348
Selling and distribution expenses	**(29,175)**	(27,226)	(42,147)	(36,267)	(32,668)
Administrative expenses	**(85,107)**	(97,152)	(115,194)	(73,907)	(51,525)
Listing expense	**–**	–	–	–	(142,151)
Other expenses	**(8,824)**	(12,325)	(8,934)	(4,596)	(302)
Finance costs	**(33,607)**	(18,100)	(31,321)	(20,239)	(7,851)
PROFIT/(LOSS) BEFORE TAX	**70,733**	137,969	131,563	122,485	(63,546)
Tax	**(23,257)**	(36,081)	(20,435)	(31,375)	(5,990)
PROFIT/(LOSS) FOR THE YEAR	**47,476**	101,888	111,128	91,110	(69,536)
Attributable to					
Owners of the parent	**52,448**	81,782	115,734	91,110	(69,536)
Non-controlling interests	**(4,972)**	20,106	(4,606)	–	–
	47,476	101,888	111,128	91,110	(69,536)

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**3,203,597**	3,813,006	2,459,686	2,120,962	1,334,090
TOTAL LIABILITIES	**(2,458,894)**	(3,132,670)	(1,846,280)	(1,752,834)	(1,229,151)
Non-controlling interest	**(130,259)**	(135,235)	(115,104)	–	–
Equity attributable to owners of the parent	**614,444**	545,101	498,302	368,128	104,939