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**China Display Optoelectronics Technology Holdings Limited**

**華顯光電技術控股有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 334)**

# RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

## FINANCIAL HIGHLIGHTS

**Results**

| | **Year ended 31 December 2019** ***RMB'000*** | Year ended 31 December 2018 *RMB'000* | **Change** |
|---|---|---|---|
| Revenue | **5,455,790** | 5,280,861 | **+3.3%** |
| Gross profit | **186,579** | 248,257 | **-24.8%** |
| Profit for the year | **47,476** | 101,888 | **-53.4%** |
| Profit attributable to owners of the parent | **52,448** | 81,782 | **-35.9%** |
| Basic earnings per share *(RMB cents)* | **2.51** | 3.95 | **-36.5%** |

The board of directors (the "Board") of China Display Optoelectronics Technology 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 31 December 2019 with the corresponding comparative figures for the year ended 31 December 2018 as follows.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December*

| | Notes | **2019** *RMB'000* | 2018 *RMB'000* |
|---|---|---|---|
| REVENUE | *5* | **5,455,790** | 5,280,861 |
| Cost of sales | | **(5,269,211)** | (5,032,604) |
| Gross profit | | **186,579** | 248,257 |
| Other income and gains, net | *5* | **40,867** | 44,515 |
| Selling and distribution expenses | | **(29,175)** | (27,226) |
| Administrative expenses | | **(85,107)** | (97,152) |
| Impairment losses on financial assets | | **2,688** | (1,856) |
| Other expenses | | **(11,512)** | (10,469) |
| Finance costs | *7* | **(33,607)** | (18,100) |
| PROFIT BEFORE TAX | *6* | **70,733** | 137,969 |
| Income tax expense | *8* | **(23,257)** | (36,081) |
| PROFIT FOR THE YEAR | | **47,476** | 101,888 |
| Attributable to: | | | |
| Owners of the parent | | **52,448** | 81,782 |
| Non-controlling interests | | **(4,972)** | 20,106 |
| EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT | *10* | | |
| Basic | | | |
| For profit for the year | | **RMB2.51 cents** | RMB3.95 cents |
| Diluted | | | |
| For profit for the year | | **RMB2.51 cents** | RMB3.95 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December*

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December*

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **831,412** | 602,543 |
| Intangible assets | | **5,889** | 5,664 |
| Deposits paid for purchase of items of property, plant and equipment | | **11,628** | 60,736 |
| Deferred tax assets | | **21,205** | 17,545 |
| Right-of-use assets | | **47,257** | – |
| Total non-current assets | | **917,391** | 686,488 |
| CURRENT ASSETS | | | |
| Inventories | *11* | **229,453** | 574,606 |
| Trade and bills receivables | *12* | **1,862,040** | 2,145,233 |
| Prepayments and other receivables | | **93,035** | 129,242 |
| Derivative financial instruments | | **624** | – |
| Cash and cash equivalents | | **101,054** | 277,437 |
| Total current assets | | **2,286,206** | 3,126,518 |
| CURRENT LIABILITIES | | | |
| Trade payables | *13* | **815,697** | 2,256,864 |
| Other payables and accruals | | **523,915** | 371,868 |
| Derivative financial instruments | | **491** | – |
| Interest-bearing bank and other borrowings | *14* | **1,017,651** | 360,683 |
| Tax payable | | **39,215** | 47,557 |
| Bonds payable | | **8,959** | – |
| Total current liabilities | | **2,405,928** | 3,036,972 |
| NET CURRENT (LIABILITIES)/ASSETS | | **(119,722)** | 89,546 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **797,669** | 776,034 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

*As at 31 December*

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | *14* | **33,271** | 24,000 |
| Deferred income | | **13,395** | 10,357 |
| Bonds payable | | **–** | 61,341 |
| Deferred tax liabilities | | **6,300** | – |
| Total non-current liabilities | | **52,966** | 95,698 |
| Net assets | | **744,703** | 680,336 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | *15* | **172,118** | 169,768 |
| Reserves | | **442,326** | 375,333 |
| | | **614,444** | 545,101 |
| Non-controlling interests | | **130,259** | 135,235 |
| Total equity | | **744,703** | 680,336 |

*Notes:*

## 1. BASIS OF PREPARATION

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

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

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

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

**Basis of consolidation**

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

The amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle* are not relevant to the preparation of the Group's financial statements.

## 3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

[1] *Effective for annual periods beginning on or after 1 January 2020*

[2] *Effective for annual periods beginning on or after 1 January 2021*

[3] *No mandatory effective date yet determined but available for adoption*

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

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

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

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

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

## 4. OPERATING SEGMENT INFORMATION

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

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

**Geographical information**

***(a) Revenue from external customers***

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

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

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

***(b) Non-current assets***

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

**Information about major customers**

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

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

**Revenue from contracts with customers**

***(a) Disaggregated revenue information***

**For the year ended 31 December 2019**

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

For the year ended 31 December 2018

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

***(b) Performance obligations***

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

*Sale of industrial products*

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

*Processing and manufacturing services*

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

An analysis of other income and gains is as follows:

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

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

## 6. PROFIT BEFORE TAX

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

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

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

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

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

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

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

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

## 8. INCOME TAX

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

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

## 9. DIVIDENDS

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

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

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

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

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

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

## 11. INVENTORIES

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

## 12. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

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

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

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

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

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

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

**As at 31 December 2019**

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

As at 31 December 2018

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

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

## 13. TRADE PAYABLES

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

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

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

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

## 14. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 31 December 2019 | | | 1 January 2019 | 31 December 2018 | | |
|---|---|---|---|---|---|---|---|
| | **Effective interest rate** | **Maturity** | | | Effective interest rate | Maturity | |
| | ***(%)*** | | ***RMB'000*** | *RMB'000* | *(%)* | | *RMB'000* |
| **Current** | | | | | | | |
| Lease liabilities | **4.75** | **2020** | **9,255** | 9,349 | – | – | – |
| Bank loans – secured | **3.40-3.60** | **2020** | **908,396** | 220,682 | 3.40-3.60 | 2019 | 220,682 |
| Collateralised bank advances – unsecured | **3.60** | **2020** | **100,000** | 105,001 | 3.70-5.44 | 2019 | 105,001 |
| Collateralised bank advances – secured | **–** | **–** | **–** | 35,000 | 4.20 | 2019 | 35,000 |
| | | | **1,017,651** | 370,032 | | | 360,683 |
| **Non-current** | | | | | | | |
| Lease liabilities | **4.75** | **2021** | **8,773** | 18,177 | – | – | – |
| Other secured bank loans | **4.75** | **2024** | **498** | – | – | – | – |
| Other borrowings | **0.44** | **2022** | **24,000** | 24,000 | 0.44 | 2020 | 24,000 |
| | | | **33,271** | 42,177 | | | 24,000 |
| | | | **1,050,922** | 412,209 | | | 384,683 |
| Analysed into: | | | | | | | |
| Bank loans repayable | | | | | | | |
| Within one year | | | **1,008,396** | 360,683 | | | 360,683 |
| In the third to fifth years, inclusive | | | **498** | – | | | – |
| | | | **1,008,894** | 360,683 | | | 360,683 |
| Other borrowings repayable | | | | | | | |
| Within one year | | | **9,255** | 9,349 | | | – |
| In the second year | | | **8,773** | 18,177 | | | 24,000 |
| In the third to fifth years, inclusive | | | **24,000** | 24,000 | | | – |
| | | | **42,028** | 51,526 | | | 24,000 |
| | | | **1,050,922** | 412,209 | | | 384,683 |

*Notes:*

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

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

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

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

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

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

## 15. SHARE CAPITAL

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

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

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

*Note:*

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

## INDUSTRY REVIEW

For the twelve months ended 31 December 2019 (the "Review Period"), the global political situation has been complex and volatile. Against the backdrop of trade protectionism, global economic growth was subject to a deep structural adjustment and clouded by the Sino-US trade friction. Throughout the year, the smartphone market was in a downward phase, adversely affecting the development of the industry. According to the data issued by the China Academy of Information and Communications Technology, 372 million units of smartphones were shipped from Mainland China in 2019, marking a year-on-year decline of 4.7%. According to the latest report from global market researcher IDC, the global smartphone shipment volume for the year of 2019 decreased by 2.3% year-on-year to approximately 1,371 million units. Furthermore, during the Review Period, the market share of the top five global manufacturers has further increased to 70.5%.

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

## BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

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

**Synergistic development with TCL CSOT**

***1) Improved product research and development capabilities***

The Group has actively devoted its efforts to the research and development of new products and new technologies to increase the sales proportion of mid-to high-end products and strengthen its core competitiveness. It has developed various customised products with TCL China Star Optoelectronics Technology Co., Ltd* (TCL華星光電技術有限公司, formerly known as Shenzhen China Star Optoelectronics Technology Co., Ltd*（深圳市華星光電技術有限公司）, together with its subsidiaries, "TCL CSOT"), to meet customers' increasing demands for customised products. During the Review Period, the Group's full-screen products accounted for approximately 90% of the overall sales volume and the proportion of the sales volume of LTPS products increased from 64% for the same period last year to 87%.

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

***2) Reinforced partnership with first-tier brands***

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

### *3) Upgraded production line automation to enhance management efficiency*

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

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

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

## OUTLOOK

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

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

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

## FINANCIAL REVIEW

### Liquidity and Financial Resources

The Group maintained a robust liquidity position during the Review Period. The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank loans.

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

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

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

### Pledge of Assets

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

**Capital Commitments and Contingent Liabilities**

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

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

**Pending Litigation**

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

**Foreign Exchange Risk**

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

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

**Significant Investments Held**

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

**Material Acquisitions and Disposals**

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

## EMPLOYEES AND REMUNERATION POLICIES

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

## ENVIRONMENTAL POLICY AND COMPLIANCE

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

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

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

The Environmental, Social and Governance Report of the Company for the year ended 31 December 2019 prepared in accordance with Appendix 27 to the Listing Rules will be published separately pursuant to the requirements under Appendix 27 to the Listing Rules.

## CUSTOMERS AND SUPPLIERS

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

### Major customers

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

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

### Suppliers

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

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## FINAL DIVIDEND

The Board do not recommend the payment of any final dividend by the Company, for the year ended 31 December 2019 (2018: nil).

## CLOSURE OF REGISTER OF MEMBERS

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

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 23 June 2020, Tuesday. The notice of annual general meeting will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited and despatched to the shareholders of the Company in due course.

## CORPORATE GOVERNANCE

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

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

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

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code for Securities Transactions by directors of Listed Issuers (the "Model Code"), as set out in Appendix 10 to the Listing Rules. Having made specific enquiry with all Directors, the Directors confirmed that they have complied with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2019.

On 25 February 2019, Mr. Li Jian, then executive Director and chief executive officer of the Company, (i) exercised share option ("Option") granted to him on 18 March 2016 pursuant to the Share Option Scheme of the Company to subscribe for 80,000 Shares (representing approximately 0.0038% of the total number of issued Shares as at 25 February 2019) at the exercise price of HK$0.74 per Share (which was determined at the time of grant), and (ii) disposed on-market of the same parcel of 80,000 Shares at a price of HK$0.75 per Share ("Disposal") without first notifying the designated Director pursuant to Appendix 10 to the Listing Rules. Whilst the exercise of Option did not constitute a dealing under the Model Code, the Disposal constituted a dealing within the blackout period in relation to the publication of the annual results of the Company for the year ended 31 December 2018 ("Blackout Period") and hence a breach of Rule A.3(a)(i) of the Model Code.

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

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

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

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

## AUDIT COMMITTEE

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2019, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee currently comprises three members, namely Ms. HSU Wai Man, Helen (Chairman), Mr. XU Yan and Mr. LI Yang, all being independent non-executive directors of the Company.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit of loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditors in this respect did not constitute an assurance engagement 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 the Company's auditors on this preliminary announcement.

On behalf of the Board
**LIAO Qian**
*Chairman*

Hong Kong, 26 March 2020

*The English transliteration of the Chinese name(s) in this announcement, where indicated with "*", is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese names.*

*As at the date of this announcement, the Board comprises Mr. LIAO Qian as Chairman and non-executive Director; Mr. OUYANG Hongping, Mr. WEN Xianzhen and Mr. ZHAO Jun as executive Directors; and Ms. HSU Wai Man Helen, Mr. XU Yan and Mr. LI Yang as independent non-executive Directors.*