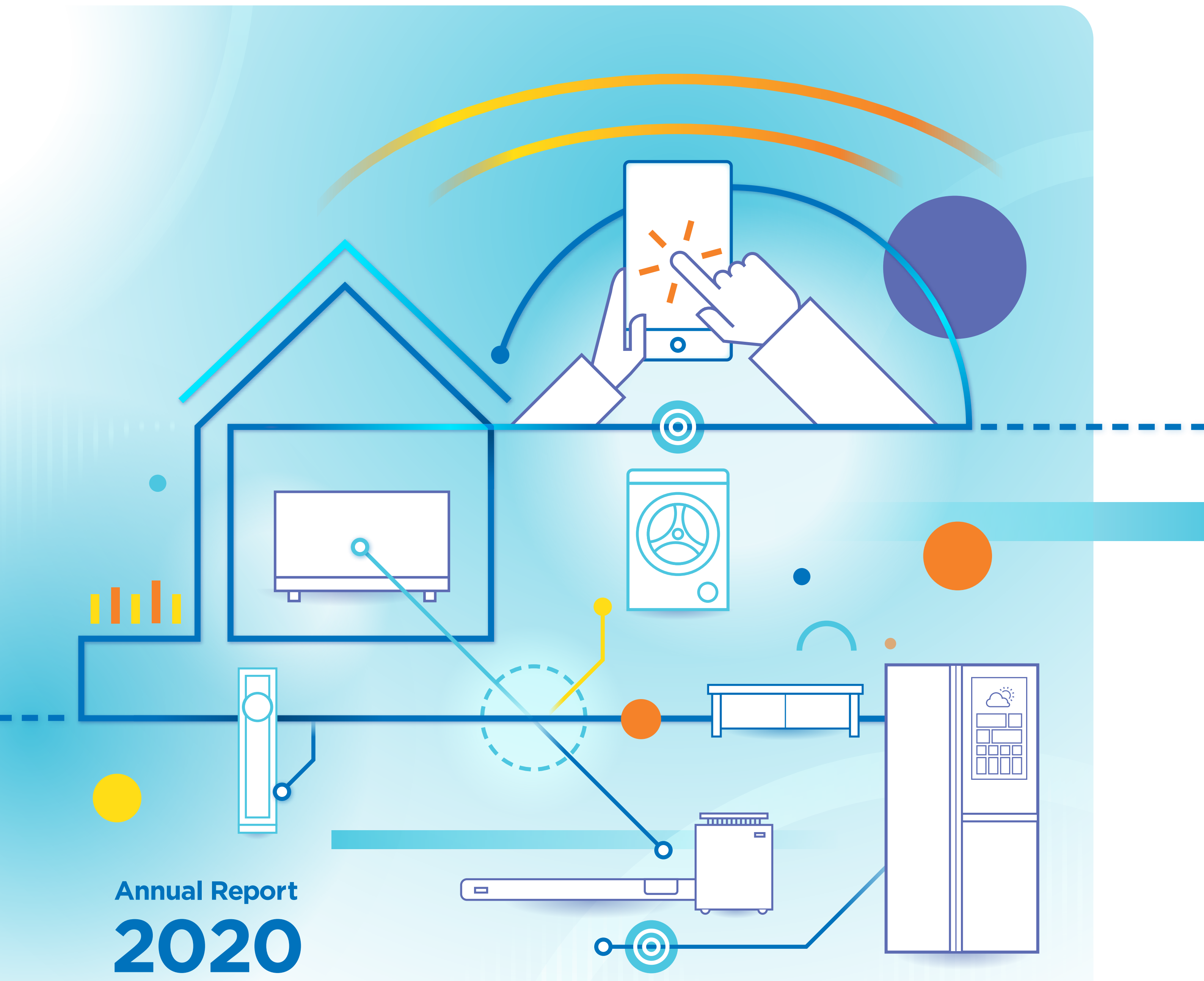
SKYWORTH

創維集團有限公司
SKYWORTH GROUP LIMITED

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

(Incorporated in Bermuda with limited liability)

Stock Code : 00751.HK



Annual Report

2020

SKYWORTH 創維

Contents

Financial Highlights

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

	For the year ended 31 December 2020	For the year ended 31 December 2019	Change
OPERATING RESULTS			
Revenue	**40,093**	37,277	+7.6%
EBIT	**2,620**	2,037	+28.6%
EBITDA	**3,264**	2,907	+12.3%
Net Profit for the year	**1,835**	1,031	+78.0%
Profit attributable to owners of the Company	**1,440**	747	+92.8%
FINANCIAL POSITION			
Net cash from operating activities	**3,137**	898	+249.3%
Cash position*	**9,841**	6,102	+61.3%
Borrowings	**11,387**	8,177	+39.3%
Convertible bonds (inclusive of interest)	**917**	927	–1.1%
Corporate bonds (inclusive of interest)	**920**	2,029	–54.7%
Equity attributable to owners of the Company	**16,310**	15,992	+2.0%
Working capital****	**11,401**	7,388	+54.3%
Bills receivables	**4,489**	4,835	–7.2%
Trade receivables	**9,162**	9,430	–2.8%
Inventories	**6,004**	4,909	+22.3%
KEY RATIOS			
Gross profit margin (%)	**17.9**	20.1	–2.2pp
EBIT margin (%)	**6.5**	5.5	+1.0pp
EBITDA margin (%)	**8.1**	7.8	+0.3pp
Profit margin (%)	**4.6**	2.8	+1.8pp
ROE (%)	**8.9**	4.7	+4.2pp
Debt to equity (%)**	**69.6**	61.4	+8.2pp
Current ratio (times)	**1.4**	1.3	+7.7%
Trade receivables turnover period (days)***	**127**	150	–15.3%
Inventories turnover period (days) ***	**64**	72	–11.1%
DATA PER SHARE (CENTS)			
Earnings per Share – Basic (RMB)	**49.23**	24.61	+100.0%
Earnings per Share – Diluted (RMB)	**44.46**	24.52	+81.3%
Dividend per Share (HK$)	**–**	–	–
Book value per Share (RMB)	**711.81**	592.71	+20.1%
SHARE INFORMATION AT FINANCIAL YEAR END			
Skyworth Group Limited (shares are listed in Hong Kong, stock code: 00751)			
Number of Shares in issue (million)	**2,668**	3,061	–12.8%
Market capitalisation (HK$)	**5,763**	6,887	–16.3%
Skyworth Digital Co., Limited (shares are listed in Shenzhen, stock code: 000810)			
Number of shares in issue (million)	**1,063**	1,058	+0.5%
Market capitalisation (RMB)	**8,496**	12,685	–33.0%

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

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

*** *Calculation based on average inventory; average sum of bills receivables and trade receivables at amortised cost and at FVTOCI*

**** *Excluding assets and liabilities associated with assets classified as held for sale*

CHAIRMAN'S STATEMENT

Chairman's Statement

SEIZE THE OPPORTUNITY AND TAKE A PROACTIVE APPROACH TO DEVELOPMENT

In the past year of accelerated development, the Group proactively explored its business ideas, developed innovative development model and promoted the implementation of its development strategy of upgrading through transformation. Throughout the year, the Group maintained its strategic focus and strived to overcome the impact of the COVID-19 pandemic; the Group insisted on boosting development through investment, innovation and reform and vigorously promoted the implementation of major projects and important measures. Thanks to all this, the revenue and net profit both recorded growth, marking the best composite economic results in the history of Skyworth.

I. THE HIGHLIGHTS OF THE GROUP'S MAIN WORK ARE:

(I) Define a clear path for technological upgrading and promote technological progress

In the past year, the Board of the Group established a technical upgrade path of "5G+AI+Terminal", which was to promote industrial upgrading and technical progress through the application of 5G, AI and next generation terminal technologies and devoting more efforts to our research and development ("R&D") system, thus vigorously promoting our transformation and development from manufacturing sector to modern services sector, from hardware sector to software sector, and from terminal products to intelligent systems. During the past year, the Group passed the acceptance inspection of 17 technical projects at provincial and municipal levels and filed a total of 9,680 patent applications. We have obtained approval for the Key Laboratory for 5G+8K Ultra-high-definition Video Display Technology in Guangdong Province. The TV remote voice interaction and OLED image processing technologies of Skyworth were awarded the Scientific & Technological Progress Awards of Shenzhen City and Guangdong Province.

1. in terms of R&D of product technology, the progress of TV picture technologies, smart technologies and sound quality technologies was accelerated. New products such as MiniLED TV and 5G+8K TV were developed and introduced and the R&D of the application of CSO technology to OBM modules was completed; meanwhile, the establishment of cloud platform for smart systems technology and the R&D of automobile display system technology was actively promoted; the R&D of the 6th generation i-DD technology and the next generation BLDC motor were completed; new Coocaa System was successfully upgraded and launched online.

2. in terms of R&D smart systems technology, the Group was devoted to the R&D of smart control technology with a center on "human habitat". The Group successfully developed smart control technology products such as CHMS-23 and CHMS-5 series, completed the construction of four smart human habitat experience centers, issued the smart interaction protocol for the home appliance products of Skyworth and completed the unified design of the entire home appliance portfolio of Skyworth. In August 2020, the smart human habitat control system of Skyworth was listed by Shenzhen City as one of the top 10 major demonstration projects in 5G application, and praised by the state leaders at the achievement exhibition for celebrating the 40th anniversary of the establishment of the Shenzhen Special Economic Zone, which have laid a foundation for Skyworth to enter into a new sector.

3. in terms of engineering construction of intelligent manufacturing, the planning of smart plant in a new base in Guangzhou and the construction of smart production lines in the base in Inner Mongolia were completed; the EF lines and new lines for rollers of washing machines in the refrigerator factory were put into production; the upgrading and optimisation of key equipment used in self-developed smart production lines was completed; the construction of production lines in a new base in Chuzhou was completed. The construction of the production lines above has greatly boosted the advance of the Group's intelligent manufacturing technologies.

(II) Target market demand and accelerate the pace of development and launch of new products

In the past year, the Board of the Group paid high attention to the management and implementation of the key research projects for the year and issued the Administrative Measures of Skyworth Group on the Management of Key Research Projects to strengthen daily tracking management and annual appraisal. During the past year, a total of 17 key research projects have been approved by the Group with an investment in R&D of RMB1.86 billion. The output rate of new products reached 32.3%. New TV products such as ultra-high definition Q71 series TV, AI entertainment G71 series TV and 4K monitor were launched into the market and the R&D of Mini-LED TV was successfully completed; new products such as wifi-6 router, 10GPON smart gateway, (5G+8K) VR all-in-one machine, the next generation smart inverter washing machine, smart inverter refrigerator and American-style refrigerator were successfully introduced; in particular, the "Fight against Epidemic" channel was launched on the Coocaa system, which aggregated first-hand information on the epidemic and accurate scientific knowledge on epidemic prevention, providing users with timely and multi-dimensional access to official and authoritative information; in response to the call of the Ministry of Education to "suspend classes without stopping learning", the Education Channel opened up free education VIP privileges to nearly 50 million users, achieving a very positive response from the society.

(III) Accelerate the implementation of planning and promote the construction of the three key bases

In the past year, the Board of the Group proactively promoted the implementation of the development plan of the construction company. As for the industrial bases in the Yangtze River Delta, the construction of the air conditioner industrial park in Chuzhou with an area of 270,000 sq.m. has been completed and the relocation of new production lines was finished with 13 new products rolling off the production line. As for the industrial bases in the Pearl River Delta, the foundation project of the first phase of new TV industrial park in Guangzhou has been completed and the second floor of the main factory building has commenced construction; the projects in Longgang and Qianhai, Shenzhen has fulfilled phased tasks on schedule. We have completed the construction of the new industrial park project in Hohhot, Inner Mongolia and put it into production; the planning formulation of Skyworth Industrial Park in Chengdu has been completed. In a word, during the past year, the construction of the three key bases of the Group has been carried out smoothly as planned.

(IV) Step up efforts in capital operation and complete the mergers and acquisitions of enterprises such as Tianjin Yitong as planned

In the past year, the Group accelerated mergers, acquisitions and restructuring. It has completed the investment in Tianjin Yitong Pumps Company (天津溢通泵業公司); the transfers of the equity interests in the Southern Headquarters project and the flat panel display company in Guangzhou have been completed; we have established a specific working group to repurchase 393 million shares of Skyworth Group (HK.00751); we proactively promoted the IPO of Shenzhen Coocaa and the restructuring of Ansida and Shencai (including the professional restructuring of the Group's macro-logistics services). During the past year, the Group also approved the establishment of two venture capital funds by the venture capital company.

(V) Actively expand into overseas markets to achieve growth in export against the trend

In the past year, the Group vigorously promoted its strategy of internationalisation, strengthened the operation of its own brands and developed OEM business. Revenue recorded in overseas markets increased by 37.7% despite adverse environments. The product deliveries of the TV factories in India and Indonesia hit a record high, contributing to the increase of over 26% in the overseas operations of the TV company as compared to the year ended 31 December 2019 (the "Previous Year"). The preparation and construction of the industrial base in India was sped up, successfully won the bid for the project of Android TV boxes from Deutsche Telekom AG and TV operators in Europe, and topped the global list of players in terms of set-top box sales. The smart appliances segment accelerated the development of OEM and ODM business as a result of increasing overseas operations and was listed as one of the Top 10 Washing Machine Exporters in China during the "13th Five-Year Plan" period.

(VI) Strengthen procurement and supply chain management and promote the integrated development of trade + finance business

In the past year, the Group continued to strengthen its supply chain management and actively promoted strategic cooperation with major suppliers, thereby enhancing the Group’s bargaining power and resulting in significant savings in procurement costs.

In conclusion, in the past year, the Group maintained a strong commitment to its strategy of upgrading through transformation, strived to achieve its operation targets for the year, gave priority to develop the manufacturing sector and promoted the coordinated development of modern services sector, explored new growth opportunities and stick to the implementation of measures on expense control and cost reduction. With the joint efforts across the Group, Skyworth Group was also awarded the honorary titles, including "Advanced Entity in Shenzhen City", "Outstanding Private Enterprise in the Combat Against the COVID-19 Pandemic in Guangdong Province" and "Model Non-public Enterprise in Party Committee and Party Building in Guangdong Province", achieving fruitful results in enterprise development and spiritual civilisation construction.

II. CHANGES IN THE SITUATION AND INDUSTRY FORECAST IN 2021

The international political and economic situation has undergone new changes due to the new U.S. administration in office. Firstly, the tension of the trade war and the technology war continues to develop, hindering the development of high-tech enterprises in China. Secondly, China has accelerated the completion of RCEP and the signing of the China-EU Comprehensive Agreement on Investment, broadening new room for the survival and development of China’s enterprises. Thirdly, a new round of global monetary easing policy has not only resulted a tremendous fluctuation of the exchange rate but also a serious impact on the product export of enterprises in China during the post-pandemic era. On the positive side, 2021 is the opening year of China’s 14th Five-Year Plan, the year of full implementation of the double-cycle development strategy and the active promotion of rural revitalisation. With the improvement of rural infrastructure and income levels, there is an ample room for development for home appliance enterprises in the rural market. Looking ahead to 2021, the home appliances industry faces a new trend of development:

1. It is expected that there is great unrealised potential in the domestic urban high-end home appliances market and the rural home appliances market.

2. During the post-pandemic era, there are still opportunities for growth in the overseas home appliances market due to the use of the advanced technology by the domestic appliances industry and the improvement in product quality.

3. As a result of the rise in raw material prices, upward adjustment is expected to be made regarding the end price, but the gross profit of the products will be further compromised.

4. Affected by the fluctuation of the RMB exchange rate, profitability of the export products of enterprises is expected to be uncertain, which will the place export business under further pressure.

III. OPERATIONAL TARGETS AND PRIORITIES IN 2021

(I) Working Mindset

The Board of the Group proposed that it is the "Year of Efficiency Improvement" in 2021. The headquarters and all subsidiaries of the Group will accurately capture the changes in the current situation, focus closely on the strategic goal of transformation and upgrade, continue to promote the implementation of the three strategies covering intelligence, internationalisation and refinement, focus on innovation, reform, investment, development and other key areas of work by implementing precise strategy and taking proactive actions, accelerate the promotion of synergistic development from manufacturing to modern services, from hardware to software and from terminal business to smart systems business in an attempt to improve corporate operation efficiency and fully achieve the goals of the Skyworth Group in 2021.

(II) Work focus

1. *Keep abreast with the advanced technology application and R&D to promote transformation of Skyworth*

In 2021, each industry company will capture the new business opportunity of traditional home appliances empowered by the advanced technology and facilitate the enterprise technology upgrade, product replacement, industry transformation on the basis of the "5G+AI+Terminal" technology development strategy established by the Group through investing limited funds in R&D of new technologies with broad application potential. The launch of the mobile version of smart control system technology will be accelerated. The Group will continue to keep abreast of the development of image quality technology, and put an emphasis on the development of Mini-LED TV and 5G TV technology. The launch of the next generation Coocaa system will be sped up to win more end-users. The Group will focus on the R&D of automotive central control system technology to expand new growth areas. It will continue to promote I-DD technology application and the R&D of key technology for new generation of smart power modules for air conditioners, etc. The Group will facilitate the integrated development of Skyworth for its entire home appliances manufacturing and service industries.

2. *Focus on the R&D of new products and strive to enhance the market competitiveness of enterprises*

Under the guidance of the "5G+AI+Terminal" technology development strategy established by the Group, each enterprise shall fully leverage new technologies, new processes, new materials, new structures and new body designs with the aim of realising new functions, new costs, new experiences and new values of products, thereby enhancing the market competitiveness of enterprises.

(1) Put an effort on the project development of new products. With enterprises' existing conditions and capabilities, we will keep an eye on customer needs to optimise new product offerings.

(2) Choose a good product manager. For a company to succeed in developing good products, it is important to have an excellent product manager in addition to a team of technical personnel. An excellent product manager acts as a team coach, and is the key factor for winning the play.

(3) To ensure the allocation of necessary human, financial and material resources.

(4) To be in line with the laws of new product R&D, develop a new product management system, prepare a R&D plan, focus on tracking management, commence strict performance assessment and achieve the assessment results.

3. Devote considerable effort to marketing, stabilise domestic sales and achieve a breakthrough in the overseas markets

As we enter 2021, most people now believe that countries with better control of the epidemic, such as China, will be the first to enter the post-epidemic era, but not in the West, where the COVID-19 epidemic cannot be controlled in a short period of time, which will pose a major marketing challenge for enterprises. Therefore, we must be proactive in identifying business opportunities by accurately grasping the changing situation.

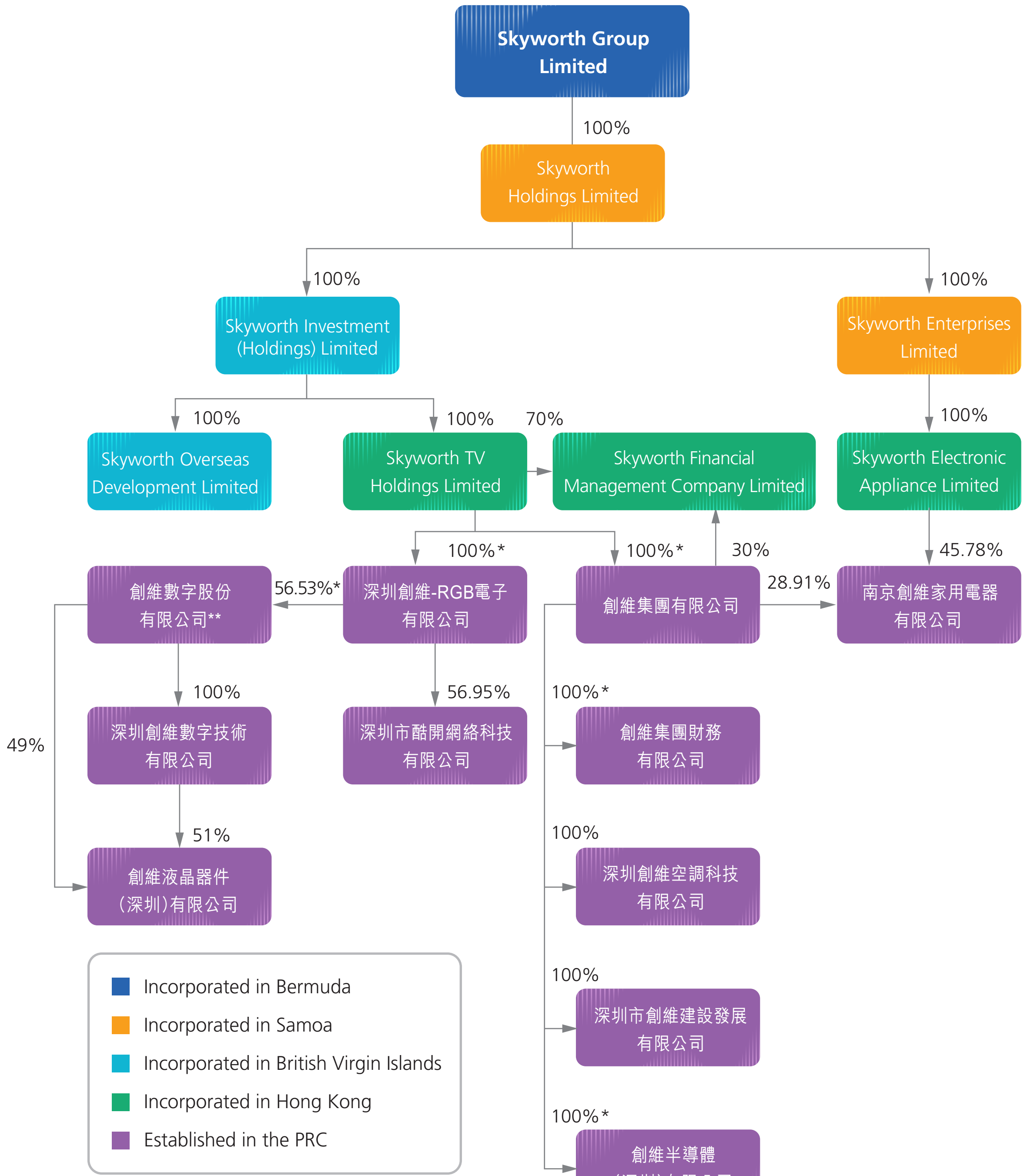
(1) Devote efforts to domestic marketing. Firstly, we will boldly push forward the reform of the domestic marketing system in accordance with the principle of matching revenue and costs by making full use of the advantages of substantial improvement in existing domestic transportation and communications facilities, and step up efforts to restructure, downsize, streamline, reduce costs, increase efficiency and provide incentives under the domestic market environment featured with new changes and new trends. Secondly, we will capture the development opportunities arising from the promotion of the double economic cycle and rural revitalization in China, and continue to focus on the agency channel construction in counties and towns and strengthen the construction of full category specialty stores in towns. Thirdly, we will accurately study the urban consumption upgrade trends so as to launch new "high-end, customised" products as and when appropriate to meet the demand of the urban high-end customers. Fourthly, we will accelerate industrial transformation to develop new markets and cultivate new areas for growth.

(2) Devote efforts to overseas marketing. Firstly, we will capture business opportunities arising from poor supply chain, underemployment and supply difficulties of overseas enterprises as a result of the outbreak of the COVID-19 epidemic, and actively expand exports. Secondly, we will fully leverage supply chain advantages of Skyworth to seize overseas OEM business. Thirdly, in response to the changes of the epidemic, we will primarily promote the construction of three overseas bases in India, ASEAN and Africa, consolidate other overseas marketing resources and expand overseas business in an active manner.

4. Concentrate on the construction of industrial parks, and facilitate the industrial structure and asset structure adjustment of the Group

The complex and ever-changing world situation at present have made the risks of business operation doubled. Under the unprecedented circumstances, we must keep vigilant and be determined to devote ourselves to the development of Skyworth's business.

Simplified Corporate Structure

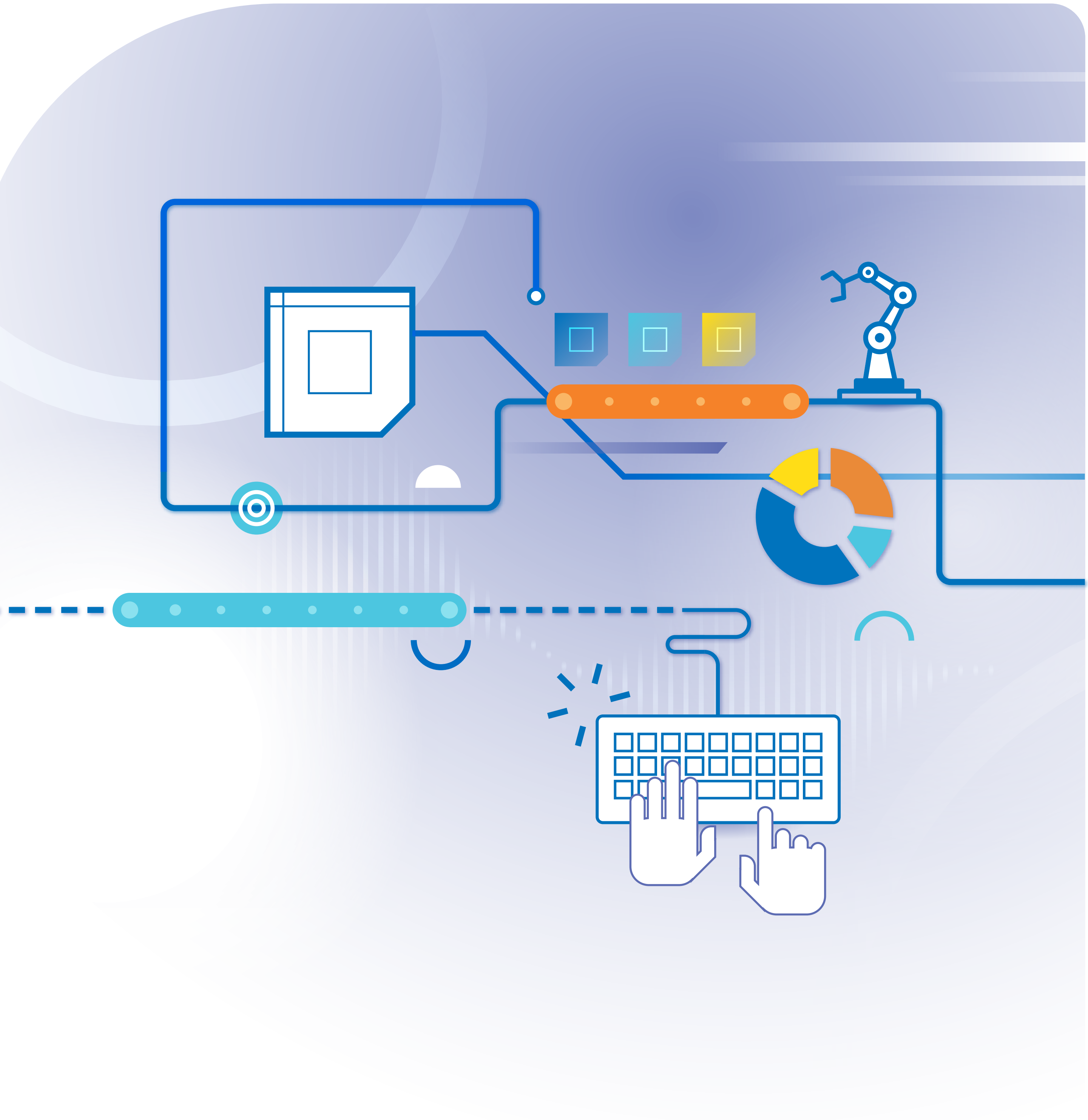


As at 31 December 2020

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

** *Shares are listed on Shenzhen Stock Exchange, stock code: 000810.*
The effective interest held by the Company included 0.01% equity interest held under treasury shares of a subsidiary of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS PERFORMANCE REVIEW

Revenue

For the year ended 31 December 2020 (the "Reporting Year"), the Group's overall revenue amounted to RMB40,093 million, compared with an overall revenue of RMB37,277 million for the Previous Year.

During the Reporting Year, COVID-19 has swept across the world while Sino-US trade friction and technology war continue to escalate, resulting in a severe recession in the world economy. However, China, as a pioneer, achieved a signal victory in the fight against COVID-19, and successfully completed the signing of comprehensive investment and trade agreements with ASEAN and EU, eventually achieving a positive economic growth in 2020 and pointing out a right path towards the full recovery of the world economy. In view of the increasingly fierce competition among brands, by adhering to its development philosophy of being a "technological leader" and developing "health-focused technologies", as well as remaining focused on the improvement of consumer experience and product competitiveness, Skyworth has taken the opportunity of consumption transformation and upgrading in the TV industry to build sustainable competitiveness geared for future success. In 2020, while revising the five-year development plan on a continuous basis, Skyworth Group further consolidated collaboration of its internal businesses, clarified corporate development direction, strengthened corporate development determination, made every efforts to overcome the impact of COVID-19 and standardised corporate development behaviors. It adhered to professional development and accelerated corporate reform and transformation, which contributed to an increase in overall revenue and net profit and a steady improvement in group-wide efficiency.

For its smart TV systems business, Skyworth determined to develop its four major businesses, i.e. domestic household business, domestic commercial business, OEM business, overseas OEM/brand business, and leveraged on its advantages as an early mover in the OLED TV market to further strengthen and increase its market share through the introduction of products offering greater value. During the Reporting Year, the Group has successfully overcome the impact of COVID-19 by exploring business ideas, innovating its development model, and promoting the implementation of its transformation and upgrading development strategy, the Group's overall revenue reached RMB40,093 million, representing an increase of 7.6% compared with the Previous Year. However, as affected by COVID-19, the raw material prices for home appliance enterprises around the world generally rise, causing a decline in corporate profit margins. Thus, the gross profit margin fell by 2.2 percentage points from the Previous Year to 17.9% during the Reporting Year.

For the years ended 31 December 2020 and 2019, the Group's smart TV systems sales volumes by market are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019	**Year ended 31 December 2020 vs Year ended 31 December 2019**
	Unit ('000)	Unit ('000)	**Increase/ (decrease)**
PRC Market	**7,597**	9,031	(15.9%)
Overseas Markets	**9,451**	6,775	39.5%
Total smart TV systems sales volume	**17,048**	15,806	7.9%

(a) Business Review by Geographical Segment

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

Mainland China Market

For the year ended 31 December 2020, revenue from the mainland China market amounted to RMB24,583 million, representing a decrease of RMB1,423 million or 5.5% compared with RMB26,006 million for the Previous Year.

During the Reporting Year, the Group's multimedia business, smart systems technology business and smart appliances business each accounted for 59.1% (the Previous Year: 59.2%), 21.1% (the Previous Year: 21.9%) and 11.7% (the Previous Year: 11.8%) of its revenue from the mainland China market, while modern services business and other operations attributed the remaining 8.1% (the Previous Year: 7.1%).

Overseas Markets

For the year ended 31 December 2020, revenue from overseas markets amounted to RMB15,510 million, equivalent to 38.7% of the Group's overall revenue, representing an increase of RMB4,239 million or 37.6% compared with RMB11,271 million recorded in the Previous Year. The Group optimised its sales channels in overseas markets to reduce the negative impact of COVID-19, resulting in a considerable growth in revenue overseas during the Reporting Year.

Geographical distribution of revenue in overseas markets

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

	Year ended 31 December	
	2020	2019
	(%)	(%)
Asia (excluding Middle East)	**61**	54
Europe	**12**	15
Middle East	**9**	12
Africa	**8**	12
America	**9**	6
Oceania	**1**	1
	100	100

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

(b) Business Review by Business Sectors

The Group has announced its overall strategic direction for upgrading through reformation for five years (also known as the "1334 Strategy"), covering four key business sectors, including: 1. Multimedia Business, 2. Smart Systems Technology Business, 3. Smart Appliances Business, 4. Modern Services Business.

1. *Multimedia business*

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

For the year ended 31 December 2020, the Group's multimedia business recorded revenue of RMB24,571 million, representing an increase of RMB3,066 million or 14.3% compared with RMB21,505 million recorded in the Previous Year.

1.1 Smart TV Systems Products (PRC Market)

For the year ended 31 December 2020, the Group's smart TV systems products recorded revenue of RMB12,223 million in the mainland China market, representing a decrease of RMB1,425 million or 10.4% compared with RMB13,648 million recorded in the Previous Year.

During the Reporting Year, as the PRC grew more mature for deploying the next generation of technologies (such as 5G, AI, 8K and VR), the TV industry was preparing for opportunities to be presented by another round of consumption upgrading. The Group aims to build sustainable competitiveness geared for future success through its long-standing commitment to improving consumer experience and product strengths. Relevant significant measures included that the Group launched the industry's first mobile public screen, the Swaiot PANEL mobile smart screen, and the official website of Swaiot ECO, and made considerable progress in the Swaiot ecosystem. In particular, Swaiot PANEL has changed the traditional TV viewing experience in terms of mobile internet, interactive experience and ecological scene application customisation, and realised the intelligent empowerment of ecological equipment in the whole house. It uses the family public screen to control all the smart appliances in the house, to provide users with a visual interface to better improve control convenience and form of content presentation. In addition, leveraging on the industrial advantages of backlight and display technology of the Group's MiniLED products, the Group has built an important foundation for its first layout. The successive participation of various brands would accelerate the rapid expansion of MiniLED market. As a leading technology brand in the industry, the Group has taken the lead in seizing the high-end LCD market by pre-emptive layout of MiniLED product array. Meanwhile, leveraging on its service and experience, as well as the differentiation advantages of product's shape, picture quality and eye-protection function, the Group, as one of the earliest participants in China's OLED TV market, will continue to strengthen the promotion of OLED TV products. According to the statistics from All View Cloud (AVC) on OLED TV market retail volume from January to December 2020, the Group's market share was 42.5%, representing an increase of 2.9 percentage points compared with the Previous Year and its leading position in the OLED TV market was further consolidated.

During the Reporting Year, as affected by COVID-19, the Group's sales volume in the mainland China market decreased by 15.9% compared with the Previous Year. As a response to the impact of COVID-19 and fierce market competition, the Group will make corresponding changes to its sales strategy and adjust the unit rates to increase its market share.

1.2 Smart TV Systems Products (Overseas Markets)

For the year ended 31 December 2020, the Group's smart TV systems products recorded revenue of RMB8,302 million in overseas markets, representing an increase of RMB2,395 million or 40.5% compared with RMB5,907 million recorded in the Previous Year.

During the Reporting Year, under the impact of COVID-19, the overall performance of the international TV market was sluggish and certain countries maintained varying degrees of closed or semi-closed conditions, which put pressure on the growth of overseas business of the Group. However, the Group adopted relatively stable and conservative sales strategies and optimised its customer agents and channels in overseas, vigorously improved product structure, reduced costs while improving the quality of operation through product upgrading. Benefited from the expansion of e-commerce channel, the overall overseas brand business maintained rapid growth in the original area. In the meantime, the Group proactively developed the markets in Southern Europe, Eastern Europe, Western Europe, Russia, Northeast Asia, Central America, and South America to open up new areas. In the first year, the "Skyworth" brand business increased by 15.4% and revenue increased by 23.6%.

Through the model of original design manufacturer ("ODM") and the establishment of overseas sales branches, the Group made substantial investments in promotional and marketing campaigns, which led to its increased popularity and visibility in overseas markets, with ASEAN countries reporting the most pronounced improvement in brand image. In the meantime, the Group proactively communicated with local supply chains and customer agents and overcame the impact of COVID-19 in India to continuously deliver high-quality goods to customers in a stable way, thus winning customer trust; with the help of the latest ANDROID 10.0 Android smart products, the Group successfully entered the sales channels of strategic key accounts in India and Southeast Asia.

1.3 Internet value-added services of Coocaa System

For the year ended 31 December 2020, the Group recorded a significant growth of RMB230 million or 27.8% in revenue from the internet value-added services of Coocaa System, which increased to RMB1,056 million from RMB826 million in the Previous Year.

As the PRC gradually transits from 4G to 5G for its internet and telecommunication technologies, rapid growths will be observed for internet-based online content services. As at 31 December 2020, the accumulated smart terminals of Coocaa System in the PRC market was over 65 million. Our industrial deployment strategy of "hardware + content" is well received by internet-based enterprises: Beijing iQIYI Science & Technology Co., Ltd.* (北京愛奇藝科技有限公司) ("iQIYI"), an affiliate of Tencent Holdings Limited ("Tencent") and an affiliate of Baidu Holdings Limited* (百度控股有限公司) ("Baidu") have all successively invested in Shenzhen Coocaa Network Technology Company Limited* (深圳市酷開網絡科技股份有限公司) ("Shenzhen Coocaa", an indirect non-wholly owned subsidiary of the Company).

As a system support carrier for smart terminals, not only has Shenzhen Coocaa promoted the innovation and convergent of large-screen and home internet businesses, it has also assisted our long-term development in the industry of smart human habitat and made a leap-forward enhancement for our operating efficiency. With a team engaged in scaled large-screen internet technical service, Shenzhen Coocaa leverages on the advantages of Coocaa system, including an independent and flexible technical architecture, reliable and secure connection services, accurate data and algorithms, as well as efficient technical application flexibility. By cooperating with strategic partners, with common developed internet-based products designed around user experience, in-depth exploration of statistical value, as well as precise digital marketing capabilities, Shenzhen Coocaa has won industry recognition and wide approval among customers, especially during the COVID-19 outbreak, when Chinese citizens went out less and their time spent in watching TV at home increased significantly, "otaku economy" drove an explosive growth in revenue from content-based operations. It is our opinion that building on technologies of greater sophistication and reliability, our smart home and smart city businesses will enjoy accelerated development through collaborative projects with strategic partners including internet giants and internet TV service providers.

2. *Smart Systems Technology Business*

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

For the year ended 31 December 2020, revenue recorded for Smart Systems Technology business in the mainland China market amounted to RMB5,181 million, representing a decrease of RMB518 million or 9.1% from RMB5,699 million recorded in the Previous Year. For the year ended 31 December 2020, revenue recorded for Smart Systems Technology business in overseas markets amounted to RMB3,565 million, representing a decrease of RMB334 million or 8.6% from RMB3,899 million recorded in the Previous Year.

During the Reporting Year, as affected by COVID-19, some operator customers delayed their resumption of work, resulting in shrinking demand. The Group kept abreast of the changes in market demand, increased the deployment of 4K set-top boxes, converged smart terminals and products such as PON gateways and home networking, entered the smart broadcasting business by combining with education and VR, and focused on key quality customers in Guangdong and Jiangsu so as to explore the market and increase its market share in key customer regions.

In overseas markets, the Group opened up new premium customers while maintaining its existing market strengths, and further enhanced its broadband connection and IoT business in addition to set-top box products. The Group continued to deliver steady shipments in India, Africa and the Middle East, with significant sales growth in Asia Pacific and further diversification of product mix. It made significant breakthroughs in the European operator market, securing orders from major European operators such as Canal+ Group in France and Deutsche Telekom (DT). The retail business of Strong, a brand of the Group, increased rather than decreased under the stimulation of the "otaku economy" in Europe. The continued breakthrough in the European market will provide new market opportunities for the Company's future overseas business growth.

3. *Smart Appliances Business*

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

Empowered by smart technologies, home appliances have evolved from traditionally separated devices to a smart platform through which Skyworth can interact with consumers. Skyworth will continue to adopt the core vision of "building smart home control centres" for its smart appliances business, which will require a comprehensive deployment of its AIOT ecosystem. In 2020, Skyworth launched its "Free-fresh (自由鮮)" series refrigerators, Level 3 frequency conversion air conditioner (三級變頻空調), DD direct-drive front load washing machine (DD直驅滾筒洗衣機) and top load washing machines with rotary waterfall washing technology (漩瀑波輪洗衣機), all of which were highly recognised by the market and well received by customers. Some of our refrigerator and washing machine products also won several certifications and awards, including the "China Red Star Design Award".

For the year ended 31 December 2020, revenue recorded for smart appliance products in the mainland China market amounted to RMB2,868 million, representing a decrease of RMB209 million or 6.8% compared with RMB3,077 million recorded in the Previous Year. Revenue in overseas markets amounted to RMB1,350 million, representing an increase of RMB132 million or 10.8% compared with RMB1,218 million recorded in the Previous Year.

During the current year, the Group's operating performance of smart appliances business was affected by the pandemic of COVID-19. As the COVID-19 vaccination rolls out, we expect the operating performance of the smart appliance business to improve significantly. We will continue to develop new products with excellent operational capabilities, take care of pipeline operations and achieve large-scale manufacturing in order to continue to grow our business scale.

Looking forward to the future, the more and more mature smart technologies will upgrade and update home appliances, further improve the degree of intelligence of smart appliances including refrigerators, washers, air conditioners, kitchen appliances and other products, and increase the access and application of Skyworth's smart appliance products in the intelligent home ecosystem. Skyworth will insist on building its core competitiveness such as product R&D, pipeline expansion, lean manufacturing and operation management; attach importance to the investment in product R&D for promoting the development of products in the direction of green, energy-saving, intelligent and high-end; focus on the operation and expansion of marketing channels by exploring new business models, creating a symbiosis system and a win-win strategy for enterprises and agents, and strengthening the execution and fighting spirit of business team; and continue to expand production capacity, improve manufacturing efficiency and quality assurance, enhance after-sales service support capabilities, so as to establish a professional, reliable and high-end brand image of Skyworth's smart appliances.

The first phase of the Skyworth Smart Home Appliances Industrial Park (創維智能家電產業園) project has been completed, and the production line of Skyworth's Chuzhou base has been officially put into operation, which have accelerated the progress of the Group's smart manufacturing technology, continuously promoted the I-DD technology upgrade and the new generation of smart air conditioners and other key technology R&D, and brought the Group's smart appliances business to a new level up.

4. *Modern Services Business*

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

For the year ended 31 December 2020, revenue recorded for modern services business in the mainland China market amounted to RMB1,961 million, representing an increase of RMB131 million or 7.2% compared with RMB1,830 million recorded in the Previous Year. Revenue in overseas markets amounted to RMB519 million, representing an increase of RMB497 million or 2,259.1% compared with RMB22 million recorded in the Previous Year.

The Group has determined the development direction of the segments of modern services business, accelerated its upgrading transformation from manufacturing to modern services, and formed dedicated teams for financial services, macro-logistics services, supply chain operation, foreign trading, as well as park-based property management and construction development. We have set clear development plans for each of our business, and a specific development model for the modern services business: the establishment of a financial business platform with financial companies as the main body, supplemented by venture capital funds and small loans, broadened the Group's financing channels; the Group formulated a special plan for the development of macro-logistics service industry to promote the development of supply chain logistics, factory logistics, sales and after-sales logistics, and business integration has been fully launched; branch companies were set up to vigorously develop supply chain business centering on the Group's internal industrial support; the Group completed the professional restructuring of the development and operation business of the science and technology park and made full use of the construction opportunities of the three major bases to drive the development of Skyworth's intelligent human habitat industry, including green buildings, smart control systems and terminals, and a variety of content services; the Group proactively promoted the adjustment of asset structure by virtue of the construction of industrial park and made good use of the existing advantages to shape its modern services business.

By fully utilising the strengthens of its core operations, constantly incorporating innovation into its development model and accelerating new business integration and expansion, the Group has created favourable conditions and settings for future reform and development, which provides strong support for scientific research, investment, production, procurement and construction across the Skyworth Group.

Gross profit margin

For the year ended 31 December 2020, the overall gross profit margin of the Group was 17.9%, representing a decrease of 2.2 percentage points in comparison to 20.1% recorded in the Previous Year.

During the Reporting Year, in order to ensure robust operations across the Group, we continued to refine operations management, adopting multiple integrated methods to increase the gross profit margin of our products and reduce group-wide operating costs. During the year, due to the global outbreak of COVID-19, the prices of upstream materials for TV products such as glass and ICs, etc. continued to increase, with some materials climbing by more than 50%, which lowered the gross profit margin of TV products. Meanwhile, the low pricing of emerging brands also exerted an impact on the TV market, resulting in a decrease in the gross profit margin of TV products. In addition, telecom operators in the PRC focused on the development of 5G base stations and the mobile business, and the television broadcast network in the PRC was also integrating 5G integrated construction. As a result, certain businesses of the Group related to domestic broadcasting and telecom operators that have higher gross profit margin did not record significant growth for the time being. At the same time, due to the change in the centralised procurement policy of customers, the selling price of products decreased, leading to a decrease in gross profit margin. In addition, although the sales volume of products with higher profit margin increased year-on-year, the increase was lower than the overall business scale growth. A decrease in the proportion of sales of products with higher profit margin also contributed to a drop in overall gross profit margin.

Expenses

For the year ended 31 December 2020, the Group's selling and distribution expenses amounted to RMB3,477 million, representing a decrease of RMB280 million or 7.5% compared with RMB3,757 million for the Previous Year. The selling and distribution expenses to revenue ratio for the year ended 31 December 2020 was 8.7%, which decreased by 1.4 percentage points from 10.1% recorded in the Previous Year.

For the year ended 31 December 2020, the Group's general and administrative expenses amounted to RMB1,415 million, representing an increase of RMB401 million or 39.5% compared with RMB1,014 million for the Previous Year. The general and administrative expenses to revenue ratio for the year ended 31 December 2020 was 3.5%, which rose by 0.8 percentage points from 2.7% recorded in the Previous Year.

Since the Group continued to devote enormous resources during the current year to the R&D of premium smart products and the improvement of its corporate competitiveness, a corresponding increase was recorded in R&D expenses. For the year ended 31 December 2020, the Group's R&D expenses amounted to RMB1,865 million, representing an increase of RMB22 million or 1.2% compared with RMB1,843 million for the Previous Year. The R&D expenses to revenue ratio for the year ended 31 December 2020 was 4.7%, which decreased by 0.2 percentage points from 4.9% recorded in the Previous Year.

LIQUIDITY, FINANCIAL RESOURCES AND CASH FLOW MANAGEMENT

The Group adopts a prudent financial policy to maintain stable financial conditions. As at 31 December 2020, net current assets amounted to RMB11,517 million, representing an increase of RMB4,129 million or 55.9% when compared with RMB7,388 million as at 31 December 2019. As at 31 December 2020, bank balances and cash amounted to RMB8,214 million, representing an increase of RMB3,408 million or 70.9% when compared with RMB4,806 million as at 31 December 2019. As at 31 December 2020, pledged bank deposits amounted to RMB1,309 million, representing an increase of RMB424 million or 47.9% when compared with RMB885 million as at 31 December 2019. As at 31 December 2020, restricted bank deposits amounted to RMB318 million, representing a decrease of RMB93 million or 22.6% when compared with RMB411 million as at 31 December 2019.

The Group secured certain assets against its certain trade facilities and loans granted from various banks. As at 31 December 2020, such secured assets included bank deposits of RMB1,309 million (as at 31 December 2019: RMB885 million), trade receivables of RMB17 million (as at 31 December 2019: RMB19 million), bills receivables of RMB720 million (as at 31 December 2019: RMB686 million), investment properties of RMB1,263 million (as at 31 December 2019: nil), as well as certain prepaid lease payments on land use rights, lands and properties in mainland China and Hong Kong, with an aggregate net book value of RMB2,531 million (as at 31 December 2019: RMB404 million).

As at 31 December 2020, total bank loans amounted to RMB11,387 million (as at 31 December 2019: RMB8,177 million), corporate bonds (inclusive of interest) amounted to RMB920 million (as at 31 December 2019: RMB2,029 million) and convertible bonds (inclusive of interest) amounted to RMB917 million (as at 31 December 2019: RMB927 million). Overall interest-bearing liabilities of the Group were RMB13,224 million (as at 31 December 2019: RMB11,133 million), equity attributable to owners of the Company amounted to RMB16,310 million (as at 31 December 2019: RMB15,992 million). The debt to equity ratio revealed as 69.6% (as at 31 December 2019: 61.4%).

TREASURY POLICY

The Group's major investments and revenue streams are derived from mainland China. The Group's assets and liabilities are mainly denominated in RMB, others are denominated in Hong Kong dollars, US dollars and Euros. The Group uses general trade financing to fulfil the needs in operating cash flow. In order to reduce finance costs, the Group exploits the currency-based and income-based financial management tools introduced by banks to offset such costs. The management of the Group regularly reviews changes in foreign exchange rates and its interest rate exposures, in order to determine the need for foreign exchange hedging. However, a number of uncertainties, such as the shock of COVID-19, the sustained international tension, the US-China trade friction, the UK's exit from the EU and unstable interest-rate trend in the US, have added to the difficulty in predicting future changes in exchange rates. For the year ended 31 December 2020, the Group recorded a net exchange gain of RMB73 million (year ended 31 December 2019: gain of RMB59 million) associated with general operation.

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

(a) Unlisted equity securities

As at 31 December 2020, the Group held investments in 46 unlisted companies. The total value (at fair value) of these investments (net of changes in fair value and costs) was RMB2,224 million, of which RMB1,085 million represented 10% equity interest held by the Group in a PRC investee company. This investee company is principally engaged in manufacture and sale of flat screen displays, display materials, LCD-related products and other electronic accessories.

(b) Listed equity securities

As of 31 December 2020, the Group held investments in six listed equity securities, details of which are as follows:

Listed company	Shareholding percentage as of 31 December 2020	Value of investment as of 31 December 2020 (RMB million)	Value of investment as of 31 December 2019 (RMB million)	Exchange on which the securities are listed	Principal business of the listed company
Chigo Holding Limited	3.39%	–	11.5	The Stock Exchange of Hong Kong Limited	Manufacture and sale of air-conditioners
Bank of Gansu Co., Ltd.	0.66%	128.2	121.2	The Stock Exchange of Hong Kong Limited	Financial services
Amlogic (Shanghai) Co., Ltd.	0.39%	126.5	381.2	Shanghai Stock Exchange	Research, design, development and manufacture of chips
Jiangsu Broadcasting Cable Information Network Co., Ltd. (江蘇省廣電有線資訊網路股份有限公司)	0.80%	132.4	–	Shanghai Stock Exchange	TV channels, broadband, data services
Anhui Coreach Technology Co., Ltd.	1.21%	50.0	19.9 *(note: not listed in 2019)*	Shenzhen Stock Exchange	Research and development, production and sales of semiconductors, LCD products, smart TVs, etc.
Three's Company Media Group Co., Ltd.	0.75%	87.1	26.2 *(note: not listed in 2019)*	Shanghai Stock Exchange	Marketing services

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

In addition, as a carrier of content service platforms, not only has Shenzhen Coocaa promoted the innovation and operation of large-screen and home internet businesses, it has also assisted our long-term development in the industry of smart human habitat and made a leap-forward enhancement for our operating efficiency. With a team engaged in scaled large-screen internet operation, Shenzhen Coocaa leverages on the advantages of its system, including a comprehensive range of contents, a powerful platform, as well as highly accurate and smart artificial intelligence. With its internet-based products designed around user experience, outstanding process of user traffic, precise advertisement delivery and management, as well as standardised encryption management for advertising traffic, Shenzhen Coocaa has won industry recognition and wide praise among customers. We are of the view that the medium and long-term investment in Jiangsu Broadcasting Cable Information Network Co., Ltd. (江蘇省廣電有線資訊網路股份有限公司) and Three's Company Media Group Co., Ltd. can promote the business development of Shenzhen Coocaa.

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

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the Reporting Year, in order to cope with the increased production scale and improved output ratio of smart products, the Group invested a total of RMB958 million in construction projects, including the expansion of its production plants in Ningbo, Nanjing, Guangzhou and Qianhai, and RMB769 million for purchasing machinery and other equipment for production lines and improvement of facilities in former production plants. The Group plans to further invest in building properties, plants, office premises and purchasing new equipment, with a view to further increasing productivity, improving operation efficiency for its products, as well as catering for future business needs in the development of smart, diversified and internationalised products.

CONTINGENT LIABILITIES

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

HUMAN RESOURCES CAPITAL

As at 31 December 2020, the Group had around 36,000 employees (as at 31 December 2019: 36,000) in the PRC (Hong Kong and Macau inclusive) and overseas, including sales personnel situated throughout 31 branches and 196 sales offices. The Group places high emphasis on fundamental employee benefits, appraisal systems, long-term and short-term incentive schemes, in an effort to motivate and recognise staff with outstanding contributions and performance. The Group allocates substantial resources for staff development, focusing on pre-employment and on-the-job trainings, providing periodical updates on the latest industrial trends, policies and guidelines to improve the quality of human capital. Meanwhile, the Group continues to strengthen the infrastructure of human resources, provides guidance on position titles, salary norms, and gradually establishes a long-term centralised mechanism for the selection, training and development of industry leaders. It also sets up a specified department to enhance the professionalism of general staff and the leadership skills of its senior management.

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

OUTLOOK

Since 2020, the COVID-19 epidemic has been spreading around the world. Skyworth Group put the rights and interests of its employees at first priority and attached great importance to the prevention and control of the epidemic. It established a top-down group prevention and control mechanism in January 2020 to strictly implement prevention and control measures, including strengthening the management of access to the industrial park, setting up a centralised quarantine centre and investing in mask production lines. So far, none of Skyworth staff has been infected with COVID-19.

The impact of the COVID-19 epidemic has posed great uncertainty to the world's economic development. Skyworth Group will continue to actively leverage on 5G, artificial intelligence and new technologies, to accelerate the launch of new products, such as 5G+ ultra-high definition new TVs, smart control TVs, OLED large-screen TVs, smart invertor refrigerators, washing machines, air conditioning products and kitchen appliances, as well as 5G smart access systems and smart human habitat, office and automobile and other application systems. We will also accelerate the development of Skyworth's home appliances empowered by smart systems technology and focus on smart systems and smart control centres products to lead the development of Skyworth's smart human habitat industry, with an aim of providing smart, digital and information-based products and solutions of high quality to urban communities, industrial parks and smart homes. At the same time, we will continue to expand our overseas business and seize new opportunities arising from changes in overseas markets with a focus on Southeast Asia and Africa. We will also keep stepping up efforts to develop the domestic market. Benefiting from the policy opportunity of home appliances going to the countryside, the growing demand of consumption upgrading and the development opportunities of the professional application market, we will refine the construction of our online marketing system and propel the growth of the marketing of Skyworth's products, thereby creating new value for our shareholders and investors.

As proposed by the board of directors of the Group, Skyworth aims to achieve "efficiency enhancement" in 2021. In active response to changes in the external environment and with the strategic objectives of transformation and upgrading as the core, the Group will continue to promote the three key strategies of smartisation, internationalisation and refinement, speed up the construction of our three key bases, and continue to develop our four key business sectors, namely multimedia, smart systems technology, smart appliances and modern services. Upholding the innovative thinking and development model, the Group will further improve systems, strengthen synergies, integrate resources and enhance efficiency, and actively promote the transformation in three key areas (namely from manufacturing to modern services, from hardware to software, and from terminal products to smart systems), thus bringing Skyworth to a new stage of development.

In addition, Skyworth Group will seize the new opportunities brought by the application of emerging technologies to home appliance enterprises in accordance with the "5G+AI+terminal" technology development and industrial upgrading route established by the board of directors to make good planning for new technologies and products, accelerate the transformation and upgrading, strengthen the R&D of picture quality technology, work hard on research and application of MiniLED and MicroLED technologies, and strengthen the research on the application of smart systems technology, and advance the implementation of AI technology to empower TVs and other terminal products. At the same time, we will increase our investment in the R&D of display technologies as well as cloud platforms for smart cities and smart parks to accelerate the formation of new business growth points. We will further increase the smartisation standard of TVs, refrigerators, washing machines, air conditioners, kitchen appliances and home access terminals by using AI technology to empower product replacement so as to increase the access and application of Skyworth's smart terminal products and Coocaa System in the smart home ecosystem.

We will also spare no effort to develop overseas markets, accelerate the base construction in India, Southeast Asia and Africa, strengthen the deployment and investment of our marketing channels and promote the synergistic development of Skyworth branded products and OEM business to achieve rapid growth in overseas business. We will also seize the opportunity of the domestic market and make good use of the opportunity of the development of the inner circle and the revitalisation of the new rural areas to actively promote the construction of agency channel in county and township, expand the trial run of specialty stores of all categories in cities and towns to deliver excellent marketing in the rural market. By studying the market demand brought about by the consumption upgrading in cities, we will continuously launch "high-end, small batch and customised" products to meet the demand of the urban high-end market and increase the market share of our products while speeding up industrial transformation and product replacement to open up new markets and cultivate new growth points.

EVENTS AFTER THE REPORTING PERIOD

The continuous spread of the COVID-19 epidemic around the world has caused uncertainties in the business environment. The impact of the COVID-19 epidemic on the Group's overseas business is expected to continue for a period of time, but the duration and extent of the impact are difficult to predict and depend on the development of the situation.

However, with China, Germany, the United Kingdom, the United States and Russia and other advance countries taking the lead, a number of COVID-19 vaccines have been successfully developed. According to the World Health Organisation's release in February 2021, currently at least seven COVID-19 vaccines have been rolled out globally and more than 200 additional vaccine candidates are in development, of which more than 60 are in clinical development, and it is expected that there will be more vaccines ready for use and volume production in the first half of 2021. Tedros Adhanom Ghebreyesus, the WHO's director-general, said, with the latest positive news from vaccine development, "the light at the end of this long, dark tunnel is growing brighter", but the pandemic still has a long way to run. Soumya Swaminathan, the WHO's chief scientist, said, the world must remain vigilant and careful because despite the rollout of COVID-19 vaccines, it will still take some time for most people to be vaccinated and there will be no "herd immunity" until the end of 2021. Health experts around the world predict that it will be late 2021 to 2022 at the earliest before humans return to their pre-epidemic lives.

In view of this, the Group carefully studies the situation, come up with countermeasures, and continues to formulate adjustment plans in terms of product structure and business structure; improve product quality, and reduce operating costs; accelerate the work of reorganisation and integration; take advantage of opportunities, actively expand the market, and boost revenue to reduce the financial impact of the challenges. As the operations of most of the Group's customers, suppliers, associates, joint ventures and investees are located in mainland China, the negative impact of the COVID-19 epidemic on entities, such as the Group, will be mitigated to the greatest extent as long as the COVID-19 epidemic is continued to be under control in mainland China.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Lai Weide, aged 62, is the Chairman of the Board and Executive Director. Mr. Lai is also the chairman of Skyworth Digital Co. Ltd., a subsidiary of the Company and listed on the Shenzhen Stock Exchange (Stock code: 000810.SZ) ("Skyworth Digital") and a director of certain subsidiaries of the Company. He is a senior accountant, senior economist and holds a master's degree in engineering from University of Electronic Science and Technology of China. Mr. Lai was appointed as the Chairman of the Board and an Executive Director on 8 July 2016.

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

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

As at 31 December 2020, Mr. Lai has interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). Please refer to the details of his interests on pages 40 to 48 of this annual report.

Mr. Liu Tangzhi, aged 57, joined the Group in 1998. Mr. Liu is an Executive Director and a director of certain subsidiaries of the Company. He was appointed as the chief executive officer of the Company on 1 April 2017. Mr. Liu is the president of Skyworth Group Co., Ltd.# (創維集團有限公司) ("Skyworth Group") and director of Skyworth Digital.

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

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

As at 31 December 2020, Mr. Liu has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of his interests on pages 40 to 48 of this annual report.

Ms. Lin Wei Ping, aged 63, is an Executive Director, a member of each of the Remuneration Committee and Nomination Committee and a director of certain subsidiaries of the Company. Ms. Lin was appointed as the executive chairperson of the Company on 1 April 2013 and resigned on 8 July 2016.

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

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

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

As at 31 December 2020, Ms. Lin has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of her interests on pages 40 to 48 of this annual report.

Mr. Shi Chi, aged 49, is an Executive Director of the Company. He joined the Group in 2000 and is a director and the president of Skyworth Digital, in which Mr. Shi holds 3.46% shareholding and his spouse holds 0.61% shareholding. He is also a director of certain subsidiaries of the Company.

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

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

As at 31 December 2020, Mr. Shi has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of his interests on pages 40 to 48 of this annual report.

Directors and Senior Management Profiles

Mr. Lin Jin, aged 36, is an Executive Director of the Company. Mr. Lin graduated from the University of Toronto with a bachelor degree in applied science. He is currently a director in a number of subsidiaries of the Company, including Shenzhen Coocaa Network Technology Company Limited# (深圳市酷開網絡科技有限公司) and Skyworth Digital. He is also currently a director (non-executive) of Skywell New Energy Automobile Co., Ltd.# (開沃新能源汽車有限公司) and Skysource (China) Investment Co., Ltd.# (創源天地 (中國) 投資有限公司) and a number of their respective subsidiaries. Prior to joining the Group in 2011, Mr. Lin worked in MediaTek Inc. as a sales manager from November 2009 to October 2011 and Realtek Semiconductor Corp. as a system development engineer from September 2007 to September 2009. He has more than 10 years of work experience in companies primarily engaged in the business of designing and manufacturing electronics and electronic components.

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

As at 31 December 2020, Mr. Lin has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of his interests on pages 40 to 48 of this annual report.

Mr. Lam Shing Choi, Eric, aged 49, is the company secretary of the Company and he was appointed as an Executive Director on 28 February 2020.

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

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

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

As at 31 December 2020, Mr. Lam has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of his interests on pages 40 to 48 of this annual report.

Directors and Senior Management Profiles

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Weibin, aged 59, is an Independent Non-Executive Director, the chairperson of Remuneration Committee, a member of each of the Audit Committee and Nomination Committee. He was first appointed as an Independent Non-Executive Director on 10 March 2000.

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

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

As at 31 December 2020, Mr. Li has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of his interests on pages 40 to 48 of this annual report.

Mr. Cheong Ying Chew, Henry, aged 72, is an Independent Non-Executive Director, the chairperson of Audit Committee, a member of each of the Remuneration Committee and Nomination Committee. He was first appointed as an Independent Non-Executive Director on 1 January 2015.

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

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

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

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

As at 31 December 2020, Mr. Cheong does not have interests in the shares of the Company within the meaning of Part XV of the SFO.

Directors and Senior Management Profiles

Mr. Hung Ka Hai, Clement, aged 65, is an Independent Non-Executive Director, the chairperson of Nomination Committee, a member of each of the Audit Committee and Remuneration Committee. He was appointed as an Independent Non-Executive Director on 18 March 2020.

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

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

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

- an independent non-executive director of Gome Finance Technology Company Limited (formerly known as Sino Credit Holdings Limited) (stock code: 628) since 31 October 2016;

- an independent non-executive director of Sheng Ye Capital Limited (stock code: 6069, the listing of the shares of which has been transferred to the Main Board from the GEM of the Stock Exchange (stock code: 8469) from 24 October 2019) since 19 June 2017;

- a non-executive director of High Fashion International Limited (stock code: 608) since 1 December 2017;

- an independent non-executive director of Aoyuan Healthy Life Group Company Limited (stock code: 3662) since 22 February 2019;

- an independent non-executive director of China East Education Holdings Limited (stock code: 667) since 12 June 2019;

- an independent non-executive director of Huarong International Financial Holdings Limited (stock code: 993) since 13 December 2019; and

- an independent non-executive director of Tibet Water Resources Ltd. (stock code: 1115) since 31 December 2019.

Mr. Hung was an independent non-executive director of Lerthai Group Limited (formerly known as LT Commercial Real Estate Limited) (stock code: 112) from 24 February 2017 to 3 March 2017 and a non-executive director of the said company from 3 March 2017 to 30 June 2017. He was re-designated as an independent non-executive director of the said company on 30 June 2017 and subsequently resigned with effect from 30 September 2018. He was also an independent non-executive director of SMI Holdings Group Limited (stock code: 198) from 16 January 2017 to 15 March 2017 and re-designated as a non-executive director of the said company on 15 March 2017. He subsequently resigned with effect from 28 February 2019. He was an independent non-executive director of Zhongchang International Holdings Group Limited (formerly known as Henry Group Holdings Limited) (stock code: 859) from 12 January 2018 to 15 June 2020.

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

As at 31 December 2020, Mr. Hung does not have interests in the shares of the Company within the meaning of Part XV of the SFO.

SENIOR MANAGEMENT

Mr. Huang Mingyan, aged 58, joined the Group as vice president of Skyworth Group Co., Limited in June 2017. Mr. Huang graduated from Chongqing University with a master degree in architectural economics and management. From August 1984 to July 1988, Mr. Huang worked as an designer at Central Design & Research Institute under the Ministry of Machinery Industry; from August 1993 to September 1999, he served as deputy head of the Group Affairs Department of China National Real Estate Development Group Corporation; he was general manager of the Property Department of China Electronics Corporation from October 1999 to November 2002; Mr. Huang served as general manager and secretary of Party Committee at China Electronic Industrial Development Company from December 2002 to April 2013; and he worked as assistant general manager of Caihong Group Corporation and general manager of Caihong Group Industrial Co., Ltd from May 2013 to May 2017.

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

Directors and Senior Management Profiles

Mr. Wu Wei, aged 54, joined the Group in May 1997. Mr. Wu is a professor-level engineer who graduated from ShanghaiTech University with a bachelor degree in radio electronics. From May 1997 to January 2005, Mr. Wu served as deputy chief engineer and chief engineer of Shenzhen Chuangwei-RGB Electronics Co., Ltd.; from January 2005 to February 2009, he worked as vice president of Skyworth Multimedia (Overseas) Company Limited and general manager of its Research Centre; Mr. Wu was appointed as chief engineer of the TV business unit since February 2009, and he has been serving as chief engineer of Skyworth Group Co., Ltd. since 2017.

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

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

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

Mr. Ying Yiming, aged 45, is the financial controller of the Company.

Mr. Ying graduated from Hubei Normal University in the People's Republic of China majoring in Computer Accounting. He is a PRC accountant and a non-executive member of The Chinese Institute of Certified Public Accountants, and has over 22 years of experience in accounting and financial management. Mr. Ying joined the Group in 2000 and has been the director and financial controller of Skyworth Mobile Communication Technology (Shenzhen) Co., Ltd.# (創維移動通信技術(深圳)有限公司), and head of the Accounting Department (PRC Division) and director of the Finance and Operations Management Department of Skyworth Group. Mr. Ying is currently the head of the Finance and Assets Department of Skyworth Group, and director of certain subsidiaries of the Company including Skyworth Digital Co., Ltd. (000810.SZ), Skyworth Group Finance Co., Ltd.# (創維集團財務有限公司) and Skyworth Group Construction Development Co., Ltd.# (創維集團建設發展有限公司).

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

English translation is not official and is provided for reference only

DIRECTORS' REPORT

Directors' Report

The directors of the Company (the "Directors") are pleased to present the annual report and the audited consolidated financial statements of the Group for the financial year ended 31 December 2020 (hereinbelow also referred to as the reporting year).

PRINCIPAL ACTIVITIES

The Company is an investment holdings company with subsidiaries principally engaged in manufacturing and selling smart TV systems, home access systems, smart white appliances, internet value-added services, property development and property holding. Details of the principal activities of the principal subsidiaries, associates and joint ventures of the Group are set out in notes 60, 21 and 22 of the consolidated financial statements, respectively.

BUSINESS REVIEW

A review of the business of the Group for the reporting year, including the discussion on the principal risks and uncertainties facing the Group, important events affecting the Group that have occurred since the end of the reporting year and an indication of the likely future developments, is set out in the "Chairman's Statement" on pages 3 to 9 and "Management Discussion and Analysis" on pages 11 to 24 of this annual report. The above discussions form part of this Directors' Report. Details about the Group's financial risk management are set out in note 54 to the consolidated financial statements. An analysis of the Group's performance for the reporting year using financial key performance indicators is set out in the "Financial Highlights" on page 2 and "Management Discussion and Analysis" on pages 11 to 24 of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the reporting year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 77 to 78 of this annual report. The board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

DIVIDEND POLICY

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

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

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

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

RELATIONSHIP WITH KEY STAKEHOLDERS

(a) Employees

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

(b) Customers

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

(c) Suppliers

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

(d) Shareholders and Investors

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past 5 financial years is set out on page 217 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

During the reporting year, the Group incurred approximately RMB958 million in production plants construction at various locations within the People's Republic of China (the "PRC").

The Group acquired additional plant and machinery at a cost of approximately RMB769 million for the expansion of existing production facilities and setting up of new production facilities. Details of these and other movements in the property, plant and equipment of the Group during the reporting year are set out in note 16 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme and share award schemes of the Company disclosed in the section headed "Directors' Interests in Shares, Share Options and Awarded Shares" below and note 47 to the consolidated financial statements, no equity-linked agreement was entered into by the Company during the reporting year or subsisted at the end of the reporting year.

CORPORATE BONDS

On 15 September 2017, the Company issued secured corporate bonds with principal value of RMB2,000 million. The corporate bonds bear an interest at 5.36% per annum with maturity of 5 years, under which the Company has the right to adjust the coupon rate and the bond holders have a sell-back right to the Group at the end of the third year. The purposes for issuing corporate bonds were to adjust the debt structure and supplement the general working capital of the Group. The corporate bonds were listed on the Shenzhen Stock Exchange under the abbreviated bond name "17 Skyworth P1" with the code "112584" on 23 October 2017. The Company adjusted the coupon rate of the corporate bonds to 4.85% per annum on 27 August 2020 and the bond holders are entitled the right to sell-back all or part of the corporate bonds to the Company during the sell-back registration period (1 September 2020 to 7 September 2020) at the sell-back price which equals to the face value of the bond (excluding interest), and the sell-back was settled on 15 September 2020. According to the data provided by the Shenzhen Branch of China Securities Depository and Clearing Co., Ltd. on 11 September 2020, the bond holders sold back "17 Skyworth P1" bonds to the Company and in the aggregate principal amount of RMB1,913,308,000 (excluding interest) and following such sell-back, the bonds have an outstanding principal amount of RMB77 million as at 31 December 2020.

Details of the corporate bonds and other bonds issued by the Group are set out in note 44 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the reporting year are set out in note 45 to the consolidated financial statements.

SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Group during the reporting year are set out in the "Consolidated Statement of Changes in Equity" on pages 81 to 82 of this annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders of the Company as at 31 December 2020 amounted to approximately RMB2,398 million (2019: RMB1,525 million).

Details of the distributable reserves of the Company during the reporting year are set out in note 61 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

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

The Company has purchased a total of 392,800,000 Shares of the Company at HK$2.8 per Share on the Stock Exchange during September 2020 and the total consideration paid was approximately HK$1,099.84 million (excluding expenses). As at 31 December 2020, the total number of Shares in issue was 2,668,129,420. All the repurchased Shares were cancelled on 14 September 2020. Please refer to page 51 for further details regarding the repurchase.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the reporting year.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting year, the aggregate revenue attributable to the Group's 5 largest customers was less than 18.2% of the Group's total revenue. The aggregate purchase attributable to the Group's 5 largest suppliers accounted for 15.6% of the Group's total purchase and the purchase attributable to the Group's largest supplier was 4.4% of the total purchases.

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

DONATIONS

During the reporting year, the Group made charitable donations amounting to approximately RMB1.7 million (2019: RMB1.4 million).

Directors' Report

DIRECTORS

The Directors who held office during the reporting year and up to the date of this report are as follows:

Executive Directors:

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

Independent Non-Executive Directors:

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

In accordance with bye-law 87 of the Company's bye-laws, Mr. Lai Weide, Mr. Lin Jin and Mr. Li Weibin will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Listing Rule 13.51B(1) of the Listing Rules, the changes of information of the Director is as follows:

The Director's fee of Mr. Shi Chi changed from RMB500,000 to nil per annum with effect from 15 July 2020. Mr. Shi is entitled to receive an annual salary and allowance from Skyworth Digital Co., Ltd. ("Skyworth Digital") and discretionary bonus based on his performance and the profitability of Skyworth Digital.

Save as disclosed above, there is no other information of the Directors that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CONFIRMATION OF INDEPENDENCE

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the existing Directors and senior management of the Company are set out on pages 25 to 32 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than normal statutory compensation. All independent non-executive Directors have entered into letters of appointment with the Company for a term of three years which may be terminated by either party by giving to the other not less than one month's notice in writing.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transaction" in this report in relation to transactions with Mr. Wong Wang San, Stephen, who is the spouse of Ms. Lin Wei Ping, an executive Director, no transaction, arrangement or contract of significance, to which the Company, its subsidiaries or fellow subsidiaries, was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the reporting year or at any time during the reporting year.

DIRECTORS' RIGHTS TO SUBSCRIBE SHARES OR DEBENTURES

Other than the interests in share options and awarded shares of the Company as disclosed above, and in the share option schemes and the 2014 and 2020 Share Award Schemes disclosed in note 47 and note 48 to the consolidated financial statements respectively, at no time during the reporting year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives, or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debenture of the Company or any other body corporate, and none of them had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the reporting year.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISIONS

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

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE OPTIONS AND AWARDED SHARES

As at 31 December 2020, the interests and short positions that the Directors and the chief executive of the Company had or were deemed to have in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO), which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and Stock Exchange pursuant to the Model Code, were as follows:

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

The Company

Name of Director	Capacity		Number of shares held	Approximate percentage of the total number of issued shares *(Note e)*
Lai Weide	Beneficial owner		10,002,000	0.37%
Lin Wei Ping	Beneficial owner		9,160,382	0.34%
	Held by spouse	*(Notes a and b)*	1,238,258,799	46.41%
		(Notes a and c)	1,247,419,181	46.75%
Liu Tangzhi	Beneficial owner		9,884,675	0.37%
Shi Chi	Beneficial owner		6,184,825	0.23%
	Held by spouse		5,446,466	0.20%
			11,631,291	0.43%
Lin Jin	Beneficial owner		3,898,719	0.15%
Li Weibin	Beneficial owner		1,000,000	0.04%
Lam Shing Choi, Eric *(Note d)*	Beneficial owner		3,000,000	0.11%

Notes:

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

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

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

(d) *Mr. Lam Shing Choi, Eric was appointed as an executive Director of the Company with effect from 28 February 2020.*

(e) *The calculation is based on the total number of issued shares of the Company (i.e. 2,668,129,420 shares) as at 31 December 2020.*

Associated corporation – Skyworth Digital Co., Ltd.

Name of Director	Capacity	Number of shares held	Approximate percentage of the total number of issued shares *(Note b)*
Lai Weide	Beneficial owner *(Note a)*	750,000	0.07%
Liu Tangzhi	Beneficial owner *(Note a)*	600,000	0.06%
Shi Chi	Beneficial owner	36,770,524	3.46%
	Held by spouse	6,507,500	0.61%
		43,278,024	4.07%

Notes:

(a) *400,000 shares of Skyworth Digital Co., Ltd., held by Mr. Lai Weide and 400,000 shares of Skyworth Digital Co., Ltd., held by Mr. Liu Tangzhi are restricted shares granted under the restricted share incentive scheme of Skyworth Digital Co., Ltd., which is a 56.84% owned subsidiary of the Company, (the "Restricted Share Incentive Scheme"), which are subject to lock-up restrictions under the terms and conditions of the Restricted Share Incentive Scheme. Those shares held by Mr. Lai Weide and Mr. Liu Tangzhi were released from the lock-up restriction on 16 October 2020 and 2 September 2020, respectively. Details of the Restricted Share Incentive Scheme were published on the information website of the Shenzhen Stock Exchange (http://www.cninfo.com.cn/). During the reporting year, none of the restricted shares of Mr. Lai Weide and Mr. Liu Tangzhi were lapsed/cancelled.*

(b) *The calculation is based on the total number of issued shares of Skyworth Digital Co., Ltd. (i.e. 1,063,361,320 shares) as at 31 December 2020.*

(b) Share Options of the Company

The Company adopted its current share option scheme at an annual general meeting of the Company held on 20 August 2014 ("2014 Share Option Scheme"). A summary of the principal terms of 2014 Share Option Scheme is set out below.

1. Purpose

The purpose of the 2014 Share Option Scheme is to enable the Board to grant options to selected eligible person(s) as incentives or rewards for their contribution or potential contribution to the Group.

2. Participants

The Board may, at its absolute discretion and on such terms as it may think fit, grant options to any eligible person to subscribe at a price determined in accordance with paragraph 7 below for such number of Shares as it may determine in accordance with the terms of the 2014 Share Option Scheme.

The basis of eligibility of any of the eligible persons to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

3. Total number of Shares available for issue under the 2014 Share Option Scheme and percentage of issued share capital as at the date of this annual report

283,100,239 Shares (10.61%).

4. Maximum entitlement of each participant

The maximum number of shares issuable under options granted to each participant under the 2014 Share Option Scheme within any 12-month period up to the date of grant is limited to 1% of the shares of the Company in issue. Any further grant of options in excess of such limit must be separately approved by shareholders with such participant and his close associates (within the meaning of the Listing Rules) abstaining from voting.

Share options granted to a director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any who is the grantee of options). Where any grant of share options to a substantial shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2014 Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant representing in aggregate over 0.1% of the Company's shares in issue, and having an aggregate value, based on the closing price of the Company's shares at each date of grant, in excess of HK$5 million, such further grant of share options is required to be approved by shareholders in a general meeting in accordance with the Listing Rules. Any change in the terms of share options granted to a substantial shareholder or an independent non-executive Director (or any of their respective associates) is also required to be approved by the shareholders of the Company.

5. Time of exercise of option

An option may be exercised in accordance with the terms of the 2014 Share Option Scheme at any time during a period commencing on such date on or after the date on which the option is granted as the Board may determine in granting the option and expiring at the close of business on such date as the Board may determine in granting the option but in any event shall not exceed 10 years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted).

No minimum period, during which the option granted under the 2014 Share Option Scheme must be held, is specified in the 2014 Share Option Scheme.

6. Acceptance of offers

An offer for the grant of options must be accepted within 30 days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

7. The basis of determining the exercise price

The option price per Share payable on the exercise of an option is to be determined by the Board provided always that it shall be at least the higher of:–

(i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant which must be a business day; and

(ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant,

provided that the option price per Share shall in no event be less than the nominal amount of one Share.

8. The remaining life of the 2014 Share Option Scheme

The 2014 Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the 2014 Share Option is adopted by Shareholders in general meeting and shall expire at the close of business on the day immediately preceding the tenth anniversary thereof (i.e. 19 August 2024) unless terminated earlier by Shareholders in general meeting.

The following tables show the movements in the Company's share options granted to the Directors and employees under 2014 Share Option Scheme during the reporting year:

Directors

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Number of share options: Outstanding as at 1 January 2020	Granted during the Reporting Year Period	Exercised during the Reporting Year Period	Cancelled/ Lapsed during the Current Period *(Notes b & c)*	Outstanding as at 31 December 2020
Directors:								
Lai Weide								
8 July 2016	6.320	8 July 2016 to 31 August 2017	1 September 2017 to 20 August 2024	2,500,000	–	–	–	2,500,000
		8 July 2016 to 31 August 2018	1 September 2018 to 20 August 2024	2,500,000	–	–	–	2,500,000
		8 July 2016 to 31 August 2019	1 September 2019 to 20 August 2024	2,500,000	–	–	–	2,500,000
		8 July 2016 to 31 August 2020	1 September 2020 to 20 August 2024	2,500,000	–	–	–	2,500,000
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	4,000,000	–	–	–	4,000,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	3,000,000	–	–	–	3,000,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	3,000,000	–	–	–	3,000,000
Liu Tangzhi								
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	4,000,000	–	–	–	4,000,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	3,000,000	–	–	–	3,000,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	3,000,000	–	–	–	3,000,000
Lam Shing Choi, Eric *(Note d)*								
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	800,000	–	–	–	800,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	600,000	–	–	–	600,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	600,000	–	–	–	600,000
(a) Sub-total (Directors)				**32,000,000**	**–**	**–**	**–**	**32,000,000**

Employees

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding as at 1 January 2020	Granted during the Reporting Year Period	Exercised during the Reporting Year Period	Cancelled/ Lapsed during the Current Period (Notes b & c)	Outstanding as at 31 December 2020
				Number of share options				
Employees:								
22 January 2016	4.226	22 January 2016 to 31 August 2016	1 September 2016 to 20 August 2024	14,852,000	–	–	–	14,852,000
		22 January 2016 to 31 August 2017	1 September 2017 to 20 August 2024	17,154,000	–	–	–	17,154,000
		22 January 2016 to 31 August 2018	1 September 2018 to 20 August 2024	25,692,000	–	–	–	25,692,000
9 August 2017	4.090	9 August 2017 to 31 August 2018	1 September 2018 to 20 August 2024	500,000	–	–	–	500,000
		9 August 2017 to 31 August 2019	1 September 2019 to 20 August 2024	500,000	–	–	–	500,000
		9 August 2017 to 31 August 2020	1 September 2020 to 20 August 2024	500,000	–	–	–	500,000
		9 August 2017 to 31 August 2021	1 September 2021 to 20 August 2024	500,000	–	–	–	500,000
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	13,360,000	–	–	(1,440,000)	11,920,000
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	10,020,000	–	–	(1,080,000)	8,940,000
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	10,020,000	–	–	(1,080,000)	8,940,000
(b) Sub-total (Employees)				**93,098,000**	**–**	**–**	**(3,600,000)**	**89,498,000**
Grand Total: (a) Directors + (b) Employees				**125,098,000**	**–**	**–**	**(3,600,000)**	**121,498,000**

Notes:

(a) *The closing prices of the Shares immediately before 22 January 2016, 8 July 2016, 9 August 2017 and 15 April 2019 (i.e. the date on which the respective share options referred to above were granted) were HK$4.22, HK$6.32, HK$4.08 and HK$2.62 respectively.*

(b) *Share options lapsed due to cessation of employment.*

(c) *No share options were cancelled during the reporting year.*

(d) *Mr. Lam Shing Choi, Eric was appointed as an executive Director of the Company with effect from 28 February 2020.*

(c) Awarded Shares of the Company

(i) 2014 Share Award Scheme

The share award scheme was approved by the Board on 24 June 2014 (the "2014 Share Award Scheme"). The purpose of the 2014 Share Award Scheme is to recognise the contributions by eligible participants to the Group and to incentivise them in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The maximum number of shares of the Company that can be awarded or held under the 2014 Share Award Scheme is limited to 2% of the issued share capital of the Company from time to time. The maximum number of shares of the Company (including vested and non-vested) which may be awarded to a selected employee under the 2014 Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time. Details of the 2014 Share Award Scheme are set out in the Company's announcement dated 24 June 2014. During the reporting year, the Company did not purchase any shares of the Company from market through an independent trustee. As at 31 December 2020, no shares of the Company were held by the independent trustee for the purpose of the 2014 Share Award Scheme.

During the reporting year, no cash dividend had been received in respect of the shares of the Company held upon the trust for the 2014 Share Award Scheme and shall form part of the trust fund of such trust.

The 2014 Share Award Scheme was terminated by the Board with effect from 31 December 2020 pursuant to the rules of the 2014 Share Award Scheme.

Particulars of the 2014 Share Award Scheme are set out in note 48 to the consolidated financial statements.

First batch: Awarded shares granted on 25 July 2014

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

Second batch: Awarded shares granted on 20 July 2015

On 20 July 2015, a total of 10,312,000 awarded shares of the Company were granted by the Board pursuant to the 2014 Share Award Scheme, 2,978,000, 2,874,000 and 3,490,000 awarded shares were vested on 31 December 2015, 31 December 2016 and 31 December 2017 respectively.

Third batch: Awarded shares granted on 12 June 2018

On 12 June 2018, a total of 10,060,000 awarded shares of the Company were granted by the Board pursuant to the 2014 Share Award Scheme, 2,400,000, 3,410,000 and 3,350,000 awarded shares were vested on 31 July 2018, 30 April 2019 and 30 April 2020 respectively.

Fourth batch: Awarded shares granted on 10 November 2020

On 10 November 2020, a total of 20,904,601 awarded shares of the Company were granted by the Board pursuant to the 2014 Share Award Scheme and 20,904,601 awarded shares were vested on 30 November 2020.

The movements of the 2014 Share Award Scheme during the reporting year were as follows:

Directors/ Date of grant	Vesting date	Number of awarded shares				
		Outstanding unvested award as at 1 January 2020	Granted during the reporting year	Vested during the reporting year	Cancelled/ Lapsed during the reporting year	Outstanding unvested award as at 31 December 2020
Lai Weide						
12 June 2018	30 April 2018	–	–	–	–	–
	30 April 2019	–	–	–	–	–
	30 April 2020	1,000,000	–	(1,000,000)	–	–
10 November 2020	30 November 2020	–	4,000,000	(4,000,000)	–	–
		1,000,000	4,000,000	(5,000,000)	–	–
Liu Tangzhi						
12 June 2018	30 April 2018	–	–	–	–	–
	30 April 2019	–	–	–	–	–
	30 April 2020	1,000,000	–	(1,000,000)	–	–
10 November 2020	30 November 2020	–	2,000,000	(2,000,000)	–	–
		1,000,000	2,000,000	(3,000,000)	–	–
Shi Chi						
10 November 2020	30 November 2020	–	1,000,000	(1,000,000)	–	–
		–	1,000,000	(1,000,000)	–	–
Lam Shing Choi, Eric *(Note)*						
12 June 2018	30 April 2018	–	–	–	–	–
	30 April 2019	–	–	–	–	–
	30 April 2020	150,000	–	(150,000)	–	–
10 November 2020	30 November 2020	–	1,000,000	(1,000,000)	–	–
		150,000	1,000,000	(1,150,000)	–	–
Total		**2,150,000**	**8,000,000**	**(10,150,000)**	**–**	**–**

Note: Mr. Lam Shing Choi, Eric was appointed as an executive Director of the Company with effect from 28 February 2020.

(ii) 2020 Share Award Scheme

The Board adopted a share award scheme on 21 October 2020 (the "2020 Share Award Scheme"). The purpose of the 2020 Share Award Scheme is to recognise the contributions by eligible participants to the Group and to incentivise them in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The maximum number of Shares to be awarded under the 2020 Share Award Scheme throughout its duration shall not exceed (i) 80,000,000 Shares or (ii) 2% of the issued share capital of the Company from time to time (whichever the lower). The maximum number of Shares which may be awarded to a Selected Participant (including vested and non-vested) under the Scheme shall not exceed 1% of the issued share capital of the Company from time to time. During the reporting year, the Company did not purchase any shares of the Company from market through an independent trustee. As at 31 December 2020, the independent trustee did not hold any shares of the Company for the purpose of the 2020 Share Award Scheme. Details of the 2020 Share Award Scheme are set out in the announcement of the Company dated 21 October 2020.

During the reporting year, no cash dividend had been received in respect of the shares of the Company held upon the trust for the 2020 Share Award Scheme and shall form part of the trust fund of such trust.

(iii) As at 31 December 2020, none of the Directors or chief executives, or their associates, had any interests in the awarded shares granted under the Company's 2014 and 2020 Share Award Scheme.

Save as disclosed above and the nominee shares in certain subsidiaries held in trust for the Group, none of the Directors or chief executives, had or was deemed to have any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be recorded in the register maintained by the Company under Section 352 of the SFO; or (iii) to be notified to the Company and Stock Exchange pursuant to the Model Code as at 31 December 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

EMOLUMENT POLICY

The emoluments of the Directors are reviewed by the Remuneration Committee from time to time, with reference to the qualifications, responsibilities, experience and performance of the individual Directors, and the operating results of the Group. Details of the policy are set out in the "Corporate Governance Report" on pages 52 to 69 of this annual report.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 57 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or the chief executive of the Company, as at 31 December 2020, the register of interests in shares and short positions maintained by the Company pursuant to Section 336 of the SFO showed that the following persons, who are not a Director or chief executive of the Company, had, or were deemed to have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of the total number of issued shares *(Note c)*
Long positions			
Target Success	Trustee *(Note a)*	1,200,958,799	45.01%
Wong Wang Sang, Stephen	Beneficial owner	37,300,000	1.40%
	Held by spouse *(Note b)*	9,160,382	0.34%
	Interest of controlled corporation *(Note a)*	1,200,958,799	45.01%
		1,247,419,181	46.75%

Notes:

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

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

(c) *The calculation is based on the total number of issued shares of the Company (i.e. 2,668,129,420 shares) as at 31 December 2020.*

Save as disclosed above, as at 31 December 2020, the Directors or the chief executive of the Company were not aware of any other interests or short positions that any person (not being a Director or chief executive of the Company) had, or were deemed to have in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and are recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

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

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

As at the end of the reporting year, the actual leasing principal amount under the Leaseback Agreement was RMB160,000,000. The maximum leasing principal amount under the Leaseback Agreement at any point of time during the reporting year was RMB260,000,000.

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

(ii) On 9 August 2019, the Company entered into a consultancy contract with Mr. Wong Wang Sang, Stephen ("Mr. Stephen Wong") to renew his engagement as a consultant of the Group for a term of 3 years commencing from 9 August 2019 to 8 August 2022, with an annual consultancy fee of HK$1,200,000 and a discretionary bonus, subject to a total annual maximum amount payable to Mr. Stephen Wong of less than HK$3,000,000. Details of the transaction were announced by the Company on 9 August 2019 on a voluntary basis. The contract was fully exempted from the reporting, annual review, announcement, circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

Messrs Deloitte Touche Tohmatsu, the independent auditors of the Company, was engaged to report on the above continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transaction under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.56 of the Listing Rules, the auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transaction disclosed above by the Company and a copy of the auditors' letter has been provided by the Company to the Stock Exchange.

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

CONDITIONAL CASH OFFER TO BUY-BACK UP TO 392,800,000 SHARES AT HK$2.80 PER SHARE

On 17 June 2020, the Company published an announcement in relation to an offer made by DBS Asia Capital Limited on behalf of the Company to buyback for cancellation, subject to the conditions, up to a maximum of 392,800,000 Shares, representing approximately 12.83% of the issued Shares as at the date of such announcement, at the price of HK$2.80 per Share (the "Offer"). The Offer was made in full compliance with the Share Buy-backs Code. The consideration for the Offer, being a total of approximately HK$1,099.84 million, was paid in cash and will be funded by internal resources of the Group. The Offer and the application of whitewash waiver were approved by the Shareholders at the adjourned special general meeting of the Company held on 20 August 2020. The completion of the Offer and cancellation of the 392,800,000 Shares bought-back by the Company took place on Monday, 14 September 2020. For more information, please refer to the announcements of the Company dated 17 June 2020, 2 July 2020, 27 July 2020, 20 August 2020, 3 September 2020 and 14 September 2020 and the circular of the Company dated 27 July 2020.

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the "Corporate Governance Report" on pages 52 to 69 of this annual report.

AUDIT COMMITTEE

The audit committee of the Company comprises of Mr. Cheong Ying Chew, Henry (Chairman), Mr. Li Weibin and Mr. Hung Ka Hai, Clement. The audit committee, together with the Board, have reviewed the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the financial statements of the Group for the year ended 31 December 2020.

AUDITOR

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

By order of the Board

LAI Weide
Chairman of the Board
25 March 2021

CORPORATE GOVERNANCE REPORT

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

COMPLIANCE WITH THE CG CODE

During the financial year ended 31 December 2020 (herein below also referred as the reporting year) and up to the date of this report, the Company has complied with the code provisions as set out in the CG Code, save and except for the code provision A.6.7 of the CG Code.

Pursuant to code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders of the Company. Mr. Li Weibin, an independent non-executive Director, was unable to attend the annual general meeting of the Company held on 22 May 2020 due to other prior business engagements. Two of our independent non-executive Directors, namely Mr. Li Weibin and Mr. Hung Ka Hai, Clement, were unable to attend the adjourned special general meeting of the Company held on 20 August 2020 due to other prior business engagements.

KEY CORPORATE GOVERNANCE PRINCIPLES

The Board

(1) Responsibilities

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

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

(2) Access for Supporting

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

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

(3) Board Composition

As at the date of this report, the Board consists of 9 members of which 6 are executive Directors and 3 are independent non-executive Directors. The list of Directors are set out on page 219 of this annual report. After annual assessment by the Nomination Committee during the year, the Board considers the current structure, size and composition of the Board is performing a balanced and independent monitoring function on management practices to complement the Company's corporate strategy. Their biographical details including their respective interests in the Company and their respective relationships with other Directors and senior management of the Group, are set out on pages 25 to 32 of this annual report.

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

Executive Directors

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

Independent Non-Executive Directors

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

(4) Board Diversity Policy

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

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

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

(5) Nomination Policy

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

Selection Criteria

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

- Character and integrity
- Accomplishment and experience in the areas of Company's business and public board experience
- Commitment in respect of available time and relevant interest
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

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

Nomination Procedures

The Nomination Committee and the Board will follow the below procedures in appointing a Director:

1. The Nomination Committee uses multiple sources to identify the individual(s) who is/are suitably qualified to become Board members.
2. The Nomination Committee reviews the qualification, skills and experience of the individual(s) and, if thought fit, makes recommendation to the Board.
3. The Board considers the individual(s) who is/are recommended by the Nomination Committee by assessing and evaluating his/her qualification, skills and experience and, if thought fit, to approve the appointment of individual(s) as Director.
4. According to the Company's bye-laws, any director appointed to fill the causal vacancy or as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

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

(6) Continuous Professional Development

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

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

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

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

(7) The Chairman of the Board and Chief Executive Officer of the Company

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

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

(8) Appointment, Re-election and Removal of Directors

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

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

(9) Board Meetings and Corporate Governance Function

The Board held a total of 6 meetings during the reporting year. Of these, 4 meetings were held mainly for approving 2019 final results, 2020 interim results and the quarterly results of the Group; the other meetings were held to discuss and consider important issues of the Group and review policies related to internal control and corporate governance.

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

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

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

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

The attendance records of each Director during the reporting year are set out in the section "Attendance Record of Directors and Committee Members".

Attendance Record of Directors and Committee Members

The attendance record of each Director at the Board and Board committee meetings, and the general meetings of the Company during the reporting year is set out in the table below:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Adjourned Special General Meeting
Executive Directors						
Mr. Lai Weide	6/6	–	–	–	1/1*	0/1
Mr. Liu Tangzhi	6/6	–	4/4	4/4	1/1*	0/1
Ms. Lin Wei Ping	6/6	–	–	–	1/1	1/1*
Mr. Shi Chi	6/6	–	–	–	1/1*	1/1*
Mr. Lin Jin	6/6	–	–	–	0/1	1/1*
Mr. Lam Shing Choi, Eric *(Note a)*	5/5	–	–	–	1/1	1/1
Independent Non-Executive Directors						
Mr. Li Weibin	6/6	4/4	4/4	4/4	0/1	0/1
Mr. Cheong Ying Chew, Henry	6/6	4/4	4/4	4/4	1/1	1/1
Mr. Hung Ka Hai, Clement *(Note b)*	5/5	4/4	3/3	3/3	1/1	0/1
Mr. Li Ming *(Note c)*	1/1	–	1/1	1/1	–	–

Notes:

(a) *Mr. Lam Shing Choi, Eric was appointed as an executive Director of the Company with effect from 28 February 2020.*

(b) *Mr. Hung Ka Hai, Clement was appointed as an independent non-executive Director of the Company with effect from 18 March 2020.*

(c) *Mr. Li Ming resigned as an independent non-executive Director of the Company with effect from 18 March 2020.*

* *As the 14-day quarantine policy is implementated in Hong Kong and mainland China due to the COVID-19 epidemic, such Director attended the general meeting via video conference.*

(10) General Meetings

The annual general meeting and other general meetings of the Company are the primary communication with its shareholders. All shareholders of the Company are welcomed to attend the general meetings or to appoint proxies to attend and vote at meetings on their behalf. Other than shareholders' participation, independent non-executive Directors should attend general meetings and develop a better understanding of the views of shareholders. During the reporting year, other than annual general meeting, one adjourned special general meeting was held to approve the Offer in relation to the Share buy-back and the application of whitewash waiver.

The attendance record of each Director during the reporting year is set out in the section "Attendance Record of Directors and Committee Members".

(11) Securities Transactions of Directors

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

Board Committees

As an integral part of good corporate governance and to assist the Board in execution of its duties, the Board is supported by 4 board committees, including Executive Committee, Nomination Committee, Remuneration Committee and Audit Committee. Each of these committees oversees particular aspects of the Group's affairs under its defined scope of duties and terms of reference approved by the Board. The terms of reference of the Nomination Committee, Remuneration Committee and Audit Committee are available on the websites of the Company and the Stock Exchange. All committees are provided with sufficient resources to discharge their duties.

(1) Executive Committee

The Executive Committee was established by the Board on 5 February 2005 with written terms of reference adopted on the same date. The Executive Committee currently comprises 11 members, including several executive Directors and senior management of the Company.

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

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

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

(2) Audit Committee

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

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

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

- to ensure and coordinate the relationship with the Company's external auditors and make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors;
- to review the Company's financial information; and
- to oversee the Company's financial reporting system, risk management and internal control systems.

The Audit Committee held 4 meetings during the reporting year for the purposes of, including but not limited to, the following:

- reviewed and commented on the Company's annual and interim financial reports;
- reviewed the unaudited 2020 first and third quarterly results of the Company;
- oversaw the Group's financial reporting system, risk management and internal control systems on an ongoing basis;
- reviewed the financial reporting system to ensure the adequacy of resources, qualifications and experience of staff in accounting and financial reporting functions of the Group;
- discussed the Group's internal audit plan with the Risk Management Department;
- reviewed the continuing connected transactions of the Company; and
- met and communicated with the external auditors for audit works of the Group.

The attendance record of each member of Audit Committee during the reporting year is set out in the section "Attendance Record of Directors and Committee Members".

(3) Nomination Committee

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

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

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

The Nomination Committee held 4 meetings during the reporting year for the purposes, including but not limited to the followings:

- reviewed the structure, size and composition of the Board;
- reviewed and assessed the independence of the independent non-executive Directors;
- reviewed and made recommendation to the Board on the proposal for the appointment of an executive Director and an independent non-executive Director; and
- reviewed and made recommendation to the Board on the re-appointment of an executive Director and an independent non-executive Director.

The attendance record of each member of Nomination Committee during the reporting year is set out in the section "Attendance Record of Directors and Committee Members".

(4) Remuneration Committee

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

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

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

The Remuneration Committee held 4 meetings during the reporting year for the purposes of, including but not limited to, the following:

- reviewed and made recommendation to the Board on bonus payable to the Directors and senior management of the Company;
- reviewed and made recommendation to the Board on the proposal for the grant of share award;
- discussed and made recommendation to the Board on the proposed remuneration package in relation to the appointment of an executive Director and an independence non-executive Director; and
- reviewed and made recommendation to the Board on the renewal of service contract of an executive Director and an independence non-executive Director.

The attendance record of each member of Remuneration Committee during the reporting year is set out in the section "Attendance Record of Directors and Committee Members".

(5) Remuneration Policy of the Group

The remuneration policy of the Group is formulated to ensure remuneration offered to the Directors or employees is appropriate for the corresponding duties performed, sufficiently compensated for the effort and time dedicated to the affairs of the Group, and competitive and effective in attracting, retaining and motivating employees. The key components of the Company's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme, share options granted under the share option schemes of the Company and awarded shares granted under the Share Award Scheme. Details of the share option schemes of the Company and Share Award Scheme are set out in the sections "Share options of the Company" and "Awarded shares of the Company" in the Directors' Report, notes 47 and 48 to the consolidated financial statements.

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

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

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

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

Accountability and Audit

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

Financial Reporting

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

- approved the adoption of the applicable Hong Kong Financial Reporting Standards;

- selected suitable accounting policies and applied them consistently throughout the year covered by the consolidated financial statements;

- made judgments and estimates that were prudent and reasonable, and ensured the consolidated financial statements were prepared on a going concern basis; and

- ensured that the consolidated financial statements were prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

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

The statement of Messrs Deloitte Touche Tohmatsu, being the external auditors of the Company, reporting their responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 70 to 76 to this annual report.

Internal Controls

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

- achieve business objectives and safeguard assets against unauthorised use or disposition;

- ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and

- ensure compliance with the relevant legislation and regulations.

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

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

Risk Management and Internal Control Framework

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

(1) Distinct Organisational Structure

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

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

(2) Comprehensive Management Reporting

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

(3) Regular Risk Assessment

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

(4) Regulated Cash and Treasury Management

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

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

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

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

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

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

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

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

- reviewed and evaluated major business cycles of several business units; and
- reviewed the effectiveness of all material aspects of the risk management and internal control systems of the Group.

The Internal Audit Department was established since 1996 mainly for examining and evaluating the operations and compliance status of the sales offices and branches in the mainland China TV business unit, which is the largest cash flow and revenue contributor of the Group. Besides, it also carries out special audits when senior staff leaving their positions either due to resignations or job rotations within the Group. During the reporting year, the Internal Audit Department also carried out the audit of certain major business units, in order to enhance the management and operational efficiency. Currently, the Internal Audit Department has approximately 24 staff members, most of them continuously travel all over mainland China and overseas to perform their internal audit work.

During the reporting year, the Internal Audit Department issued over 27 reports to the Board and senior management on its regular reviews of operations and compliance audits of certain business units, sales offices and branches as well as reports on senior staff leaving their positions.

Internal Audit Plan

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

Risk Management and Internal Control Review

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

External Auditor

The Group's external auditor is Messrs Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong ("Deloitte"). The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditor. The Board and the Audit Committee satisfied Deloitte of their findings, independence, objectivity and effectiveness in the annual audit and their audit fees. A statement by Deloitte about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report on pages 70 to 76 of this annual report. Up to the date of this report, the Audit Committee has considered and approved the engagement of Deloitte as auditor of the Group for the reporting year and the corresponding audit fee estimation.

Details of the fees paid or payable by the Group to Deloitte in respect of their audit and other non-audit services for the reporting year are as follows:

Nature of services	2020 Amounts RMB million	2019 Amounts RMB million
Audit service (including review of interim financial statements)	**10**	9
Non-audit and tax related service	**17**	4
Total	**27**	13

Company Secretary

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

During the reporting year, Mr. Lam has untaken no less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Corporate Communication with Stakeholders

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

- the Company maintains a website on which comprehensive information about the Group, including corporate structure, management profile, products and services provided, financial reports, announcements and news of the Group, are disclosed;
- the Company establishes and maintains different communication channels with its stakeholders through publication of annual and interim reports, announcements and press releases. To promote effective communication, the shareholders of the Company can obtain corporate communication electronically via the Company's corporate website http://investor.skyworth.com/en/index.php;
- the annual general meeting of the Company provides a good forum for the shareholders to exchange views with the Board. The Chairman of the Board as well as chairman of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, members of the committees will be available to answer questions which may be raised by the shareholders of the Company;
- separate resolutions are proposed at general meetings on each substantial issue, including the election of individual Directors;
- details of the poll voting procedures and the rights of shareholders to demand a poll are included in a circular to the shareholders despatched prior to the date of the relevant general meeting. The circular also includes relevant details of proposed resolutions;
- the Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness;
- the poll results are published on the website of Hong Kong Exchanges and Clearing Limited and on the Company's website http://investor.skyworth.com/en/index.php; and
- the Company publishes its own newsletter, which report up-to-date corporate strategy and business development of the Group, on a regular basis for internal circulation.

Shareholders' Right

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

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

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

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

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

- not less than 100 shareholders of the Company.

The written requisitions must:

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

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

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

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

Constitutional Documents

During the reporting year, there is no change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the Members of Skyworth Group Limited
創維集團有限公司
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Skyworth Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 77 to 215, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Write-down for inventories	
We identified the write-down for inventories as a key audit matter due to the significance of inventories to the consolidated statement of financial position as a whole, combined with significant management judgement associated with the assessment of write-down for inventories. As disclosed in note 27 to the consolidated financial statements, inventories of the Group as at 31 December 2020 comprised of raw materials, work in progress and finished goods amounting to RMB2,247 million, RMB234 million and RMB3,523 million respectively. As further disclosed in note 11 to the consolidated financial statements, an expense of RMB64 million was recognised in profit or loss to write-down the cost of inventories to their net realisable values during the year ended 31 December 2020. As disclosed in note 4 to the consolidated financial statements, the assessment of write-down for inventories requires significant management judgement in determining estimated selling prices and estimated cost to completion.	Our procedures in relation to the write-down for inventories include: • Obtaining an understanding of management's process of carrying out the assessment of write-down of inventories; • Evaluating the basis of write-down for inventories assessed by management; • Assessing the appropriateness of the estimated selling prices of the inventories by tracing to recent or subsequent selling prices of the same products, on a sample basis; • Evaluating the reasonableness of management's estimated cost to completion and tracing to the supporting documents, on a sample basis; and • Testing the integrity of the inventory ageing report used as a basis to calculate the provision.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Estimated provision of expected credit losses for trade receivables	
We identified the estimated provision of expected credit losses for trade receivables as a key audit matter due to the significance of trade receivables to the consolidated statement of financial position as a whole, combined with significant management estimation associated with the assessment of impairment of trade receivables. As disclosed in note 30 to the consolidated financial statements, the aggregate carrying amount of trade receivables at amortised cost and at fair value through other comprehensive income is RMB9,162 million (net of allowance for credit losses of RMB388 million). An impairment loss of RMB5 million was recognised in profit or loss during the year ended 31 December 2020. As disclosed in note 4 to the consolidated financial statements, the impairment loss assessment requires significant management estimation in determining the expected credit losses for trade receivables. The Group uses provision matrix, through grouping of various debtors that have similar loss patterns, after considering internal credit ratings, size and background of debtors, business relationships with the debtors and repayment history and/or past due status of respective trade receivables, to calculate expected credit losses for trade receivables. The estimated loss rates are based on the historical default rates taking into consideration forward-looking information that is reasonable, supportable and available without undue costs. In addition, trade receivables with significant balances and credit-impaired are assessed for expected credit losses individually with reference to the historical settlement experience, subsequent settlements, future expected settlement plan, among others.	Our procedures in relation to estimated provision of expected credit losses for trade receivables included: • Obtaining an understanding of management's process of assessing the expected credit losses of trade receivables; • Evaluating the appropriateness of groupings of trade debtors having similar loss patterns in the provision matrix and testing the integrity of the information used by management to develop the provision matrix; • Evaluating the reasonableness of management's determination of the estimated loss rates (with reference to historical default rates and publicly available forward-looking information); and • Evaluating the reasonableness of management's determination of allowance for credit losses for credit-impaired trade receivables with reference to, where applicable, internal credit ratings, size and background of debtors, business relationship with the debtors, the historical settlement experience, subsequent settlements, future expected settlement plan, and other factors.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in the independent auditor's report is Chung Chi Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

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

	NOTES	2020	2019
Revenue			
Sales of goods		**39,657**	36,802
Leases		**406**	408
Interest under effective interest method		**30**	67
Total revenue	5	**40,093**	37,277
Cost of sales		**(32,929)**	(29,775)
Gross profit		**7,164**	7,502
Other income	7	**1,233**	1,071
Other gains and losses	8(a)	**1,144**	275
Impairment loss recognised in respect of financial assets	8(b)	**(179)**	(223)
Selling and distribution expenses		**(3,477)**	(3,757)
General and administrative expenses		**(1,415)**	(1,014)
Research and development expenses		**(1,865)**	(1,843)
Finance costs	9	**(440)**	(484)
Share of results of associates		**15**	21
Share of results of joint ventures		**–**	5
Profit before taxation		**2,180**	1,553
Income tax expense	10	**(345)**	(522)
Profit for the year	11	**1,835**	1,031
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**45**	24
Fair value loss on trade receivables at fair value through other comprehensive income ("FVTOCI")		**(24)**	–
Income tax relating to item that will be reclassified subsequently		**1**	–
Cumulative loss reclassified to profit or loss upon disposal of trade receivables at FVTOCI		**17**	–
		39	24
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at FVTOCI		**(299)**	(141)
Income tax relating to item that will not be reclassified subsequently		**47**	21
		(252)	(120)
Other comprehensive expense for the year		**(213)**	(96)
Total comprehensive income for the year		**1,622**	935

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

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

	NOTES	2020	2019
Profit for the year attributable to:			
Owners of the Company		**1,440**	747
Non-controlling interests		**395**	284
		1,835	1,031
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,225**	642
Non-controlling interests		**397**	293
		1,622	935
Earnings per share (expressed in Renminbi cents)			
Basic	15	**49.23**	24.61
Diluted	15	**44.46**	24.52

Consolidated Statement of Financial Position

At 31 December 2020

Amounts expressed in millions of Renminbi

	NOTES	2020	2019
Non-current Assets			
Property, plant and equipment	16	**5,803**	7,040
Right-of-use assets	17	**2,470**	2,496
Deposits paid for purchase of property, plant and equipment		**132**	299
Investment properties	18	**1,566**	4
Goodwill	19	**447**	410
Intangible assets	20	**99**	91
Interests in associates	21	**197**	196
Interests in joint ventures	22	**17**	19
Financial assets at fair value through profit or loss ("FVTPL")	23	**1,032**	1,005
Equity instruments at FVTOCI	23	**1,216**	1,523
Finance lease receivables	24	**1**	5
Loan receivables	25	**598**	585
Deferred tax assets	26	**498**	500
		14,076	14,173
Current Assets			
Inventories	27	**6,004**	4,909
Stock of properties	28	**5,045**	4,171
Investments in debt securities	29	**–**	83
Financial assets at FVTPL	23	**607**	50
Trade and bills receivables	30	**13,251**	14,265
Trade receivables at FVTOCI	30	**400**	–
Other receivables, deposits and prepayments	31	**2,890**	2,045
Derivative financial instruments	37	**9**	–
Loan receivables	25	**1,115**	1,540
Finance lease receivables	24	**127**	125
Prepaid tax		**119**	75
Pledged bank deposits	32	**1,309**	885
Restricted bank deposits	32	**318**	411
Bank balances and cash	32	**8,214**	4,806
		39,408	33,365
Assets classified as held for sale	33	**200**	–
		39,608	33,365

Consolidated Statement of Financial Position

At 31 December 2020

Amounts expressed in millions of Renminbi

	NOTES	2020	2019
Current Liabilities			
Trade and bills payables	34	**11,899**	10,059
Other payables	35	**4,672**	4,264
Other financial liabilities	36	**199**	–
Derivative financial instruments	37	**25**	4
Lease liabilities	38	**54**	34
Contract liabilities	39	**3,107**	1,951
Corporate bonds	44	**–**	1,990
Provision for warranty	40	**205**	181
Tax liabilities		**265**	189
Bank borrowings	41	**7,401**	7,135
Deferred income	42	**180**	170
		28,007	25,977
Liabilities associated with assets classified as held for sale	33	**84**	–
		28,091	25,977
Net Current Assets		**11,517**	7,388
Total Assets less Current Liabilities		**25,593**	21,561
Non-current Liabilities			
Other financial liabilities	36	**98**	285
Lease liabilities	38	**141**	112
Provision for warranty	40	**97**	91
Bank borrowings	41	**3,986**	1,042
Convertible bonds	43	**913**	924
Corporate bonds	44	**874**	–
Deferred income	42	**270**	426
Deferred tax liabilities	26	**120**	262
Derivative financial instruments	37	**103**	276
		6,602	3,418
NET ASSETS		**18,991**	18,143
Capital and Reserves			
Share capital	45	**273**	308
Reserves		**16,037**	15,684
Equity attributable to owners of the Company		**16,310**	15,992
Non-controlling interests		**2,681**	2,151
		18,991	18,143

The consolidated financial statements on pages 77 to 215 were approved and authorised for issue by the board of directors on 25 March 2021 and are signed on its behalf by:

LAI WEIDE
DIRECTOR

LIU TANGZHI
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

Amounts expressed in millions of Renminbi

	Attributable to owners of the Company											Attributable to non-controlling interests			
	Share capital	Share premium	Share option reserve	Share award reserve	Shares held for share award scheme	FVTOCI reserve	Surplus account *(Note (a))*	Capital reserves *(Note (b))*	Exchange reserve	Accumulated profits	Sub-total	Share award reserve of a subsidiary	Share of net assets of subsidiaries	Sub-total	Total
Balance at 1 January 2019	308	3,292	67	10	(98)	565	40	1,616	(102)	9,772	15,470	35	1,850	1,885	17,355
Profit for the year	–	–	–	–	–	–	–	–	–	747	747	–	284	284	1,031
Fair value loss on equity instruments at FVTOCI, net of tax	–	–	–	–	–	(120)	–	–	–	–	(120)	–	–	–	(120)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(3)	–	–	18	–	15	–	9	9	24
Total comprehensive (expense) income for the year	–	–	–	–	–	(123)	–	–	18	747	642	–	293	293	935
Recognition of equity-settled share-based payments *(note 48)*	–	–	28	10	–	–	–	–	–	–	38	10	–	10	48
Transfer to capital reserve	–	–	–	–	–	–	–	137	–	(137)	–	–	–	–	–
Shares vested under the share award schemes of the Company and a subsidiary of the Company	–	–	–	(10)	15	–	–	–	–	(5)	–	(17)	64	47	47
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	–	–	–	–	(160)	(160)	–	–	–	(160)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(63)	(63)	(63)
Deemed acquisition of additional interest in a listed subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(7)	(7)	(7)
Acquisition of additional interest in subsidiaries *(Note (c))*	–	–	–	–	–	–	–	–	–	2	2	–	(14)	(14)	(12)
Balance at 31 December 2019	308	3,292	95	10	(83)	442	40	1,753	(84)	10,219	15,992	28	2,123	2,151	18,143
Profit for the year	–	–	–	–	–	–	–	–	–	1,440	1,440	–	395	395	1,835
Fair value loss on receivables and equity instruments at FVTOCI, net of tax	–	–	–	–	–	(272)	–	–	–	–	(272)	–	(3)	(3)	(275)
Cumulative loss reclassified to profit or loss upon disposal of trade receivables at FVTOCI	–	–	–	–	–	17	–	–	–	–	17	–	–	–	17
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	40	–	40	–	5	5	45
Total comprehensive (expense) income for the year	–	–	–	–	–	(255)	–	–	40	1,440	1,225	–	397	397	1,622
Recognition of equity-settled share-based payments *(note 48)*	–	–	13	40	–	–	–	–	–	–	53	3	–	3	56
Lapse of share option	–	–	(1)	–	–	–	–	–	–	1	–	–	–	–	–
Transfer to capital reserve	–	–	–	–	–	–	–	147	–	(147)	–	–	–	–	–
Shares vested under the share award schemes of the Company and a subsidiary of the Company	–	–	–	(50)	83	–	–	–	–	(33)	–	(31)	80	49	49
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(96)	(96)	(96)
Contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	11	11	11
Return of capital to a non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	(7)	(7)	(7)
Acquisition of additional interests in subsidiaries *(Note (d))*	–	–	–	–	–	–	–	–	–	–	–	–	(18)	(18)	(18)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	126	126	126
Conversion of convertible bond issued by a subsidiary *(note 43)*	–	–	–	–	–	–	–	–	–	29	29	–	43	43	72
Transfer of equity instrument at FVTOCI from a non-wholly owned subsidiary to a wholly-owned subsidiary	–	–	–	–	–	(22)	–	–	–	–	(22)	–	22	22	–
Repurchase of shares *(note 45)*	(35)	(932)	–	–	–	–	–	–	–	–	(967)	–	–	–	(967)
Balance at 31 December 2020	273	2,360	107	–	–	165	40	1,900	(44)	11,509	16,310	–	2,681	2,681	18,991

Notes:

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

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

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

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

(d) *During the year ended 31 December 2020, the Group acquired 49% equity interest in 北京創維海通數字技術有限公司 from a non-controlling shareholder for a consideration of RMB15 million.*

During the year ended 31 December 2020, the Group acquired 0.2% equity interest in 深圳市酷開網絡科技有限公司 from a non-controlling shareholder for a consideration of RMB3 million.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

Amounts expressed in millions of Renminbi

	NOTES	2020	2019
OPERATING ACTIVITIES			
Profit before taxation		**2,180**	1,553
Adjustments for:			
Amortisation of intangible assets		**2**	1
Depreciation of right-of-use assets		**95**	136
Depreciation of property, plant and equipment		**476**	511
Depreciation of investment properties		**71**	–
Dividend income		**(29)**	(15)
Finance costs		**440**	484
(Gain) loss from changes in fair value of derivative financial instruments		**(144)**	137
Gain on disposal of a joint venture		**–**	(3)
Government grants related to assets recognised		**(145)**	(141)
Impairment loss recognised in respect of financial assets		**179**	223
Interest income		**(305)**	(308)
Gain from changes in fair value of financial assets at FVTPL		**(345)**	(387)
Loss on disposal of financial assets at amortised costs		**32**	31
Gain on disposal of subsidiaries		**(724)**	–
Loss on disposal of interests in associates		**17**	–
Loss on disposal of property, plant and equipment		**74**	6
Provision for warranty		**272**	216
Share-based payment expenses		**56**	48
Share of results of associates		**(15)**	(21)
Share of results of joint ventures		**–**	(5)
Write-down of inventories		**64**	163
Operating cash flows before movements in working capital		**2,251**	2,629
Cash (paid) received on settlement of derivative financial instruments		**(1)**	1
(Increase) decrease in inventories		**(814)**	1,213
Increase in stock of properties		**(874)**	(3,305)
Decrease in trade and bills receivables		**926**	2,035
Increase in trade receivables at FVTOCI		**(407)**	–
(Increase) decrease in other receivables, deposits and prepayments		**(515)**	433
(Increase) decrease in loan receivables		**(97)**	397
Increase (decrease) in trade and bills payables		**1,772**	(2,830)
Increase in other payables		**418**	323
Increase in contract liabilities		**1,120**	508
Decrease in provision for warranty		**(239)**	(167)
Decrease in deferred income		**(18)**	(70)
Cash generated from operations		**3,522**	1,167
Interest received		**30**	67
Hong Kong income tax paid		**(4)**	(1)
Overseas income tax paid		**(1)**	(16)
PRC income tax paid		**(391)**	(300)
Land appreciation tax paid		**(19)**	(19)
NET CASH FROM OPERATING ACTIVITIES		**3,137**	898

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

Amounts expressed in millions of Renminbi

	NOTES	**2020**	2019
INVESTING ACTIVITIES			
Dividend received		**32**	18
Interest received		**275**	258
Purchase of property, plant and equipment		**(1,331)**	(1,013)
Deposit paid for acquisition of property, plant and equipment		**(132)**	–
Proceeds on disposal of property, plant and equipment		**121**	46
Addition to right-of-use assets		**(198)**	(56)
Purchase of intangible assets		**(1)**	–
Investment in an associate		**(35)**	(96)
Proceeds on disposal of associates		**29**	–
Proceeds on disposal of a joint venture		**2**	8
Investments in financial assets at FVTPL		**(799)**	(306)
Proceeds on disposal of financial assets at FVTPL		**707**	138
Investments in equity instruments at FVTOCI		**(3)**	(170)
Proceeds on disposal of equity instruments at FVTOCI		**6**	–
Investments in debt securities		**(20)**	(86)
Proceeds on redemption of investments in debt securities upon maturity		**103**	153
Repayments of (advance to) finance lease receivable		**9**	(5)
Loan advanced		**(723)**	(1,495)
Repayments of loan receivables		**1,156**	1,705
Advances to staffs		**(12)**	(10)
Repayments from staffs		**10**	14
Government grants received related to assets		**30**	141
Placement of pledged bank deposits		**(1,309)**	(885)
Withdrawal of pledged bank deposits		**885**	123
Placement of restricted bank deposits		**(318)**	(411)
Withdrawal of restricted bank deposits		**411**	335
Net cash inflow from acquisition of a subsidiary		**7**	14
Net cash inflow from disposal of subsidiaries	49(b & c)	**853**	–
NET CASH USED IN INVESTING ACTIVITIES		**(245)**	(1,580)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

Amounts expressed in millions of Renminbi

	NOTES	2020	2019
FINANCING ACTIVITIES			
Dividends paid		**(96)**	(273)
Interest paid		**(375)**	(431)
Repurchases of shares by the Company	45	**(967)**	–
Return of capital to non-controlling interests		**(7)**	–
Contributions from non-controlling interests		**11**	–
Repurchase of its own shares by a listed subsidiary		**–**	(7)
Consideration paid in acquisition of additional interests in subsidiaries		**(18)**	(12)
New convertible bonds raised, net of transaction costs		**–**	1,031
New other financial liability		**–**	98
New borrowings raised		**18,361**	13,676
Repayments of borrowings		**(15,151)**	(11,918)
Payments of lease liabilities		**(79)**	(55)
New corporate bond raised, net of transaction costs	44	**797**	–
Repayment of corporate bonds		**(1,913)**	–
NET CASH FROM FINANCING ACTIVITIES		**563**	2,109
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,455**	1,427
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**4,806**	3,314
Bank balances and cash transferred to assets held for sale		**(74)**	–
Effect of foreign exchange rate changes		**27**	65
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**8,214**	4,806

1. GENERAL INFORMATION

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

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

The Group, comprising the Company and its subsidiaries, is principally engaged in the manufacture and sales of smart TV system, home access systems, smart white appliances, internet value-added services, property development, property holding, modern services and trading of other products. Details of the principal activities of the principal subsidiaries, associates and joint ventures are set out in notes 60, 21 and 22 respectively.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of *the Amendments to Reference to Conceptual Framework in HKFRS standards* and amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

Impacts on application of Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "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, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

Impacts on application of Amendments to HKFRS 3 *Definition of a Business*

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The application of the amendments had no impact on the consolidated financial statements in the current year as similar conclusion would have been reached without applying the optional concentration test.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to HKFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020[2]

1 *Effective for annual periods beginning on or after 1 January 2023.*
2 *Effective for annual periods beginning on or after 1 January 2022.*
3 *Effective for annual periods beginning on or after a date to be determined.*
4 *Effective for annual periods beginning on or after 1 June 2020.*
5 *Effective for annual periods beginning on or after 1 January 2021.*

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKFRS 3 *Reference to the Conceptual Framework*

The amendments:

- update a reference in HKFRS 3 *Business Combinations* ("HKFRS 3") so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010);

- add a requirement that, for transactions and other events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("HKAS 37") or HK(IFRIC)-Int 21 *Levies*, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- Modification of financial assets, financial liabilities and lease liabilities: A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16 *Leases* ("HKFRS 16");

- Hedge accounting requirements: Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- Disclosures: The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Company is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several bank loans with London Interbank Offered Rate ("LIBOR")/RMB Loan Prime Rate ("LPR") quoted by the People's Bank of China ("PBOC") which may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

As at 31 December 2020, the Group's outstanding convertible instruments include counterparty conversion options that do not meet equity instruments classification by applying HKAS 32 *Financial Instruments: Presentation*. The Group classified as current or non-current based on the earliest date in which the Group has the obligation to redeem these instruments through cash settlement. The host debt component is measured at amortised cost with carrying amount of RMB913 million and the derivative component (including the conversion options) is measured at fair value with carrying amount of RMB19 million as at 31 December 2020, both of which are classified as non-current as set out in note 43. Upon the application of the amendments, in addition to the obligation to redeem through cash settlement, the transfer of equity instruments upon the exercise of the conversion options that do not meet equity instruments classification also constitute settlement of the convertible instruments. Given that the conversion options are exercisable anytime, the host liability and the derivative component amounting to RMB932 million would be reclassified to current liabilities as the holders have the option to convert within twelve months.

Except for as disclosed above, the application of the amendments will not result in reclassification of the Group's other liabilities as at 31 December 2020.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 *Significant accounting policies (Continued)*

Basis of consolidation (Continued)

Changes in the Group's interests in existing subsidiaries

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

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

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

Business combination or asset acquisition

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 *Significant accounting policies (Continued)*

Business combination or asset acquisition (Continued)

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

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

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Business combination or asset acquisition (Continued)

Business combinations (Continued)

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

Goodwill

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Goodwill (Continued)

Interests in associates and joint ventures

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 *Significant accounting policies (Continued)*

Goodwill (Continued)

Interests in associates and joint ventures (Continued)

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

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

Non-current assets held for sale

Non-current assets (and disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

Non-current assets (and disposal group) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of HKFRS 9, which continue to be measured in accordance with the accounting policies as set out in respective sections.

Revenue from contracts with customers

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Revenue from contracts with customers (Continued)

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

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

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

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

Variable consideration

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Revenue from contracts with customers (Continued)

Principal versus agent

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

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

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

Refund liabilities

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

Sale with a right of return/exchange

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

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

(b) a refund liability/contract liability; and

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

Leases

Definition of 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.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

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

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

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

The Group as a lessor

Classification and measurement of leases

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessor (Continued)

Allocation of consideration to components of a contract

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

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

Sublease

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

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

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

Sale and leaseback transactions

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

The Group as a buyer-lessor

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Foreign currencies

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

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

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

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

Borrowing costs

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Government grants

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

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

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to directors and employees

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

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

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

Share options granted to non-employees

Equity-settled share-based payments transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses.

Share award

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies *(Continued)*

Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Taxation (Continued)

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

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

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

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

Property, plant and equipment

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Property, plant and equipment (Continued)

When the Group makes payments for ownership interests of properties which include both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, transfer from owner-occupied property to investment property does not change the carrying amount of the property transferred and it does not change the cost of that property for measurement or disclosure purposes.

Investment properties

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination

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

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

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

Impairment losses on property, plant and equipment and investment properties, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and investment properties, right-of-use assets and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful life are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amounts of property, plant and equipment and investment properties, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporates assets are allocated to relevant cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination (Continued)

Impairment losses on property, plant and equipment and investment properties, right-of-use assets and intangible assets other than goodwill (Continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Stock of properties

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

Properties under development are transferred to completed properties upon completion.

Provision for warranty

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

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

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

Financial instruments

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

A financial asset is held for trading if:

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(i) Amortised cost and interest income

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

(ii) Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. When these receivables are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(iv) Financial assets at FVTPL

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

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

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

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

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

The Group always recognises lifetime ECL for trade receivables and finance lease receivables.

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

(i) Significant increase in credit risk

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

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

(i) Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 *Significant accounting policies (Continued)*

Financial instruments (Continued)

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group performs impairment assessment under ECL model on financial assets at amortised cost individually for significant or credit impaired balances or collectively based on provision matrix for the remaining balances taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Internal credit ratings;
- Size and background of debtors;
- Business relationships with the debtors; and
- Repayment history and/or past-due status.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

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

(v) Measurement and recognition of ECL (Continued)

Except for receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and loan receivables where the corresponding adjustment is recognised through a loss allowance account. For receivables that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these receivables. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

Derecognition of financial assets

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

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

On derecognition of receivables classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

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

Financial liabilities and equity

Classification as debt or equity

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is held for trading if:

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

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

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, other payables, bank borrowings, convertible bonds, corporate bonds and other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Convertible bonds

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

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

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

Derecognition of financial liabilities

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Write-down for inventories

Inventories are stated at the lower of cost and net realisable values. As at 31 December 2020, the carrying amount of inventories is RMB6,004 million (2019: RMB4,909 million). During the year ended 31 December 2020, an expense of RMB64 million (2019: RMB163 million) was recognised in profit or loss to write-down the cost of inventories to their net realisable values.

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

Fair value measurement of financial instruments

The Group's unlisted equity instruments at FVTPL and unlisted equity instruments at FVTOCI amounting to RMB1,076 million and RMB1,088 million (2019: RMB612 million and RMB1,402 million), respectively, are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. In estimating the fair value of unlisted equity securities, the Group engaged independent qualified external valuers to perform the valuation and worked with the independent qualified external valuers to establish inputs to the valuation. The fair value of unlisted equity instruments was mainly arrived at by using market approach. The valuations are dependent on certain significant unobservable inputs that involve judgements, including trading multiples of comparable companies and discounts for lack of marketability. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 54(c) for further disclosures.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated provision of ECL for trade receivables

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

The aggregate carrying amount of trade receivables at amortised cost and at FVTOCI is RMB9,162 million, net of allowance for credit losses of RMB388 million (2019: RMB9,430 million, net of allowance for credit loss of RMB398 million). An impairment loss of RMB5 million (2019: RMB110 million) was recognised in the profit or loss on trade receivables during the year ended 31 December 2020.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 54(c) and 30 respectively.

5. REVENUE

(i) Disaggregation of revenue from sales of goods, leases and interest under effective interest method

For the year ended 31 December 2020

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Modern services and others RMB million	Total RMB million
Type of goods					
Smart TV systems	20,525	172	–	89	20,786
Home access systems	50	5,299	–	–	5,349
Smart white appliances	67	–	3,882	1	3,950
Intelligent manufacturing	123	1,693	–	–	1,816
Internet value-added services of Coocaa system	1,056	–	–	–	1,056
Sales of properties	–	–	–	305	305
Automotive electronic system	–	104	–	–	104
Others *(Note (a))*	2,750	1,418	336	1,787	6,291
Contracts with customers *(Note (b))*	24,571	8,686	4,218	2,182	39,657
Leases	–	60	–	346	406
Interest under effective interest method *(Note (c))*	–	–	–	30	30
Segment revenue	24,571	8,746	4,218	2,558	40,093

5. REVENUE (Continued)

(i) *Disaggregation of revenue from sales of goods, leases and interest under effective interest method (Continued)*

For the year ended 31 December 2019

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

Notes:

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

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

(c) *Interest represents interest income from loan receivables and finance lease receivables and amounted to RMB30 million (2019: RMB67 million), under group entities in which the loan financing is a principal activity.*

5. REVENUE (Continued)

(ii) Performance obligations for contracts with customers

Manufacture and sales of goods

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

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

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

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

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

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

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

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

5. REVENUE (Continued)

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

Manufacture and sales of goods (Continued)

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

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

Internet value-added services of Coocaa system

For provision of internet value-added services of Coocaa system, revenue is either recognised based on the services transferred to date relative to the remaining services promised under the contract or recognised over the subscription period/contract period when the services are provided through the online platform. The customers are required to pay upfront for the subscription fees.

Sales of properties

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

The Group receives not less than 30% of the contract value as deposits from customers for the sales of properties when they sign the sale and purchase agreements and the remaining of the contract value is paid before the completion of the sales of the properties. The deposits and advance payment schemes result in contract liabilities being recognised until the customers obtain control of the properties.

The Group considers the advance payment scheme does not contain significant financing component. For contracts where the period between payment and transfer of the associated properties is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

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

5. REVENUE (Continued)

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

Trading of other products

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

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

The expected timing of recognising revenue on transaction price related to the performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 and 2019 is within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

The Group is organised into operating business units according to the nature of the goods sold or services provided. The Group determines its operating segments based on these business units by reference to the goods sold or services provided, for the purpose of reporting to the chief operating decision maker ("CODM") (i.e. the executive directors of the Company).

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

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

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

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

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

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

For the year ended 31 December 2020

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Eliminations RMB million	Total RMB million
Revenue							
Segment revenue from external customers	24,571	8,746	4,218	37,535	2,558	–	40,093
Inter-segment revenue	112	218	53	383	4,532	(4,915)	–
Total segment revenue	24,683	8,964	4,271	37,918	7,090	(4,915)	40,093
Results							
Segment results *(Note)*	606	399	96	1,101	217	–	1,318
Interest income							275
Other gains or losses							1,194
Unallocated corporate income							138
Unallocated corporate expenses							(320)
Finance costs							(440)
Share of results of associates							15
Consolidated profit before taxation of the Group							2,180

During the year ended 31 December 2020, an amount of RMB358 million was adjusted to revenue of the current year for sales made in prior years as a result of collection in the current year upon the finalisation of settlement with the relevant government authority. Accordingly, the net amount of RMB286 million (after deducting related expenses) was recognised and included in the segment result of multimedia business segment.

Inter-segment sales are charged at prevailing market rates.

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2019

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

Note: Unrealised profit and loss arising from inter-segment revenue is included in segment results of each segment.

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

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

As at 31 December 2020

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Total RMB million
Assets						
Segment assets	14,727	6,631	2,432	23,790	15,711	39,501
Goodwill						447
Interests in associates						197
Interests in joint ventures						17
Assets classified as held for sale						200
Unallocated corporate assets						13,322
Total consolidated assets						53,684
Liabilities						
Segment liabilities	8,449	3,604	2,259	14,312	6,160	20,472
Liabilities associated with assets classified as held for sale						84
Unallocated corporate liabilities						14,137
Total consolidated liabilities						34,693

As at 31 December 2019

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

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

Included in modern services and others, segment assets and liabilities related to "sales of properties" amounted to RMB5,154 million (2019: RMB4,575 million) and RMB2,523 million (2019: RMB1,283 million) respectively.

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

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

- all liabilities other than inter-segment liabilities are allocated to reportable segments other than derivative financial instruments, tax liabilities, bank borrowings, deferred income, corporate bonds, convertible bonds, deferred tax liabilities and liabilities associated with assets classified as held for sale.

Other segment information

For the year ended 31 December 2020

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Total RMB million
Included in measure of segment results or segment assets:						
Amortisation of intangible assets	2	–	–	2	–	2
Capital expenditure on						
– Intangible assets	9	–	–	9	1	10
– Property, plant and equipment	473	221	203	897	830	1,727
– Right-of-use assets	20	29	–	49	277	326
Depreciation of property, plant and equipment	97	164	70	331	145	476
Depreciation of right-of-use assets	36	24	2	62	33	95
Depreciation of investment properties	–	–	–	–	71	71
Loss (gain) on disposal of property, plant and equipment, net	6	(1)	–	5	69	74
Impairment loss recognised (reversed) in respect of trade receivables at amortised cost	54	(54)	6	6	(1)	5
Impairment loss recognised in respect of bills receivables	55	21	–	76	–	76
Impairment loss recognised in respect of loan receivables	–	–	–	–	78	78
Impairment loss recognised (reversed) in respect of other receivables	3	(6)	–	(3)	30	27
Impairment loss reversed in respect of finance lease receivables	–	–	–	–	(7)	(7)
Write-down of inventories	34	31	–	65	(1)	64

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2019

	Multimedia business RMB million	Smart systems technology business RMB million	Smart appliances business RMB million	Total reportable segments RMB million	Modern services and others RMB million	Total RMB million
Included in measure of segment results or segment assets:						
Amortisation of intangible assets	1	–	–	1	–	1
Capital expenditure on						
– Property, plant and equipment	269	206	129	604	629	1,233
– Right-of-use assets	38	33	–	71	64	135
Depreciation of property, plant and equipment	78	152	67	297	214	511
Depreciation of right-of-use assets	41	23	1	65	20	85
Loss on disposal of property, plant and equipment	6	–	–	6	–	6
Impairment loss recognised in respect of investments in debt securities	–	–	–	–	8	8
Impairment loss recognised in respect of trade receivables at amortised cost	15	91	4	110	–	110
Impairment loss recognised in respect of loan receivables	–	–	–	–	35	35
Impairment loss recognised in respect of other receivables	–	–	–	–	67	67
Impairment loss recognised in respect of finance lease receivables	–	–	–	–	3	3
Write-down of inventories	93	41	4	138	25	163

6. SEGMENT INFORMATION (Continued)

Geographical information

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

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

	Revenue from external customers		Non-current assets *(Note (a))*	
	2020	2019	**2020**	2019
	RMB million	RMB million	**RMB million**	RMB million
PRC	**24,583**	26,006	**10,173**	9,823
Asia region (other than the PRC) *(Note (b))*	**9,429**	6,115	**472**	643
America	**1,424**	709	**–**	–
Europe	**1,890**	1,637	**15**	17
Other regions	**2,767**	2,810	**71**	72
	40,093	37,277	**10,731**	10,555

Notes:

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

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

Information about major customers

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

7. OTHER INCOME

	2020 RMB million	2019 RMB million
Dividend income from unlisted investments	**29**	15
Government grants *(note 42)*		
– related to assets	**145**	141
– related to expense items	**357**	231
	502	372
Interest income from		
– bank deposits	**138**	90
– investments in debt securities	**1**	3
– loan receivables	**136**	148
	275	241
Repairs and maintenance income	**–**	1
Value-added-tax ("VAT") refund	**299**	296
Sales of scrap and raw materials and accessories	**42**	54
Others	**86**	92
	1,233	1,071

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

(a) Other gains and losses

	2020 RMB million	2019 RMB million
Other gains and losses comprise of:		
Exchange gain, net	**73**	59
Gain (loss) from change in fair value of derivative financial instruments *(note 37)*	**144**	(137)
Gain on disposal of a joint venture	**–**	3
Gain from changes in fair value of financial assets at FVTPL	**345**	387
Gain on disposal of subsidiaries *(note 49)*	**724**	–
Loss on disposal of interests in associates	**(17)**	–
Loss on disposal of financial assets at amortised cost	**(32)**	(31)
Loss on disposal of property, plant and equipment	**(74)**	(6)
Loss on trade receivables at FVTOCI reclassified from equity upon disposal	**(17)**	–
Others	**(2)**	–
	1,144	275

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

(b) Impairment loss recognised in respect of financial assets

	2020 **RMB million**	2019 RMB million
Impairment loss reversed (recognised) in respect of the following financial assets:		
Finance lease receivables	**7**	(3)
Investments in debt securities	**–**	(8)
Trade receivables at amortised cost	**(5)**	(110)
Bills receivables	**(76)**	–
Other receivables	**(27)**	(67)
Loan receivables	**(78)**	(35)
	(179)	(223)

9. FINANCE COSTS

	2020 **RMB million**	2019 RMB million
Interest on corporate bonds	**115**	111
Interest on convertible bonds *(note 43)*	**49**	36
Interest on borrowings	**255**	315
Imputed interest expenses on other financial liabilities *(note 36)*	**12**	14
Interest expense on lease liabilities	**9**	8
	440	484

10. INCOME TAX EXPENSE

	2020 **RMB million**	2019 RMB million
PRC Enterprise Income Tax ("EIT")	**404**	308
PRC withholding tax	**22**	26
Hong Kong Profits Tax	**10**	5
Taxation arising in other jurisdictions	**19**	6
PRC land appreciation tax ("LAT")	**1**	14
Deferred taxation	**(111)**	163
	345	522

10. INCOME TAX EXPENSE (Continued)

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

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

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

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

According to a joint circular of Ministry of Finance and State Administration of Taxation, Caishui 2008 No. 1, dividend distributed out of the profits generated since 1 January 2008 by the PRC entity shall be subject to EIT pursuant to Articles 3 and 27 of the EIT Law of the PRC and Article 91 of the Implementation Rules of EIT Law of the PRC. RMB22 million (2019: RMB26 million) is charged to profit and loss as current tax upon distributions by the PRC subsidiaries during the year ended 31 December 2020.

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

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

10. INCOME TAX EXPENSE (Continued)

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

	2020 RMB million	2019 RMB million
Profit before taxation	**2,180**	1,553
Tax at applicable tax rate at 25% *(Note)*	**545**	388
Tax effect of expenses not deductible for tax purpose	**130**	113
Tax effect of income not taxable for tax purpose	**(99)**	(171)
Tax effect of additional tax deduction of research costs	**(116)**	(125)
Tax effect of tax losses and deductible temporary difference not recognised	**143**	320
Utilisation of tax losses previously not recognised	**(195)**	(62)
Tax effect of share of results of associates	**(4)**	(5)
Tax effect of share of results of joint ventures	**–**	(1)
PRC withholding tax	**–**	59
PRC LAT	**1**	14
Tax effect of PRC LAT	**–**	(4)
Effect of different tax rates applicable to subsidiaries operating in Hong Kong and regions in the PRC other than Hong Kong	**(1)**	(3)
Income tax at concessionary rate	**(39)**	(54)
Others	**(20)**	53
Income tax expense for the year	**345**	522

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

11. PROFIT FOR THE YEAR

	2020 RMB million	2019 RMB million
Profit for the year has been arrived at after charging (crediting):		
Amortisation of intangible assets	**2**	1
Auditors' remunerations	**8**	9
Cost of inventories recognised as an expense including write-down of inventories of RMB64 million (2019: RMB163 million)	**32,555**	29,310
Cost of stock of properties recognised as an expense	**222**	322
Depreciation of right-of-use assets	**141**	136
Less: Capitalised as cost of inventories	**(3)**	(3)
Capitalised as cost of construction in progress	**(43)**	(48)
	95	85
Depreciation of investment properties	**71**	–
Depreciation of property, plant and equipment	**703**	733
Less:Capitalised as cost of inventories	**(227)**	(222)
	476	511
Provision for warranty	**272**	216
Rental income from leases less related outgoings of RMB125 million (2019: RMB144 million)	**(281)**	(264)
Research and development costs recognised as an expense (including staff costs of RMB937 million (2019: RMB950 million))	**1,865**	1,843
Staff costs:		
– Directors' and chief executive's emoluments (note 12)	**72**	44
– Related staff costs for research and development activities	**937**	950
– Other staffs salaries, bonus, retirement benefits and others	**3,274**	3,274
	4,283	4,268
Less capitalised as:		
– Cost of inventories	**(1,063)**	(1,023)
– Stock of properties	**(5)**	(6)
– Property, plant and equipment	**(11)**	(11)
	3,204	3,228

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	2020 RMB million	2019 RMB million
Directors' fees	**4,084**	3,977
Other emoluments:		
Basic salaries and allowances	**10,403**	7,476
Performance related incentive payments *(Note)*	**36,354**	18,926
Retirement benefits scheme contributions	**272**	390
Share-based payments	**20,731**	12,904
	71,844	43,673

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any emoluments for both years.

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

	Directors' fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Performance related incentive payments RMB'000	Share-based payments RMB'000	Total RMB'000
For the year ended 31 December 2020						
Executive directors *(Note (i))*:						
Lai Weide	498	3,096	70	12,144	10,590	26,398
Lin Wei Ping	498	1,494	94	3,924	–	6,010
Lin Jin	498	1,116	23	1,782	–	3,419
Liu Tangzhi *(Note (iii))*	498	2,116	51	7,208	5,961	15,834
Shi Chi	264	1,585	18	9,119	1,895	12,881
Lam Shing Choi, Eric *(Note (iv))*	418	996	16	2,177	2,285	5,892
	2,674	10,403	272	36,354	20,731	70,434
Independent non-executive directors *(Note (ii))*:						
Cheong Ying Chew, Henry	470	–	–	–	–	470
Li Weibin	470	–	–	–	–	470
Hung Ka Hai, Clement *(Note (v))*	370	–	–	–	–	370
Li Ming *(Note (vi))*	100	–	–	–	–	100
	1,410	–	–	–	–	1,410
Total directors' emoluments	4,084	10,403	272	36,354	20,731	71,844

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

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

Notes:

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

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

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

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

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

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

13. EMPLOYEES' EMOLUMENTS

The five highest paid employees of the Group during the year included four (2019: four) existing directors, details of whose emoluments are set out in note 12 above. Details of the emoluments of the remaining highest paid employee who is neither an existing director nor chief executive of the Company are as follows:

	2020 RMB million	2019 RMB million
Basic salaries, allowances and benefits in kind	**1**	1
Performance related incentive payments *(Note)*	**4**	2
Share-based payments	**2**	2
	7	5

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

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

	2020 No. of employee RMB million	2019 No. of employee RMB million
HK$6,000,001 to HK$6,500,000	**–**	1
HK$7,500,001 to HK$8,000,000	**1**	–

No emoluments were paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office for both years.

14. DIVIDEND

	2020 RMB million	2019 RMB million
Dividend recognised as distribution during the year:		
2019 final dividend – nil (2019: 2018 final dividend 6.0 HK cents) per share	**–**	160

The Board has determined not to declare any dividend for the year ended 31 December 2020 (2019: nil).

No interim dividend was paid or proposed during the years ended 31 December 2020 and 2019.

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

15. EARNINGS PER SHARE

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

	2020 **RMB million**	2019 RMB million
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**1,440**	747
Effect of dilutive potential ordinary shares arising from restricted share incentive scheme of Skyworth Digital Co., Limited ("Skyworth Digital"), an indirect non-wholly owned subsidiary of the Company established in the PRC whose shares are listed on the Shenzhen Stock Exchange *(note 48 (iii))*	**(2)**	(2)
Effect of dilutive potential ordinary shares on convertible bonds of Skyworth Digital	**(129)**	–
Profit for the year attributable to owners of the Company for the purpose of diluted earnings per share	**1,309**	745

	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,924,914,748**	3,035,576,545
Effect of dilutive potential ordinary shares in respect of outstanding share awards of the Company	**19,059,481**	3,212,895
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,943,974,229**	3,038,789,440

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the average market price per share for the years ended 31 December 2020 and 2019 and the conversion of Skyworth Digital's convertible bonds which results in an increase in earnings per share for the year ended 31 December 2019.

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the repurchase of shares on 14 September 2020 and has been arrived at after deducting shares held by share award scheme trust as set out in note 48(ii).

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB million	Construction in progress RMB million	Plant and machinery RMB million	Furniture, equipment and motor vehicles RMB million	Total RMB million
COST					
At 1 January 2019	5,265	978	2,257	1,318	9,818
Additions	44	742	287	160	1,233
Acquisition of a subsidiary *(note 49)*	5	–	–	13	18
Disposals	(9)	–	(48)	(55)	(112)
Reclassification	676	(774)	98	–	–
Exchange realignment	2	–	2	1	5
At 31 December 2019	5,983	946	2,596	1,437	10,962
Additions	72	958	418	279	1,727
Acquisition of a subsidiary	34	–	8	–	42
Disposal of subsidiaries *(note 49)*	(306)	(224)	(11)	(1)	(542)
Disposals	(156)	–	(354)	(100)	(610)
Reclassification	734	(745)	11	–	–
Transfer to assets classified as held for sale	(80)	–	(10)	(28)	(118)
Transfer to investment properties	(1,740)	–	–	–	(1,740)
Exchange realignment	(7)	–	(3)	(3)	(13)
At 31 December 2020	4,534	935	2,655	1,584	9,708
DEPRECIATION					
At 1 January 2019	1,343	–	1,181	723	3,247
Provided for the year	296	–	234	203	733
Eliminated on disposals	(6)	–	(14)	(40)	(60)
Exchange realignment	1	–	1	–	2
At 31 December 2019	1,634	–	1,402	886	3,922
Provided for the year	245	–	256	202	703
Eliminated on disposals	(89)	–	(245)	(81)	(415)
Disposal of subsidiaries *(note 49)*	(122)	–	(8)	–	(130)
Transfer to assets classified as held for sale	(34)	–	(5)	(18)	(57)
Transfer to investment properties	(107)	–	–	–	(107)
Exchange realignment	(5)	–	(5)	(1)	(11)
At 31 December 2020	1,522	–	1,395	988	3,905
CARRYING VALUES					
At 31 December 2020	3,012	935	1,260	596	5,803
At 31 December 2019	4,349	946	1,194	551	7,040

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

During the year ended 31 December 2020, the Group's property, plant and equipment amounted to RMB1,633 million was transferred to investment properties as a result of end of owner-occupation.

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

	2020 RMB million	2019 RMB million
Leasehold land and buildings:		
In the PRC	**1,821**	1,532
In Hong Kong	**17**	17
Overseas	**6**	6
	1,844	1,555
Buildings:		
In the PRC	**1,137**	2,763
Overseas	**31**	31
	1,168	2,794
	3,012	4,349
Construction in progress:		
In the PRC	**935**	946
	3,947	5,295

17. RIGHT-OF-USE ASSETS

For the year ended 31 December 2020, the Group leases various offices, warehouses and retail stores for its operations. Lease contracts are entered into for fixed term of 1 to 10 years, and majority of the contracts have no extension or termination option. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

	Leasehold lands RMB million	**Leased properties** RMB million	**Total** RMB million
As at 31 December 2020			
Carrying amount	2,282	188	2,470
As at 31 December 2019			
Carrying amount	2,361	135	2,496
For the year ended 31 December 2020			
Depreciation charge	63	78	141
Capitalised in construction in progress	(43)	–	(43)
Capitalised in inventories	(3)	–	(3)
	17	78	95
For the year ended 31 December 2019			
Depreciation charge	63	73	136
Capitalised in construction in progress	(48)	–	(48)
Capitalised in inventories	(3)	–	(3)
	12	73	85

	2020 RMB million	2019 RMB million
Expense relating to short-term leases	**2**	24
Total cash outflow for leases	**279**	142
Additions to right-of-use assets	**326**	135
Additions through acquisition of a subsidiary	**23**	–
Disposal through disposals of subsidiaries	**235**	–

The Group regularly entered into short-term leases for motor vehicles and office equipment. As at 31 December 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed this note.

17. RIGHT-OF-USE ASSETS (Continued)

Restrictions or covenants on leases

Lease liabilities of RMB195 million (2019: RMB146 million) are recognised with related right-of-use assets of RMB188 million (2019: RMB135 million) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in note 38.

18. INVESTMENT PROPERTIES

	RMB million
COST	
At 1 January 2019 and 31 December 2019	5
Transfer from property, plant and equipment	1,633
At 31 December 2020	1,638
DEPRECIATION	
At 1 January 2019 and 31 December 2019	1
Provided for the year	71
At 31 December 2020	72
CARRYING VALUES	
At 31 December 2020	1,566
At 31 December 2019	4

The above investment properties are depreciated on a straight-line basis over the shorter of the terms of the leases or 20 to 50 years.

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

The Group leases out various offices under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 21 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

During the year ended 31 December 2020, the group's investment properties amounting to RMB1,633 million were transferred from property, plant and equipment as a result of end of owner-occupation and represent leasehold land and buildings in the PRC.

18. INVESTMENT PROPERTIES (Continued)

The fair value of the Group's investment properties at 31 December 2020 was RMB4,402 million (2019: RMB36 million). The fair values at 31 December 2020 and 2019 have been arrived at based on valuations carried out by ValQuest Advisory (Hong Kong) Limited, an independent valuer not connected with the Group.

At 31 December 2020 and 2019, the fair value of the investment properties located in Hong Kong is determined based on direct comparison method whereby comparison based on price information of comparable properties is obtained. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values and was classified as Level 3 of the fair value hierarchy.

At 31 December 2020, the valuation of the investment properties located in PRC is arrived at using income capitalisation method, by capitalising the estimated market rents of the property by referring to the rentals of comparable properties in the subject locality using appropriate capitalisation rates; and is classified as Level 3 of the fair value hierarchy.

	31 December 2020 RMB million	31 December 2019 RMB million	**Valuation techniques**	**Unobservable inputs**	**Relationship of unobservable inputs to fair value**	**Sensitivity**
Industrials properties located in the PRC	**4,369**	N/A	Income capitalisation method – the estimated market rent of the property	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of property, and prevailing market condition of 6%	The higher the capitalisation rate used would result in a increase in fair value.	A slight increase in the market unit rate used would result in a significant increase in fair value, vice versa
Industrial properties located in Hong Kong	**33**	36	Direct comparison method – market unit rate	Market unit rate, taking into account the size and location, between investment properties, ranging from RMB 6,375 per sq. ft. to RMB7,517 per sq. ft. (2019: RMB7,332 per sq. ft. to RMB8,705 per sq. ft.	The higher the market unit rate, the higher the fair value	A slight increase in the market unit rate used would result in a significant increase in fair value, and vice versa

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2020 and 2019 are as follows:

	2020		2019	
	Carrying amount RMB million	**Level 3 fair value RMB million**	Carrying amount RMB million	Level 3 fair value RMB million
Completed investment properties located in				
– Hong Kong	**4**	**33**	4	36
– PRC	**1,562**	**4,369**	–	–
	1,566	**4,402**	4	36

19. GOODWILL

	RMB million
At 1 January 2019	384
Acquisition of a subsidiary *(note 49(a))*	16
Exchange realignment	10
At 31 December 2019	410
Acquisition of a subsidiary *(Note)*	35
Exchange realignment	2
At 31 December 2020	447

Note: Goodwill of RMB35 million arose from the acquisition of a subsidiary, 天津市百利溢通電泵有限公司 at cash consideration of RMB156 million during the year ended 31 December 2020.

	2020 RMB million	2019 RMB million
Arising from:		
– acquisition of Skyworth Digital *(Note (a))*	**286**	286
– acquisition of Strong Media Group Limited (“Strong Media”) *(Note (b))*	**84**	84
– others	**77**	40
	447	410

For the purposes of impairment testing, goodwill have been allocated to individual cash-generating units (“CGUs”).

During the year ended 31 December 2020, management of the Group determines that there are no impairments of any of its CGUs containing goodwill (2019: nil).

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

(a) For the purpose of impairment testing on the goodwill arising from acquisition of Skyworth Digital for the operation of digital set-top boxes business for the year ended 31 December 2020, the recoverable amount of the CGU has been determined by the fair value less cost of disposal. The fair value less cost of disposal of the CGU is determined with reference to the share price of Skyworth Digital at 31 December 2020, less the transaction costs for disposing the shares of Skyworth Digital. For the year ended 31 December 2019, the recoverable amount of the CGU had been determined by value-in-use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a five-year period, and a pre-tax discount rate of 12.8%. Cash flows beyond the five-year period were extrapolated with zero growth rate. Expected cash inflows/outflows, which included budgeted sales, gross margin and raw material price inflation had been determined based on past performance and management’s expectations for the market development. Management believed that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

19. GOODWILL (Continued)

(b) For the purpose of impairment testing, goodwill arising from acquisition of Strong Media and intangible assets with indefinite useful life as disclosed in note 20(b) have been allocated to the CGU. The recoverable amount of the CGU has been determined by a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a pre-tax discount rate of 14.30% (2019: 14.20%). Cash flows beyond the five-year period are extrapolated with zero (2019: zero) growth. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation, have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed the recoverable amount of the CGU.

20. INTANGIBLE ASSETS

	Patents RMB million *(Note (a))*	**Trademarks** RMB million *(Note (b))*	**Total** RMB million
COST			
At 1 January 2019 and 31 December 2019	12	88	100
Additions	1	–	1
Additions through acquisition of a subsidiary	–	9	9
At 31 December 2020	13	97	110
AMORTISATION			
At 1 January 2019	8	–	8
Charge for the year	1	–	1
At 31 December 2019	9	–	9
Charge for the year	2	–	2
At 31 December 2020	11	–	11
CARRYING VALUES			
At 31 December 2020	2	97	99
At 31 December 2019	3	88	91

Notes:

(a) *The patents have finite useful life and are amortised at 10% to 20% on a straight-line basis.*

(b) *The above trademarks of RMB88 million were purchased as part of a business combination related to Strong Media during year ended 31 March 2016 and of RMB9 million as part of another business combination during the year ended 31 December 2020.*

The trademarks have legal life ranging from 10 to 21 years but are renewable upon expiration at minimal cost. The directors of the Company are of the opinion that the Group has the intention and ability to renew the trademarks continuously. As a result, the trademarks are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademarks will not be amortised until their useful life are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Details of impairment testing for the trademarks related to Strong Media are set out in note 19(b).

21. INTERESTS IN ASSOCIATES

	2020 **RMB million**	2019 RMB million
Cost of unlisted investments	**149**	160
Share of post-acquisition profits and other comprehensive income, net of dividends received	**48**	36
	197	196

The following set out the particulars of the associates of the Group as at 31 December 2020 and 2019 which, in the opinion of the directors, principally affected the results or net assets of the Group.

Name of associate	Form of business structure	Place of registration and operation	Paid up registered capital	Effective interest held by the Group		Principal business
				As at 31 December 2020	As at 31 December 2019	
江蘇達創電器有限公司	Equity joint venture	PRC	RMB10,000,000	**34%**	34%	Manufacturing and sales of consumer electronic products
北京新七天電子商務技術股份有限公司	Equity joint venture	PRC	RMB37,000,000	**25%**	25%	Provision of technological and network promotion services and sales of consumer electronic products
天津光電通信技術有限公司	Equity joint venture	PRC	RMB108,640,824	**35%**	49%	Manufacturing and sales of electronic and telecommunication products

All of these associates are accounted for using the equity method in these consolidated financial statements. The Group considers none of its associates is individually material. The aggregate information of associates that are not individually material are as follows:

	2020 **RMB million**	2019 RMB million
The Group's share of profit and total comprehensive income for the year	**15**	21

	2020 **RMB million**	2019 RMB million
Aggregate carrying amount of the Group's interests in these associates	**197**	196

22. INTERESTS IN JOINT VENTURES

	2020 RMB million	2019 RMB million
Cost of unlisted investment	**60**	62
Share of post-acquisition losses and other comprehensive expense, net of dividends received	**(43)**	(43)
	17	19

The following set out the particulars of the joint ventures of the Group as at 31 December 2020 and 2019 which, in the opinion of the directors, principally affected the results or net assets of the Group.

Name of joint venture	Form of business structure	Place of registration and operation	Paid up registered capital	Effective interest held by the Group		Principal business
				As at 31 December 2020	As at 31 December 2019	
廣州新視界光電科技有限公司	Equity joint venture	PRC	RMB33,583,664	**36%**	36%	Provision of research and development, lease and consultation service of mechanical and electronics products
廣東創華投資有限公司	Equity joint venture	PRC	RMB25,000,000	**40%**	40%	Provision of investment consultation services

The joint ventures are accounted for using the equity method in these consolidated financial statements. The Group considers none of its joint venture is individually material. The aggregate information of joint ventures that are not individually material is as follows:

	2020 RMB million	2019 RMB million
The Group's share of profit and total comprehensive income for the year	**–**	5

23. FINANCIAL ASSETS AT FVTPL/EQUITY INSTRUMENTS AT FVTOCI

	2020 RMB million	2019 RMB million
Financial assets at FVTPL		
Unlisted equity securities, at fair values – in the PRC	**1,076**	612
Listed equity securities, at fair values		
– in Hong Kong	**–**	12
– in the PRC	**396**	381
	396	393
Unlisted securities, at fair values – Investment funds	**167**	50
	1,639	1,055
Analysed for reporting purpose as		
Non-current assets	**1,032**	1,005
Current assets	**607**	50
	1,639	1,055
Equity instruments at FVTOCI		
Unlisted equity securities, at fair values – in the PRC *(Note)*	**1,088**	1,402
Listed equity securities, at fair values – in Hong Kong *(Note)*	**128**	121
	1,216	1,523
Analysed for reporting purpose as Non-current assets	**1,216**	1,523

Note: The above unlisted and listed equity investments represent the Group's equity interests in private entities established in the PRC and one entity listed in Hong Kong. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

24. FINANCE LEASE RECEIVABLES

As at 31 December 2020, the Group entered into finance lease contacts with aggregate principal amount of RMB128 million (2019: RMB130 million) to lease out certain plant and machinery of the Group. All interest rate inherent in the lease are fixed at the contract date over the lease terms.

	Minimum lease payments		Present value of minimum lease payments	
	2020	2019	**2020**	2019
	RMB million	RMB million	**RMB million**	RMB million
Finance lease receivables comprise:				
Within one year	**127**	125	**127**	125
Over one year but less than two years	**1**	6	**1**	5
Less: unearned finance income	**–***	(1)	**N/A**	N/A
Present value of minimum lease payment receivables	**128**	130	**128**	130

* *less than RMB1 million*

Effective interest rate of the above finance lease is 9.02% (2019: 9.02%) per annum.

Included in the carrying amount of finance lease receivables as at 31 December 2020 is accumulated impairment loss of RMB5 million (2019: RMB12 million). During the year ended 31 December 2020, impairment loss of RMB7 million was reversed (2019: impairment loss of RMB3 million was provided).

Finance lease receivables are secured over the plant and machinery leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee. However, in the event of default, the Group is entitled to sell the asset, and has rights to any proceeds from such a sale up to the total amount receivable from the lessee.

Details of impairment assessment are set out in note 54(b).

25. LOAN RECEIVABLES

	2020 RMB million	2019 RMB million
Fixed-rate loan receivables		
Secured	**1,625**	1,828
Unsecured	**88**	297
	1,713	2,125
Analysed for reporting purpose as		
Non-current assets	**598**	585
Current assets	**1,115**	1,540
	1,713	2,125

Included in the carrying amount of loan receivables as at 31 December 2020 is allowance for credit losses of RMB134 million (2019: RMB310 million). Details of the impairment assessment are set out in note 54(b).

As at 31 December 2020, loan receivables of RMB196 million (2019: RMB454 million) are advanced by subsidiaries with principal activity of loan financing, in which the corresponding interest income is included as revenue. The remaining balances of RMB1,517 million (2019: RMB1,671 million) are advanced by other subsidiaries, the related interest income is included as other income.

Included in the loan receivables as at 31 December 2019 amounting to RMB258 million (net of allowance for credit losses of RMB42 million)) was a loan advanced to a company for which the Group has 20% equity interest. The directors of the Company consider that the Group does not have significant influence over that investee company because the Group does not have the power to participate in the financial and operating policy decision of that investee company, accordingly, such investment is classified as "equity instruments at FVTOCI". During the year ended 31 December 2020, the amount is fully settled and reversal of allowance for credit losses of RMB42 million is recognised in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2020, included in the Group's loan receivables balance are debtors with aggregate carrying amount of RMB20 million (2019: RMB145 million) which has been past due 90 days or more as at the reporting date and are secured by properties. The directors of the Company consider credit risks have increased significantly and those with evidence indicating that these debtors are in severe financial difficulties and are considered as credit-impaired.

Included in the Group's loan receivables balance with aggregate carrying amount of RMB1,625 million (2019: RMB1,828 million) are secured by borrowers' charges over equity instruments, trade receivables, properties, right-of-use assets and plant and machineries.

Included in the carrying amount of loan receivables as at 31 December 2020 is an amount of RMB160 million (2019: RMB261 million) due from a related party controlled by a substantial shareholder of the Company which is secured by equipment and motor vehicles of the said party and guaranteed by the said substantial shareholder of the Company, interest bearing at 8% per annum and repayable in instalments up to 25 April 2022. The interest income during the year is RMB18 million (2019: RMB16 million).

25. LOAN RECEIVABLES (Continued)

Included in the carrying amounts of loan receivables as at 31 December 2020 of RMB415 million (2019: RMB465 million) due from third parties and are secured by motor vehicles of these third parties and guaranteed by a substantial shareholder of the Company in respect of amounts owed to the Group, interest-bearing at 8% per annum and repayable in instalments up to final maturity dates ranging from 28 March 2022 to 4 July 2022.

The exposure of the Group's fixed-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

	2020 RMB million	2019 RMB million
Fixed-rate loan receivables:		
Within one year	**1,115**	1,540
More than one year but not more than two years	**197**	200
More than two years but not more than five years	**401**	385
	1,713	2,125

The ranges of effective interest rates (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

	2020	2019
Effective interest rate:		
Fixed-rate loan receivables	**3.90%-12.00%**	4.50%-12.00%

26. DEFERRED TAXATION

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

	2020 RMB million	2019 RMB million
Deferred tax assets	**(498)**	(500)
Deferred tax liabilities	**120**	262
	(378)	(238)

Deferred tax assets mainly include deductible temporary difference arising from accrued sales rebate of RMB108 million (2019: RMB117 million), provision of ECL on financial assets of RMB121 million (2019: RMB112 million), provision of write-down of inventories of RMB44 million (2019: RMB37 million), deferred income of RMB26 million (2019: RMB46 million), provision for warranty of RMB35 million (2019: RMB33 million) and tax losses of RMB126 million (2019: RMB101 million). Deferred tax liabilities mainly include taxable temporary difference arising from fair value adjustments on financial assets at FVTPL, financial assets at FVTOCI and trade receivables at FVTOCI in aggregate amount of RMB103 million (2019: RMB209 million).

27. INVENTORIES

	2020 **RMB million**	2019 RMB million
Raw materials	**2,247**	1,692
Work in progress	**234**	260
Finished goods	**3,523**	2,957
	6,004	4,909

28. STOCK OF PROPERTIES

	2020 **RMB million**	2019 RMB million
Under development	**4,208**	4,100
Completed	**837**	71
	5,045	4,171

Included in the stock of properties under development is amount of RMB2,888 million (2019: RMB4,006 million) which is not expected to be substantially realised within one year from the end of the reporting period. Sales deposits of RMB1,906 million (2019: RMB841 million) received from purchasers at the end of the reporting period are included in contract liabilities as disclosed in note 39.

Analysis of leasehold lands:

	2020 **RMB million**	2019 RMB million
As at 1 January		
Carrying amount	**3,655**	515
As at 31 December		
Carrying amount	**3,555**	3,655
For the year ended 31 December		
Total cash outflow	**123**	3,140
Additions	**123**	3,140

The carrying amount of leasehold lands is measured at cost less any accumulated depreciation and any impairment losses. The residual values are determined as the estimated disposal value of the leasehold land component. No depreciation charge is made on the leasehold lands during the year taking into account the estimated residual values as at the end of the reporting period.

29. INVESTMENTS IN DEBT SECURITIES

	2020 RMB million	2019 RMB million
Debt securities		
– in the PRC	–	83

At 31 December 2019, the Group's investments in debt securities represented unlisted debt securities that carried fixed interest at 3.45% to 9.00% per annum. None of these assets had been past due at the end of the reporting period. The maturity profile of the debt securities at 31 December 2019 categorised by the remaining period from the end of the reporting period to the contractual maturity date was less than three months.

Details of impairment assessment were set out in note 54(b).

30. TRADE AND BILLS RECEIVABLES AND TRADE RECEIVABLES AT FVTOCI

	2020 RMB million	2019 RMB million
Trade receivables at amortised cost		
– goods and services	**9,031**	9,727
– lease receivables	**119**	101
	9,150	9,828
Less: allowance for credit losses	**(388)**	(398)
	8,762	9,430
Bills receivables	**4,565**	4,835
Less: allowance for credit losses	**(76)**	–
	4,489	4,835
	13,251	14,265

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB9,474 million.

	2020 RMB million	2019 RMB million
Trade receivables at FVTOCI		
– goods and services	**400**	–

The following is an aged analysis of trade receivables at amortised cost and trade receivables at FVTOCI, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period:

	2020 RMB million	2019 RMB million
Within 30 days	**4,718**	4,386
31 to 60 days	**2,038**	1,329
61 to 90 days	**746**	889
91 to 180 days	**804**	1,252
181 to 270 days	**285**	506
271 to 365 days	**145**	383
Over 365 days	**426**	685
Trade receivables	**9,162**	9,430

30. TRADE AND BILLS RECEIVABLES AND TRADE RECEIVABLES AT FVTOCI (Continued)

As at 31 December 2020, included in the Group's trade receivables are amounts due from associates of RMB107 million (2019: RMB220 million). The credit period is 45 days. The following is an aged analysis presented based on the invoice date at the end of the reporting period:

	2020 RMB million	2019 RMB million
Within 30 days	**55**	183
31 to 60 days	**52**	25
181 to 270 days	**–**	1
271 to 365 days	**–**	4
Over 365 days	**–**	7
	107	220

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB1,403 million (2019: RMB2,229 million) which are past due as at the reporting date. Out of the past due balances, RMB452 million (2019: RMB1,094 million) has been past due 90 days or more and is not considered as in default based on historical experience. The Group does not hold any collateral over these balances.

For customers who used bills to settle their trade receivables upon the expiry of the initial credit period, the ageing analysis of bills receivables at the end of the reporting period was presented based on the date of issuance of the bills. The dates of issuance of all bills receivables are within one year at the end of the reporting period.

The maturity dates of bills receivables at the end of the reporting period are analysed as follows:

	2020 RMB million	2019 RMB million
Within 30 days	**636**	419
31 to 60 days	**637**	558
61 to 90 days	**1,107**	946
91 days or over	**1,389**	2,226
Bills discounted to banks and endorsed to suppliers with recourse	**720**	686
	4,489	4,835

The carrying values of the above bills discounted to banks with recourse continue to be recognised as assets in the consolidated financial statements as the Group has not transferred substantially all the risks and rewards of ownership of the bills receivables taking into account the credit rating of the issuers of the bills. Accordingly, the liabilities associated with such bills, mainly bank borrowings as disclosed in notes 41 and 46, are recognised in the consolidated financial statements as well.

30. TRADE AND BILLS RECEIVABLES AND TRADE RECEIVABLES AT FVTOCI (Continued)

As at 31 December 2020, total bills received amounting to RMB30 million (2019: RMB84 million), were endorsed to suppliers of the Group with recourse by the Group. The Group continues to recognise their full carrying amounts at the end of each reporting period and details are disclosed in note 46.

The maturity dates of bills discounted to banks and endorsed to suppliers with recourse are within one year at the end of the reporting period.

All bills receivables at the end of the reporting period are not yet due.

Details of impairment assessment of trade receivables are set out in note 54(b).

31. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Other receivables, deposits and prepayments are analysed as follows:

	2020 RMB million	2019 RMB million
Other deposits paid and prepayments	**282**	375
Consideration receivable *(note 49(c))*	**366**	–
Other receivables	**629**	613
Purchase deposits paid for materials	**431**	472
Rental deposits paid	**21**	12
VAT receivables	**1,161**	573
	2,890	2,045

Details of impairment assessment of other receivables are set out in note 54(b).

32. PLEDGED BANK DEPOSITS, RESTRICTED BANK DEPOSITS, AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, which carry interest at variable market rates ranging from 0.01% to 3.00% per annum (2019: 0.01% to 2.40% per annum).

Pledged bank deposits are pledged to secure the short term bank borrowings, which carry interest at market rates ranging from 0.30% to 1.85% per annum (2019: 0.30% to 1.95% per annum).

Restricted bank deposits represent reserve deposits a finance company of the Group placed with the PBOC. The balances of the reserve deposits were calculated at certain percentage of qualified deposits placed by customers to the finance company of the Group as determined by the PBOC against unexpected events such as unusually large net withdrawal by customers. These reserve deposits are required by local regulation and not available for the Group's daily operations.

Details of impairment assessment are set out in note 54(b).

33. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 29 December 2020, Shenzhen Skyworth Digital Technology Co., Ltd. ("Shenzhen Skyworth Digital"), a non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, pursuant to which Shenzhen Skyworth Digital agreed to dispose of 55% equity interest of 深圳寶龍群欣科技有限公司 at a cash consideration of RMB166 million. The disposal has not completed as of the date of approval of these consolidated financial statements.

The major classes of assets and liabilities of the subsidiary classified as held-for-sale are as follows:

	2020 RMB million
Property, plant and equipment	61
Deferred tax assets	7
Inventories	13
Trade and bills receivables	37
Other receivables, deposits and prepayments	8
Bank balances and cash	74
Total assets classified as held for sale	200
Trade and bills payable	(18)
Other payables	(38)
Contract liabilities	(13)
Tax payable	(2)
Deferred income	(13)
Total liabilities associated with assets classified as held for sale	(84)

34. TRADE AND BILLS PAYABLES

	2020 **RMB million**	2019 RMB million
Trade payables *(Note)*	**9,084**	6,559
Bills payables	**2,815**	3,500
	11,899	10,059

Note: As at 31 December 2020, included in the balance of trade payables was RMB30 million (2019: RMB84 million), which had been settled by endorsed bills for which the maturity dates of the relevant bills receivables have not yet fallen due as at the end of each reporting period (see note 46).

The following is an aged analysis of trade payables based on invoice date at the end of the reporting period:

	2020 **RMB million**	2019 RMB million
Within 30 days	**4,858**	3,291
31 to 60 days	**2,228**	1,664
61 to 90 days	**879**	1,012
91 days or over	**1,119**	592
	9,084	6,559

The credit periods of trade payables ranged from 30 days to 90 days.

The maturity dates of bills payables at the end of the reporting period are analysed as follows:

	2020 **RMB million**	2019 RMB million
Within 30 days	**513**	622
31 to 60 days	**560**	784
61 to 90 days	**485**	549
91 days or over	**1,257**	1,545
	2,815	3,500

35. OTHER PAYABLES

	2020 **RMB million**	2019 RMB million
Accruals and other payables	**1,566**	1,279
Accrued staff costs	**893**	729
Accrued selling and distribution expenses	**265**	203
Amounts received for restricted share incentive scheme of a subsidiary *(note 48(iii))*	**1**	84
Customer deposits *(Note (a))*	**29**	29
Interest payables on corporate bonds	**46**	39
Interest payables on convertible bonds	**4**	3
Other deposits received	**403**	407
Payables for purchase of property, plant and equipment	**284**	218
Provision for rebates *(Note (b))*	**1,031**	1,147
Rental deposits received	**88**	74
VAT payable	**62**	52
	4,672	4,264

Notes:

(a) *The customer deposits bear interest at 0.35% per annum (2019: 0.35% per annum) which are repayable on demand.*

As at 31 December 2020, RMB21 million (2019: RMB13 million) of the customer deposits is placed by associates which bear interest at 0.35% per annum (2019: 0.35% per annum) and is repayable on demand.

(b) *The amounts represent outstanding rebates in relation to the goods sold to certain customers.*

36. OTHER FINANCIAL LIABILITIES

	2020 RMB million	2019 RMB million
Advance from a third party *(Note (a))*	**199**	187
Interest-free loan received from government *(Note (b))*	**98**	98
	297	285
Analysed for reporting purpose as		
Current liabilities	**199**	–
Non-current liabilities	**98**	285
	297	285

Notes:

(a) *During the year ended 31 March 2017, Shenzhen Chuangwei-RGB Electronics Co., Ltd. ("RGB"), an indirect-wholly owned subsidiary of the Company, entered into an agreement with 北京愛奇藝科技有限公司 ("iQIYI"), a third party not connected to the Group, for a RMB150 million capital injection. Pursuant to the agreement, Shenzhen Coocaa Network Technology Company Limited ("Shenzhen Coocaa"), an indirect non-wholly owned subsidiary of the Company, received the first capital injection of RMB100 million from iQIYI on 2 December 2016. During the year ended 31 March 2018, Shenzhen Coocaa received the second capital injection of RMB50 million from iQIYI.*

Based on the terms of the agreement, RGB and iQIYI agreed that if the shares of Shenzhen Coocaa are not listed on any stock exchange within 60 months after 2 December 2016, and the market value of Shenzhen Coocaa is less than RMB3 billion before listing, iQIYI can require RGB to transfer its investments in Shenzhen Coocaa to equivalent value of investments in Skyworth Digital (i.e. RMB150 million), or require RGB to buy back its investment in Shenzhen Coocaa at the original consideration paid plus interest of 8% per annum at the end of 60 months. As the Group cannot unconditionally avoid the delivery of cash or other financial assets to fulfil the contractual obligations, the capital injection received is recognised as a financial liability. Imputed interest expenses of RMB12 million (2019: RMB14 million) has been recognised in respect of this financial liability during the year ended 31 December 2020.

(b) *During the year ended 31 December 2019, the Group entered into an interest-free loan agreement with the county government of Quanjiao (全椒縣人民政府), Anhui Province, the PRC, amounted to a total of RMB500 million in supporting the Group's certain capital investments in the Quanjiao County. According to the agreement, a branch of the county government of Quanjiao shall make advances to the Group in stages that is in line with various investment milestones to be achieved by the Group. An amount of RMB98 million has been received by the Group during the year ended 31 December 2019 and the amount is payable within three years from the date of receipt. In the opinion of the directors, the difference between proceeds received and the fair value of the loan is insignificant.*

37. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 **RMB million**	2019 RMB million
Derivative financial instruments are analysed as:		
Assets:		
Foreign currency forward contracts	**(9)**	–
Liabilities:		
Foreign currency forward contracts	**79**	4
Interest rate swap contracts	**2**	–
Cross currency swap contract	**28**	–
Derivative component of convertible bonds *(note 43)*	**19**	276
	128	280
	119	280
Analysed for reporting purpose as		
Current assets	**(9)**	–
Current liabilities	**25**	4
Non-current liabilities	**103**	276
	119	280

	2020 **RMB million**	2019 RMB million
Loss from changes in fair value of derivative financial instruments:		
Foreign currency forward contracts	**(67)**	(1)
Interest rate swap contracts	**(2)**	–
Cross currency swap contracts	**(28)**	–
Gain (loss) on derivative component of convertible bonds *(note 43)*	**241**	(136)
	144	(137)

38. LEASE LIABILITIES

	2020 RMB million	2019 RMB million
Within one year	**54**	34
Within a period of more than one year but not more than two years	**54**	32
Within a period of more than two years but not more than five years	**84**	78
Within a period of more than five years	**3**	2
	195	146
Less: Amount due for settlement with 12 months shown under current liabilities	**(54)**	(34)
Amount due for settlement after 12 months shown under non-current liabilities	**141**	112

The weighted average incremental borrowing rates applied to lease liabilities range from 2% to 6% (2019: 2% to 6%).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	EUR RMB million	**ZAR** RMB million	**Great British Pound ("GBP")** RMB million
As at 31 December 2020	4	14	1
As at 31 December 2019	12	10	2

39. CONTRACT LIABILITIES

	2020 RMB million	2019 RMB million
Deposits received for sales of goods	**1,201**	1,110
Deposits received for sales of properties	**1,906**	841
	3,107	1,951

Movements in contract liabilities:

	RMB million
At 1 January 2019	1,443
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(1,193)
Increase in contract liabilities as a result of receiving deposits from the customers	1,701
At 31 December 2019	1,951
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(1,483)
Increase in contract liabilities as a result of receiving deposits from the customers	2,603
Acquisition of a subsidiary	50
Transfer to assets classified as held for sale	(13)
Disposal of a subsidiary *(note 49(b))*	(1)
At 31 December 2020	3,107

39. CONTRACT LIABILITIES (Continued)

The Group receives not less than 30% of the contract value as deposits from customers for the sales of properties when they sign the sale and purchase agreements and the remaining of the contract value is paid before the completion of the sales of the properties. The deposits and advance payment schemes result in contract liabilities being recognised until the customers obtain control of the properties.

When the Group receives deposits from customers for the sales of goods, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposits. The Group receives 10% to 100% deposit on acceptance of orders from certain customers.

The increase in contract liabilities is mainly due to increase in deposits received from customers for the sales of properties and the relevant properties are still under construction as at 31 December 2020.

40. PROVISION FOR WARRANTY

	RMB million
At 1 January 2019	223
Additional provision	216
Utilised	(167)
At 31 December 2019	272
Additional provision	272
Utilised	(239)
Exchange realignment	(3)
At 31 December 2020	302

	2020 **RMB million**	2019 RMB million
Analysed for reporting purposes as:		
Current liabilities	**205**	181
Non-current liabilities	**97**	91
	302	272

The Group provides one to five years product warranty to its customers depending on the product type, under which faulty products are repaired or replaced. The estimate of the provision for the warranty is based on sales volumes and past experience of the level of repairs and returns. The estimation is reviewed on an ongoing basis and revised by reference to the current defective rate of products sold.

41. BANK BORROWINGS

Bank borrowings comprise the following:

	2020 RMB million	2019 RMB million
Financial liabilities on bills discounted with recourse	**720**	686
Other bank borrowings	**10,667**	7,491
	11,387	8,177
Secured	**4,906**	2,003
Unsecured	**6,481**	6,174
	11,387	8,177
Carrying amount of bank borrowings repayable based on scheduled repayment dates set out in the loan agreements:		
Within one year	**7,401**	7,135
More than one year but not more than two years	**1,121**	28
More than two years but not exceeding five years	**1,822**	1,014
Over five years	**1,043**	–
	11,387	8,177
Less: Amounts due within one year shown under current liabilities	**(7,401)**	(7,135)
Amounts shown under non-current liabilities	**3,986**	1,042

Included in the balance as at 31 December 2020 are fixed-rate bank borrowings of RMB6,696 million (2019: RMB3,842 million) which carry interest at rates ranging from 0.50% to 6.25% per annum (2019: 0.81% to 5.75% per annum).

All other bank borrowings are carried interest at variable market interest rates, which are based on Euro Interbank Offered Rate ("EURIBOR"), LIBOR or LPR plus a specific margin, ranging from 0.71% to 5.46% per annum (2019: 0.50% to 5.60% per annum).

As at the 31 December 2020, the Group had foreign currencies denominated bank borrowings of US$582 million (equivalent to RMB3,798 million) (2019: US$413 million (equivalent to RMB2,879 million)) and EUR14 million (equivalent to RMB115 million) (2019: EUR19 million (equivalent to RMB148 million).

All other bank borrowings are denominated in the respective functional currencies of the group entities.

42. DEFERRED INCOME

	2020 RMB million	2019 RMB million
Deferred income	**450**	596
Less: Amount to be recognised as income within one year included in current liabilities	**(180)**	(170)
Amount to be recognised as income after one year	**270**	426

Deferred income consists of government grants provided by the relevant PRC government authorities for the purposes of financing the purchase of plant and machinery and the related expenses to be incurred for the development of new products or technology and relates to certain current assets. The amounts are recognised as income to match with related expenses or on systematic basis over the useful life of the relevant assets upon completing inspection by the related government authorities. The policy has resulted in a credit to profit or loss of RMB502 million (2019: RMB372 million) during the year ended 31 December 2020.

43. CONVERTIBLE BONDS

On 15 April 2019, Skyworth Digital issued 10,400,000 unsecured convertible bonds at a par value of RMB100 each, which are listed on the Shenzhen Stock Exchange. The convertible bonds are interest bearing at 0.40%, 0.60%, 1.00%, 1.50%, 1.80% and 2.00% per annum for the first, second, third, fourth, fifth and sixth year per annum respectively with a maturity date on the sixth anniversary on the date of their issue (i.e. 15 April 2025) and entitle the holders to convert them, in whole or in part, into ordinary shares of Skyworth Digital at an initial conversion price of RMB11.56 per share (subject to anti-dilutive provision) at any time from the first trading day immediately after the expiry of six months from the date of issuance of the convertible bonds until maturity date. The conversion price shall be adjusted if (i) Skyworth Digital resolved to issue bonus shares, increased its share capital, placing or issue of new shares (other than issue of conversion shares) or the distribution of cash dividends or (ii) subject to the approval by a two-third majority of the shareholders of Skyworth Digital present at a general meeting, the conversion price may be adjusted downwards if the closing price of the A-shares of Skyworth Digital as quoted on the Shenzhen Stock Exchange for at least 10 trading days during a consecutive period of 20 trading days are less than 90% of the prevailing conversion price at that time. Interest will be paid annually up until settlement date. The redemption price will be par value of the convertible bonds and the interest for that period.

Skyworth Digital has the right to redeem all or part of the convertible bonds at any time during the conversion period if the closing prices of Skyworth Digital as quoted on the Shenzhen Stock Exchange for any 15 trading days in a consecutive period of 30 trading days are higher than or equal to 130% of the conversion price at the time or the outstanding amount of the convertible bonds is less than RMB30 million. The bondholders shall have the right to request for Skyworth Digital to repurchase all or any part of the outstanding convertible bonds at the face value together with the coupon rate due for that period if the closing price of Skyworth Digital as quoted on the Shenzhen Stock Exchange is less than 70% of the conversion price at the time for any 30 consecutive trading days during the fifth and sixth year or there is any substantial change to the use of proceeds from the issue of the convertible bonds.

43. CONVERTIBLE BONDS (Continued)

The convertible bonds contain two components, debt component and derivative (including conversion and early redemption options) components. The effective interest rate of the debt component is 5.62%. The derivative component is measured at fair value with changes in fair value recognised in profit or loss. At initial recognition, both the debt component and derivative component are recognised at fair value and the fair value of the debt component and derivative component is RMB891 million and RMB140 million respectively, measured at market price netted of transaction costs.

The movements of the convertible bonds and derivative financial instruments for the year are set out as below:

	Convertible bonds RMB million	**Derivative financial instruments** RMB million
At 1 January 2019	–	–
Issued during the year, net of transaction costs	891	140
Interest on convertible bond	36	–
Less: included as interest payable on convertible bonds	(3)	–
Fair value change	–	136
At 31 December 2019	924	276
Conversion	(56)	(16)
Interest on convertible bond	49	–
Less: included as interest payable on convertible bonds	(4)	–
Fair value change	–	(241)
At 31 December 2020	913	19

44. CORPORATE BONDS

	RMB million
At 1 January 2019	1,990
Interest on corporate bonds	111
Interest paid	(108)
Increase in interest payable on corporate bonds	(3)
At 31 December 2019	1,990
Repayment	(1,913)
Issued during the year, net of transaction costs	797
Interest on corporate bonds	115
Interest paid	(108)
Increase in interest payable on corporate bonds	(7)
At 31 December 2020	874

	2020 **RMB million**	2019 RMB million
Analysed for reporting purposes as:		
Current liabilities	**–**	1,990
Non-current liabilities	**874**	–
	874	1,990

On 15 September 2017, the Company issued secured corporate bonds with principal value of RMB2,000 million. The corporate bonds bear interest at 5.4% per annum and fall due on 14 September 2022. The Company adjusted the coupon rate of the corporate bonds to 4.85% per annum on 27 August 2020. Pursuant to the terms of the subscription agreement of the corporate bond, the Group has the right to adjust the coupon rate and the bond holders have the right to put the bond back to the Group on 15 September 2020. The management considers the fair value of these options are insignificant. The corporate bonds are subsequently measured at amortised cost, using effective interest rate of 5.0% (2019: 5.5%). As at 31 December 2019, the carrying amount of the corporate bonds was RMB1,990 million. During the year ended 31 December 2020, the Group repaid corporate bonds of RMB1,913 million and the remaining balance of RMB77 million is classified as non-current liabilities.

On 31 December 2019, Skyworth Group Co., Limited, a wholly owned subsidiary of the Company, launched a programme pursuant to which unsecured corporate bonds up to a maximum amount of RMB4,000 million might be issued. Any corporate bonds issued under the programme bear fixed interest at 5.5% per annum and fall due on 16 March 2023. Pursuant to the programme, corporate bonds of no more than the maximum amount may be issued from time to time. During the year ended 31 December 2020, RMB797 million (net of transaction costs of RMB3 million) of corporate bonds were issued. The corporate bonds are subsequently measured at amortised cost, using effective interest rate of 5.7%.

45. SHARE CAPITAL

	Number of shares	Share capital RMB million
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2019, 31 December 2019 and 31 December 2020	10,000,000,000	1,063
Issued and fully paid:		
At 1 January 2019 and 31 December 2019	3,060,929,420	308
Purchase of own shares for cancellation *(Note)*	(392,800,000)	(35)
At 31 December 2020	2,668,129,420	273

Note: *On 17 June 2020, the Group made an offer to buy back for cancellation up to 392,800,000 shares at the price of HK$2.80 per share (the "Offer"). On 14 September 2020, the Offer was completed and 392,800,000 shares bought-back by the Company were cancelled. The consideration amounting to RMB967 million was paid in cash and was funded by internal resources of the Group.*

Details of the movements of share options during the year ended 31 December 2020 and 2019 are set out in note 47.

46. TRANSFERRED FINANCIAL ASSETS

The following were the Group's bills receivables, that were transferred to banks or suppliers by discounting or endorsing those receivables on a full recourse basis. Since the substantial risks and rewards of the ownership of the bills receivables have not been transferred taking into account the credit quality of the issuing counterparties, the Group continues to recognise the full carrying amount of those discounted receivables and has recognised the associated liabilities as bank borrowings as disclosed in note 41 or it continues to recognise the full carrying amount of the bills receivables and the full carrying amount of the trade payables (see note 34) for endorsed bills receivables.

These bills receivables and associated liabilities are carried at amortised cost in the Group's consolidated statement of financial position. The directors consider that the carrying amounts of such bills receivables and associated liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

	2020		2019	
	Bills endorsed to suppliers with recourse RMB million	**Bills discounted to banks with recourse RMB million**	Bills endorsed to suppliers with recourse RMB million	Bills discounted to banks with recourse RMB million
Carrying amount of transferred assets	**30**	**720**	84	686
Carrying amount of associated liabilities	**(30)**	**(720)**	(84)	(686)
Net position	**–**	**–**	–	–

All the bills receivables discounted to banks and endorsed to suppliers have maturity dates of less than one year from the end of the respective reporting period.

No gain or loss was recognised at the date of transfer of the assets.

47. SHARE OPTIONS

The existing Share Option Scheme (the "2014 Share Option Scheme") was approved by the shareholders at its 2014 Annual General Meeting held on 20 August 2014 for the purpose of providing incentives to directors, eligible employees and selected eligible persons. Under the 2014 Share Option Scheme, the directors of the Company may grant options to eligible person, including any directors, whether executive or non-executive (including any independent non-executive directors), and any employees, whether full time or part time, of any members of the Group.

Under the 2014 Share Option Scheme, options granted must be taken up within a period of 30 days from the date of grant, upon payment of HK$1 per grant. Options may be exercised in portions and in the exercisable period determined by the directors of the Company at the date of grant. All of the options, if not otherwise exercised, amended or cancelled, lapsed on 20 August 2024 under the 2014 Share Option Scheme.

Each grant of an option to a director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive directors, excluding any independent non-executive director who is the grantee of the option.

Under the 2014 Share Option Scheme, the maximum number of shares issuable upon exercise of all options to be granted under the aforesaid schemes and any other share option scheme of the Company as from the commencement of the scheme period, excluding those options which have lapsed in accordance with the terms of the 2014 Share Option Scheme or any other share option schemes of the Company, must not in aggregate exceeds 10% of the Company's shares in issue as at the date of adoption of the 2014 Share Option Scheme or exceed any of the refreshed limit.

No option shall be granted to an eligible person which would cause the aggregate number of shares already issued and to be issued upon exercise of options granted to such eligible person under the 2014 Share Option Scheme and any other share option scheme of the Company (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant exceeding 1% of the shares in issue. Any further grant of options in excess of this limit may be made only with the separate approval of the shareholders in general meeting with that eligible person and his associates abstaining from voting.

The total number of share option that were granted and remained outstanding under the share option schemes of the Company is 121,498,000 (2019: 125,098,000) representing approximately 4.55% (2019: 4.09%) of the issued share capital of the Company as at 31 December 2020.

47. SHARE OPTIONS (Continued)

The following tables show the movements in the Company's share options granted under the 2014 Share Option Scheme:

For the year ended 31 December 2020

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1 January 2020	Lapsed during the year	Outstanding at 31 December 2020
22 January 2016	4.226	22 January 2016 to 30 August 2016	1 September 2016 to 20 August 2024	14,852,000	–	**14,852,000**
		22 January 2016 to 30 August 2017	1 September 2017 to 20 August 2024	17,154,000	–	**17,154,000**
		22 January 2016 to 30 August 2018	1 September 2018 to 20 August 2024	25,692,000	–	**25,692,000**
8 July 2016	6.320	8 July 2016 to 31 August 2017	1 September 2017 to 20 August 2024	2,500,000	–	**2,500,000**
		8 July 2016 to 31 August 2018	1 September 2018 to 20 August 2024	2,500,000	–	**2,500,000**
		8 July 2016 to 31 August 2019	1 September 2019 to 20 August 2024	2,500,000	–	**2,500,000**
		8 July 2016 to 31 August 2020	1 September 2020 to 20 August 2024	2,500,000	–	**2,500,000**
9 August 2017	4.090	9 August 2017 to 31 August 2018	1 September 2018 to 20 August 2024	500,000	–	**500,000**
		9 August 2017 to 31 August 2019	1 September 2019 to 20 August 2024	500,000	–	**500,000**
		9 August 2017 to 31 August 2020	1 September 2020 to 20 August 2024	500,000	–	**500,000**
		9 August 2017 to 31 August 2021	1 September 2021 to 20 August 2024	500,000	–	**500,000**
15 April 2019	2.68	15 April 2019 to 29 September 2019	30 September 2019 to to 20 August 2024	22,160,000	(1,440,000)	**20,720,000**
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	16,620,000	(1,080,000)	**15,540,000**
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	16,620,000	(1,080,000)	**15,540,000**
				125,098,000	(3,600,000)	**121,498,000**

47. SHARE OPTIONS (Continued)

For the year ended 31 December 2019

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1 January 2019	Granted during the year	Outstanding at 31 December 2019
22 January 2016	4.226	22 January 2016 to 30 August 2016	1 September 2016 to 20 August 2024	14,852,000	–	**14,852,000**
		22 January 2016 to 30 August 2017	1 September 2017 to 20 August 2024	17,154,000	–	**17,154,000**
		22 January 2016 to 30 August 2018	1 September 2018 to 20 August 2024	25,692,000	–	**25,692,000**
8 July 2016	6.320	8 July 2016 to 31 August 2017	1 September 2017 to 20 August 2024	2,500,000	–	**2,500,000**
		8 July 2016 to 31 August 2018	1 September 2018 to 20 August 2024	2,500,000	–	**2,500,000**
		8 July 2016 to 31 August 2019	1 September 2019 to 20 August 2024	2,500,000	–	**2,500,000**
		8 July 2016 to 31 August 2020	1 September 2020 to 20 August 2024	2,500,000	–	**2,500,000**
9 August 2017	4.090	9 August 2017 to 31 August 2018	1 September 2018 to 20 August 2024	500,000	–	**500,000**
		9 August 2017 to 31 August 2019	1 September 2019 to 20 August 2024	500,000	–	**500,000**
		9 August 2017 to 31 August 2020	1 September 2020 to 20 August 2024	500,000	–	**500,000**
		9 August 2017 to 31 August 2021	1 September 2021 to 20 August 2024	500,000	–	**500,000**
15 April 2019	2.680	15 April 2019 to 29 September 2019	30 September 2019 to to 20 August 2024	–	22,160,000	**22,160,000**
		15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	–	16,620,000	**16,620,000**
		15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	–	16,620,000	**16,620,000**
				69,698,000	55,400,000	**125,098,000**

48. SHARE-BASED PAYMENTS

The Company has applied HKFRS 2 to account for its share options (Note (i)) and share awards (Note (ii)) and Skyworth Digital's share awards (Note (iii)).

Amounts of share-based payment expenses of RMB13 million (2019: RMB28 million) for share options, RMB40 million (2019: RMB10 million) for share awards of the Company and RMB3 million (2019: RMB10 million) for restricted share incentive scheme of Skyworth Digital have been recognised in the profit or loss during the year ended 31 December 2020.

Note (i): Share options of the Company

The particulars of the share option scheme of the Company, and the details of and the movements in share options during the year ended 31 December 2020 and the year ended 31 December 2019 are disclosed in note 47. A summary of which is presented below:

	2020		2019	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**125,098,000**	**3.707**	69,698,000	4.523
Granted during the year	**–**	**–**	55,400,000	2.680
Lapsed during the year	**(3,600,000)**	**2.680**	–	–
Outstanding at the end of the year	**121,498,000**	**3.737**	125,098,000	3.707
Exercisable at the end of the year	**105,458,000**		88,358,000	

The share options outstanding as at 31 December 2020 have a weighted average remaining contractual life of 3.64 years (2019: 4.64 years) and the exercise prices of which range from HK$2.680 to HK$6.320 (2019: HK$2.680 to HK$6.320).

Share option expenses charge to profit or loss are based on valuation determined using the Black-Scholes Model. Share options granted during the year ended 31 December 2019 were valued based on the following assumptions:

Date of grant	Number of share options granted	Vesting period	Exercisable period	Fair value per option HK$	Total fair value of options granted HK$	Share price at date of grant HK$	Exercise price HK$	Expected volatility %	Dividend yield %	Expected interest rate %	Risk free rate %
15 April 2019	22,160,000	15 April 2019 to 29 September 2019	30 September 2019 to 20 August 2024	0.7707	17,078,468	2.62	2.68	44.47	3.57	1.62	0.75
15 April 2019	16,620,000	15 April 2019 to 29 September 2020	30 September 2020 to 20 August 2024	0.7930	13,179,843	2.62	2.68	44.47	3.57	1.62	0.75
15 April 2019	16,620,000	15 April 2019 to 29 September 2021	30 September 2021 to 20 August 2024	0.8014	13,319,348	2.62	2.68	44.47	3.57	1.62	0.75
	55,400,000				43,577,659						

48. SHARE-BASED PAYMENTS (Continued)

Note (i): Share options of the Company (Continued)

Expected volatility was determined by using the historical volatility of the Company's share price over previous years. The effects of time to vest, non-transferability, exercise restrictions and behavioural considerations have been taken into account in the model. The variables and assumptions used in computing the fair value of the share options are based on management's best estimate. The value of share options varies with different variables of certain subjective assumptions.

Note (ii): Share awards of the Company

On 24 June 2014, an employees' share award scheme was adopted by the Company. The share award scheme is valid and effective for a period of 10 years commencing from 24 June 2014. Pursuant to the rules of the scheme, the Group has set up a trust for the purpose of administering the share award scheme and holding the awarded shares before they vest (the "2014 Share Award Scheme").

During the year ended 31 December 2020, a total of 3,350,000 shares were vested and allotted under the 2014 Share Award Scheme (2019: a total of 3,410,000 shares were vested and allotted).

Vesting dates	Outstanding at 1 January 2019	Movement during the period Allotted	Lapsed	Outstanding at 31 December 2019	Movement during the year Allotted	Lapsed	Outstanding at 31 December 2020
30 April 2019	3,430,000	(3,410,000)	(20,000)	–	–	–	-
30 April 2020	3,430,000	–	–	3,430,000	(3,350,000)	(80,000)	-
	6,860,000	(3,410,000)	(20,000)	3,430,000	(3,350,000)	(80,000)	-
Weighted average fair value	HK$3.63	HK$3.63	HK$3.63	HK$3.63	HK$3.63	HK$3.63	-

During the year ended 31 December 2020, no share of the Company was acquired for the 2014 Share Award Scheme (2019: nil). On 10 November 2020, the Company allotted previously vested 20,905,000 shares that remained in the trust. As at 31 December 2020, there are 0 shares (2019: 24,255,000 shares) held for such scheme with carrying amount of nil (2019: RMB83 million) accumulated in equity under the heading of "shares held for share award scheme".

On 21 October 2020, an employees' share award scheme (the "2020 Share Award Scheme") was adopted by the Company. The purpose of the 2020 Share Award Scheme is to recognise the contributions by certain personnel and to incentivise them in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The 2020 Share Award Scheme is valid and effective for a period of 10 years commencing from 21 October 2020. Pursuant to the rules of this scheme, the Group has set up a trust for the purpose of administering the 2020 Share Award Scheme and holding the awarded shares before they vest. The Company appointed an independent professional trustee to assist with the administration and vesting of the share award.

During the year ended 31 December 2020, no share of the Company was acquired for the 2020 Share Award Scheme.

48. SHARE-BASED PAYMENTS (Continued)

Note (iii):Restricted share incentive scheme of Skyworth Digital

The restricted share incentive scheme was approved and adopted by the shareholders of Skyworth Digital, an indirect non-wholly owned subsidiary of the Company established in the PRC and whose shares are listed on the Shenzhen Stock Exchange, at the special general meeting held on 31 August 2017. The restricted share incentive scheme is valid and effective for a period of 4 years commencing from 31 August 2017.

During the year ended 31 December 2020, no restricted shares of Skyworth Digital have been awarded to any directors and employees of Skyworth Digital (2019: nil) and 14,798,500 (2019: 11,994,500) awarded shares were vested and allotted. RMB1 million (2019: RMB84 million) have been received for this restricted share incentive scheme as at 31 December 2020 as disclosed in note 35.

Vesting dates	Outstanding at 1 January 2019	Movement during the period Allotted	Movement during the period Lapsed	Outstanding at 31 December 2019	Movement during the year Allotted	Movement during the year Lapsed	Outstanding at 31 December 2020
4 September 2017 to 3 September 2019	10,454,100	(9,745,500)	(708,600)	–	–	–	**–**
4 September 2017 to 3 September 2020	14,028,800	–	(1,034,800)	12,994,000	(12,572,000)	(294,000)	**128,000**
11 June 2018 to 11 June 2019	2,304,000	(2,249,000)	(55,000)	–	–	–	**–**
11 June 2018 to 11 June 2020	2,304,000	–	(55,000)	2,249,000	(2,226,500)	(22,500)	**–**
	29,090,900	(11,994,500)	(1,853,400)	15,243,000	(14,798,500)	(316,500)	**128,000**
Weighted average fair value per share	RMB1.30	RMB1.39	RMB0.82	RMB0.73	RMB0.75	RMB0.60	**RMB0.48**

49. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of 深圳神彩物流有限公司 ("神彩物流")

On 22 February 2019, a sales and purchase agreement was entered into between (i) Skyworth Group Co., Limited a subsidiary of the Company, and (ii) China Electronics Corporation (the "Seller"), in relation to the acquisition of equity interest in 神彩物流 by Skyworth Group Co., Limited from the Seller.

Pursuant to the sales and purchase agreement, Skyworth Group Co., Limited acquired 100% equity interest in 神彩物流.

On 1 March 2019, all the conditions precedent under the sales and purchase agreement have been fulfilled. 神彩物流 becomes an indirect wholly-owned subsidiary of the Company thereafter.

The total consideration for the acquisition is RMB38 million, which is settled in cash.

神彩物流 is principally engaged in the business of provision of logistics services. Acquisition of 神彩物流 is to accelerate the strategic layout and improve the logistics performance of the Group in the PRC.

49. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (Continued)

(a) Acquisition of 深圳神彩物流有限公司 ("神彩物流") (Continued)

Acquisition-related costs relating the above acquisition are excluded from the cost of acquisition and have been recognised as an expense in the profit or loss.

The net assets acquired in the transaction were as follows:

	RMB million
Non-current Asset	
Property, plant and equipment	18
Current Assets	
Inventories	38
Trade receivables	43
Other receivables, deposits and prepayments	20
Bank balances and cash	52
Current Liabilities	
Trade payables	(28)
Other payables	(60)
Bank borrowings	(60)
Non-current Liability	
Deferred tax liabilities	(1)
	22

The goodwill arising on the acquisition is as follows:

	RMB million
Consideration	38
Less: Net assets acquired	(22)
Goodwill arising on acquisition	16

Goodwill arose in the acquisition of 神彩物流 because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of 神彩物流. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for the identifiable intangible assets.

49. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (Continued)

(a) Acquisition of 深圳神彩物流有限公司 ("神彩物流") (Continued)

Net cash inflow arising on acquisition is as follows:

	RMB million
Cash consideration paid	(38)
Less: Bank balances and cash acquired	52
Net cash inflow for the year	14

Included in the profit during the year ended 31 December 2019 is RMB7 million attributable to 神彩物流. Revenue during the year ended 31 December 2019 includes RMB185 million is attributable to 神彩物流.

Had the acquisition been completed on 1 January 2019, total group revenue during the year ended 31 December 2019 would have been RMB37,320 million, and profit during the year ended 31 December 2019 would have been RMB1,028 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

(b) Disposal of 廣州創維電子有限公司 (Guangzhou Skyworth Electronics Co., Ltd.) ("Skyworth Electronics")

On 23 June 2020, the Group completed the disposal of 90% equity interest of a wholly-owned subsidiary, Skyworth Electronics, to an independent third party at a consideration of RMB574 million.

The assets and liabilities over which control was lost at the date of disposal are as follow:

	RMB million
Property, plant and equipment	224
Right-of-use assets	177
Deposits paid for purchase of property, plant and equipment	12
Other receivables, deposits and prepayments	9
Bank balances and cash	92
Other payables	(26)
Contract liabilities	(1)
	487

49. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (Continued)

(b) *Disposal of 廣州創維電子有限公司 (Guangzhou Skyworth Electronics Co., Ltd.) ("Skyworth Electronics") (Continued)*

The gain on disposal of a subsidiary arising on the disposal is as follows:

	RMB million
Cash consideration	574
Less: Net assets disposed of	(487)
Add: Fair value of the remaining 10% equity interest of Skyworth Electronics *(note 54(c))*	64
Gain on disposal of Skyworth Electronics	151

Net cash inflow arising on disposal of Skyworth Electronics is as follows:

	RMB million
Cash consideration received	574
Less: Bank balances and cash disposed	(92)
Net cash inflow for the year	482

(c) *Disposal of 廣州創維平面顯示科技有限公司 (Guangzhou Flat Display Technology Co., Ltd.) ("Guangzhou Flat Display")*

On 25 December 2020, the Group completed the disposal of 90% equity interest of a wholly-owned subsidiary, Guangzhou Flat Display, to an independent third party at a consideration of RMB747 million.

The assets and liabilities over which control was lost at the date of disposal are as follow:

	RMB million
Property, plant and equipment	188
Right-of-use assets	58
Deferred tax assets	6
Other receivables, deposits and prepayments	4
Bank balances and cash	10
Other payables	(2)
Tax liabilities	(7)
	257

49. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (Continued)

(c) *Disposal of 廣州創維平面顯示科技有限公司 (Guangzhou Flat Display Technology Co., Ltd.) ("Guangzhou Flat Display") (Continued)*

The gain on disposal of a subsidiary arising on the disposal is as follows:

	RMB million
Cash consideration	747
Less: Net assets disposed of	(257)
Add: Fair value of the remaining 10% equity interest of Guangzhou Flat Display *(note 54(c))*	83
Gain on disposal of Guangzhou Flat Display	573

Net cash inflow arising on disposal of Guangzhou Flat Display is as follows:

	RMB million
Cash consideration received	747
Less: Bank balances and cash disposed	(10)
Less: consideration receivable	(366)
Net cash inflow for the year	371

50. PLEDGE OF ASSETS

At 31 December 2020, the Group's borrowings were secured by the following:

(a) legal charges over right-of-use assets, and leasehold land and buildings with carrying value of RMB1,479 million (2019: RMB202 million) and RMB1,051 million (2019: RMB202 million), respectively;

(b) investment properties with carrying value of RMB1,263 million (2019:nil);

(c) pledged bank deposits of RMB1,309 million (2019: RMB885 million);

(d) trade receivables of RMB17 million (2019: RMB19 million); and

(e) bills receivables of RMB720 million (2019: RMB686 million).

51. OPERATING LEASE ARRANGEMENTS

The Group as lessor

During the year, the Group earned rental income of RMB409 million (2019: RMB408 million) from the lease of the Group's properties. The leased properties have committed tenants for terms ranging from one to twenty-one years.

Minimum lease payments receivable on leases are as follows:

	2020 RMB million	2019 RMB million
Within one year	**381**	355
In the second year	**258**	263
In the third year	**194**	199
In the fourth year	**129**	152
In the fifth year	**99**	92
After five years	**365**	371
	1,426	1,432

52. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2020 RMB million	2019 RMB million
Contracted but not provided for, in respect of:		
Purchase of property, plant and equipment	**522**	126
Factory buildings and office premises under development	**1,856**	455
	2,378	581

53. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt which includes lease liabilities, bank borrowings, convertible bonds and corporate bonds disclosed in notes 38, 41, 43 and 44, respectively, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The Group will also balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if necessary.

54. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 RMB million	2019 RMB million
Financial assets		
Financial assets at amortised cost	**25,576**	23,188
Trade receivables at FVTOCI	**400**	–
Financial assets at FVTPL	**1,639**	1,055
Equity instruments at FVTOCI	**1,216**	1,523
Derivative financial instruments	**9**	–
Finance lease receivables	**128**	130
Financial liabilities		
Amortised cost	**27,308**	23,178
Derivative financial instruments	**128**	280
Lease liabilities	**195**	146

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, equity instruments at FVTOCI, loan receivables, finance lease receivables, investments in debt securities, trade and bills receivables, trade receivables at FVTOCI, other receivables, pledged bank deposits, restricted bank deposits, bank balances and cash, trade and bills payables, other payables, lease liabilities, derivative financial instruments, bank borrowings, corporate bonds, convertible bonds and other financial liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (i.e. currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rate, interest rate and other price.

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk

The Group's sales in the PRC represent over 61% (2019: 70%) of the Group's total turnover. All of these sales transactions are conducted and denominated in RMB. The Group needs to convert revenue in RMB into foreign currencies from time to time in order to meet its ongoing obligations and payment of dividends. Although RMB is not a freely convertible currency, the Group did not experience any difficulties in such conversion to meet operational requirements. In addition, the Group enters into foreign currency forward contracts and cross currency swap contracts to eliminate the currency risk exposure. The management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2020	2019	**2020**	2019
	RMB million	RMB million	**RMB million**	RMB million
US$	**1,853**	1,402	**4,329**	3,524
HK$	**6**	15	**7**	72
EUR	**6**	1	**98**	148
RMB	**6**	2	**–**	–

Currency risk sensitivity analysis

The directors of the Company considered that the Group's exposure to RMB against HK$ is limited as amounts involved are immaterial. Accordingly, no sensitivity to fluctuation in RMB against HK$ is presented.

The Group exposes to fluctuations in US$, HK$ and EUR against RMB. The following table only details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in US$, HK$ and EU against RMB. 5% (2019: 5%) is the sensitivity rate used when it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2019: 5%) change in foreign currency rates. The foreign currency denominated monetary assets and monetary liabilities mainly include trade and bills receivables, other receivables, pledged bank deposits, restricted bank deposits, bank balances and cash, trade and bills payables, other payables, as well as bank borrowings. A positive number below indicates an increase in profit for the year where US$ weaken 5% (2019: 5%) against RMB, HK$ weaken 5% (2019: 5%) against RMB and EUR weaken 5% (2019: 5%) against RMB. For a 5% (2019: 5%) strengthening of US$ against RMB, 5% (2019: 5%) strengthening of HK$ against RMB and 5% (2019: 5%) strengthening of EUR against RMB, there would be an equal and opposite impact on the profit for the year.

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

Currency risk sensitivity analysis (Continued)

	2020 RMB million	2019 RMB million
Profit for the year		
US$ against RMB	**105**	90
HK$ against RMB	**–**	2
EUR against RMB	**4**	6

In management's opinion, the sensitivity analysis is unrepresentative of the foreign exchange risk inherent in the financial assets and liabilities, as the exposure at the end of the reporting period does not represent the exposure during the year.

Interest rate risk

The Group is exposed to cash flow interest rate risk as certain of its pledged bank deposits, restricted bank deposits, bank balances and bank borrowings are subject to floating interest rates (see note 41 for details of the bank borrowings).

The Group is exposed to fair value interest rate risk in relation to certain of its pledged bank deposits, restricted bank deposits, loan receivables, finance lease receivables, investments in debt securities, customer deposits, corporate bonds, convertible bonds, other financial liabilities, lease liabilities and bank borrowings which are interest bearing at fixed rate.

The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook and by entering into interest rate swap contracts to minimise the interest rate risk exposures. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

The management considers that the exposure to cash flow interest rate risk in relation to pledged bank deposits, restricted bank deposits, and bank balances is minimal, accordingly, no sensitivity analysis is presented for both years.

The Group's cash flow interest rate risk is mainly related to the fluctuation of EURIBOR, LIBOR and LPR against the Group's bank borrowings.

Interest rate risk sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to floating interest rates for bank borrowings at the end of the reporting period and assumed the amounts outstanding at the end of the reporting period were outstanding for the whole year and held constant throughout the financial year. If interest rates on interest bearing bank borrowings had been 50 basis points higher/lower and all other variables were held constant, the post-tax profit for the year would decrease/increase by RMB18 million (2019: RMB16 million).

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Other price risk

(i) Price risk on listed and unlisted equity securities and unlisted investment funds

The Group is exposed to other price risk through its investments in listed and unlisted equity securities and unlisted investment funds (as disclosed in note 23). In addition, the Group has appointed the management to monitor the price risk and will consider hedging the risk exposure should the need arise.

Price risk sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective equity instruments had been 10% (2019: 10%) higher/lower:

- post-tax profit for the year ended 31 December 2020 would increase/decrease by RMB123 million as a result of the changes in fair value of equity instruments at FVTPL and financial assets at FVTPL (2019: RMB84 million); and

- FVTOCI reserve would increase/decrease by RMB94 million (2019: RMB129 million) as a result of the changes in fair value of equity instruments at FVTOCI.

(ii) Price risk on derivative component of the convertible bonds (note 43)

For the year ended 31 December 2020 and 2019, the Company is required to estimate the fair value of the derivative component of the convertible bonds, including conversion and early redemption options, with changes in fair value to be recognised in the consolidated statement of profit or loss as long as the convertible bonds are outstanding. The fair value will be affected either positively or negatively, amongst others, by the changes in the share price of Skyworth Digital, expected volatility and risk free rate.

Sensitivity analysis

If the share price of Skyworth Digital had been 5% (2019: 5%) higher/lower and all other input variables of the valuation model were held constant, the Group's post-tax profit for the year ended 31 December 2020 would decrease/increase by RMB6 million (2019: RMB102 million), as a result of changes in fair value of the derivative component of the convertible bonds.

54. FINANCIAL INSTRUMENTS (Continued)

(b) *Financial risk management objectives and policies (Continued)*

Market risk (Continued)

Other price risk (Continued)

(ii) Price risk on derivative component of the convertible bonds (note 43) (Continued)

Sensitivity analysis (Continued)

If the expected volatility of share prices of Skyworth Digital had been 2% (2019: 2%) higher/lower and all other input variables of the valuation model were held constant, the Group's post-tax profit for the year ended 31 December 2020 would decrease/increase by RMB12 million (2019: RMB231 million), as a result of changes in fair value of the derivative component of the convertible bonds.

In management's opinion, the sensitivity analyses above are unrepresentative of the inherent price risk as the pricing model used in the valuation of these derivatives involves multiple variables and certain variables are interdependent.

Credit risk and impairment assessment

As at 31 December 2020, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has certain procedures for determination of credit limits and credit approvals. Before accepting any new customer, the sales department of the Group performs assessments on the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on financial assets at amortised cost individually for significant or credit impaired balances or collectively based on provision matrix for the remaining balances. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

In order to minimise the credit risk on bills received from customers, the Group will only accept bills issued by certain licensed banks with high credit ratings. Before accepting any bills from customers, the Group will verify the validity of each bill. In this regard, the directors of the Company consider that the Group's credit risk associated with its bills receivable is limited.

The credit risk on investments in debt securities and other receivables is limited because the directors of the Company have monitored the settlement and expect that the general economic conditions will not significantly change for the 12 months after the reporting date.

Based on assessment by the management, the credit risk is minimised for loan receivables taking into consideration of the estimated values of the collaterals and the credit quality of the borrowers.

The credit risk on finance lease receivables are limited because all receivables are secured over the plant and machinery leased.

The pledged bank deposits, restricted bank deposits and bank balances are placed in a number of counterparties, most of which are licensed banks with high credit ratings. As such, the credit risk on liquid funds is limited.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 76% (2019: 79%), 100% (2019: 100%) and 100% (2019: 100%) of the total trade and bills receivables, loan receivables and finance lease receivables respectively at the end of the reporting period. The Group has concentration of credit risk as 25% (2019: 27%) of the total loan receivables were due from a related party controlled by a substantial shareholder of the Company and the other two largest borrowers. The Group also has consideration of credit risk as 98% (2019: 98%) of the total finance lease receivables were due from the two largest lessees. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals.

The Group has no other significant concentration of credit risk with exposure spread over a number of counterparties and customers, and industries.

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables and finance lease receivables	Other financial assets/ other items
P 1	State owned enterprises, listed companies, subsidiaries of listed companies and large private companies with over 3 years business relationship with no history of default or the counterparty has a low risk of default	Lifetime ECL – not credit-impaired	12m ECL
P 2	Large private companies with less than 3 years business relationship and small private companies with over 3 years business relationship with no history of default	Lifetime ECL – not credit-impaired	12m ECL
P 3	Small private companies with less than 3 years business relationship with no history of default	Lifetime ECL – not credit-impaired	12m ECL
P 4	There is evidence indicating the asset is credit-impaired but the Group has realistic prospect of recovery	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
P 5	There is evidence indicating the asset is credit-impaired for more than 12 months and the Group has less prospect of recovery	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
P 6	There is evidence indicating that the debtor is in severe financial difficulty	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets and finance lease receivables, which are subject to ECL assessment:

31 December 2020	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount RMB million	RMB million
Financial assets at amortised cost					
Loan receivables	25	P 1	12m ECL	1,534	
		P 2	12m ECL	160	
		P 3	12m ECL	2	
		P 5	Lifetime ECL – credit-impaired	20	
		P 6	Lifetime ECL – credit-impaired	131	1,847
Trade and bills receivables	30	P 1	Lifetime ECL – not credit-impaired	9,188	
		P 2	Lifetime ECL – not credit-impaired	1,902	
		P 3	Lifetime ECL – not credit-impaired	1,174	
		P 4	Lifetime ECL – credit-impaired	1,665	
		P 5	Lifetime ECL – credit-impaired	74	
		P 6	Lifetime ECL – credit-impaired	112	14,115
Other receivables	31	P 1	12m ECL	763	
		P 2	12m ECL	4	
		P 3	12m ECL	13	
		P 4	Lifetime ECL – credit-impaired	1	
		P 5	Lifetime ECL – credit-impaired	3	
		P 6	Lifetime ECL – credit-impaired	130	914
Pledged bank deposits	32	*(Note)*	12m ECL	1,309	1,309
Restricted bank deposits	32	*(Note)*	12m ECL	318	318
Bank balances	32	*(Note)*	12m ECL	8,214	8,214
Other items					
Finance lease receivables	24	P 5	Lifetime ECL – credit-impaired	133	133

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

31 December 2019	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount RMB million	RMB million
Financial assets at amortised cost					
Loan receivables	25	P 1	12m ECL	1,699	
		P 2	12m ECL	22	
		P 3	12m ECL	2	
		P 4	Lifetime ECL – credit-impaired	300	
		P 5	Lifetime ECL – credit-impaired	290	
		P 6	Lifetime ECL – credit-impaired	122	2,435
Investments in debt securities	29	P 1	12m ECL	83	83
Trade and bills receivables	30	P 1	Lifetime ECL – not credit-impaired	8,767	
		P 2	Lifetime ECL – not credit-impaired	2,262	
		P 3	Lifetime ECL – not credit-impaired	3,035	
		P 4	Lifetime ECL – credit-impaired	408	
		P 5	Lifetime ECL – credit-impaired	89	
		P 6	Lifetime ECL – credit-impaired	102	14,663
Other receivables	31	P 1	12m ECL	522	
		P 2	12m ECL	11	
		P 3	12m ECL	62	
		P 5	Lifetime ECL – credit-impaired	30	
		P 6	Lifetime ECL – credit-impaired	115	740
Pledged bank deposits	32	*(Note)*	12m ECL	885	885
Restricted bank deposits	32	*(Note)*	12m ECL	411	411
Bank balances	32	*(Note)*	12m ECL	4,806	4,806
Other items					
Finance lease receivables	24	P 5	Lifetime ECL – credit-impaired	142	142

Note: The counterparties are licensed banks with high credit ratings and the risk of default on liquid funds is limited.

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

As part of the Group's credit risk management, the Group applies internal credit rating. The following table provides information about the exposure to credit risk which is assessed based on provision matrix as at the end of the reporting period. Credit-impaired trade and bills receivables, loan receivables, other receivables and finance lease receivables with gross carrying amounts of RMB1,851 million, RMB151 million, RMB134 million and RMB133 million, respectively as at 31 December 2020 (2019: RMB599 million, RMB712 million, RMB145 million and RMB142 million) were assessed individually.

Gross carrying amount

As at 31 December 2020

Internal credit rating	Average loss rate	Trade and bills receivables	Loan receivables	Investments in debt securities	Other receivables
		RMB million	RMB million	RMB million	RMB million
P 1	**0.03%**	**9,188**	**1,534**	**–**	**987**
P 2	**1.94%**	**1,902**	**160**	**–**	**4**
P 3	**4.86%**	**1,174**	**2**	**–**	**13**
		12,264	**1,696**	**–**	**1,004**

As at 31 December 2019

Internal credit rating	Average loss rate	Trade and bills receivables	Loan receivables	Investments in debt securities	Other receivables
		RMB million	RMB million	RMB million	RMB million
P 1	0.03%	8,767	1,699	83	522
P 2	1.32%	2,262	22	–	11
P 3	3.24%	3,035	2	–	62
		14,064	1,723	83	595

The estimated loss rates are estimated based on average of market corporate default rates and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2020, the Group provided RMB5 million (2019: RMB110 million) and RMB76 million (2019: nil) impairment allowance for trade receivables at amortised cost and bills receivables respectively.

54. FINANCIAL INSTRUMENTS (Continued)

(b) *Financial risk management objectives and policies (Continued)*

Credit risk and impairment assessment (Continued)

Gross carrying amount (Continued)

The following table shows the movement in allowance for credit losses that has been recognised for trade and bills receivables under the simplified approach.

	Lifetime ECL – not credit-impaired RMB million	Lifetime ECL – credit-impaired RMB million	Total RMB million
As at 1 January 2019	148	149	297
Changes due to financial instruments recognised as at 1 January 2019:			
– Transfer to credit-impaired *(Note (1))*	(25)	25	–
– Impairment loss recognised	–	170	170
– Impairment loss reversed *(Note (2))*	(123)	(67)	(190)
– Written-off *(Note (3))*	–	(9)	(9)
New financial assets originated	130	–	130
As at 31 December 2019	130	268	398
Changes due to financial instruments recognised as at 1 January 2020:			
– Transfer to credit-impaired *(Note (1))*	(2)	2	–
– Impairment loss recognised	–	186	186
– Impairment loss reversed *(Note (2))*	(128)	(65)	(193)
– Written-off *(Note (3))*	–	(15)	(15)
New financial assets originated	88	–	88
As at 31 December 2020	88	376	464

Notes:

(1) Certain trade receivables are defaulted and transferred to credit-impaired during the year ended 31 December 2020 and 2019.

(2) The Group reversed impairment loss due to settlement in full of trade receivables during the year ended 31 December 2020 and 2019.

(3) The Group writes off a trade receivable when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the borrower has been placed under liquidation or has entered into bankruptcy proceedings.

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Gross carrying amount (Continued)

The following table shows the movement in allowance for credit losses that has been recognised for loan receivables.

	12m ECL RMB million	Lifetime ECL – credit-impaired RMB million	Total RMB million
As at 1 January 2019	3	272	275
Changes due to financial instruments recognised as at 1 January 2019:			
– Impairment loss recognised	–	109	109
– Impairment loss reversed	(2)	(72)	(74)
As at 31 December 2019	1	309	310
Changes due to financial instruments recognised as at 1 January 2020:			
– Impairment loss recognised	–	118	118
– Impairment loss reversed	–	(42)	(42)
– Written-off	–	(254)	(254)
New financial assets originated	2	–	2
As at 31 December 2020	3	131	134

Notes:

The Group writes off a loan receivable when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the borrower has been placed under liquidation or has entered into bankruptcy proceedings. The Group has taken legal action against the borrowers to recover the amount due.

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

In addition,

- the Group recognised impairment for credit losses for its credit-impaired investments in debt securities amounted to RMB8 million for the year ended 31 December 2019 under lifetime ECL. There was no transfer of loss allowances from 12m ECL to lifetime ECL (not credit-impaired) or lifetime ECL (credit-impaired) occurred during the year ended 31 December 2019;

- the Group recognised impairment for credit losses for its credit-impaired other receivables and not credit-impaired other receivables amounted to RMB24 million (2019: RMB65 million) and RMB3 million (2019: RMB2 million) for the year ended 31 December 2020 under lifetime ECL and 12m ECL respectively. The Group writes off impairment for credit losses for its credit-impaired other receivable amounted to RMB11 million (2019: nil) for the year ended 31 December 2020 under lifetime ECL; and

- the Group reversed impairment for credit losses for its credit-impaired finance lease receivables amounted to RMB7 million (2019: recognised impairment for credit losses for its credit-impaired finance lease receivables amounted to RMB3 million) for the year ended 31 December 2020.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from prevailing market interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows (inflows) on derivative financial instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	Repayable on demand or less than 1 month RMB million	1 to 3 months RMB million	Over 3 months but not more than 1 year RMB million	1 to 5 years RMB million	Over 5 years RMB million	Total undiscounted cash flows RMB million	Carrying amount at 31 December 2020 RMB million
31 December 2020								
Non-derivative financial liabilities								
Trade and bills payables	–	5,363	4,155	2,381	–	–	11,899	11,899
Other payables	–	1,569	57	312	–	–	1,938	1,938
Other financial liabilities	–	–	–	–	98	–	98	98
Other financial liabilities	8.00%	–	–	211	–	–	211	199
Bank borrowings – variable rate	2.78%	648	527	891	1,779	1,612	5,457	4,691
Bank borrowings – fixed rate	3.19%	814	877	3,775	1,534	–	7,000	6,696
Corporate bonds	5.66%	–	–	80	994	–	1,074	874
Convertible bonds	5.62%	–	–	9	1,241	–	1,250	913
Lease liabilities	5.00%	6	12	44	152	3	217	195
		8,400	5,628	7,703	5,798	1,615	29,144	27,503
Derivatives financial instruments, net								
Foreign currency forward contracts		–	13	15	51	–	79	79
Interest rate swap contracts		–	–	–	2	–	2	2
Cross-currency swap contract		–	–	–	28	–	28	28
		–	13	15	81	–	109	109

	Weighted average effective interest rate	Repayable on demand or less than 1 month RMB million	1 to 3 months RMB million	Over 3 months but not more than 1 year RMB million	1 to 5 years RMB million	Over 5 years RMB million	Total undiscounted cash flows RMB million	Carrying amount at 31 December 2019 RMB million
31 December 2019								
Non-derivative financial liabilities								
Trade and bills payables	–	3,230	3,724	3,105	–	–	10,059	10,059
Other payables	–	551	166	1,026	–	–	1,743	1,743
Other financial liabilities	8.00%	–	–	–	371	–	371	285
Bank borrowings – variable rate	3.70%	414	1,099	1,987	1,135	–	4,635	4,335
Bank borrowings – fixed rate	3.69%	368	513	2,891	189	–	3,961	3,842
Corporate bonds	5.48%	–	–	2,185	–	–	2,185	1,990
Convertible bonds	5.62%	–	–	4	51	1,196	1,251	924
Lease liabilities	4.15%	6	11	19	128	2	166	146
		4,569	5,513	11,217	1,874	1,198	24,371	23,324
Derivatives financial instruments, net								
Foreign currency forward contracts		–	–	4	–	–	4	4

54. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

54. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ (financial liabilities)	Fair value as at 31 December 2020 RMB million	31 December 2019 RMB million	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at FVTPL				
Unlisted equity securities	**1,076**	612	Level 3 *(Note (a))*	Market approach Valuations are derived by the earnings attributable to owners of the investment, trading multiples of comparable companies and discounts for lack of marketability.
Listed equity securities	**396**	393	Level 1	Quoted bid prices in an active market
Unlisted investment funds	**167**	50	Level 3 *(Note (b))*	Discounted cash flow Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustments of related expenses, discounted at rates that reflect the credit risk of various counterparties.
	1,639	1,055		
Equity instruments at FVTOCI				
Unlisted equity securities	**1,088**	1,402	Level 3 *(Note (c))*	Market approach Valuations are derived by the earnings attributable to owners of the investment, trading multiples of comparable companies and discounts for lack of marketability.
Listed equity securities	**128**	121	Level 1	Quoted bid prices in an active market
	1,216	1,523		
Trade receivable at FVTOCI				
Trade receivables	**400**	–	Level 2	Discounted cash flow Future cash flows are estimated based on expected settlement and discount at rate that reflect the credit risk of the counterparty

54. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ (financial liabilities)	Fair value as at 31 December 2020 RMB million	Fair value as at 31 December 2019 RMB million	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial instruments:				
Foreign currency forward contracts – assets	**9**	–	Level 2	Discounted cash flow
Foreign currency forward contracts – liabilities	**(79)**	(4)		Future cash flows are estimated based on forward exchange (from observable forward exchange at the end of the reporting period) and contracted forward rates, discounted at rates that reflect the credit risk of various counterparties.
Cross-currency swap contract – liabilities	**(28)**	–	Level 2	Discounted cash flow Future cash flows are estimated based on observable spot and forward exchange rates and the yield curves of the respective currencies taking into account the credit risk of the counterparties and of the Group as appropriate.
Interest rate swap contracts – liabilities	**(2)**	–	Level 2	Discounted cash flow The inputs are the fixed interest rate adopted, the referenced floating interest rate, time to maturity and risk-free rate.
Derivative component of the convertible bonds	**(19)**	(276)	Level 3 *(Note (d))*	Binomial option pricing model Fair value is estimated based on share price of Skyworth Digital, exercise price, risk free rate, expected volatility and dividend yield.
	(119)	(280)		

54. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Notes:

(a) A slight decrease in discount for lack of marketability used in valuation would result in a significant increase in the fair value measurement of the unlisted equity securities at FVTPL, and vice versa. A 5% (2019: 5%) decrease in the discount for lack of marketability holding all other variables constant would increase the carrying amount of the unlisted equity securities at FVTPL by RMB70 million (2019: RMB31 million).

(b) A slight increase in the expected yield would result in a significant increase in the fair value measurement of the unlisted investment fund, and vice versa. A 5% (2019: 5%) increase in the expected yield holding all other variables constant would increase the carrying amount of the unlisted investment fund by RMB5 million (2019: RMB3 million).

(c) A slight decrease in discount for lack of marketability used in valuation would result in a significant increase in the fair value measurement of the unlisted equity securities at FVTOCI, and vice versa. A 5% (2019: 5%) decrease in the discount for lack of marketability holding all other variables constant would increase the carrying amount of the unlisted equity securities at FVTOCI by RMB61 million (2019: RMB76 million).

(d) A slight increase in the expected volatility and share price of Skyworth Digital used in isolation would result in significant decrease in the fair value measurement of the derivative component, and vice versa. A 5% (2019: 5%) increase in the share price of Skyworth Digital and 2% (2019:2%) expected volatility holding all other variables constant would decrease the carrying amount of the derivative component by RMB6 million (2019:RMB102 million) and RMB12 million (2019:RMB231 million) respectively.

54. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 fair value measurements of financial assets and financial liability

	Unlisted equity securities		Unlisted investment funds
	Financial assets at FVTPL	Equity instruments at FVTOCI	Financial assets at FVTPL
	RMB million	RMB million	RMB million
At 1 January 2019	390	1,494	37
Gain from changes in fair value of equity instruments at FVTPL	285	–	–
Fair value loss on investments in equity instruments at FVTOCI	–	(92)	–
Investments	258	–	48
Disposals	(48)	–	(35)
Transfer out of level 3 *(Note)*	(273)	–	–
At 31 December 2019	612	1,402	50
Gain from changes in fair value of equity instruments at FVTPL	85	–	1
Fair value loss on investments in equity instruments at FVTOCI	–	(311)	–
Investments	308	3	388
Disposals	(30)	(6)	(250)
Equity interest retained arising from disposal of subsidiaries *(note 49(b) & (c))*	147	–	–
Transfer out of level 3 *(Note)*	(46)	–	(22)
At 31 December 2020	1,076	1,088	167

All gains and losses included in OCI relate to equity instruments at FVTOCI held at the end of the reporting period and are reported as changes of "FVTOCI reserve".

Reconciliation of Level 3 fair value measurement of financial liability, representing the derivative component of the convertible bonds, is disclosed in note 43.

Note: *During the year ended 31 December 2020, certain equity securities were transferred out of Level 3 of the fair value hierarchy upon the listing of the equity securities on the relevant stock exchanges.*

During the year ended 31 December 2019, certain equity securities were transferred out of Level 3 of the fair value hierarchy upon the listing of the related assets on the Sci-Tech Innovation Board in the PRC.

54. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The accounting team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The fluctuations in the fair value of the assets and liabilities are explained to the board of directors of the Company.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

No changes in the business or economic circumstances that significantly affect the fair value of financial instruments is considered by the directors of the Company.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

The fair values of the bank borrowings and corporate bonds (categorised with Level 2 hierarchy) and fair value of convertible bonds (categorised with Level 3 hierarchy) have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

55. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payables RMB million	Interest payables RMB million	Other financial liabilities RMB million	Amount due to a non-controlling shareholder of a subsidiary RMB million	Lease liabilities RMB million	Bank borrowings RMB million	Convertible bonds RMB million	Derivative component of convertible bonds RMB million	Corporate bonds RMB million	Total RMB million
At 1 January 2019	–	36	173	50	122	6,324	–	–	1,990	8,695
Non cash transactions:										
Exchange realignment	–	–	–	–	–	35	–	–	–	35
Dividend recognised as distribution	160	–	–	63	–	–	–	–	–	223
Finance costs	–	429	14	–	8	–	33	–	–	484
New leases entered	–	–	–	–	79	–	–	–	–	79
Acquisition of a subsidiary	–	–	–	–	–	60	–	–	–	60
Change in fair value of derivative financial instruments	–	–	–	–	–	–	–	136	–	136
Financing cash flows:										
Dividend paid	(160)	–	–	(113)	–	–	–	–	–	(273)
Interest paid	–	(423)	–	–	(8)	–	–	–	–	(431)
Repayments of lease liabilities	–	–	–	–	(55)	–	–	–	–	(55)
New other financial liability raised	–	–	98	–	–	–	–	–	–	98
New bank borrowings raised	–	–	–	–	–	13,676	–	–	–	13,676
Repayments of bank borrowings	–	–	–	–	–	(11,918)	–	–	–	(11,918)
New convertible bonds raised, net of transaction costs	–	–	–	–	–	–	891	140	–	1,031
At 31 December 2019	–	42	285	–	146	8,177	924	276	1,990	11,840
Non cash transactions:										
Dividend recognised in distribution	96	–	–	–	–	–	–	–	–	96
Finance costs	–	374	12	–	9	–	45	–	–	440
New leases entered	–	–	–	–	128	–	–	–	–	128
Change in fair value of derivative financial instruments	–	–	–	–	–	–	–	(241)	–	(241)
Conversion of convertible bonds	–	–	–	–	–	–	(56)	(16)	–	(72)
Financing cash flows:										
Dividend paid	(96)	–	–	–	–	–	–	–	–	(96)
Interest paid	–	(366)	–	–	(9)	–	–	–	–	(375)
Repayments of lease liabilities	–	–	–	–	(79)	–	–	–	–	(79)
New bank borrowings raised	–	–	–	–	–	18,361	–	–	–	18,361
Repayments of bank borrowings	–	–	–	–	–	(15,151)	–	–	–	(15,151)
New corporate bonds raised, net of transaction costs	–	–	–	–	–	–	–	–	797	797
Repayment of corporate bonds	–	–	–	–	–	–	–	–	(1,913)	(1,913)
At 31 December 2020	–	50	297	–	195	11,387	913	19	874	13,735

56. CONTINGENT LIABILITIES

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

57. RETIREMENT BENEFITS SCHEMES

The employees of the Company's Hong Kong subsidiaries participate in a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSON Scheme") or a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Scheme Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Certain employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme remained with the ORSO Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income capped at HK$1,500 per month. The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employees' basic salary. The pension costs charged to profit or loss represent contributions payable to these funds by the Group at rates specified in the rules of these schemes.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The aggregate retirement benefits scheme contributions and pension costs for the Group's employees, net of forfeited contributions, which have been dealt with in profit or loss, are as follows:

	2020 **RMB million**	2019 RMB million
Retirement benefit scheme contributions in Hong Kong	**1**	1
Pension costs in the PRC	**163**	298
Total retirement benefit scheme contributions	**164**	299

At both 31 December 2020 and 2019, there were no forfeited contributions available to offset future employers' contributions to the schemes.

58. NON-CASH TRANSACTION

During the year ended 31 December 2020, the Group entered into new lease agreements for the use of leased properties for 2 years to 5 years (2019: 2 years to 9 years). On the lease commencement, the Group recognised RMB128 million right-of-use assets and RMB128 million lease liabilities (2019: RMB79 million right-of-use assets and RMB79 million lease liabilities).

59. RELATED PARTY TRANSACTIONS

During the year, in addition to the related party transactions disclosed elsewhere in the consolidated financial statements, the Group also has the following transactions with related parties:

Trading transactions

Joint ventures

	2020 RMB million	2019 RMB million
Sales of finished goods	–	10
Repair and maintenance service fee income	1	1

Associates

	2020 RMB million	2019 RMB million
Sales of finished goods	788	956
Repair and maintenance service fee paid	–	1

Related parties

	2020 RMB million	2019 RMB million
Interest income from loan receivables from a related party *(Note)*	18	16
Consultancy fee paid to a substantial shareholder of the Company	3	3

Note: *The related party is controlled by a substantial shareholder of the Company. Please refer to note 25 and the section headed "Continuing Connected Transaction" in the Directors' Report for the details of the transaction.*

59. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management including chief executive of the Company during the year was as follows:

	2020 RMB million	2019 RMB million
Short-term benefits	**60**	39
Post-employment benefits	**1**	1
Share-based payments	**29**	21
	90	61

The remuneration of directors and key management is reviewed by the remuneration committee having regard to the responsibilities and performance of the relevant individuals and market trends.

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following lists the subsidiaries of the Company as at 31 December 2020 and 31 December 2019 which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/paid up registered capital	Effective interest held by the Company *(Note (a))* 2020	Effective interest held by the Company *(Note (a))* 2019	Principal activities
Skyworth Holdings Limited 創維控股有限公司	Samoa	Ordinary share US$1	**100%**	100%	Investment holding
Skyworth Enterprises Limited 創維實業有限公司	Samoa	Ordinary share US$1	**100%**	100%	Investment holding
Skyworth Investment (Holdings) Limited 創維投資（控股）有限公司	The British Virgin Islands	Ordinary shares HK$893 Preference shares HK$990	**100%**	100%	Investment holding
Skyworth TV Holdings Limited 創維電視控股有限公司	Hong Kong	Ordinary shares HK$30,600,000 Non-voting deferred shares HK$2,500,000 *(Note (b))*	**100%**	100%	Investment holding
深圳創維－RGB電子有限公司 Shenzhen Chuangwei – RGB Electronics Co., Ltd.	PRC *(Note (c))*	Registered capital RMB700,000,000	**100%**	100%	Manufacture and sale of consumer electronic products
新創維電器（深圳）有限公司 Skyworth Electrical Appliances (Shenzhen) Co., Ltd.	PRC *(Note (d))*	Registered capital US$21,180,000	**100%**	100%	Manufacture of consumer electronic products and property holding

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/paid up registered capital	Effective interest held by the Company (Note (a)) 2020	2019	Principal activities
呼和浩特市創維建設發展有限公司	PRC *(Note (c))*	Registered capital US$24,400,000	**100%**	100%	Manufacture and sale of consumer electronic products
創維集團科技園管理有限公司	PRC *(Note (c))*	Registered capital US$39,500,000	**100%**	100%	Manufacture of consumer electronic products and property holding
創維集團有限公司	PRC *(Note (c))*	Registered capital HK$1,830,000,000	**100%**	100%	Investment holding
Skyworth Multimedia International Limited 創維多媒體國際有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	Manufacture and sale of consumer electronic products
Skyworth Overseas Development Limited 創維海外發展有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	Manufacture and sale of consumer electronic products
Skyworth Overseas Limited 創維海外有限公司	Hong Kong	Ordinary shares HK$2	**100%**	100%	Trading of consumer electronic products
創維數字股份有限公司 Skyworth Digital	PRC *(Note (f))*	Registered capital RMB1,070,931,280	**56.5%** *(Note (g))*	57.8% *(Note (g))*	Investment holding
深圳創維數字技術有限公司 Shenzhen Skyworth Digital Technology Co., Ltd.	PRC *(Note (e))*	Registered capital RMB300,000,000	**56.5%** *(Note (g))*	57.8% *(Note (g))*	Manufacture and sale of consumer electronic products and research and products development
深圳市酷開網絡科技股份有限公司 (previously known as 深圳市酷開網絡科技有限公司)	PRC *(Note (c))*	Registered capital RMB127,487,687	**57.0%**	56.8%	Manufacturing and sale of consumer electronic products
創維液晶器件 (深圳) 有限公司	PRC *(Note (d))*	Registered capital HK$25,000,000	**55.0%**	57.8% *(Note (g))*	Manufacture and sale of consumer electronic products and research and products development
Skyworth Intellectual Property Holdings Limited	The British Virgin Islands	Ordinary share US$1	**100%**	100%	Intellectual property holding
Winform Inc.	The British Virgin Islands/ Hong Kong	Ordinary share US$1	**100%**	100%	Property holding
Skyworth Moulds Industrial Company Limited	The British Virgin Islands	Ordinary shares US$10	**100%**	100%	Investment holding
Skyworth Display Technology Holdings Limited 創維光顯科技控股有限公司	Bermuda	Ordinary shares HK$100,000	**83%**	83%	Investment holding

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/paid up registered capital	Effective interest held by the Company (Note (a)) 2020	2019	Principal activities
Skyworth Electronic Appliance Limited 創維電器有限公司	Hong Kong	Ordinary shares HK$93,114,000	**100%**	71.25%	Investment holding
創維電器股份有限公司 (previously known as 南京創維家用電器有限公司)	PRC *(Note (d))*	Registered capital US$50,000,000	**74.7%**	77%	Manufacture and sale of consumer electronic products and research and products development
創維集團財務有限公司	PRC *(Note (d))*	Registered capital RMB1,152,670,000	**100%**	100%	Financing
深圳創維科技諮詢有限公司	PRC *(Note (d))*	Registered capital RMB100,000,000	**100%**	100%	Investment holding
Skyworth Financial Management Company Limited 創維財資管理有限公司	Hong Kong	Ordinary shares HK$500,000,000	**100%**	100%	Treasury management and investment holding
Skyworth International Trading Limited 創維國際貿易有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	Trading

Notes:

(a) *The Company directly holds the entire interest in Skyworth Holdings Limited. The interests of all other companies are indirectly held by the Company.*

(b) *The non-voting deferred shares practically carry no rights to dividends nor receive notice of nor to attend or vote at any general meeting of the relevant company nor to participate in any distribution on winding up.*

(c) *The subsidiaries are sino-foreign equity joint ventures registered in the PRC.*

(d) *The subsidiaries are wholly foreign owned enterprises registered in the PRC.*

(e) *The subsidiary is a joint stock limited company registered in the PRC.*

(f) *The subsidiary is a joint stock limited company established under the law of the PRC whose shares are listed on the Shenzhen Stock Exchange.*

(g) *The effective interest held by the Company included 0.01% (2019: 0.83%) equity interest held under treasury shares of a subsidiary of the Company for the purpose of the restricted share incentive scheme of Skyworth Digital as set out in note 48(iii).*

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

None of the subsidiaries had issued any debt securities outstanding at 31 December 2020 and 2019 or at any time during the year, except for the issuance of convertible bonds by Skyworth Digital and issuance of certain corporate bonds by a subsidiary as disclosed in notes 43 and 44 respectively in which the Company has no interest.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ establishment/ operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loos) allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	**2020**	2019	**2020**	2019
				RMB million	RMB million	**RMB million**	RMB million
Skyworth Digital	PRC	**43.5%**	42.2%	**242**	191	**1,926**	1,676
Shenzhen Coocaa	PRC	**43.0%**	43.2%	**128**	69	**898**	766
Individually immaterial subsidiaries with non-controlling interest				**25**	24	**(143)**	(291)
				395	284	**2,681**	2,151

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Skyworth Digital

	2020 RMB million	2019 RMB million
Current assets	**8,744**	8,966
Non-current assets	**1,506**	1,581
Current liabilities	**(4,864)**	(5,527)
Non-current liabilities	**(1,097)**	(1,247)
	4,289	3,773
Equity attributable to owners of the Company	**2,363**	2,097
Non-controlling interests of Skyworth Digital	**1,820**	1,531
Non-controlling interest of Skyworth Digital's subsidiaries	**106**	145
	4,289	3,773

	2020 RMB million	2019 RMB million
Revenue	**8,738**	9,096
Expenses	**(8,143)**	(8,621)
Profit for the year	**595**	475
Profit attributable to owners of the Company	**353**	284
Profit attributable to the non-controlling interests of Skyworth Digital	**272**	207
Loss attributable to the non-controlling interests of Skyworth Digital's subsidiaries	**(30)**	(16)
Profit for the year	**595**	475
Other comprehensive income (expense) attributable to owners of the Company	**19**	(12)
Other comprehensive income (expense) attributable to the non-controlling interests of Skyworth Digital	**14**	(10)
Other comprehensive income (expense) for the year	**33**	(22)
Total comprehensive income attributable to owners of the Company	**372**	272
Total comprehensive income attributable to the non-controlling interests of Skyworth Digital	**286**	197
Total comprehensive expense attributable to the non-controlling interests of Skyworth Digital's subsidiaries	**(30)**	(16)
Total comprehensive income for the year	**628**	453
Net cash inflow from operating activities	**2,447**	59
Net cash outflow from investing activities	**(193)**	(240)
Net cash (outflow) inflow from financing activities	**(814)**	1,001
Net cash inflow	**1,440**	820

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Shenzhen Coocaa

	2020 RMB million	2019 RMB million
Current assets	**2,124**	1,878
Non-current assets	**474**	466
Current liabilities	**(456)**	(503)
Non-current liabilities	**(70)**	(70)
	2,072	1,771
Equity attributable to owners of the Company	**1,174**	1,005
Non-controlling interests of Shenzhen Coocaa	**887**	763
Non-controlling interests of Shenzhen's Coocaa's subsidiary	**11**	3
	2,072	1,771

	2020 RMB million	2019 RMB million
Revenue	**1,359**	965
Expenses	**(1,063)**	(805)
Profit for the year	**296**	160
Profit attributable to owners of the Company	**168**	91
Profit attributable to the non-controlling interests of Shenzhen Coocaa	**127**	70
Profit (loss) attributable to the non-controlling interests of Shenzhen Coocaa's subsidiary	**1**	(1)
Profit for the year	**296**	160
Other comprehensive income (expense) attributable to owners of the Company	**23**	(23)
Other comprehensive income (expense) attributable to the non-controlling interests of Shenzhen Coocaa	**18**	(18)
Other comprehensive income (expense) for the year	**41**	(41)
Total comprehensive income attributable to owners of the Company	**191**	68
Total comprehensive income attributable to the non-controlling interests of Shenzhen Coocaa	**145**	52
Total comprehensive income (expense) attributable to non-controlling interests of Shenzhen Coocaa's subsidiaries	**1**	(1)
Total comprehensive income for the year	**337**	119
Net cash inflow from operating activities	**130**	132
Net cash inflow (outflow) from investing activities	**260**	(137)
Net cash (outflow) inflow from financing activities	**(51)**	94
Net cash inflow	**339**	89

61. FINANCIAL INFORMATION OF THE COMPANY

The following is the statement of financial position of the Company:

	2020 RMB million	2019 RMB million
Non-current Assets		
Interests in subsidiaries	**6,819**	5,797
Current Assets		
Other receivables	**10**	10
Amounts due from subsidiaries	**487**	2,542
Bank balances and cash	**79**	1
	576	2,553
Current Liabilities		
Other payables	**82**	76
Amounts due to subsidiaries	**2,098**	1,137
Corporate bonds	**–**	1,990
	2,180	3,203
Net Current Liabilities	**(1,604)**	(650)
Total Assets less Current Liabilities	**5,215**	5,147
Non-current Liability		
Corporate bonds	**77**	–
Net Assets	**5,138**	5,147
Capital and Reserves		
Share capital	**273**	308
Reserves	**4,865**	4,839
	5,138	5,147

61. FINANCIAL INFORMATION OF THE COMPANY (Continued)

The followings are the movements in reserves of the Company for the current year and prior period:

	Share premium RMB million	Share option reserve RMB million	Share award reserve RMB million	Shares held for share award scheme RMB million	Surplus account RMB million	Accumulated profits RMB million	Total RMB million
Balance at 1 January 2019	3,292	67	10	(98)	1,006	593	4,870
Profit and total comprehensive income for the year	–	–	–	–	–	91	91
Recognition of equity-settled share-based payments *(note 48)*	–	28	10	–	–	–	38
Shares vested under share award scheme of the Company	–	–	(10)	15	–	(5)	–
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	(160)	(160)
Balance at 31 December 2019	3,292	95	10	(83)	1,006	519	4,839
Profit and total comprehensive income for the year	–	–	–	–	–	905	905
Recognition of equity-settled share-based payments *(note 48)*	–	13	40	–	–	–	53
Lapse of share option	–	(1)	–	–	–	1	–
Share vested under share award scheme of the Company	–	–	(50)	83	–	(33)	–
Repurchase of shares	(932)	–	–	–	–	–	(932)
Balance at 31 December 2020	2,360	107	–	–	1,006	1,392	4,865

Financial Summary

RESULTS

	For the year ended 31 December 2020 RMB million	2019 RMB million	For the nine months ended 31 December 2018 RMB million	For the year ended 31 March 2018 RMB million	2017 RMB million
Revenue	**40,093**	37,277	30,192	39,271	36,515
Cost of sales	**(32,929)**	(29,775)	(24,534)	(32,726)	(29,213)
Gross profit	**7,164**	7,502	5,658	6,545	7,302
Other income	**1,233**	1,071	628	1,139	1,308
Other gains and losses	**1,144**	275	(13)	(178)	248
Impairment loss recognised respect of financial assets	**(179)**	(223)	(277)	(77)	(78)
Selling and distribution expenses	**(3,477)**	(3,757)	(2,862)	(3,873)	(4,339)
General and administrative expenses	**(1,415)**	(1,014)	(833)	(868)	(1,131)
Research and development expenses	**(1,865)**	(1,843)	(1,327)	(1,604)	(1,310)
Finance costs	**(440)**	(484)	(335)	(322)	(306)
Share of results of associates	**15**	21	9	10	–
Share of results of joint ventures	**–**	5	–	(1)	(3)
Profit before taxation	**2,180**	1,553	648	771	1,691
Income tax expense	**(345)**	(522)	(95)	(272)	(388)
Profit for the year	**1,835**	1,031	553	499	1,303
Attributable to:					
Owners of the Company	**1,440**	747	420	459	1,116
Non-controlling interests	**395**	284	133	40	187
	1,835	1,031	553	499	1,303

ASSETS AND LIABILITIES

	As at 31 December 2020 RMB million	2019 RMB million	2018 RMB million	As at 31 March 2018 RMB million	2017 RMB million
Total consolidated assets	**53,684**	47,538	45,160	43,101	38,193
Total consolidated liabilities	**(34,693)**	(29,395)	(27,805)	(26,557)	(23,280)
Netassets	**18,991**	18,143	17,355	16,544	14,913
Attributable to:					
Owners of the Company	**16,310**	15,992	15,470	14,922	13,730
Non-controlling interests	**2,681**	2,151	1,885	1,622	1,183
	18,991	18,143	17,355	16,544	14,913

During the nine months ended 31 December 2018, the Group had first applied HKFRS 9 and HKFRS 15. The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9 and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018 and has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application (i.e. 1 April 2018). Accordingly, certain financial information for the years ended 31 March 2018 and 2017 as set out above may not be comparable to the years ended 31 December 2020 and 2019 and nine months ended 31 December 2018 as such comparative information was prepared under HKAS 18 and HKAS 39.

During the year ended 31 December 2019, the Group has applied HKFRS 16 for the first time and has elected the applicable practical expedient for not reassess contracts which already existed prior to the date of initial application (i.e. 1 January 2019). The financial information as set out above for the nine months ended 31 December 2018 and years ended 31 March 2018 and 2017 have therefore not been restated on initial application of HKFRS 16.

Amounts expressed in RMB millions (except for share data and items specifically stated)

	Year ended 31 December		Nine months ended 31 December	Year ended 31 March	
	2020	2019	2018	2018	2017
OPERATING RESULTS					
Revenue	**40,093**	37,277	30,192	39,271	36,515
EBIT	**2,620**	2,037	973	1,083	1,993
Profit attributable to owners of the Company	**1,440**	747	420	459	1,116
DATA PER SHARE (CENTS)					
Earnings per share – basic (RMB)	**49.23**	24.61	13.85	15.21	38.04
Dividend per share (HK$)	**–**	–	6.0	9.0	14.6
Dividend payout ratio	**0.0%**	0.0%	38.3%	50.9%	33.6%
KEY STATISTICS					
Equity attributable to owners of the Company	**16,310**	15,992	15,470	14,922	13,730
Working capital****	**11,401**	7,388	8,636	9,731	8,247
Cash position*	**9,841**	6,102	3,772	8,142	4,528
Borrowings	**11,387**	8,177	6,324	7,476	7,089
Corporate bonds (inclusive of interest)	**920**	2,029	2,026	2,050	–
Convertible bonds (inclusive of interest)	**917**	927	–	–	–
Bills receivables	**4,489**	4,835	6,942	5,414	5,745
Trade receivables	**9,162**	9,430	9,474	7,003	5,030
Inventories	**6,004**	4,909	6,031	5,202	5,913
Depreciation and amortisation	**917**	870	541	676	597
KEY RATIOS					
ROE (%)	**8.9**	4.7	2.7	3.1	8.1
ROA (%)	**3.6**	2.2	1.2	1.0	3.0
Debt to equity (%)**	**69.6**	61.4	48.1	57.6	47.5
Current ratio (times)	**1.4**	1.3	1.4	1.4	1.4
Trade receivable turnover period excluding portion arising from discounted bills receivable (days)***	**127**	150	131	105	102
Inventories turnover period (days)***	**64**	72	65	62	65
Gross profit margin (%)	**17.9**	20.1	18.7	16.7	20.0
EBITDA margin (%)	**8.1**	7.8	5.0	4.5	7.1
EBIT margin (%)	**6.5**	5.5	3.2	2.8	5.5
Profit margin (%)	**4.6**	2.8	1.8	1.3	3.6

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

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

*** *Calculation based on average inventory, average sum of bills receivables and trade receivables at amortised cost and at FVTOCI*

**** *Excluding assets and liabilities associated with assets classified as held for sale*

Investor Relations

CALENDAR OF MAJOR IR ACTIVITIES

January – December 2020

Time	Events
January	• Morgan Stanley China New Economy Summit 2020, Beijing China • Conference call for institutional investors, arranged by First Shanghai Securities Limited
March	• 2019 (January – December 2019) Annual Results Announcement • 2019 Annual Results Presentation Audio Live Webcasting (with archive)
April	• Conference calls for Annual Results Roadshow, arranged by CMB International • Conference calls for Annual Results Roadshow, arranged by BOCI Asia Limited • Conference Call for US Investors, Arranged by JNK Securities Corp
June	• Asia Pacific Opportunities Summit (Virtual Conference), arranged by Institutional Capital Advisory (Asia) Limited (ICA)
August	• 2020 (January – June 2020) Interim Results Announcement
September	• Morgan Stanley Virtual Asia TMT Summit (Virtual Conference) • 2020 Interim Results Presentation Live Audio Webcast (with archive) • Conference Call for Taiwanese Life Insurance companies and QFII companies, arranged by Cathay Securities Corporation, Taiwan • Asia Insights Forum (Virtual Event), arranged by Institutional Capital Advisory (ICA) • Morgan Stanley Virtual Asia Pacific Conference (Virtual Conference)
November	• Morgan Stanley Virtual Asia Pacific Summit (Virtual Conference)

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

MEMBERS OF COMMITTEES

Audit Committee

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

Executive Committee

Mr. Lai Weide *(Chairman of the Board)*
Mr. Liu Tangzhi *(Chief Executive Officer)*
Ms. Lin Wei Ping
Mr. Shi Chi
Mr. Lin Jin
Mr. Huang Mingyan
Mr. Wu Qinan
Mr. Lam Shing Choi, Eric
Mr. Wu Wei
Mr. Ying Yiming

Nomination Committee

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

Remuneration Committee

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

COMPANY SECRETARY

Mr. Lam Shing Choi, Eric

AUTHORISED REPRESENTATIVES

Ms. Lin Wei Ping
Mr. Lam Shing Choi, Eric

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants and
Registered Public Interest Entity Auditors

LEGAL ADVISOR

Reed Smith Richards Butler
Michael Li & Co.

PRINCIPAL BANKERS

Bank of China Limited
China Construction Bank Corporation
China Guangfa Bank Co., Ltd.
China Merchants Bank Co., Ltd.
DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
Postal Savings Bank of China Co., Ltd.
Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

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Hamilton HM 11
Bermuda

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Quarry Bay
Hong Kong

Corporate Information

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
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Wan Chai, Hong Kong

SHARES LISTING

Shares of the Company are listed on The Stock Exchange of Hong Kong Limited
Stock Code: 00751

COMPANY WEBSITE

http://www.skyworth.com

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