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TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

TCL 多媒體科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND DISCONTINUATION OF PUBLICATION OF QUARTERLY RESULTS

FINANCIAL HIGHLIGHTS

Unaudited results for the six months ended 30 June

	2017	2016	Change
	(HK\$M)	(HK\$M)	
Turnover	17,023	14,227	19.7%
Gross profit	2,626	2,470	6.3%
Operating profit	198	177	12.2%
Net profit after tax	144	88	63.9%
Profit attributable to owners of the parent	151	95	59.5%
Basic earnings per share <i>(HK cents)</i>	9.12	6.54	39.4%
Interim dividend per share <i>(HK cents)</i>	3.90	–	N/A

BUSINESS HIGHLIGHTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2017

- The significant increase in the consolidated profit for the six months ended 30 June 2017 of the Group comparing with the same period of 2016 was mainly attributable to: (1) the relatively great extent of increase in sales volume and sales revenue of business; (2) the improvement of product structure; and (3) the control of selling and distribution expenses and administrative expenses leading to a reduction of expense ratio.
- The Group sold 9.60 million sets of liquid-crystal-display (“LCD”) TVs, up by 12.2% year-on-year. Sales volume of LCD TVs in the PRC market decreased by 9.7% year-on-year to 3.87 million sets, while sales volume of LCD TVs in the overseas markets grew by 34.1% year-on-year to 5.74 million sets.
- The Group achieved a turnover of HK\$17.02 billion, increased by 19.7% year-on-year. Gross profit increased by 6.3% when compared to the corresponding period of last year to HK\$2.63 billion. Gross profit margin dropped from 17.4% in the corresponding period of last year to 15.4%, which was mainly impacted by sales proportion of the overseas and PRC market. Expense ratio decreased from 15.9% in the corresponding period of last year to 13.8%. Operating profit was HK\$200 million and net profit after tax was HK\$140 million. Profit attributable to owners of the parent rose by 59.5% when compared to the corresponding period of last year to HK\$150 million. Basic earnings per share was HK9.12 cents. The Board declared an interim dividend of HK3.90 cents per share.
- With continued product mix enhancements, the proportion of high-end products (such as quantum dot, curved, 4K and large screen TVs, etc.) has been steadily increasing. Sales volume of smart TVs of the Group in the PRC market (excluding ODM business) amounted to 2.33 million sets, which accounted for 75.1% of the Group’s LCD TV sales volume in the PRC market (excluding ODM business). Sales volume of 4K TVs in the PRC market (excluding ODM business) amounted to 1.26 million sets, which accounted for 40.6% of the Group’s LCD TV sales volume in the PRC market (excluding ODM business). Market share of curved TVs in the PRC market (excluding ODM business) was 35.2%, maintaining No.1 position (Source: China Market Monitor Co., Ltd. (“CMM”)).
- The accumulated number of TCL activated smart TV users of the Group totaled 20,303,387, and the daily average number of active users in June 2017 was 9,169,637 (Source: Huan Technology Co., Ltd. (“Huan”)).
- The Group ranked No.3 in the global LCD TV market with a market share of 7.3% in the first quarter of 2017 according to the latest IHS Technology figures and the Company’s shipment data, and ranked No.3 in the PRC LCD TV market with a figures market share of 13.6% in the first half of 2017 according to CMM’s report.

- The Group unveiled its new internet TV brand “FFalcon” at TCL spring product launch presentation in Beijing, the PRC on 29 March, 2017, tapping into the internet TV market, and announced on 2 July, 2017 that Tencent Digital (Shenzhen) Company Limited (“Tencent Digital”) had agreed to make capital contribution of RMB450 million to Shenzhen Thunderbird Network Technology Company Limited (“Thunderbird Technology”) under the Group; in return, Tencent Digital would acquire 16.67% of interest in Thunderbird Technology, making it the second largest shareholder. This strategic cooperation between two giants aims to achieve strategic complementary effect on resources and accelerate the promotion of the “Smart + Internet” new business model.

The board of directors (the “Board”) of TCL Multimedia Technology Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the six months and three months ended 30 June 2017 with comparative figures for the previous periods as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended 30 June		Three months ended 30 June	
		2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
TURNOVER	4	17,022,807	14,226,635	8,543,072	6,869,048
Cost of sales		(14,396,670)	(11,756,603)	(7,252,043)	(5,782,139)
Gross profit		2,626,137	2,470,032	1,291,029	1,086,909
Other revenue and gains		188,962	172,699	102,084	89,729
Selling and distribution expenses		(1,773,403)	(1,726,845)	(829,557)	(795,432)
Administrative expenses		(567,327)	(535,595)	(309,041)	(240,874)
Research and development costs		(265,880)	(203,727)	(150,305)	(93,802)
Other operating expenses		(10,329)	–	(6,476)	–
Finance costs	5	198,160	176,564	97,734	46,530
Share of profits and losses of:		(52,025)	(46,700)	(33,392)	(18,579)
Joint ventures		(12,446)	(20,472)	(6,667)	(10,690)
Associates		47,607	6,502	34,372	6,098
PROFIT BEFORE TAX	6	181,296	115,894	92,047	23,359
Income tax	7	(37,418)	(28,098)	(25,686)	(11,663)
PROFIT FOR THE PERIOD		143,878	87,796	66,361	11,696
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income/(loss) to 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 period		(39,075)	2,650	(40,323)	30,489
Reclassification adjustments for losses/(gains) included in the consolidated statement of profit or loss		(6,782)	(5,299)	16,974	–
		(45,857)	(2,649)	(23,349)	30,489

	Notes	Six months ended 30 June		Three months ended 30 June	
		2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Exchange differences:					
Translation of foreign operations		152,347	(103,004)	105,858	(126,836)
Reclassification adjustments for foreign operations disposed of or liquidated during the period		495	4,369	495	4,369
Reclassification adjustments for deemed partial disposal of an associate during the period		306	–	306	–
		<u>153,148</u>	<u>(98,635)</u>	<u>106,659</u>	<u>(122,467)</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		107,291	(101,284)	83,310	(91,978)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income of an associate		651	–	651	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<u>107,942</u>	<u>(101,284)</u>	<u>83,961</u>	<u>(91,978)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<u>251,820</u>	<u>(13,488)</u>	<u>150,322</u>	<u>(80,282)</u>
Profit/(loss) attributable to:					
Owners of the parent		151,062	94,694	69,664	20,814
Non-controlling interests		(7,184)	(6,898)	(3,303)	(9,118)
		<u>143,878</u>	<u>87,796</u>	<u>66,361</u>	<u>11,696</u>
Total comprehensive income/(loss) attributable to:					
Owners of the parent		256,646	(4,482)	151,996	(68,424)
Non-controlling interests		(4,826)	(9,006)	(1,674)	(11,858)
		<u>251,820</u>	<u>(13,488)</u>	<u>150,322</u>	<u>(80,282)</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9				
Basic		<u>HK9.12 cents</u>	<u>HK6.54 cents</u>		
Diluted		<u>HK8.93 cents</u>	<u>HK6.25 cents</u>		

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017 (unaudited) <i>HK\$'000</i>	31 December 2016 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,824,760	1,819,152
Prepaid land lease payments		123,204	121,212
Goodwill		134,933	134,933
Other intangible assets		194	1,094
Investments in joint ventures		32,236	36,651
Investments in associates		714,290	597,618
Available-for-sale investments		103,855	100,126
Deferred tax assets		29,666	34,729
		<hr/>	<hr/>
Total non-current assets		2,963,138	2,845,515
CURRENT ASSETS			
Inventories		4,161,761	4,349,253
Trade receivables	10	4,995,971	5,100,561
Bills receivable		3,463,736	2,839,571
Other receivables		2,081,588	1,270,859
Tax recoverable		26,754	21,270
Cash and bank balances		2,910,963	3,882,361
		<hr/>	<hr/>
Total current assets		17,640,773	17,463,875
CURRENT LIABILITIES			
Trade payables	11	6,629,835	7,373,298
Bills payable		1,682,477	1,002,284
Other payables and accruals		3,296,821	3,609,638
Interest-bearing bank and other borrowings	12	1,712,242	1,353,943
Tax payable		37,998	61,696
Provisions		382,670	331,800
		<hr/>	<hr/>
Total current liabilities		13,742,043	13,732,659
		<hr/>	<hr/>
NET CURRENT ASSETS		3,898,730	3,731,216
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/> 6,861,868 <hr/>	<hr/> 6,576,731 <hr/>

		30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		6,861,868	6,576,731
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	12	20,742	1,700
Deferred tax liabilities		16,885	18,686
Total non-current liabilities		37,627	20,386
Net assets		6,824,241	6,556,345
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	1,743,242	1,736,446
Reserves		5,005,728	4,715,999
Non-controlling interests		6,748,970	6,452,445
		75,271	103,900
Total equity		6,824,241	6,556,345

Notes:

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016.

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 2 below.

These unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These unaudited interim condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current period’s unaudited interim condensed consolidated financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
<i>Annual Improvements</i> <i>2014-2016 Cycle</i>	Amendments to a number of HKFRSs

The adoption of these revised HKFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies in the unaudited interim condensed consolidated financial statements.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ¹
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> ¹
HKFRS 9	<i>Financial Instruments</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to HKFRS 15	<i>Clarification to HKFRS 15 Revenue from Contracts with Customers</i> ¹
HKFRS 16	<i>Leases</i> ²
Amendments to HKAS 40 Annual Improvements 2014-2016 Cycle	<i>Transfers of Investment Property</i> ¹
HK(IFRIC) - Int 22	<i>Amendments to a number of HKFRSs</i> ⁴
	<i>Foreign Currency Transactions and Advance Consideration</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but available for adoption

⁴ Effective for annual periods beginning on or after 1 January 2018, with early application permitted

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. 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 two 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; and

(b) 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.

Information regarding these reportable segments, together with their related comparative information, is presented below.

	Six months ended 30 June							
	Television – PRC market		Television – overseas markets		Others		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Sales to external customers	8,545,686	8,589,482	8,384,908	5,553,399	92,213	83,754	17,022,807	14,226,635
Segment results	89,944	210,242	210,917	110,464	(3,325)	13,931	297,536	334,637
Corporate expenses, net							(112,894)	(167,719)
Finance costs							(52,025)	(46,700)
Interest income							13,518	9,646
Share of profits and losses of:								
Joint ventures	-	-	(1,097)	6,034	(11,349)	(26,506)	(12,446)	(20,472)
Associates	7,999	(3,939)	20,488	-	19,120	10,441	47,607	6,502
Profit before tax							181,296	115,894
Income tax							(37,418)	(28,098)
Profit for the period							143,878	87,796

5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank and other loans	51,545	35,069
Loans from T.C.L. Industries Holdings (H.K.) Limited	–	10,678
Loans from an associate	77	530
Finance leases	403	423
	<hr/>	<hr/>
Total	52,025	46,700
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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	111,905	119,427
Amortisation of other intangible assets	89	115
Amortisation of prepaid land lease payments	1,440	1,918
Employee share-based compensation benefits under the Award Scheme	4,302	28,478
Equity-settled share option expense	20,834	53,459
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7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Hong Kong		
Underprovision in prior periods	–	53
Current – Elsewhere		
Charge for the period	32,421	24,554
Underprovision in prior periods	922	4,566
Deferred	4,075	(1,075)
	<hr/>	<hr/>
Total tax charge for the period	37,418	28,098
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8. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend – HK3.90 cents (30 June 2016: Nil) per ordinary share	67,986	–
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	<hr/> <hr/>	<hr/> <hr/>

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

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

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	151,062	94,694
	<u><u>151,062</u></u>	<u><u>94,694</u></u>
	Number of shares	
	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue less shares held for Award Scheme during the period used in the basic earnings per share calculation	1,656,046,758	1,447,511,680
Effect of dilution – weighted average number of ordinary shares:		
Share options	9,499,417	30,127,594
Awarded shares	26,062,447	38,458,681
	<u>9,499,417</u>	<u>30,127,594</u>
	<u>26,062,447</u>	<u>38,458,681</u>
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	1,691,608,622	1,516,097,955
	<u><u>1,691,608,622</u></u>	<u><u>1,516,097,955</u></u>

10. TRADE RECEIVABLES

The majority of the Group's sales in the PRC were mainly made on the 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 tenures 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.

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 collateral or other credit enhancements over its trade receivable. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Current to 90 days	4,043,279	4,081,419
91 to 180 days	455,008	595,245
181 to 365 days	248,322	162,186
Over 365 days	249,362	261,711
	4,995,971	5,100,561

At 31 December 2016, the Group has entered into certain receivables purchase agreements with a financial institution for the factoring of trade receivables due from a customer with an aggregate carrying amount of HK\$167,051,000. None of the related receivables factored to the financial institution were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has not transferred substantially all the risks and rewards of ownership in respect of the related factored trade receivables to the financial institution. Accordingly, the advances from the financial institution of HK\$167,051,000 received by the Group as consideration for the factored trade receivables at 31 December 2016 were recognised as other loans and included in "Interest-bearing bank and other borrowings" (note 12).

11. TRADE PAYABLES

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

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Current to 90 days	5,684,875	6,974,452
91 to 180 days	441,072	199,366
181 to 365 days	360,964	44,094
Over 365 days	142,924	155,386
	6,629,835	7,373,298

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

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Current		
Bank loans – unsecured	1,470,655	850,549
Trust receipt loans – unsecured	237,678	332,551
Other loans (<i>Note 10</i>)	–	167,051
Finance lease payables	<u>3,909</u>	<u>3,792</u>
	<u>1,712,242</u>	<u>1,353,943</u>
Non-current		
Other loan	20,742	–
Finance lease payables	<u>–</u>	<u>1,700</u>
	<u>20,742</u>	<u>1,700</u>
	<u>1,732,984</u>	<u>1,355,643</u>
Analysed into:		
Bank and other loans repayable:		
Within one year or on demand	1,708,333	1,350,151
In the third year	<u>20,742</u>	<u>–</u>
	<u>1,729,075</u>	<u>1,350,151</u>
Finance lease repayable:		
Within one year	3,909	3,792
In the second year	<u>–</u>	<u>1,700</u>
	<u>3,909</u>	<u>5,492</u>
	<u>1,732,984</u>	<u>1,355,643</u>

Notes:

- (a) As at 30 June 2017 and 31 December 2016, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.
- (b) TCL Corporation ("TCL Corporation", the ultimate holding company of the Company) has guaranteed certain of the Group's bank loans up to HK\$967,965,000 (31 December 2016: HK\$100,626,000) as at the end of the reporting period.

13. SHARE CAPITAL

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Authorised:		
2,200,000,000 shares of HK\$1.00 each	2,200,000	2,200,000
Issued and fully paid:		
1,743,242,049 (31 December 2016: 1,736,446,305) shares of HK\$1.00 each	1,743,242	1,736,446

During the six months ended 30 June 2017, the subscription rights attaching to 4,786,288 and 2,009,456 share options were exercised at the subscription prices of HK\$3.17 and HK\$3.48 per share, respectively, resulting in the issue of an aggregate of 6,795,744 shares of HK\$1.00 each for a total cash consideration of HK\$22,165,000 before expenses.

14. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to conform to current period's presentation and disclosures.

BUSINESS REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2017

The significant increase in the consolidated profit for the six months ended 30 June 2017 of the Group comparing with the same period in 2016 was mainly attributable to: (1) the great extent of increase in sales revenue and LCD TV sales volume of 19.7% and 12.2%, respectively; (2) the improvement of product structure; and (3) the control of selling and distribution expenses and administrative expenses leading to a reduction of expense ratio from 15.9% in the corresponding period of last year to 13.8%.

In the first half of 2017, TV demand in the PRC market slowed down, sales volume in the PRC TV market decreased by 10.8% year-on-year according to CMM's report, leading to intensified market competition. As a result of the decreasing demand in the overall market, the Group's LCD TV sales volume in the PRC market in the first half of the year dropped by 9.7% year-on-year, nevertheless, its performance for sales volume was still better than the average level in the industry.

On the other hand, attributable to the continued strong growth in the North American market and the emerging markets, the sales volume of LCD TVs in the overseas markets significantly increased by 34.1% year-on-year and the turnover increased by 51.0% year-on-year in the first half of the year, of which, both sales volume and turnover in the second quarter of 2017 recorded a significant increase, becoming a main driver for business growth.

In the first half of 2017, the Group achieved a turnover of HK\$17.02 billion, rose by 19.7% year-on-year. Gross profit grew by 6.3% year-on-year to HK\$2.63 billion. As the price of main raw materials remained high and the sales proportion of the overseas markets has increased with regional adjustment for sales structure, gross profit margin dropped from 17.4% in the corresponding period of last year to 15.4%. Expense ratio decreased from 15.9% in the corresponding period of last year to 13.8%. Operating profit was HK\$200 million and net profit after tax was HK\$140 million. Profit attributable to owners of the parent increased by 59.5% year-on-year to HK\$150 million. Basic earnings per share was HK9.12 cents. The Board declared an interim dividend of HK3.90 cents per share.

The Group ranked No.3 in the global LCD TV market with a market share of 7.3% in the first quarter of 2017 according to the latest IHS Technology figures and the Company's shipment data, and ranked No.3 in the PRC LCD TV market with a market share of 13.6% in the first half of 2017 according to CMM's report.

The Group's sales volume of LCD TVs by region and the number of TCL Smart TV users during the period under review were as follows:

	1H 2017 (<i>'000 sets</i>)	1H 2016 (<i>'000 sets</i>)	Change
LCD TVs	9,603	8,557	12.2%
Total			
– PRC market	3,867	4,281	(9.7%)
– Overseas markets	5,737	4,276	34.1%
Of which: Smart TVs	6,120	4,085	49.8%
4K TVs	2,227	1,530	45.6%

	Accumulated total as of						
	30 June 2017	June 2017	June 2016	Change	1H 2017	1H 2016	Change
Number of TCL activated smart TV users⁽¹⁾	20,303,387	408,528	343,559	18.9%	3,013,953	2,632,815	14.5%
Daily average number of active users⁽²⁾	N/A	9,169,637	6,244,653	46.8%	N/A	N/A	N/A

Notes:

(1) Number of TCL activated smart TV users refers to the number of users who use the internet TV web service for more than once

(2) Daily average number of active users refers to the number of unrepeated individual users who visit within 7 days

The PRC Market

According to CMM's report, in the first half of 2017, the sales volume in the TV industry dropped by 10.8% year-on-year. Impacted by this situation, the Group's LCD TV sales volume decreased by 9.7% year-on-year to 3.87 million sets, yet its performance for sales volume was still better than the average level in the industry.

The Group's LCD TV turnover slightly decreased by 0.5% to HK\$8.55 billion when compared to the corresponding period of last year while increased by 2.6% in the second quarter year-on-year, which was attributable to the optimisation of the product mix and the increase in the LCD TV's average selling price.

According to CMM's report, the average selling price of TV industry increased by 14.9% year-on-year. The average selling price of the Group's LCD TVs (excluding ODM business) would have increased by 17.6% year-on-year if it was calculated in Renminbi. Due to 4.6% depreciation in the average exchange rate of Renminbi against Hong Kong dollars compared to the corresponding period of last year, the average selling price of LCD TVs (excluding ODM business) increased by 13.0% year-on-year after it was converted and calculated in Hong Kong dollars, and was up by 18.7% in the second quarter year-on-year.

As the price of raw materials remained high, the gross profit was under pressure but the gross profit margin of LCD TV (excluding ODM business) only dropped slightly by 0.1 percentage point year-on-year for optimised product mix. The gross profit margin for TCL brand products generally remained flat when compared to the corresponding period of last year.

With continued product mix optimisation, the proportion of middle-to-high-end products has been steadily increasing in the first half of 2017 (Data below excluded ODM business).

- Smart TV sales volume amounted to 2.33 million sets, which accounted for 75.1% of the LCD TV sales volume in the first half of 2017, rising from 62.6% in the first half in 2016.
- 4K TV sales volume amounted to 1.26 million sets, which accounted for 40.6% of the LCD TV sales volume in the first half of 2017, rising from 33.9% in the first half of 2016.
- Market share of curved TVs was 35.2%, maintaining No.1 position (Source: CMM). Sales volume of curved TVs rose significantly by 79.4% year-on-year to 480,000 sets, which accounted for 15.4% of the LCD TV sales volume in the first half of 2017, increasing from 7.4% in the first half of 2016.
- The average size of TVs sold increased from 43.7 inches in the corresponding period of last year to 45.5 inches.

According to CMM's report, TCL's LCD TV brand price index increased from 92 in the first half of 2016 to 97, ranking No.3.

By engaging in different online marketing activities, the proportion of the Group's sales volume from electronic business sales channels increased from 20.2% in the first half of 2016 to 21.7% in the first half of 2017.

Overseas Markets

The Group is determined to improve its global business layout through internationalization strategy, leverage on many years of experience, combine with advantages of TCL's vertical integration of supply chain, proactively improve supply chain control and accelerate its product mix transition by increasing its proportion of high-end products.

In the first half of 2017, the Group's LCD TV sales volume increased by 34.1% year-on-year to 5.74 million sets, turnover was up by 51.0% year-on-year to HK\$8.38 billion, the average selling price increased by 12.5% year-on-year. Both sales volume and revenue in the overseas markets recorded significant increase, becoming a main driver for business growth.

Performance in the overseas markets in the first half of 2017:

- In the North American market, LCD TV sales volume surged by 215.9% year-on-year.
- LCD TV sales volume in the emerging markets rose by 20.5% year-on-year.
- LCD TV sales volume in the European market dropped by 38.7% year-on-year.
- LCD TV sales volume of the strategic ODM business was up by 9.6% when compared with the corresponding period of last year.

The Group enhanced its product mix through CBUS (curved, big screen, 4K and smart) strategy (excluding ODM business):

- The sales volume proportion of curved TV increased from 1.6% in the first half of 2016 to 1.9% in the first half of 2017.
- The sales volume proportion of TV with screen size of 55 inches and above rose from 13.8% in the first half of 2016 to 16.3% in the first half of 2017.
- The sales volume proportion of 4K TV increased from 12.5% in the first half of 2016 to 19.3% in the first half of 2017.
- The sales volume proportion of smart TV rose from 48.3% in the first half of 2016 to 77.0% in the first half of 2017.

Internet Business

The Group continued to build its smart TV ecosystem. The Group launched its brand new internet TV brand “FFalcon” in March, to tap into the internet TV market and announced on 2 July 2017 that Tencent Digital had agreed to make capital contribution of RMB450 million to Thunderbird Technology under the Group; in return, Tencent Digital would acquire 16.67% of interest in Thunderbird Technology, making it the second largest shareholder. This strategic cooperation between two giants aims to achieve strategic complementary effect on resources and accelerate the promotion of the “Smart + Internet” new business model.

In the first half of 2017, the accumulated number of TCL activated smart TV users of the Group totaled 20,303,387, and the daily average number of active users in June 2017 was 9,169,637 (Source: Huan).

As of the end of June 2017, the number of internet TV users has grown steadily:

- Video-on-demand business totaled 19.39 million users, increased by 39.9% when compared to the first half of 2016.
- Paid business totaled 242,000 users, increased by 374.5% when compared to the first half of 2016.
- Average spending time of users on TV reached 4.9 hours.

The Group recorded a revenue of approximately RMB30.19 million in the first half of 2017, with a growth of 18.7% year-on-year.

R&D

During the period under review, the Group strengthened its investment in research & development, and launched a diverse series of products, aiming to meet the demand of various customers and enhance its product competitiveness.

In terms of high-end products, the Group introduced the third generation quantum dot TV products XESS X2 and X3 series. The series of products adopt the inorganic three primary colors quantum dot display material that achieves 110% of the industry’s highest color gamut. They are also equipped with ultra-thin borderless design, QUHD display quality engine, Dolby Vision High Dynamic Range technology, MEMC (Motion Estimated Motion Compensation) technology and Harman Kardon audio system, achieving significant breakthroughs in technology.

Meanwhile, the Group launched the super-thin C2 series Theater TV products. The C2 Theater TV is equipped with the premium Harman Kardon audio system which consists of independent speakers and features DTS (Digital Theater Systems) sound processing technology. With an excellent perfect sound quality, users can enjoy live experience as if they were at a real event. Such series of products were introduced to the markets in Europe, Latin America and Asia, which has increased the sales proportion of the Group’s middle-to-high-end products in the overseas markets.

Furthermore, the Group introduced the product series of its internet TV brand “FFalcon”. The product series comprise 4 new products including I55, I55C, I49 and I32, of which, the first I55 product is equipped with a 4K large screen, all ecological High Dynamic Range, smart definition, voice control and other advanced technologies, bringing the internet TV consumers the finest sensory experience.

Outlook

Looking forward to the second half of the year, the market demand in the PRC is expected to slow down and the competition in the industry remains fierce. Nevertheless, the sales volume of large-screen TVs would see continuous growth trend, and the sales revenue and profit are expected to rise driven by large-size middle-to-high-end products. Therefore, the Group will persist in adhering to the overall operation philosophy of “efficiency is the basis, the structure is core, profit is goal” for 2017 and continue to strengthen the establishment of principal competencies of the enterprise and forge core competitiveness. It will continue to promote the transformation of twin drivers of “double +” and internationalisation. Meanwhile, the Group will also strive to improve operational efficiency and further implement stringent cost control measures, thus reinforcing the core brand competitiveness, improving profitability and achieving sustainable growth.

The “efficiency is basis, structure is core, profit is goal” operation philosophy: Focus on “two-up and two-down” as operating strategy to increase the proportion of products with high gross profit and low cost channels while decreasing system costs and asset turnover days; implement structure-based competitive strategy including flagship product strategy, new product category and new technology; continue to foster the establishment of four core competitiveness including product technology capabilities, industry capabilities, brand and channel capabilities as well as internet application and service capabilities; streamline organisation, optimise processes and enhance personnel efficiency.

1. The Group will continue to implement the “double +” strategic transformation. It will establish a customer-centric ecosystem based on platform operation to develop new business models; optimise software and hardware experiences, integrate product and operation platforms to optimise user experience and enhance platform capability; and actively implement the TV+ business strategy in the overseas markets.
2. The Group will continue to pursue internationalisation. It will focus on branding by strengthening brand investment and enhancing brand image; enhance efficiency and structural transformation to establish operating models with healthy and steady growth, and strengthen and enhance existing businesses while focusing on breakthroughs in the key markets.

3. The Group will enhance core competitiveness and operational efficiency. It will continue to innovate and enhance R&D capability to maintain product competitiveness; implement intelligent manufacturing and strengthen industrial manufacturing capability; and optimise business and workflow to enhance operational efficiency and decrease system costs.

The Group is confident of achieving its LCD TV sales volume target for the year of 2017 of 22.00 million sets. The Group will take full advantage of the resources of TCL Corporation to continually strengthen its internet-based capabilities and actively build a comprehensive ecosystem for smart TVs to provide users with an exquisite experience with smart products and services, thereby delivering value to shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

On 24 June 2016, TCL Overseas Consumer Electronics Limited (“OCE”, a wholly-owned subsidiary of the Company) entered into a joint venture and shareholders’ agreement with Semp Amazonas S.A., an independent third party, to invest in a Brazilian company, Semp TCL Industria E Comercio De Eletroeletronicos S.A. (“SSA”). Pursuant to the joint venture and shareholders’ agreement, OCE agreed to contribute BRL80,000,000 (equivalent to approximately HK\$196,063,000) to SSA, representing 40% of the enlarged share capital of SSA. The initial, second and third capital injections of BRL32,000,000 (equivalent to approximately HK\$79,112,000), BRL24,000,000 (equivalent to approximately HK\$56,179,000) and BRL24,000,000 (equivalent to approximately HK\$60,772,000) respectively were completed on 1 August 2016, 10 October 2016 and 17 March 2017 respectively.

Save as disclosed above, the Group has no other significant investment, acquisition and disposal during the reporting period.

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 30 June 2017 amounted to approximately HK\$2,910,963,000, of which 1.2% was maintained in Hong Kong dollars, 26.8% in US dollars, 68.2% in Renminbi, 1.3% in Euros and 2.5% 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 2016. The net carrying amounts of the Group’s fixed assets held under finance leases included in the total amounts of furniture, fixtures and equipment and motor vehicles as at 30 June 2017 amounted to approximately HK\$3,363,000 (31 December 2016: HK\$3,755,000) and HK\$2,031,000 (31 December 2016: HK\$2,267,000), respectively.

As at 30 June 2017, the Group's gearing ratio was 0% since the Group's cash and bank balances of approximately HK\$2,910,963,000 were higher than the total interest-bearing borrowings of approximately HK\$1,732,984,000. The maturity profile of the borrowings ranged from one to three years.

Pledge of Assets

As at 30 June 2017, no asset of the Group was pledged (31 December 2016: Nil).

Capital Commitments and Contingent Liabilities

As at 30 June 2017, the Group had capital commitments of approximately HK\$80,785,000 (31 December 2016: HK\$75,690,000) and HK\$295,122,000 (31 December 2016: HK\$253,075,000) which were contracted but not provided for and authorised but not contracted for, respectively. There was no significant change in contingent liabilities of the Group compared to the position outlined in the Company's 2016 annual report.

Pending Litigation

The Group was not involved in any material litigation as at 30 June 2017.

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 30 June 2017, the Group had a total of 20,306 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 shareholders, share options were granted to relevant grantees including employees under the Company's share option scheme. Options for subscribing a total number of 165,445,751 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. Pursuant to which 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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2017.

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend for the period ended 30 June 2017, of HK3.90 cents (30 June 2016: Nil) in cash per share.

The said interim dividend will be payable on or about 15 September 2017, Friday to shareholders whose names appear on the register of members of the Company at the close of business at 4:30 p.m. on 6 September 2017, Wednesday.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 September 2017, Tuesday to 6 September 2017, Wednesday (both dates inclusive), for the purpose of determining the entitlements of the members of the Company to the interim dividend. No transfer of shares may be registered during the said period. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong no later than 4:30 p.m. on 4 September 2017, Monday.

CORPORATE GOVERNANCE

The Company has established and will continue to optimise 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 six months ended 30 June 2017, 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 Listing Rules, except for the deviation from the Code Provisions A.6.7, D.1.4, E.1.2 and F.1.1. The reason for the deviation from the Code Provision F.1.1 remains the same as that stated in the Company’s 2016 annual report.

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Due to other pre-arranged business commitments which must be attended to by each of them, Mr. HUANG Xubin, Mr. Abulikemu ABULIMITI and Mr. LIU Hong, being non-executive directors of the Company and Professor SO Wai Man Raymond, being an independent non-executive director of the Company, were not present at the annual general meeting of the Company (“AGM”) and the extraordinary general meeting of the Company (“EGM”) held on 23 May 2017.

However, Mr. Albert Thomas DA ROSA, Junior, being a non-executive director of the Company and Mr. Robert Maarten WESTERHOF, Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang, being independent non-executive directors of the Company, were present at the AGM and EGM to ensure an effective communication with the shareholders thereat.

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 its directors (except for Mr. YAN Xiaolin, Ms. XU Fang, Mr. Abulikemu ABULIMITI, Mr. LIU Hong, Professor SO Wai Man Raymond, Professor WANG Yijiang and Mr. Winston Shao-min CHENG who has been resigned with effect from 7 April 2017) 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 the 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 (“Articles”), 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 by him, Mr. LI Dongsheng, the Chairman of the Board, was not present at the AGM. However, as mentioned above, a non-executive director and three independent non-executive directors of the Company were present at the AGM. Moreover, Ms. XU Fang, an executive director of the Company, was present at the AGM and was elected chairman thereof pursuant to the Articles to ensure an effective communication with the shareholders thereat.

Due to other pre-arranged business commitments which must be attended to by each of them, Professor SO Wai Man Raymond, the chairman of the Audit Committee of the Company and Mr. BO Lianming, the chairman of the strategy executive committee (“Strategy Executive Committee”) were not present at the AGM. However, two members of the Audit Committee, Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang and a member of the Strategy Executive Committee, Ms. XU Fang were present at the AGM to ensure an effective communication with the shareholders thereat.

Due to other pre-arranged business commitments which must be attended to by him, Professor SO Wai Man Raymond, a member of the independent board committee of the Company (“Independent Board Committee”) was not present at the EGM for approving continuing connected transactions and major transactions as stated in the circular of the Company dated 19 April 2017. However, all of the other members of the said Independent Board Committee, Dr. TSENG Shieng-chang Carter (who is also the chairman of the said Independent Board Committee), Mr. Robert Maarten WESTERHOF and Professor WANG Yijiang were present at the EGM and available to answer questions from the shareholders thereat.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group’s unaudited financial statements for the six months ended 30 June 2017, including the accounting principles adopted by the Group, with the Company’s management. The Audit Committee comprises four members including Professor SO Wai Man Raymond (Chairman), Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang, all being independent non-executive directors of the Company, and Mr. HUANG Xubin, 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 period.

DISCONTINUATION OF PUBLICATION OF QUARTERLY RESULTS

The Board further announces that the Company will discontinue the announcement and publication of the quarterly financial results for the first three-month and nine-month periods of each financial year for the Group starting from the third quarter of 2017. From business operation point of view, the period of three months for announcement of results by quarterly is too short to reflect the business cycle and production cycle of the Group. In the past years, quarterly announcement of results created troublesome situations to our shareholders with frequent results alerts when business performance fluctuated or sometimes went in opposite direction from quarter to quarter. These situations may be due to changes in macroeconomic environment, government policies and industry environment, to which it may take time for the Group to respond. In addition, discontinuation of publication of quarterly results can also reduce the workload arising out of this voluntary disclosure of information and the legal costs and administrative expenses of the Group in connection therewith, so that more time and resources can be placed in works relating to corporate management and investors relationships.

The Company will continue to announce and publish its interim and annual results and reports in accordance with the requirements of the Listing Rules.

The Company will also continue to engage in timely and active communications with and provide access to its shareholders and potential investors. Business updates press release of the Group will be uploaded after the end of each quarter of each financial year on a voluntary basis in order to provide its shareholders and potential investors certain level of transparency of the business information of the Group during the relevant period. The Board believes that the discontinuation of quarterly results will not compromise or prejudice the interests of the Company's shareholders and potential investors.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 27 July 2017

As at the date of this announcement, the Board comprises LI Dongsheng, BO Lianming, YAN Xiaolin and XU Fang as executive directors, Albert Thomas DA ROSA, Junior, HUANG Xubin, Abulikemu ABULIMITI and LIU Hong as non-executive directors and Robert Maarten WESTERHOF, TSENG Shieng-chang Carter, SO Wai Man Raymond and WANG Yijiang as independent non-executive directors.