TCL ELECTRONICS HOLDINGS LIMITED
TCL 電 子 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

Results for the year ended 31 December

	2018 **(*HK$M*)**	2017 (*HK$M*)	**Change**
Turnover	**45,582**	40,822	11.7%
Gross profit	**6,952**	6,301	10.3%
Operating profit	**1,188**	1,050	13.1%
Net profit after tax	**935**	797	17.3%
Profit attributable to owners of the parent	**944**	815	15.8%
Basic earnings per share *(HK cents)*	**42.63**	47.43	(10.1%)
Full year dividend per share *(HK cents)*	**19.18**	18.97	1.1%
– Paid interim dividend per share	**9.80**	3.90	151.3%
– Proposed final dividend per share	**9.38**	15.07	(37.8%)

BUSINESS REVIEW OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2018

- **Remarkable Effect of Globalization Strategy Annual TV Sales Volume Hit Historical High**

  With the Group's persistent effort to strengthen globalization strategy and existing sales channels, and to proactively explore the huge potential in new markets at the same time, annual sales volume of its liquid-crystal-display ("LCD") TVs reached 28.61 million sets, hitting historical high with a significant increase of 23.1% year-on-year, exceeding the full year target which had been adjusted upward to 28.30 million sets. In which, the sales performance in overseas markets remained outstanding with sales volume surged by 29.5% year-on-year, to 18.21 million sets, and the sales volume in the PRC market increased by 13.4% year-on-year to 10.39 million sets.

- **Strong Growth in Operating Results Proposed a Final Dividend of HK9.38 Cents Per Share**

  Annual turnover increased by 11.7% year-on-year to HK$45.58 billion and hit historical high. Annual gross profit increased by 10.3% year-on-year to HK$6.95 billion and annual gross profit margin remained flat at 15.3%. The annual expense ratio continued to be under control since 2015 and decreased to 12.7% and reached the lowest level since 2003. The Group's operating profit for the year of 2018 increased by 13.1% year-on-year to HK$1.19 billion, and net profit after tax was HK$935 million, surged by 17.3% year-on-year. Profit attributable to owners of the parent amounted to HK$944 million (including a one-off gain of HK$166 million), representing a year-on-year increase of 15.8%. Profit attributable to owners of the parent after extraordinary items increased significantly by 30.8% year-on-year to HK$778 million (excluding a one-off gain). Basic earnings per share was HK42.63 cents. The Board has proposed the payment of a final dividend of HK9.38 cents per share, and full year dividend per share amounted to HK19.18 cents, translating into an annual dividend payout ratio of 45%.

- **Brand Power Manifested in Optimized Product Mix and Capture of Smart TV and Ultra HD TV Market**

  In 2018, sales volume of the Group's smart TVs and 4K TVs increased markedly year-on-year by 40.3% and 58.2% to 21.18 million sets and 9.18 million sets respectively, among which smart TVs and 4K TVs sold in the PRC market (excluding ODM business) accounted for 82.0% and 54.1% respectively, up from 76.3% and 42.7% in the same period last year. According to CMM's omni-channel data, the Group's market share for curved TVs and 4K TVs (both excluding ODM business) in 2018 was 34.4% and 13.2%, firmly at the first and the third place in the PRC market, respectively. In overseas markets (excluding ODM business), TCL smart TVs and 4K TVs accounted for 84.4% and 39.6% respectively of the total sales volume, up substantially from 77.6% and 26.4% in the same period last year.

- **Internet Business Turnover Exceeded Expectation with Remarkable Growth in Profitability**

  The number of accumulated activated users of the Group's Internet business reached 31.91 million, and in December 2018, the average daily number of active users was 15.28 million, with a remarkable increase of 35.6% and 41.4% year-on-year respectively (source: Huan Technology Co., Ltd.). The annual turnover of Internet business in 2018 surged by 114.0% year-on-year, exceeding the full year turnover target, which had been adjusted upward to RMB260 million, creating a new historical record of RMB306 million. Net profit after tax in 2018 was RMB62 million, showing a significant growth in profitability of the Group's Internet business.

- **Business Diversification in Planned Order Dedicated to Becoming a Global Leading Smart Technology Company**

  Following the renaming of the Company to TCL Electronics Holdings Limited, the Group accelerated to push forward its business diversification strategy. After entering the smart audio-visual ("Smart AV") market in the first half of 2018, the Group continued its business upgrade and transformation in the second half of the year. The Group completed the acquisition of TCL Commercial Information Technology (Huizhou) Limited ("CI Tech") in the third quarter, thereby entering the blue ocean market of commercial display and realizing "B2B and B2C dual-track development". Meanwhile, the Group innovated and established a proprietary smart home system centered on smart TV, and developed an open access smart platform. It also announced an industry-leading move – establishing a strategic partnership with Sunshine 100 China Holdings Ltd ("Sunshine 100 China") to create shared smart apartments, propelling the implementation of the leading smart home system in China. The Group is dedicated to providing users with smart and healthy living related products and services so as to become a global leading smart technology company.

- **Leading Market Position with Garnered International Industry and Capital Market Honors**

  According to Sigmaintell data, the Group rose from the third place to the second in the global TV market with a market share of 11.6% in terms of shipment in 2018. According to CMM omni-channel data, the Group ranked No. 3 in the PRC TV market with a market share of 12.8% in terms of turnover in 2018. The Group won a number of industry and capital market honors in 2018. It was ranked 79th on Forbes' inaugural Top 100 Digital Companies list and it was the only Chinese home appliance brand on the list, and it was also included among the Top 50 Chinese Brands with Great Global Influences in 2018 as selected jointly by Facebook and KPMG. The Group's mid-to-high-end product C6 launched in 2018 was awarded as the "Best Buy LCD TV 2018-2019", the highly renowned Expert Imaging and Sound Association (EISA) award at IFA in Europe. Apart from that, in January 2019, the Group won four international awards including "2018-2019 8K TV Gold Award of the Year" at the International Consumer Electronics Show (CES) 2019 in the US. Moreover, the Group was officially included as a constituent stock of the Hang Seng Stock Connect Hong Kong Index in September 2018 and was granted with positive ratings by several investment firms, which demonstrated the Group's strong comprehensive capability, business performance and development prospects. The Group's strategy of product and brand enhancement has delivered remarkable results and its brand power is widely recognized.

The board (the "Board") of directors (the "Directors") of TCL Electronics Holdings Limited (the "Company") is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the year ended and for the three months ended 31 December 2018 with comparative figures for the previous periods as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Twelve months ended 31 December		Three months ended 31 December	
		2018	2017	**2018**	2017
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	3	**45,581,970**	40,822,357	**12,792,417**	12,574,213
Cost of sales		**(38,629,813)**	(34,521,113)	**(10,806,351)**	(10,493,542)
Gross profit		**6,952,157**	6,301,244	**1,986,066**	2,080,671
Other revenue and gains		**771,240**	820,555	**113,256**	263,191
Selling and distribution expenses		**(4,476,731)**	(4,057,165)	**(1,297,529)**	(1,221,098)
Administrative expenses		**(1,302,314)**	(1,281,132)	**(343,087)**	(367,435)
Impairment on financial assets, net		**(13,258)**	–	**5,598**	–
Research and development costs		**(722,290)**	(632,401)	**(238,664)**	(209,135)
Other operating expenses		**(20,939)**	(100,909)	**(13,629)**	(82,845)
		1,187,865	1,050,192	**212,011**	463,349
Finance costs	4	**(97,728)**	(229,175)	**(49,256)**	(146,864)
Share of profits and losses of:					
Joint ventures		**2,426**	(7,468)	**657**	3,039
Associates		**69,065**	119,615	**69,060**	57,029
PROFIT BEFORE TAX	5	**1,161,628**	933,164	**232,472**	376,553
Income tax	6	**(226,778)**	(136,303)	**25,125**	(75,905)
PROFIT FOR THE YEAR/PERIOD		**934,850**	796,861	**257,597**	300,648

	Twelve months ended 31 December		Three months ended 31 December	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
OTHER COMPREHENSIVE INCOME/ (LOSS)				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Cash flow hedge:				
Effective portion of changes in fair value of the hedging instruments arising during the year/period	**43,028**	(43,940)	**21,197**	(10,642)
Reclassification adjustments for losses/ (gains) included in the consolidated statement of profit or loss	**(32,314)**	11,243	**(24,658)**	18,025
	10,714	(32,697)	**(3,461)**	7,383
Exchange differences:				
Translation of foreign operations	**(383,456)**	351,727	**(17,772)**	91,361
Reclassification adjustments for foreign operations disposed of or liquidated during the year/period	**16,622**	495	**21,400**	(2,897)
Reclassification adjustments for deemed partial disposal or liquidation of associates during the year/period	**–**	306	**–**	–
	(366,834)	352,528	**3,628**	88,464
Financial assets at fair value through other comprehensive income:				
Changes in fair value, net of income tax	**19,852**	–	**19,852**	–
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**(336,268)**	319,831	**20,019**	95,847

	Note	Twelve months ended 31 December		Three months ended 31 December	
		2018	2017	**2018**	2017
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:					
Equity investments designated at fair value through other comprehensive income:					
Changes in fair value, net of income tax		**9,088**	–	**14,966**	–
Share of other comprehensive income of associates		**12,370**	8,127	**10,742**	7,468
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**21,458**	8,127	**25,708**	7,468
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX		**(314,810)**	327,958	**45,727**	103,315
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		**620,040**	1,124,819	**303,324**	403,963
Profit/(loss) attributable to:					
Owners of the parent		**944,235**	814,639	**262,822**	305,376
Non-controlling interests		**(9,385)**	(17,778)	**(5,225)**	(4,728)
		934,850	796,861	**257,597**	300,648
Total comprehensive income/(loss) attributable to:					
Owners of the parent		**631,559**	1,137,835	**308,930**	408,796
Non-controlling interests		**(11,519)**	(13,016)	**(5,606)**	(4,833)
		620,040	1,124,819	**303,324**	403,963
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8				
Basic		**HK42.63 cents**	HK47.43 cents		
Diluted		**HK41.58 cents**	HK46.55 cents		

Details of the dividends for the year are disclosed in note 7.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**31 December 2018** *HK$'000*	31 December 2017 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,347,073**	1,675,998
Prepaid land lease payments		**154,123**	125,801
Investment properties		**128,079**	130,329
Goodwill		**781,962**	119,638
Other intangible assets		**111,102**	129
Investments in joint ventures		**18,801**	14,291
Investments in associates		**1,412,601**	1,106,911
Equity investments designated at fair value through other comprehensive income		**128,770**	–
Available-for-sale investments		**–**	107,835
Deferred tax assets		**101,737**	72,589
Other deferred assets		**46,011**	–
Total non-current assets		**4,230,259**	3,353,521
CURRENT ASSETS			
Inventories		**6,982,733**	5,058,597
Trade receivables	9	**4,881,560**	6,466,171
Bills receivable		**2,360,909**	3,793,118
Prepayments, other receivables and other assets		**2,900,251**	1,249,468
Tax recoverable		**74,802**	29,266
Derivative financial instruments		**7,268**	202,970
Cash and bank balances		**6,741,976**	5,910,235
		23,949,499	22,709,825
Non-current assets classified as held for sale		**21,445**	–
Total current assets		**23,970,944**	22,709,825

	Notes	**31 December 2018** *HK$'000*	31 December 2017 *HK$'000*
CURRENT LIABILITIES			
Trade payables	10	**9,801,922**	9,753,201
Bills payable		**1,613,794**	306,879
Other payables and accruals		**5,151,507**	4,555,367
Interest-bearing bank and other borrowings	11	**1,093,987**	2,905,253
Tax payable		**56,423**	136,599
Derivative financial instruments		**22,177**	194,826
Provisions		**589,091**	477,920
Total current liabilities		**18,328,901**	18,330,045
NET CURRENT ASSETS		**5,642,043**	4,379,780
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,872,302**	7,733,301
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	11	**20,540**	21,537
Deferred tax liabilities		**44,472**	15,247
Other long-term payables		**27,725**	–
Total non-current liabilities		**92,737**	36,784
Net assets		**9,779,565**	7,696,517
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	**2,335,494**	1,747,633
Reserves		**7,443,827**	5,881,091
		9,779,321	7,628,724
Non-controlling interests		**244**	67,793
Total equity		**9,779,565**	7,696,517

Notes:

1. **BASIS OF PREPARATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and certain financial assets which have been measured at fair value. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair value less costs to sell. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement		Re-		Fair value	HKFRS 9 measurement	
		Category	Amount	classification	ECL	measurement	Amount	Category
	Notes		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	107,835	–	14,887	122,722	FVOCI[1] (equity)
From: Available-for-sale investments	(i)			107,835	–	–		
Available-for-sale investments		AFS[2]	107,835	(107,835)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)			(107,835)	–	–		
Trade receivables	(ii)	L&R[3]	6,466,171	–	(2,271)	–	6,463,900	AC[4]/FVPL[5]
Bills receivable	(iii)	L&R	3,793,118	–	–	(49,016)	3,744,102	FVPL/ FVOCI (debt)
Financial assets included in prepayments, other receivables and other assets		L&R	326,049	–	(6,995)	–	319,054	AC
Derivative financial instruments		FVPL	202,970	–	–	–	202,970	FVPL
Cash and bank balances		L&R	5,910,235	–	–	–	5,910,235	AC
			16,806,378	–	(9,266)	(34,129)	16,762,983	
Total assets			26,063,346	–	(9,266)	(34,129)	26,019,951	
Financial liabilities								
Trade payables		AC	9,753,201	–	–	–	9,753,201	AC
Bills payable		AC	306,879	–	–	–	306,879	AC
Financial liabilities included in other payables and accruals		AC	3,353,369	–	–	–	3,353,369	AC
Interest-bearing bank and other borrowings		AC	2,926,790	–	–	–	2,926,790	AC
Derivative financial instruments		FVPL	194,826	–	–	–	194,826	FVPL
			16,535,065	–	–	–	16,535,065	
Other liabilities								
Deferred tax liabilities			15,247	–	–	2,478	17,725	
Total liabilities			18,366,829	–	–	2,478	18,369,307	

1 FVOCI: Financial assets designated at fair value through other comprehensive income

2 AFS: Available-for-sale investments

3 L&R: Loans and receivables

4 AC: Financial assets or financial liabilities at amortised cost

5 FVPL: Financial assets designated at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments designated at fair value through other comprehensive income.

(ii) The Group has classified its certain trade receivables previously classified as loans and receivables as financial assets measured at fair value through profit or loss as these trade receivables did not pass the contractual cash flow characteristics test in HKFRS 9.

(iii) The Group has classified its bills receivable previously classified as loans and receivables as financial assets measured at fair value through profit or loss or financial assets measured at fair value through other comprehensive income.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	(234,376)	(2,271)	(236,647)
Financial assets included in prepayments, other receivables and other assets	(283,752)	(6,995)	(290,747)
	(518,128)	(9,266)	(527,394)

Hedge accounting

The Group has applied hedge accounting under HKFRS 9 prospectively. At the date of initial application of HKFRS 9, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of HKFRS 9, the Group designated the change in fair value of the entire foreign currency swap contracts in its cash flow hedge relationships. Upon adoption of HKFRS 9, the Group continues to designate the entire foreign currency swap contracts in the cash flow hedge relationships. Under HKAS 39, all gains and losses recorded in the cash flow hedge reserve were eligible to be subsequently reclassified to the statement of profit or loss when the hedged items affected profit or loss. However, under HKFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change was only applied prospectively from the date of initial application of HKFRS 9 and has had no impact on the presentation of comparative figures. Other than the cash flow hedges of forecast purchases of non-financial assets, the adoption of the hedge accounting requirements of HKFRS 9 has had no impact on the Group's financial statements.

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits
	HK$'000
Fair value reserve under HKFRS 9	
Balance as at 31 December 2017 under HKAS 39	–
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	12,409
Remeasurement of financial assets designated at fair value through other comprehensive income previously measured at cost under HKAS 39	(49,016)
Balance as at 1 January 2018 under HKFRS 9	(36,607)
Retained profits	
Balance as at 31 December 2017 under HKAS 39	67,842
Recognition of ECLs for trade receivables under HKFRS 9	(2,271)
Recognition of ECLs for financial assets included in prepayments, other receivables and other assets under HKFRS 9	(6,995)
Balance as at 1 January 2018 under HKFRS 9	58,576

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The Group mainly engages in the businesses of manufacture and sale of television sets commercial display products, Smart AV products, smart home products and other related products. The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The warranties provided by the Group are assurance-type warranties which are not a separate performance obligation from the manufacture and sale of products. Therefore, the adoption of HKFRS 15 did not have a material impact on the timing and amount of revenue recognition.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$431,178,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$430,351,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of television products.

(d) Amendments to HKAS 40, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognizing the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their geographical television segments and other product types and has four reportable operating segments as follows:

(a) Television segment – manufacture and sale of television sets in:

- the People's Republic of China ("PRC") market;
- the overseas markets;

(b) Smart AV segment – manufacture and sale of Smart AV products;

(c) Smart home products segment – sale of smart home solutions and products; and

(d) Others segment – comprises information technology, Internet service and other businesses, including manufacture and sale of television related components, sale of white goods, mobile phones and air conditioners.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that finance costs, interest income, share of profits and losses of joint ventures and associates as well as head office and corporate income and expenses are excluded from such measurement.

	Television – PRC market		Television – overseas markets		Smart AV		Smart home product		Others		Total		Eliminations		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:																
Sales to external customers	**18,370,619**	19,774,485	**26,601,509**	20,948,681	**–**	–	**3,087**	–	**606,755**	99,191	**45,581,970**	40,822,357	**–**	–	**45,581,970**	40,822,357
Intersegment sales	**1,881,706**	1,772,011	**1,354,226**	1,130,427	**–**	–	**–**	–	**154,868**	44,309	**3,390,800**	2,946,747	**(3,390,800)**	(2,946,747)	**–**	–
Total	**20,252,325**	21,546,496	**27,955,735**	22,079,108	**–**	–	**3,087**	–	**761,623**	143,500	**48,972,770**	43,769,104	**(3,390,800)**	(2,946,747)	**45,581,970**	40,822,357
Segment results	**175,149**	466,291	**1,122,994**	479,579	**(32,253)**	–	**(7,996)**	–	**51,786**	(37,677)	**1,309,680**	908,193	**–**	–	**1,309,680**	908,193
Corporate income/ (expenses), net											**(184,114)**	111,275			**(184,114)**	111,275
Finance costs											**(97,728)**	(229,175)			**(97,728)**	(229,175)
Interest income											**62,299**	30,724			**62,299**	30,724
Share of profits and losses of:																
Joint ventures	**–**	–	**2,426**	4,078	**–**	–	**–**	–	**–**	(11,546)	**2,426**	(7,468)			**2,426**	(7,468)
Associates	**21,494**	5,551	**13,512**	72,865	**–**	–	**(482)**	–	**34,541**	41,199	**69,065**	119,615			**69,065**	119,615
Profit before tax											**1,161,628**	933,164			**1,161,628**	933,164
Income tax											**(226,778)**	(136,303)			**(226,778)**	(136,303)
Profit for the year											**934,850**	796,861			**934,850**	796,861

4. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on:		
Bank and other loans	**84,359**	205,467
Loans from TCL Corporation ("TCL Corporation")	**108**	–
Loans from T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries", the immediate holding company of the Company)	**638**	–
Loans from an associate	**–**	64
Discounted bills receivable from an associate	**12,533**	22,821
Finance leases	**90**	823
	97,728	229,175

5. PROFIT BEFORE TAX

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

	2018	2017
	HK$'000	*HK$'000*
Cost of inventories sold	**38,629,813**	34,521,113
Depreciation of property, plant and equipment	**207,809**	222,400
Depreciation of investment properties	**2,886**	308
Research and development costs	**722,290**	632,401
Amortisation of other intangible assets	**5,069**	141
Amortisation of prepaid land lease payments	**3,098**	3,131
Minimum lease payments under operating leases in respect of land and buildings	**121,635**	78,672
Auditor's remuneration	**9,600**	9,600
Employee benefits expenses (including directors' remuneration):		
Wages and salaries	**2,406,972**	2,252,544
Equity-settled share option expense	**82,045**	51,024
Employee share-based compensation benefits under the Award Scheme	**64,691**	11,928
Defined contribution expenses	**255,169**	241,189
	2,808,877	2,556,685
Foreign exchange differences, net	**(137,535)**	(166,825)
Impairment of financial assets:		
Impairment of trade receivables, net	**19,546**	34,689**
Reversal of impairment of other receivables, net	**(6,288)**	–
	13,258	34,689
Impairment of goodwill	**–**	15,295**
Impairment of investment in a joint venture	**–**	19,377**
Write-down of inventories to net realisable value	**71,564**	55,502
Realised loss on settlement of derivative financial instruments	**28,170**	100,617
Rental income, net	**(28,442)**	(18,021)
Interest income	**(62,299)**	(30,724)
Government grants*:		
Credited to other revenue and gains	**(210,839)**	(187,314)
Deducted from cost of sales and relevant expenses	**(38,252)**	(43,513)
	(249,091)	(230,827)
Fair value (gains)/losses, net:		
Derivative instruments – transactions not qualifying as hedges	**(1,043)**	(22,411)
Ineffectiveness of cash flow hedges	**(1,727)**	2,742
	(2,770)	(19,669)
(Gain)/loss on disposal of items of property, plant and equipment, net	**(167,708)**	30,374**
Loss on disposal of a subsidiary	**–**	1,012**
Gain on liquidation of subsidiaries	**(6,944)**	–
Gain on deemed partial disposal of an associate	**–**	(220,047)
Gain on liquidation of an associate	**(43)**	–
Restructuring cost provision, net**	**1,035**	161
Product warranty provision, net	**501,482**	310,187

Notes:

* Various government grants have been received related to the Group's day-to-day activities. Government grants including VAT refund and national patent subsidies are recorded in "Other revenue and gains" in the consolidated statement of the profit and loss. There are no unfulfilled conditions or contingencies relating to these grants.

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

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2018	2017
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**6,703**	4,230
Overprovision in prior years	**(2,384)**	(100)
Current – Elsewhere		
Charge for the year	**223,789**	169,054
Underprovision in prior years	**35,767**	2,354
Deferred	**(37,097)**	(39,235)
Total tax charge for the year	**226,778**	136,303

7. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Interim dividend – HK9.80 cents (2017: HK3.90 cents) per ordinary share	**228,672**	67,986
Proposed final dividend – HK9.38 cents (2017: HK15.07 cents) per ordinary share	**219,916**	351,442
	448,588	419,428

The interim dividend was HK9.80 cents (2017: HK3.90 cents) per ordinary share and the total amounts declared and paid are HK$228,672,000 and HK$220,894,000 (2017: HK$67,986,000 and HK$65,049,000) respectively.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM"). These consolidated financial statements do not reflect this dividend payable.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,215,171,107 (2017: 1,717,592,405) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted earnings per share for the years ended 31 December 2018 and 2017 have been adjusted retrospectively to reflect the impact of the rights issue ("Rights Issue") completed on 25 January 2018.

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

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**944,235**	814,639

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue less shares held for Award Scheme during the year used in the basic earnings per share calculation	**2,215,171,107**	1,717,592,405
Effect of dilution – weighted average number of ordinary shares:		
Share options	**6,649,181**	10,662,462
Awarded shares	**48,904,820**	21,684,311
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**2,270,725,108**	1,749,939,178

9. TRADE RECEIVABLES

	Note	2018 HK$'000	2017 HK$'000
Due from third parties		**3,729,782**	5,408,510
Due from related parties:			
Companies controlled by TCL Corporation	(a)	**995,518**	993,073
Associates of TCL Corporation	(a)	**61,922**	1,129
Joint ventures	(a)	**55,548**	70,392
Associates	(a)	**219,692**	227,443
		1,332,680	1,292,037
Impairment allowance		**(180,902)**	(234,376)
		4,881,560	6,466,171

Note:

(a) As at 31 December 2018 and 2017, the amounts were interest-free, unsecured and repayable within one year.

The majority of the Group's sales in the PRC are conducted on a cash-on-delivery basis or on commercial bills guaranteed by banks within credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letters of credit with tenure ranging from 90 to 180 days. Sales to certain long term strategic customers were made on the open-account basis with credit terms of no more than 180 days.

Save for those amounts due from related parties, in view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collaterals or other credit enhancements over its trade receivables. Trade receivables are non-interest-bearing.

Classification of trade receivables under HKFRS 9 for the year ended 31 December 2018

Included in the Group's trade receivables are receivables to be factored of HK$16,109,000, which are classified as financial assets at fair value through profit or loss. The remaining trade receivables of HK$4,865,451,000 are measured at amortised cost.

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

	2018	2017
	HK$'000	*HK$'000*
Current to 90 days	**4,399,290**	5,682,717
91 to 180 days	**237,704**	498,541
181 to 365 days	**69,285**	135,189
Over 365 days	**356,183**	384,100
	5,062,462	6,700,547
Impairment allowance	**(180,902)**	(234,376)
	4,881,560	6,466,171

10. TRADE PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Due to third parties	**7,224,819**	6,533,721
Due to related parties:		
Companies controlled by TCL Corporation	**2,059,796**	2,903,794
Associates of TCL Corporation	**499,932**	153,381
Associates	**16,043**	138,423
A substantial shareholder	**1,332**	23,882
	2,577,103	3,219,480
	9,801,922	9,753,201

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

	2018	2017
	HK$'000	*HK$'000*
Current to 90 days	**6,622,392**	9,321,020
91 to 180 days	**2,789,680**	247,831
181 to 365 days	**287,580**	101,423
Over 365 days	**102,270**	82,927
	9,801,922	9,753,201

The trade payables are non-interest-bearing and are normally settled within credit periods ranging from 30 to 120 days.

11. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Current		
Bank loans – unsecured	**610,864**	2,300,114
Trust receipt loans – unsecured	**483,123**	603,036
Finance lease payables	**–**	2,103
	1,093,987	2,905,253
Non-current		
Other loans	**20,540**	21,537
	1,114,527	2,926,790
Analysed into:		
Bank and other loans repayable:		
Within one year or on demand	**1,093,987**	2,903,150
In the second year	**20,540**	–
In the third year	**–**	21,537
	1,114,527	2,924,687
Finance lease repayable:		
Within one year	**–**	2,103
	1,114,527	2,926,790

Notes:

(a) As at 31 December 2018 and 2017, the carrying amounts of the Group's bank and other borrowings were approximated to their fair values.

(b) TCL Corporation has guaranteed certain of the Group's bank loans up to HK$20,540,000 (2017: HK$691,577,000) as at the end of the reporting period.

12. SHARE CAPITAL

	2018	2017
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 (2017: 2,200,000,000) shares of HK$1.00 each	**3,000,000**	2,200,000
Issued and fully paid:		
2,335,493,874 (2017:1,747,633,114) shares of HK$1.00 each	**2,335,494**	1,747,633

On 9 January 2018, the Company proposed that the authorised share capital of the Company be increased from HK$2,200,000,000 divided into 2,200,000,000 shares to HK$3,000,000,000 divided into 3,000,000,000 shares by the creation of 800,000,000 additional shares ("Increase in Authorised Share Capital"), which would, upon issue and being fully paid, rank pari passu in all respects with the then existing shares in issue. The increase in Authorised Share Capital was approved by shareholders of the Company at the extraordinary general meeting of the Company held on 25 January 2018.

During the year, the movement in the Company's issued share capital account were as follows:

On 26 January 2018, the Company allotted and issued 582,544,371 right shares pursuant to the Rights Issue on the basis of 1 rights share for every 3 then existing shares at the subscription price of HK$3.46 per rights share.

The subscription rights attaching to 676,652, 7,261, 4,469,078, 32,000 and 131,398 share options were exercised at the subscription prices of HK$3.48, HK$3.83, HK$3.3918, HK$3.7329 and HK$3.57 per share, respectively, resulting in the issue of an aggregate of 5,316,389 shares of HK$1.00 each for a total cash consideration of HK$18,128,000 before expenses.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2018

In 2018, under such challenging operating environment, the Group reinforced its globalization strategy, and at the same time, insisted on cost reduction and efficiency enhancement, to strengthen its product competitiveness and brand power, and to explore diversified business opportunities. During the year, the Group maintained continuous growth and achieved notable profitability.

Remarkable Effect of Globalization Strategy Annual TV Sales Volume Hit Historical High

With the Group's persistent effort to strengthen globalization strategy and existing sales channels, and to proactively explore the huge potential in new markets at the same time, annual sales volume of its LCD TVs reached 28.61 million sets, hitting historical high with a significant increase of 23.1% year-on-year, exceeding the full year target which had been adjusted upward to 28.30 million sets. In which, the sales performance in overseas markets remained outstanding with sales volume surged by 29.5% year-on-year, to 18.21 million sets, and the sales volume in the PRC market increased by 13.4% year-on-year to 10.39 million sets.

Strong Growth in Operating Results Proposed a Final Dividend of HK9.38 Cents Per Share

Annual turnover increased by 11.7% year-on-year to HK$45.58 billion and hit historical high. Annual gross profit increased by 10.3% year-on-year to HK$6.95 billion and annual gross profit margin remained flat at 15.3%. The annual expense ratio continued to be under control since 2015 and decreased to 12.7% and reached the lowest level since 2003. The Group's operating profit for the year of 2018 increased by 13.1% year-on-year to HK$1.19 billion, and net profit after tax was HK$935 million, surged by 17.3% year-on-year. Profit attributable to owners of the parent amounted to HK$944 million (including a one-off gain of HK$166 million), representing a year-on-year increase of 15.8%. Profit attributable to owners of the parent after extraordinary items increased significantly by 30.8% year-on-year to HK$778 million (excluding a one-off gain). Basic earnings per share was HK42.63 cents. The Board has proposed the payment of a final dividend of HK9.38 cents per share, and full year dividend per share amounted to HK19.18 cents, translating into an annual dividend payout ratio of 45%.

Business Diversification in Planned Order Dedicated to Becoming a Global Leading Smart Technology Company

Following the renaming of the Company to TCL Electronics Holdings Limited, the Group accelerated to push forward its business diversification strategy. After entering the Smart AV market in the first half of 2018, the Group continued its business upgrade and transformation in the second half of the year. The Group completed the acquisition of CI Tech in the third quarter, thereby entering the blue ocean market of commercial display and realizing "B2B and B2C dual-track development". Meanwhile, the Group innovated and established a proprietary smart home system centered on smart TV, and developed an open access smart platform. It also announced an industry-leading move – establishing a strategic partnership with Sunshine 100 China (a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (Stock Code: 02608)) to create shared smart apartments, propelling the implementation of the leading smart home system in China. The Group is dedicated to providing users with smart and healthy living related products and services so as to become a global leading smart technology company.

Leading Market Position with Garnered International Industry and Capital Market Honors

According to Sigmaintell data, the Group rose from the third place to the second in the global TV market with a market share of 11.6% in terms of shipment in 2018. According to CMM omni-channel data, the Group ranked No. 3 in the PRC TV market with a market share of 12.8% in terms of turnover in 2018. The Group won a number of industry and capital market honors in 2018. It was ranked 79th on Forbes' inaugural Top 100 Digital Companies list and it was the only Chinese home appliance brand on the list, and it was also included among the Top 50 Chinese Brands with Great Global Influences in 2018 as selected jointly by Facebook and KPMG. The Group's mid-to-high-end product C6 launched in 2018 was awarded as the "Best Buy LCD TV 2018-2019", the highly renowned EISA award at IFA in Europe. Apart from that, in January 2019, the Group won four international awards including "2018-2019 8K TV Gold Award of the Year" at the International Consumer Electronics Show (CES) 2019 in the US. Moreover, the Group was officially included as a constituent stock of the Hang Seng Stock Connect Hong Kong Index in September 2018 and was granted with positive ratings by several investment firms, which demonstrated the Group's strong comprehensive capability, business performance and development prospects. The Group's strategy of product and brand enhancement has delivered remarkable results and its brand power is widely recognized.

The Group's sales volume of LCD TVs by region and the number of TCL Internet TV users for the year are as follows:

Sales volume of LCD TVs

	2018 *('000 sets)*	2017 *('000 sets)*	**Change**
Overall	**28,606**	23,231	23.1%
– Overseas markets	**18,214**	14,068	29.5%
– PRC market	**10,392**	9,163	13.4%
Of which: Smart TVs	**21,182**	15,094	40.3%
4K TVs	**9,181**	5,805	58.2%

	Accumulated number as at 31 December 2018	**December 2018**	December 2017	**Change**	**2018**	2017	**Change**
Number of activated users of TCL Internet TV(1)	**31,907,420**	**951,316**	634,475	49.9%	**8,370,898**	6,247,088	34.0%
Average daily number of active users(2) (3)	**N/A**	**15,282,347**	10,809,751	41.4%	**N/A**	N/A	N/A

Notes:

(1) The number of users who have used Internet TV web service once or more

(2) The number of unrepeated individual users who have used the Internet TV service within 7 days

(3) December 2018 data

Overseas Markets

The Group has continued to penetrate into existing key overseas markets for many years. By optimizing its product mix, enhancing its product competitiveness and brand power, and exploring new markets, the Group has successfully developed apparent competitive advantage in overseas markets. Therefore, the sales volume and turnover in many regions of overseas markets remained strong growth with enhanced profitability. The outstanding results in both sales volume and profit in overseas markets indicated that overseas markets have become an important growth engine of the Group.

Significant Increase in Both Sales Volume and Turnover: With its persistent efforts to develop and penetrate into key overseas markets, the Group recorded sales volume of approximately 18.21 million LCD TVs in overseas markets during the year, a significant year-on-year growth of 29.5%, and turnover from LCD TV sales was up by 27.0% year-on-year to HK$26.60 billion.

Optimized Product Mix with Continuous Growth in Gross Profit Margin: With decreasing panel prices and continuous product mix optimization, the gross profit margin of the Group's LCD TVs in overseas markets recorded 12.6% in 2018, 1.2 percentage points higher than that in the previous year. The gross profit margin of the Group's own brand products reached 14.7%, an increase of 1.8 percentage points year-on-year.

Operating Results Achieved Notable Growth: With an improved product mix, enhanced efficiency and economies of scale, the Group's operating results in overseas markets rocketed by 135.4% year-on-year to HK$1.12 billion.

In 2018, the Group achieved notable sales growth in all its overseas markets:

- North American market: The Group continued to consolidate its market leading position during the year, with a 41.8% increase in sales volume year-on-year, and ranked 3rd in the full year of 2018 while ranked 2nd in the third quarter and in November (source: NPD data);

- Emerging markets: The Group continued with strong growth momentum, with sales volume up by 30.7% against the previous year, among which India, Southeast Asia, Brazil and Australia achieved rapid growth. In 2018, the Group ranked 3rd in the Philippines, 4th in Vietnam, and 5th in Australia and Thailand in terms of sales volume (source: GfK data); and

- European markets: The Group's sales volume surged by 43.1% year-on-year, with areas including France, Germany, Italy and Spain recorded notably growth. In 2018, the Group ranked 3rd in France in terms of sales volume (source: GfK data).

In 2018, sales volume proportion of the Group's mid-to-high-end products in overseas markets continued to increase, alongside the Group's continuously optimizing product mix (excluding ODM business):

- Proportion of smart TVs rose from 77.6% in 2017 to 84.4% in 2018;
- Proportion of 4K TVs increased substantially from 26.4% in 2017 to 39.6% in 2018;
- Proportion of 55-inch and above LCD TVs rose from 20.6% in 2017 to 25.2% in 2018; and
- The average size of LCD TVs sold increased from 39.8 inches in 2017 to 42.2 inches in 2018.

Collaborated with CSOT to Build Factories in India Entered Indian Market with Huge Potential in Full Swing

Indian market with huge growth potential is expected to play an important strategic role in sustaining growth in the overseas markets. In December 2018, the Group collaborated with Shenzhen China Star Optoelectronics Technology Co., Ltd. ("CSOT"), a subsidiary of TCL Corporation, jointly built its first overseas panel module and TV set integrated smart manufacturing industrial park in Andhra Pradesh, Southern India, to achieve all-rounded coverage from production to sales. The production of the industrial park after completion will cover TV production ranging from 32-inch to 65-inch, which will not only serve the TCL brand, but also provide ODM services to other brands in the Indian market.

FIFA World Cup Craze and Localized Marketing Strategy Strengthened Global Brand Influence

Tapping into the FIFA World Cup craze, in April 2018, the Group appointed the world famous professional Brazilian football player Neymar Jr. as its "Global Brand Ambassador". In February 2019, the Group became the official partner of CONMEBOL Copa America Brazil 2019, to further develop European markets and emerging markets represented by South America. At the same time, the Group adopted a localized consumer-centric marketing strategy in the North American market, using tactics such as title-sponsoring the famed Chinese Theatre (previously Grauman's Chinese Theatre) in Hollywood, appointing Giannis Antetokounmpo ("Letter Bro"), an extremely talented NBA player from the Milwaukee Bucks, as brand ambassador in North America, and title-sponsoring popular talk shows, sports and eSports events, which have further increased the brand awareness and brand influence of TCL in the global market.

PRC Market

Sales Volume Increased Year-on-year, Beating Industry Level: TV demand in the PRC market was soft in 2018. According to CMM's omni-channel data, the overall sales volume of LCD TVs in the PRC market dropped by 1.6% year-on-year in 2018. Steadfast in implementing its premium product strategy and continuing to optimize its product mix and channel structure, the Group enhanced its product competitiveness and recorded total sales volume of 10.39 million LCD TVs in the PRC market in 2018, a 13.4% increase year-on-year, representing an increase higher than the industry average level.

Turnover: the Group's turnover for the year in the PRC market was down by 7.1% year-on-year to HK$18.37 billion, which was impacted by the notable increase in the proportion of online sales and lower average selling price caused by declining panel prices.

Outstanding Performance in Online Sales: The Group's online sales volume in the PRC market (excluding ODM business) climbed to 37.2% of the total sales volume in the PRC market in 2018 with a notable increase of 11 percentage points from 26.2% in the same period last year. According to CMM omni-channel data, the Group ranked No.3 in the PRC market in 2018 in terms of online turnover.

Stable Gross Profit Margin: In 2018, gross profit margin of the Group's LCD TVs in the PRC market remained stable, only slightly down by 0.5 percentage point year-on-year to 19.2%, and the gross profit margin of the Group's own brand products was 22.1%, a slightly increase of 0.3 percentage point as in the previous year.

Operating Results: The Group's operating results in the PRC market was HK$175 million.

In 2018, the Group continued to optimize its product mix in the PRC market (ODM business data excluded below):

- Smart TV sales volume reached 82.0% of the total LCD TV sales volume from 76.3% in 2017;

- 4K TV sales volume accounted for 54.1% of the total LCD TV sales volume from 42.7% in 2017;

- Proportion of 55-inch and above LCD TVs' sales volume rose notably from 37.5% in 2017 to 43.1% in 2018;

- Average size of LCD TVs sold increased to 47.2 inches in 2018 from 45.8 inches in 2017;

- The market share of the curved TV was 34.4%, remaining as the leader in the PRC market (source: CMM omni-channel data); and

- Brand price index rose from 102 in 2017 to 110 in the PRC market, ranking second among the Chinese brands. (source: CMM omni-channel data).

Internet Business

In 2018, the Group implemented at full strength the "Smart + Internet" new business model across the board and constructed a smart TV ecosystem. It also stepped up its effort in platform development and users operation, as well as enhancing cooperation with partners for mutual benefits, which ultimately helped markedly boost the competitiveness of the Group within the industry.

Scale of Users Exceeded 30 million with Significant Increase in Paid Users, User Loyalty Enhanced

As at 31 December 2018, the accumulated number of TCL activated Internet TV users of the Group totaled 31.91 million, surged by 35.6% year-on-year, with paid users significantly grew up by 198.0% against that of 2017. The average daily number of active users in December 2018 increased by 41.4% year-on-year to 15.28 million. The scale of Internet TV business users maintained notable growth. Average daily time of users spent on TV reached 5.5 hours, increased by 12.2% year-on-year. By adopting delicacy management practices in user operation, the Group was able to further strengthen user loyalty.

Enriched Platform Content and Strengthened Users Operation Monetization Ability Further Enhanced

As the Group continued to pursue the "1+1+N" strategic cooperation model, its Internet business platform Shenzhen Falcon Network Technology Co., Ltd. ("Falcon Technology", an associate of the Company) set up a joint venture with South New Media in July 2018, which has deepened the cooperation with the TV license party, enriched content resources, leveraged the advantages of products, technologies, markets, channels and user network, as a result improving user's overall experience. Meanwhile, through product innovation and refinement in users operation, the Group was able to expand the scale of users, increase proportion of user in operation, strengthen user loyalty so as to encourage the pay-to-view habit among users, continue to optimize revenue stream, and extend its revenue stream to cover overseas markets.

The monetization capability of the Internet business continued to grow. The annual turnover recorded significant growth of 114.0% year-on-year in 2018, exceeding the annual turnover target of RMB260 million, which had been adjusted upward and hitting a new historical record of RMB306 million, in which the shared income from video-on-demand and membership, as well as turnover from advertising grew significantly by 127.3% and 86.8% year-on-year respectively. Net profit after tax was approximately RMB62 million for the year which showed a significant growth in profitability.

Falcon Technology Will Be Consolidated into the Financial Statements of the Group Further Enhance the Group's Profitability

On 23 January 2019, the Company, through its subsidiary, acquired approximately 15.56% equity interest of Falcon Technology by entering into sale and purchase agreement with the seller ("Falcon Technology Transaction"). Details of Falcon Technology Transaction can be found in the announcement of the Company dated 23 January 2019.

The Company is pleased to announce that, Falcon Technology Transaction is expected to be completed by late March 2019. Upon completion, the Group will hold in aggregate approximately 60.00% of the total equity interest of Falcon Technology through two subsidiaries of the Group. Thereafter, Falcon Technology will become a subsidiary of the Company, and will be consolidated into the financial statements of the Group. Its higher profitability will further contribute to enhancing the Group's profitability.

The Company would like to take the opportunity to provide additional information of the determination of the consideration in the Falcon Technology Transaction to the shareholders of the Company. Before the sale and purchase agreement was entered into, the Company has made reference to consideration of the most recent completed capital injection in Falcon Technology as its starting point and has further evaluated the consideration with reference to the valuation (valuation = consideration/corresponding percent of its share ownership) to activated user ratio of a capital injection of a peer company in 2017. The valuation to activated users ratio for the said transaction of peer company was not less than RMB160 (as at 30 June 2017) and not less than RMB120 (as at 30 September 2018) per activated user, which was above the relevant ratio of the Falcon Technology Transaction (i.e. RMB93 per activated user, being the valuation of the Falcon Technology Transaction divided by 29 million activated users of Falcon Technology as of 30 September 2018). Having considered the above data, together with various other factors including among others, industry prospects, valuation of peer companies, business operation of Falcon Technology, the Company was of the view that the consideration was fair and reasonable.

Research and Development ("R&D")

Since 2018, the Group has continued to focus on quantum dot, Mini LED and other cutting-edge technologies to launch a variety of mid-to-high-end products that formed a strong portfolio to satisfy the diverse needs of consumers, and strengthen its branded product competitiveness. To enhance the personalized product experience of users, the Group has been devoted to the research and development of artificial intelligent ("A.I.") technology, which may inject innovation into the Group's various product series, striving to develop TVs into an important smart terminal of future homes.

Regarding high-end products, the industrial leading TCL X10 QLED 8K TV that the Group displayed in the 2019 CES in the US, was equipped with industrial leading 8K+QLED display technology, adopting for the first time Mini LED backlight technology and supporting Dolby Vision®, plus powered by TCL's proprietary "Q Engine", showing the Group's strong R&D capability. Moreover, C7 theatre TV, which possesses excellent visual and audio system, with 4000R curved monitor, Dolby Vision HDR technology, Manhattan 360-degree independent system and measured just 6.4mm thick, was highly recognized by many industry awards after its launch. The P series are specially designed for young generations that pursue fashion styles. The above-mentioned three new product series are all equipped with the "TCL A.I. 2.0 plus" A.I. technology, providing authentic and customized content recommendation capacity, thereby ensuring information and services are more accurately available to users.

Regarding A.I., the Company established a joint A.I. design center with TCL Corporate Research to accelerate the application of A.I. technology in products. The Group took the lead in establishing an open A.I. technological framework in the TV industry, which can connect to various businesses and realize autonomous control based on users' intention, thereby enriching user experience and at the same time cultivating user habit to use large-screen TVs as Internet terminals. The new generation smart engine has been adopted in smart products, which has expanded the application from TV, film, music, and encyclopedia to daily services. It also adds more diversified functions, such as navigation, searching for popular attractions, gourmet recommendations and ticketing service, on top of multi-turn dialogue, celebrity identification and natural language interaction. In the future, with the existing open A.I. structure as foundation, the Group will proactively integrate smart TV and smart audio system, to push forward the innovation and application of new A.I. technology in the TV arena. The Group will further enhance the experience in different A.I. scenes and application services and deepen the cooperation with the industry leaders, to increase the products' competitiveness.

In terms of the overseas markets, the Group has adopted Google A.I. (Google Assistant) engine and its smart devices to actively expand the application of A.I. technology overseas, and provide consumers with a simple and personalized life experience using TV as large screen smart speaker for families. Also, the self-developed TV middleware TV+ OS developed new iterations and upgrades, aiming to establish an open smart platform, so as to enjoy the first-mover advantage of its leading technology in the overseas markets and digital globalization recognitions. The smart TV products of the Group have received certification from BBC Free View Play 2018 and DUK in the UK in 2018, which helped the Group in making technology breakthroughs for its high-end smart TVs to enter the UK market and further expand European markets.

The Group's innovative R&D capability is well-recognized internationally by the industry. TCL Electronics was awarded by IDG with three major awards, named as "2018-2019 CE Brands Top 10", "2018-2019 Global CE Brands Top 50" and "2018-2019 Global TV Brands Top 10". The Group's industry leading product TCL X10 QLED 8K TV also received the prestigious "2018-2019 8K TV Gold Award of the Year" from IDG. Moreover, the C6 series won EISA Award at the world famous IFA in August 2018. The Group's R6 products received positive feedbacks from the certification authorities in North America. TCL products are widely recognized by international awards, which spotlighted the Group's innovative technology and brand power.

Outlook

In 2019, guided by the theme of "enhancing efficiency, breaking through bottleneck and upgrading innovation" and based on the first-mover advantage of the globalization strategy, the Group will seize the opportunity to develop smart Internet business while enhancing efficiency and maintaining continuous business growth. The Group will consolidate its existing TV business while at the same time actively developing diversified businesses to further push forward the reform and transformation of the Company, thus to establish new capability for future development and to explore more new profit growth opportunities, and ultimately create greater value for shareholders.

I. TCL TV Business at the Core and Explore Diversified Business

After renaming as "TCL Electronics Holdings Limited", the Company has proactively reinforced its business diversification. In the future, the Group will use TCL TV business as its core to develop diverse businesses such as Smart AV, commercial display and smart home, in order to increase the Group's overall profitability. Moreover, the Group will continue to strengthen its product technology, production chain, brand promotion and synergies between international business segments. With the advantages of its comprehensive global network and channel as well as its competitiveness in the overseas markets, TCL Electronics is dedicated to becoming an international leading brand of consumption and home electronics.

II. Expand Overseas Markets Scale and Enhance Global Strategic Layout

The Group will further strengthen its globalization strategy, as well as the competitiveness and influence of the TCL brand. The Group will continue to strengthen its competitiveness in the PRC market and at the same time further explore overseas markets by consolidating the North American market, increasing market share and profitability in Europe and Southeast Asia, exploring emerging markets such as India and Russia in order to seek for new growth drivers. Meanwhile, through innovative sports marketing and entertainment marketing, the Group will be able to upgrade its international brand image, which in return further increases the market share and brand power of TCL in the global market, and improve its global strategic layout.

III. Increase R&D Investment and Implement A.I. x IoT Strategy

The Group will continue to put more resources into strengthening its capability in R&D and set up a blueprint for the future. The Group will focus on and actively promote advanced display technologies such as quantum dot, Mini LED and 8K and A.I. technology to strengthen its Internet business, continuously enhance "Product + Service" operational capabilities, and to improve its overall product competitiveness and user experience, enlarge the scale of users and boost the monetization capacity of businesses. Moreover, the Group will continuously pursue its "Smart + Internet" strategy to actively expand the smart home market. With "A.I. x IoT" as the key strategy, through smart items, smart home system, smart community platform services, etc., to create an all-rounded smart home ecosystem and achieve the interconnection of hardware + software + IoT scenarios.

IV. Smart Manufacturing Enhances Operational Efficiency and Profitability

The Group will continuously promote intelligent automated manufacturing, and enhance industrial manufacturing capability and efficiency. At the same time, the Group will persistently pursue reform and transformation, continuously optimize business and process and firmly implement cost reduction and efficiency enhancement, thereby greatly enhancing operational efficiency and effectiveness and improving overall profitability and competiveness. The Group will be dedicated to offering smart and healthy living related products and services to the users so as to become a global leading smart technology company and create value for shareholders.

FINANCIAL REVIEW

Completion of Rights Issue

References are made to the prospectus (the "Prospectus") of the Company in relation to the rights issue dated 28 December 2017 and the announcements dated 28 November 2017, 9 January 2018, 18 January 2018 and 25 January 2018 of the Company in relation to allotting and issuing 582,544,371 rights shares (the "Rights Share(s)") at the subscription price of HK$3.46 per Rights Share on the basis of one Rights Share for every three ordinary shares held on 27 December 2017 (the "Rights Issue"). As at 4:00 p.m. on Friday, 12 January 2018, being the latest time for acceptance of applications for the Rights Shares as set out in the Prospectus, in aggregate, a total of 179 valid acceptance and applications in respect of 1,656,946,129 Rights Shares had been received, representing approximately 284.43% of the total number of 582,544,371 Rights Shares available under the Rights Issue. Accordingly, the Rights Issue was over-subscribed by 1,074,401,758 Rights Shares. On 26 January 2018, the Company allotted and issued 582,544,371 Rights Shares.

In accordance with the terms of the underwriting agreement (the "Underwriting Agreement") dated 28 November 2017 entered into between the Company and BNP Paribas Securities (Asia) Limited as the underwriter and given the over-subscription for the Rights Shares, the obligations of the underwriter in respect of the Rights Shares not taken up have been fully discharged and the underwriter is not required to take up any Rights Shares. For further details, please refer to the Prospectus and announcements of the Company.

Significant Investments, Acquisitions and Disposals

On 23 March 2018, TTE Corporation, a wholly-owned subsidiary of the Company, entered into a subscription agreement with TCL Ventures Inc., as general partner, pursuant to which TTE Corporation agreed to make a capital commitment of USD15 million (equivalent to approximately HK$117 million) into TCL Ventures Fund L.P., constituting approximately 20% of its total capital commitment. In addition, Shenzhen TCL New Technology Company Limited ("TCL New Technology", a subsidiary of the Company) entered into a partnership agreement (the "PRC Partnership Agreement") with Huizhou TCL Kaichuang Enterprise Management Co., Ltd. as general partner and TCL Corporation and CSOT as limited partners, in relation to the establishment of the PRC Investment Fund. Pursuant to the PRC Partnership Agreement, TCL New Technology agreed to make a capital commitment of RMB40 million (equivalent to approximately HK$49 million) into the Shenzhen TCL Strategic Share Investment Fund Limited Partnership (Limited Partnership), constituting approximately 19.9% of its total capital commitment.

On 27 April 2018, Falcon Technology and Beijing Jingdong Century Trading Company Limited ("JD.com") reached a consensus on cooperation in relation to the proposed capital contribution of RMB300 million to Falcon Technology by JD.com so as to acquire equity interests in Falcon Technology after such proposed capital increase. The terms of the proposed capital increase would be subject to the obtaining of all necessary company approvals and negotiation by the parties concerned and the approval, execution and delivery of the definitive transaction documents by the parties concerned.

On 10 May 2018, TCL New Technology entered into sale & purchase agreement with TCL Technology Industrial Park (Shenzhen) Co., Ltd. ("TCL Industrial Park", a subsidiary of TCL Corporation), pursuant to which TCL New Technology has agreed to transfer the Assets and the Business (as defined in announcement of the Company dated 10 May 2018) to TCL Industrial Park, and that the TCL Industrial Park has agreed to acquire the Assets and the Business and to assume the liabilities, at a consideration of RMB328,964,988.18 (equivalent to approximately HK$407,291,551.87). The transaction was completed on 28 June 2018.

On 18 May 2018, TCL New Technology entered into the capital increase agreement with Lerong Zhixin Electronic Technology (Tianjin) Co., Ltd. ("Lerong Zhixin"), Leshi Internet Information and Technology Corp., Beijing and Tianjin Jiarui Huixin Corporate Management Co., Ltd., pursuant to which, among others, TCL New Technology agreed to make a capital contribution of RMB0.3 billion to Lerong Zhixin subject to the terms and conditions thereof. Upon completion of the capital increase, the Company's interest in Lerong Zhixin through TCL New Technology would be approximately 2.71%.

On 1 June 2018, TCL King Electrical Appliances (Huizhou) Company Limited ("TCL King Electrical") and TCL New Technology, (collectively the "Purchasers", both are subsidiaries of the Company) and TCL Corporation, Ningbo Yuanheng Juyuan Investment Partnership (Limited Partnership) and Huizhou Guanlian Industrial Investment Co., Ltd. (collectively the "Vendors") entered into the equity transfer agreement, pursuant to which the Purchasers conditionally agreed to acquire from the Vendors and the Vendors conditionally agreed to transfer to the Purchasers regarding to 65%, 20%, and 15% of equity interest in CI Tech at a consideration of RMB793,020,340.79 which shall be settled in cash. Upon completion of the acquisition, CI Tech would become a subsidiary of the Company. The transaction was completed on 31 July 2018.

On 20 July 2018, TCL King Electrical and TCL Intelligence Industry (Huizhou) Company Limited ("TCL Intelligence Industry", a wholly-owned subsidiary of TCL Corporation) entered into the sale and purchase agreement pursuant to which, among others, TCL King Electrical shall purchase the Assigned Equipment (as defined in the announcement of the Company dated 20 July 2018) from TCL Intelligence Industry subject to and in accordance with the terms and conditions thereof with a consideration amounting to RMB15,494,434.63 (equivalent to approximately HK$18,377,948.91).

On 16 August 2018, the Company and Sunshine 100 China entered into the Platform Cooperation Agreement (as defined in the announcement of the Company dated 17 August 2018), pursuant to which the Company and Sunshine 100 China agreed to jointly establish a joint venture ("Smart Apartment Joint Venture") through their respective designated subsidiary(ies) established in the mainland China as a management platform for sharing intelligentized operational network, and enter into the field of smart apartment sharing operation through the Smart Apartment Joint Venture. According to the terms of the Platform Cooperation Agreement, the registered capital of the Smart Apartment Joint Venture would be RMB50,000,000, in which RMB25,500,000, i.e. 51% of the total registered capital, would be contributed by Sunshine 100 China's designated subsidiary(ies) established in the mainland China and RMB24,500,000, i.e. 49% of the total registered capital, would be contributed by the Company's designated subsidiary(ies) established in the mainland China.

On 21 September 2018, Shenzhen TCL Digital Technology Co., Ltd. ("Shenzhen TCL Digital", a subsidiary of the Company), TCL Corporation, Ningbo Juge Yingrui Investment Partnership (Limited Partnership), Ningbo Xingxing Jiuli Investment Management Partnership (Limited Partnership), CSOT and Mr. He Jun entered into the articles, pursuant to which the parties thereto agreed to establish a joint venture (the "Joint Venture"). The registered capital of the Joint Venture is RMB100 million and Shenzhen TCL Digital would contribute RMB20 million. i.e. 20% of the total registered capital.

Save as disclosed above, the Group had no other significant investment, acquisition and disposal during the year.

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 31 December 2018 amounted to approximately HK$6,741,976,000, of which 1.0% was maintained in Hong Kong dollars, 38.3% in US dollars, 56.6% in Renminbi, 1.4% in Euros and 2.7% in other currencies for the overseas operation.

There was no material change in the available credit facilities when compared with those for the year ended 31 December 2017.

As at 31 December 2018, the Group's gearing ratio was 0% since the Group's cash and bank balances of approximately HK$6,741,976,000 were higher than the total interest-bearing borrowings of approximately HK$1,114,527,000. The maturity profile of the borrowings ranged from one to two years.

Pledge of Assets

As at 31 December 2018 and 2017, no asset of the Group was pledged.

Capital Commitments and Contingent Liabilities

At the end of the reporting period, the Group had the following capital commitments:

	2018	2017
	HK$'000	*HK$'000*
Contracted, but not provided for	**516,729**	284,396
Authorised, but not contracted for	**255,202**	269,823
	771,931	554,219

As at 31 December 2018, the Group did not have any material contingent liability not provided for in the consolidated financial statements.

Pending Litigation

The Group was not involved in any material litigation as at 31 December 2018.

Foreign Exchange Exposure

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

It is the Group's policy to centralise foreign currency management to monitor its total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In addition, in line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employee and Remuneration Policy

As at 31 December 2018, the Group had a total of 26,814 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Group. In order to align the interests of staff with those of the shareholders, share options were granted to the relevant grantees, including employees of the Group, under the Company's share option scheme. Share options for subscribing a total of 242,286,987 shares remained outstanding at the end of the reporting period.

A restricted share award scheme (the "Award Scheme") was also adopted by the Company on 6 February 2008 and was amended on 11 August 2015, 13 June 2016, 24 November 2017 and 23 May 2018 respectively. Pursuant to the Award Scheme existing shares would be purchased from the market or new shares would be subscribed for by a designated trustee out of cash contributed by the Company, and would be held on trust for the relevant grantees until such shares are vested with the relevant grantees in accordance with the provisions of the Award Scheme.

PURCHASES, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of shares for the year ended 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

Further acquisition of equity interest in an associate

On 23 January 2019, TCL King Electrical and Shenzhen Qianhai Fende Industries Investment Company Limited ("Qianhai Fende") (a limited liability company established in PRC) entered into the sale & purchase agreement, pursuant to which Qianhai Fende agreed to sell and TCL King Electrical agreed to acquire the approximately 15.56% of the total equity interest of Falcon Technology at the consideration of RMB420.12 million.

After completion of the aforesaid transaction, the Group would hold in aggregate of approximately 60.00% of the total equity interest of Falcon Technology and thus, Falcon Technology would become a subsidiary of the Company.

FINAL DIVIDEND

The Board has proposed a final dividend, for the year ended 31 December 2018, of HK9.38 cents (2017: HK15.07 cents) in cash per share. Subject to approval at the forthcoming AGM on 28 May 2019, Tuesday, the said final dividend will be payable on or about 21 June 2019, Friday to shareholders whose names appear on the register of members of the Company on 31 May 2019, Friday.

RECORD DATE AND CLOSURE OF REGISTER OF MEMBERS

To ascertain the entitlements to attend and vote at the AGM, members of the Company must lodge the relevant transfer document(s) and share certificate(s) at the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 22 May 2019, Wednesday for registration. Members of the Company whose names are recorded in the register of members of the Company on 22 May 2019, Wednesday are entitled to attend and vote at the AGM.

The record date for determining the entitlements of the shareholders to the proposed final dividend is 31 May 2019, Friday. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 31 May 2019, Friday. The Hong Kong register of members of the Company will be closed from 3 June 2019, Monday to 4 June 2019, Tuesday (both dates inclusive), during which no transfer of the shares may be registered.

AGM

The AGM of the Company will be held on 28 May 2019, Tuesday. The notice of AGM will be published on the websites of the Company and the Hong Kong Stock Exchange and despatched to the shareholders of the Company in due course.

CORPORATE GOVERNANCE

The Company has established and will continue to optimize its risk management and internal control system. The Company reports to the Board and the subordinated audit committee ("Audit Committee") the governance situation and the improvement progress of the Company regularly to strengthen the collaboration on corporate governance between the Board and the management continuously and fulfill the respective responsibilities in terms of corporate governance.

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the year ended 31 December 2018, complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, except for the deviation from the Code Provisions D.1.4, E.1.2 and F.1.1.

Under Code Provision D.1.4, all directors should clearly understand delegation arrangements in place, and the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Company has no formal letters of appointment for Mr. BO Lianming (resigned as the Chairman of the Board and an executive Director with effect from 2 March 2018) being the then Chairman of the Board and an executive Director, Mr. Albert Thomas DA ROSA, Junior and Mr. HUANG Xubin (resigned as a non-executive Director with effect from 10 January 2019), both being non-executive Directors, and Mr. Robert Maarten WESTERHOF and Dr. TSENG Shieng-chang Carter, both being independent non-executive Directors, as most of them have been serving as Directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and Directors, and so there is no written record of the same. In any event, all Directors, including those without a letter of appointment and those appointed for a specific term, shall be subject to retirement by rotation in the manner prescribed under the articles of association of the Company and on re-election of the retiring Directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant Directors.

Under Code Provision E.1.2, the chairman of the board should attend the AGM. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval.

Due to other pre-arranged business commitments which must be attended to by Mr. LI Dongsheng, being the Chairman of the Board and an executive Director was not present at the AGM of the Company held on 23 May 2018 ("2018 AGM"). However, Dr. TSENG Shieng-chang Carter, being the chairman of the Remuneration Committee and an independent non-executive Director, Professor WANG Yijiang, being the chairman of the Nomination Committee and an independent non-executive Director and Mr. LAU Siu Ki, being the chairman of the Audit Committee and an independent non-executive Director, were present at the 2018 AGM to maintain an ongoing dialogue and communicate with the shareholders and encourage their participation.

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

The company secretary of the Company, Ms. CHOY Fung Yee ("Ms. CHOY") is a practising solicitor in Hong Kong and a partner of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors. During the year and up to 24 August 2018, the Company has also assigned Mr. SIN Man Lung, the then financial controller of the Company, as the contact person with Ms. CHOY. From 24 August 2018 up to 18 March 2019, Mr. WANG Yi Michael, an executive Director and the then chief financial officer, replaced Mr. SIN Man Lung as the assigned contact person with Ms. CHOY, and with effect from 18 March 2019, Mr. HU Lihua, the current chief financial officer of the Company, replaced Mr. WANG Yi Michael as the assigned contract person with Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. CHOY through the contact persons assigned. Given the long-term relationship between Ms. CHOY and the Group, Ms. CHOY is very familiar with the operations of the Group and have in depth knowledge of the management of the Group. Having in place a mechanism that Ms. CHOY will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. CHOY as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

SCOPE OF WORK OF THE COMPANY'S AUDITOR ERNST AND YOUNG ("EY")

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit and loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by EY to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagements in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee comprises four members including Mr. LAU Siu Ki (Chairman), Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang, all being independent non-executive Directors, and Mr. YANG Anming (appointed as a non-executive Director with effect from 10 January 2019) being a non-executive director of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a model code of conduct regarding securities transactions by Directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year.

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received two confirmations (the "Confirmations") from TCL Corporation and T.C.L. Industries (collectively the "Covenantors") signed by them confirming that for the period from 1 January 2018 to 31 December 2018 and up to the date of signing the Confirmations by the relevant Covenantors, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 November 1999 as amended from time to time (the "Deed of Non-Competition").

The independent non-executive Directors have reviewed the Confirmations and all of them are satisfied that the Deed of Non-Competition has been complied with during the year.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 18 March 2019

As at the date of this announcement, the Board comprises Mr. LI Dongsheng, Mr. WANG Cheng Kevin, Mr. YAN Xiaolin and Mr. WANG Yi Michael as executive Directors, Mr. Albert Thomas DA ROSA, Junior, Mr. YANG Anming, and Mr. LI Yuhao as non-executive Directors and Mr. Robert Maarten WESTERHOF, Dr. TSENG Shieng-chang Carter, Professor WANG Yijiang and Mr. LAU Siu Ki as independent non-executive Directors.