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## TCL ELECTRONICS HOLDINGS LIMITED

### TCL 電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

## RESULTS ANNOUNCEMENT FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2020

The board (the “Board”) of directors (“Directors” and each a “Director”) of TCL Electronics Holdings Limited (the “Company” or “TCL Electronics”) is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the “Group” or “we”, and their grammatical derivatives shall be construed accordingly) for the three months and nine months ended 30 September 2020 with comparative figures for the corresponding periods of the preceding financial year.

Financial Highlights	Three months ended				Q-o-Q Change	Nine months ended		Y-o-Y Change
	30 September 2020 (unaudited) HK\$ Million	30 September 2019 (unaudited) HK\$ Million (restated)	Y-o-Y Change	30 June 2020 (unaudited) HK\$ Million (restated)		30 September 2020 (unaudited) HK\$ Million	30 September 2019 (unaudited) HK\$ Million (restated)	
<b>CONTINUING OPERATIONS</b>								
Revenue	14,683	8,314	76.6%	10,203	43.9%	31,833	26,102	22.0%
Gross profit	2,824	1,814	55.7%	2,137	32.1%	6,355	5,214	21.9%
Profit for the period from continuing operations	347	36	863.9%	482	(28.0%)	867	1,337	(35.2%)
Profit for the period from continuing operations after deducting one-off non-operating items	370	36	927.8%	467	(20.8%)	876	529	65.6%
<b>Profit attributable to owners of the parent</b>								
– For the period (including discontinued operations)	2,096	144	1,355.6%	431	386.3%	2,632	1,506	74.8%
– From continuing operations	336	32	950.0%	436	(22.9%)	803	1,326	(39.4%)
<b>Profit attributable to owners of the parent after deducting one-off non-operating items</b>								
– For the period (including discontinued operations)	398	144	176.4%	417	(4.6%)	920	697	32.0%
– From continuing operations	359	32	1,021.9%	421	(14.7%)	811	518	56.6%

Notes:

- The data of 2019 included a one-off gain of HK\$787 million on the fair value remeasurement of 44.44% equity interest of Shenzhen Falcon Network Technology Co., Ltd.\*(深圳市雷鳥網絡科技有限公司) (“Falcon Network Technology”) and its subsidiaries (collectively, “Falcon Network Technology Group”).
- Discontinued operations mainly refer to the television (“TV”) original design manufacture (“ODM”) business, disposal of which had been completed on 31 August 2020.
- Profit for the period from continuing operations after deducting one-off non-operating items and profit attributable to owners of the parent after deducting one-off non-operating items excluded the one-off provisional gain on disposal of the TV ODM business which had been completed on 31 August 2020.

## BUSINESS REVIEW AND PROSPECTS

### 1. *Overview*

2020 is an extraordinary year with drastic shifts in lifestyle and consumption habits, due to the global coronavirus disease 2019 (“COVID-19”) pandemic, and greater missions for smart products and technology endowed by the era. The reshuffling in the upstream panel competition, which has further increased the industry concentration, and the rapid development of 5G and artificial intelligence (“AI”) technology are leading the TV industry into the era of smart display. TCL Electronics, as the brand driving force for the whole TCL display industrial chain, continues to focus on smart display, vigorously promotes the “AI x IoT” strategy and strives to create an all-scenario smart display ecosystem including smart home, mobile services and smart commercial displays. Through further developing the sector of household large-screen Internet services and exploring more Internet scenarios, we endeavour to become a global leading smart technology company.

In the third quarter of 2020, despite the slow global economic recovery and unpredictable market environment, our global smart TV and Internet businesses still achieved praiseworthy results.

In the third quarter of 2020, the sales volume of TCL brand TV reached 7.24 million sets, with a year-on-year growth of 49.7% and a quarter-on-quarter growth of 24.7%. According to the latest report of Sigmaintell<sup>1</sup>, the market share by sales volume of TCL brand TV in the third quarter of 2020 increased by 2.7 percentage points year-on-year from 8.6% in the third quarter of 2019 to 11.3% in the third quarter of 2020, firmly ranking among the top three in the world. According to the latest reports of GfK<sup>2</sup> and NPD<sup>3</sup>, for the first three quarters of 2020, our overseas market share by sales volume increased by 1.0 percentage points year-on-year, with our TV sales volume ranking among the top five in 19 key countries worldwide. In the People’s Republic of China (“PRC”) market, according to the latest report of CMM<sup>4</sup>, market share of TCL brand TV in terms of sales revenue in the third quarter of 2020 increased by 2.3 percentage points year-on-year to 13.4%, with the ranking rose from No.3 in the corresponding period of last year to No.2 in the third quarter of 2020.

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<sup>1</sup> Sigmaintell refers to Sigmaintell Consulting Co., Ltd., a Beijing-based research and consulting company focusing on worldwide display and integrated circuit market

<sup>2</sup> GfK refers to Gesellschaft für Konsumforschung, a research company analysing consumer markets, and a global market research organisation with headquarters in Nuremberg, Germany

<sup>3</sup> NPD refers to the NPD Group, Inc., a market research company that offers data, industry expertise, and prescriptive analytics globally

<sup>4</sup> CMM refers to China Monitor Market Co., Ltd., a Chinese institution that focuses on retail market research of consumer goods and home appliances in the PRC

In the third quarter of 2020, revenue from continuing operations reached HK\$14,683 million, up by 76.6% year-on-year and 43.9% quarter-on-quarter. In the first three quarters of 2020, revenue from continuing operations reached HK\$31,833 million, representing an increase of 22.0% year-on-year. In the third quarter of 2020, the gross profit reached HK\$2,824 million, with a year-on-year growth of 55.7% and a quarter-on-quarter growth of 32.1%. Of which, the gross profit margin of TCL brand TV business in overseas markets reached 17.3% in the third quarter of 2020, up by 1.3 percentage points year-on-year and 0.3 percentage points quarter-on-quarter; the gross profit margin of TCL brand TV business in the PRC market reached 22.7% in the third quarter of 2020, down by 1.6 percentage points year-on-year and decreased by 2.0 percentage points quarter-on-quarter. In the first three quarters of 2020, the cumulative gross profit reached HK\$6,355 million, up by 21.9% year-on-year; and the gross profit margin for the same period was 20.0%, remained flat compared to the corresponding period of last year.

While expanding our smart hardware and Internet business globally, the Group continued to strengthen its product competitiveness, and actively optimised sales channels, reduced costs and increased efficiency. In the third quarter of 2020, the expense ratio was 16.2%, with a year-on-year decrease of 2.2 percentage points; the expense ratio in the first three quarters was 15.8%, down by 0.4 percentage points year-on-year. In the third quarter of 2020, the profit attributable to owners of the parent from continuing operations after deducting one-off non-operating items reached HK\$359 million, representing a quarter-on-quarter decrease of 14.7% and a year-on-year increase of 1,021.9%. The year-on-year growth was mainly due to the worries in 2019 about the potential impact of China-United States of America (“United States” or “U.S.”) trade frictions on the business for the whole year, our overseas customers stocked up goods in advance in the first half of 2019, resulting in significantly lower profits in the third quarter of last year than other quarters, and our profitability recovered to the normal level in the fourth quarter of 2019. Benefitting from economic recovery after the pandemic eased, and in line with normal seasonal fluctuation, our business performance rebounded significantly in the third quarter of 2020, which as a result led to a significant year-on-year growth. In the first three quarters of 2020, the profit attributable to owners of the parent from continuing operations after deducting one-off non-operating items amounted to HK\$811 million, with a year-on-year growth of 56.6%. The growth was mainly due to the significant year-on-year increase of the profit attributable to owners of the parent from continuing operations after deducting one-off non-operating items in the third quarter of 2020 (whereas the base, being the corresponding figures in the third quarter of last year was relatively low).

We continued to invest in “AI x IoT” technology research and development (“R&D”), focusing on the R&D in AI, IoT and cloud services, intelligent interaction, Android TV system, Internet applications as well as the innovative application of products. At present, our Eagle Laboratory consists of four technological centres worldwide, with over 200 employees for big data and cloud platform, and more than 400 employees for AI algorithm, aiming to become the core provider of the Group’s “data service” + “smart scenarios”. The Group continuously enhanced its R&D capability and its R&D expenditure amounted to HK\$390 million in the third quarter of 2020, recording an increase of 61.2% year-on-year. In the first three quarters of 2020, the cumulative amount of R&D expenditure reached HK\$898 million, with a year-on-year growth of 51.2%.

We continued to focus on the design, R&D and advanced manufacturing of the next-generation smart TV, especially in the fields of display technology, AI and intelligent interaction, aiming to bring better experience to users and gradually increase the penetration rate of smart TV used in home application. On 18 August 2020, we launched the world’s first 5G+8K smart screen, namely the 8K Mini LED 75X10 (5G version) smart screen and 8K QLED 85X9 (5G version) smart screen. Equipped with IMAX cinema system and pop-up camera, this series of products can quickly play 8K videos with one click, and is also equipped with the pioneer 5G dial-up video calling direct connection function, expanding home service scenarios such as video calling, cloud gaming, bodybuilding with AI assistance and online medical service, so as to provide more social entertainment services to users. In terms of image quality, it adopted 8K QLED primary color quantum dot screen, equipped with multi-partition optical engine, and employed “integrated one-stop 8K solution” to bring exquisite and realistic visual experience for users. Acoustically, the TV featured an ONKYO professional home theater soundbar, which supported Q-acoustic quality engine, Dolby stereo effect, and an immersive audiovisual scene for users. In the third quarter of 2020, our QLED TV C815 series and RAY•DANZ soundbar won two Expert Imaging and Sound Association (“EISA”) awards namely “Best TV in 2020-2021” and “Best Sound Bar in 2020-2021”, respectively.

At the same time, as a leader in the industry, we continued to lead the trend of large-screen, high-tech and Internet-oriented smart TV globally. In the third quarter of 2020, the average size of overall TCL brand TV sold increased by 0.5 inch from 45.0 inches in the corresponding period of last year to 45.5 inches. Sales volume of 65-inch and above super-large screen TV increased by 62.3% year-on-year; the proportion of 4K TV sales volume increased by 4.1 percentage points from 50.7% in the corresponding period of last year to 54.8% in the third quarter of 2020, and the proportion of smart TV by sales volume increased by 10.3 percentage points from 81.1% in the corresponding period of last year to 91.4% in the third quarter of 2020.

We continuously expanded our home Internet business around the world, providing users with all-scenario products and services for a smart life. By the end of September 2020, with the continuous access of domestic IoT smart TV devices, the monthly active users of our domestic Internet platform Falcon Network Technology Group increased by 21.3% year-on-year to 17.4 million, and the average daily time spent on TV per user increased by 9.6% year-on-year to 5.84 hours. Average revenue per user (“ARPU”) for the first three quarters of 2020 reached HK\$33.8, up by 36.5% year-on-year. At the same time, we continued to work with Internet giants such as Roku, Google and Netflix to expand our global home Internet business. In July 2020, we expanded our partnership with Roku from the U.S. to the global market for the first time, and planned to expand in the United Kingdom (“U.K.”) and Brazil markets next year. In addition, our content integration application, TCL Channel, is planning to launch on TCL brand Roku TV and Android TV in the United States. By the third quarter of 2020, TCL Channel had been newly launched in Italy, Spain, Ukraine and Australia, covering twelve key countries in total. With user experience as the core, we are committed to providing users with various experience of smart TV operating system, as well as enriched Internet value-added services in each key market. In the first three quarters of 2020, our global Internet business revenue reached HK\$779 million, up by 100.4% year-on-year. In the first three quarters of 2020, operating profit of the global Internet business reached HK\$333 million, up by 169.7% year-on-year.

On 28 July 2020, approved by the majority votes of the shareholders in the extraordinary general meeting, TCL Electronics disposed its TV ODM business, and incorporated the global business of TCL Communication Technology Holdings Limited (“TCL Communication”) and its subsidiaries (collectively, “TCL Communication Group”) (i.e. the mobile phones and other smart consumer electronics products related businesses of the Group, “mobile phones and other smart consumer electronics products”). The related business has been consolidated since September 2020. In September 2020, the sales volumes of TCL brand smartphones, smart tablets, routers and other smart connection products increased by 22.3%, 20.7% and 144.7% year-on-year, respectively. Revenue related to mobile phones and other consumer electronics products reached HK\$1,207 million in September 2020, up by 16.6% year-on-year. In the future, we will further integrate mobile phones and other consumer electronics products related businesses, build an all-scenario smart display ecosystem centered on the three scenarios of smart home, mobile services and smart commercial displays, and accelerate the development of “AI x IoT” strategy of the Group.

## 2. **TCL Brand TV**

### *Overseas Markets*

In the third quarter of 2020, sales revenue of TCL brand TV in overseas reached HK\$8,485 million, up by 71.5% year-on-year and 40.2% quarter-on-quarter; the gross profit reached HK\$1,470 million, up by 85.9% year-on-year and 43.1% quarter-on-quarter; and the gross profit margin was 17.3%, up by 1.3 percentage points year-on-year and 0.3 percentage points quarter-on-quarter. In the third quarter of 2020, the operating profit margin of TCL brand TV business in overseas markets increased by 1.6 percentage points year-on-year.

In the first three quarters of 2020, sales revenue of TCL brand TV in overseas reached HK\$18,807 million, up by 19.7% year-on-year; the cumulative gross profit reached HK\$3,256 million, up by 34.6% year-on-year; and the gross profit margin was 17.3%, up by 1.9 percentage points year-on-year. In the first three quarters of 2020, the operating profit margin of TCL brand TV business in overseas markets increased by 0.3 percentage points year-on-year.

In the third quarter of 2020, sales volume of TCL brand TV in overseas markets reached 5.52 million sets, increased by 81.3% year-on-year and 31.4% quarter-on-quarter. In the first three quarters of 2020, sales volume of TCL brand TV in overseas markets reached 12.83 million sets, up by 26.8% year-on-year. The growth was mainly driven by our brand power, product competitiveness, advantage of global supply chain, as well as the Group's rapid response and deployment to adjust business structure in the changing market landscape.

According to the latest reports of GfK and NPD, for the first three quarters of 2020, market share of TCL brand TV in terms of sales volume in overseas markets rose by 1.0 percentage points year-on-year, ranking among the top in 19 countries with its market shares increased year-on-year:

- North American Markets: The sales volume increased by 24.8% year-on-year in the first three quarters of 2020. The market share by sales volume of TCL brand TV for the nine months ended 30 September 2020 ranked No.2 in the U.S., and jumped to No.3 and No.4 in Canada and Mexico, respectively (Data source: NPD<sup>5</sup>);
- Emerging Markets: In the first three quarters of 2020, the sales volume increased by 15.5% year-on-year. For the nine months ended 30 September 2020, the market share by sales volume of TCL brand TV jumped to No.1 in Pakistan, No.2 in Australia and the Philippines, No.3 in Morocco, and No.4 in Brazil, Thailand and Vietnam (Source: GfK); and

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<sup>5</sup> This report refers to NPD's U.S./Canada/Mexico retail market research report, based on the liquid crystal display (LCD) TV sales volumes during January to September of 2020 and during January to September of 2019

- **European Markets:** In the first three quarters of 2020, the sales volume increased by 96.3% year-on-year. For the nine months ended 30 September 2020, the market share by sales volume of TCL brand TV ranked No.3 in France, and recorded year-on-year growth in Germany, Poland, Italy and the U.K. (source: GfK).

### *The PRC Market*

In the third quarter of 2020, sales revenue of TCL brand TV in the PRC market reached HK\$3,436 million, up by 20.9% year-on-year and 38.5% quarter-on-quarter; the gross profit reached HK\$778 million, up by 12.7% year-on-year and 26.8% quarter-on-quarter. In the first three quarters of 2020, our brand TV business revenue reached HK\$7,782 million and the gross profit was HK\$1,810 million.

In the third quarter of 2020, sales volume of TCL brand TV in the PRC market reached 1.72 million sets, down by 3.9% year-on-year and grew by 7.2% quarter-on-quarter. In the first three quarters of 2020, the sales volume of TCL brand TV in the PRC market reached 4.49 million sets. During the pandemic, we actively seized the trend of consumption change, strengthened the layout of online channels, and vigorously increased the proportion of sales through online channels by carrying out live broadcasts. In the first three quarters of 2020, the online channel sales volume of our brand TV reached 2.12 million sets, with a year-on-year growth of 9.9%. The proportion of online sales volume accounted for 47.3%, up significantly from 38.4% in the same period of last year.

According to CMM's omni-channel data, the overall sales volume of TV industry in the PRC market fell by 11.2% year-on-year in the first three quarters of 2020, and dropped by 8.9% year-on-year in the third quarter. Nonetheless, TCL Electronics recorded growth against the downward trend, and our market share by sales volume in the PRC market increased from 10.5% in the third quarter of 2019 to 13.6% in the third quarter of 2020, with our ranking rising from No.4 to No.3; the market share by sales revenue increased from 11.1% in the third quarter of 2019 to 13.4% in the third quarter of 2020, with our ranking rising from No.3 to No.2.

### 3. *Internet Services*

#### *The PRC Market*

In the third quarter of 2020, revenue from the domestic Internet business (mainly relevant business of Falcon Network Technology Group) reached HK\$176 million, up by 80.9% year-on-year. In the first three quarters of 2020, cumulative revenue from the Internet business reached HK\$573 million, significantly increased by 148.4% year-on-year. The growth was partially because Falcon Network Technology Group has only been consolidated into the Group since April 2019. In addition, Falcon Network Technology Group continuously strengthened its operational capacity. In the first three quarters of 2020, its revenue from membership business, value-added business and advertising business rose by 78.4%, 167.6% and 3.8% year-on-year, respectively. ARPU of Falcon Network Technology Group reached HK\$33.8 in the first three quarters of 2020, surging by 36.5% year-on-year. In the first three quarters of 2020, operating profit from the domestic Internet business reached HK\$176 million, up by 173.1% year-on-year.

Falcon Network Technology Group focused on optimising user experience and continued to strengthen product competitiveness. Its user loyalty continued to enhance and membership penetration rate continued to improve. The number of existing subscribers in September 2020 increased by 42.2% year-on-year. As of 30 September 2020, the number of monthly active users of Falcon Network Technology Group reached 17 million, up by 21.3% year-on-year, the average daily time spent on TV per user for the first three quarters of 2020 increased by 9.6% year-on-year to 5.84 hours.

In addition to in-depth cooperation with major long-video platforms, Falcon Network Technology has also begun to thoroughly tap into influential industry partners in vertical content, such as short-video giants ByteDance and Kuaishou Technology, with its short-video viewing time continuously increasing.

#### *Overseas Markets*

In the third quarter of 2020, revenue from overseas Internet business reached HK\$81 million, up by 32.3% year-on-year. In the first three quarters of 2020, the cumulative revenue reached HK\$206 million, recording a year-on-year increase of 30.3%. In the first three quarters of 2020, operating profit from the overseas Internet business reached HK\$156 million, up by 166.0% year-on-year.

In the third quarter of 2020, we continued to deepen cooperation with Internet giants globally, resulting in the increasing coverage and influence of our overseas Internet business. The way of mass entertainment has changed under the influence of the pandemic, which has created new consumer demands. Meanwhile, our partnership with Roku has expanded from the United States to worldwide since July 2020. In addition, we have worked closer together with Netflix in overseas markets around the globe.

Moreover, we continued to actively promote TCL Channel overseas, providing overseas users with rich local content resources. In the third quarter of 2020, TCL Channel has been newly launched in four key countries namely Italy, Spain, Ukraine and Australia. Together with the previous launch of TCL Channel in eight key countries namely Vietnam, India, Japan, Brazil, Russia, Thailand, France and Germany, TCL Channel had altogether covered twelve countries as of the end of September 2020. The Group will promote the launch of TCL Channel in more countries in the future.

**4. *Mobile Phones and Services (consolidated since September 2020)***

In September 2020, revenue from the mobile phones and services business reached HK\$898 million, recording a year-on-year increase of 8.0%, of which revenue from TCL brand smartphones increased by 215.5% year-on-year. In September 2020, sales volume of TCL brand smartphones increased by 22.3% year-on-year.

From the prospective of key markets around the world, in the third quarter of 2020, sales volume of our mobile phones ranked No.5 in the U.S., No.6 in Australia and Europe, and No.7 in Latin America.

**5. *Other Smart Consumer Electronics Products (consolidated since September 2020)***

In September 2020, revenue of smart tablets reached HK\$149 million, recording a year-on-year increase of 25.4% with its sales volume increased by 20.7% year-on-year.

In the third quarter of 2020, the sales volume of our smart tablets ranked No.4 in the U.S., No.5 in Europe, and No.7 in Latin America.

In September 2020, the revenue from routers and other smart connection products reached HK\$119 million, recording a year-on-year increase of 115.5% with its sales volume increased by 144.7% year-on-year.

## 6. *Outlook*

The COVID-19 pandemic has brought unprecedented changes to the global economy in 2020. The economic growth rate in the PRC in the first three quarters of 2020 turned from negative to positive. Under the new development pattern, in which domestic economic cycle plays a leading role with supplement from international economic cycle, in the third quarter of 2020, the Group, as a global enterprise, continued the advantages we achieved in the first half of the year. We continuously optimised product mix and sales channels, increased the Group's global market share and brand popularity, and continued to achieve breakthroughs in various businesses. In the fourth quarter of 2020, with the uncertainty of overseas pandemic, the China-U.S. relationship as well as the complex change in international political landscape, together with the supply and cost pressure resulting from the increasing upstream panel price, challenges and opportunities will co-exist. We will continuously endeavor to achieve our operation target of stable growth with double digits increase in both revenue and profit of the full year by prioritising smart display, which will be technically driven by 5G and "AI x IoT":

- increase R&D investment to further develop industry-leading high-end display technologies namely quantum dot, Mini LED and 8K, and continue to consolidate the core competitiveness of the Group in technological areas including AI, Internet-based big data, 5G, smart manufacturing, smart interaction and smart display;
- leverage our distinctive advantage of vertically integrated industrial chain to further increase our market share in both domestic and overseas TV markets to a global leading position;
- continue to increase the market share of our domestic Internet business, seek new source of growth and enhance ARPU in the domestic market. We will also expand the scope of business and geographical coverage with global partners for overseas Internet business and enlarge the user base for operation with our partners, thus enhancing our capability of generating profits; and
- seize the business opportunity of the 5G era to propel product and application upgrades. We will step up the development of three major smart scenarios namely smart home, mobile services and smart commercial displays to offer users smart living services across "All Scenarios, All Categories and Inter-connectivity", and further implement the all-scenario smart and healthy living strategy of "AI x IoT".

Looking into the future, the accelerated development of 5G technology will push forward the display industry to upgrade in an all-round smart way. With “Smart Screens Interconnect Everything and Lead to the Future” as the core, we will build on our advanced display technology, continue to promote intelligentisation, globalisation, R&D, product innovation, and digital transformation, while seeking to increase the revenue from our Internet value-added services. Confident and determined as ever, we will endeavour to become a global leader in providing users around the world with the best products and services that enable multi-screen timely interactions and all-scenario smart sensing, and bring long-term sustainable growth and returns to our shareholders.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Comparison between the Third Quarter of 2020 and the Third Quarter of 2019

The table below lists and compares the figures of the third quarter of 2020 and the third quarter of 2019:

	<b>Three months ended</b>	
	<b>30 September</b>	30 September
	<b>2020</b>	2019
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
		<i>(restated)</i>
<b>CONTINUING OPERATIONS</b>		
REVENUE	<b>14,683,403</b>	8,313,689
Cost of sales	<b>(11,859,198)</b>	(6,500,014)
Gross profit	<b>2,824,205</b>	1,813,675
Other revenue and gains	<b>361,452</b>	113,520
Selling and distribution expenses	<b>(1,716,747)</b>	(1,245,932)
Administrative expenses	<b>(664,708)</b>	(281,072)
Research and development costs	<b>(389,869)</b>	(241,816)
Other operating expenses	<b>(26,282)</b>	(1,870)
Impairment losses on financial assets, net	<b>(5,323)</b>	(9,365)
Finance costs	<b>382,728</b>	147,140
	<b>(57,448)</b>	(28,258)
Share of profits and losses of:		
– Joint ventures	<b>11,673</b>	926
– Associates	<b>15,492</b>	(34,010)
Profit before tax from continuing operations	<b>352,445</b>	85,798
Income tax	<b>(5,480)</b>	(49,858)
Profit for the period from continuing operations	<b>346,965</b>	35,940
Profit for the period from discontinued operations	<b>1,760,109</b>	111,350
Profit for the period	<b>2,107,074</b>	147,290
<b>Profit attributable to owners of the parent</b>		
– For the period (including discontinued operations)	<b>2,095,785</b>	143,519
– From continuing operations	<b>335,676</b>	32,169
<b>Profit attributable to owners of the parent after deducting one-off non-operating items</b>		
– For the period (including discontinued operations)	<b>398,407*</b>	143,519
– From continuing operations	<b>358,615</b>	32,169

\* Excluded the one-off provisional gain on disposal of TV ODM business which had been completed on 31 August 2020.

## Revenue

The Group's revenue from continuing operations increased by 76.6% year-on-year from HK\$8,314 million in the third quarter of 2019 to HK\$14,683 million in the third quarter of 2020. The table below illustrates our revenue by business for the three months ended 30 September 2020 and 30 September 2019:

	Three months ended		30 September 2019	
	30 September 2020 (unaudited)	Proportion in the total revenue	30 September 2019 (unaudited)	Proportion in the total revenue
	HK\$'000		HK\$'000 (restated)	
TCL brand TV business				
– Overseas	8,484,884	57.8%	4,948,681	59.5%
– the PRC	3,435,980	23.4%	2,843,116	34.2%
Internet services				
– the PRC	176,431	1.2%	97,506	1.2%
– Overseas	81,442	0.6%	61,568	0.7%
Mobile phones and other consumer electronics products*	1,208,375	8.2%	N/A	N/A
Others <sup>#</sup>	1,296,291	8.8%	362,818	4.4%
Total revenue	<u>14,683,403</u>	<u>100.0%</u>	<u>8,313,689</u>	<u>100.0%</u>

\* Other consumer electronics products mainly include tablets, routers and other smart connection products, and the revenue only includes the revenue of TCL Communication Group after consolidation into the Group's financial statements since September 2020

# Others mainly comprise revenue from smart home, smart commercial display and smart audio-visual ("smart AV") businesses

## TV Business

### Overseas

Revenue of TCL brand TV in overseas markets increased by 71.5% year-on-year from HK\$4,949 million in the third quarter of 2019 to HK\$8,485 million in the third quarter of 2020. In terms of sales volume, it increased by 81.3% year-on-year from 3.05 million sets in the third quarter of 2019 to 5.52 million sets in the third quarter of 2020.

The growth of revenue and sales volume was mainly powered by the Group's enhanced product competitiveness, improvement of product structure and global industrial chain layout, as well as the Group's active response to the pandemic by swiftly adjusting market strategies and supply capacity.

### *The PRC*

Revenue of TCL brand TV in the PRC market increased by 20.9% year-on-year from HK\$2,843 million in the third quarter of 2019 to HK\$3,436 million in the third quarter of 2020. The growth was mainly powered by higher average selling price of products, as well as the Group's active adjustment of product mix and hence higher proportion of high-end products. In the third quarter of 2020, 1.72 million sets of TV were sold by the Group, with a year-on-year drop of 3.9%, among which online sales volume increased by 3.9% year-on-year and offline sales volume decreased by 9.1% year-on-year.

### ***Internet Services***

#### *The PRC*

In the third quarter of 2020, the Group's revenue from the domestic Internet business (mainly relevant business of Falcon Network Technology Group) rose by 80.9% year-on-year from HK\$98 million in the third quarter of 2019 to HK\$176 million in the third quarter of 2020. Among which, the revenue from membership business, value-added business and advertising business of Falcon Network Technology Group rose by 82.3%, 300.0% and 9.2% year-on-year, respectively.

#### *Overseas*

In the third quarter of 2020, the Group's revenue from overseas Internet business increased by 32.3% year-on-year from HK\$62 million in the third quarter of 2019 to HK\$81 million in the third quarter of 2020.

### **Gross Profit and Gross Profit Margin**

Owing to revenue growth, the overall gross profit in the third quarter of 2020 was HK\$2,824 million, up by 55.7% year-on-year from HK\$1,814 million in the third quarter of 2019. The gross profit margin was 19.2% in the third quarter of 2020, recording a year-on-year drop of 2.6 percentage points compared with that of last year, mainly due to rising panel price, adjustment of regional structure and higher proportion of overseas business.

### ***TV Business***

#### *Overseas*

The gross profit margin of the TCL brand TV in overseas markets increased by 1.3 percentage points year-on-year from 16.0% in the third quarter of 2019 to 17.3% in the third quarter of 2020. The increase was mainly attributable to the optimisation of product mix and channel structure. In the third quarter of 2020, the sales volume proportion of smart TV in the overseas markets increased by 8.9 percentage points year-on-year to 92.5%, the sales volume proportion of 4K TV sets went up by 5.4 percentage points year-on-year to 53.0%, and the sales volume proportion of quantum dot TV grew to 4.8%.

### *The PRC*

The gross profit margin of TCL brand TV in the PRC market decreased by 1.6 percentage points year-on-year from 24.3% in the third quarter of 2019 to 22.7% in the third quarter of 2020, mainly resulting from the higher costs brought by rising panel price.

### **Other Revenue and Gains**

Other revenue and gains increased by 218.4% year-on-year from HK\$114 million in the third quarter of 2019 to HK\$361 million in the third quarter of 2020, mainly due to the increase in return on investment in trading financial assets, software value-added tax refund and interest income.

### **Selling and Distribution Expenses**

The selling and distribution expenses grew by 37.8% year-on-year from HK\$1,246 million in the third quarter of 2019 to HK\$1,717 million in the third quarter of 2020. The growth was mainly driven by the consolidation of the Brazilian subsidiary SEMP TCL Indústria e Comércio de Eletroeletrônicos S.A. (“SEMP TCL”) and TCL Communication, as well as the rising transportation expenses and warehousing costs resulted from the growing sales volume, and the Group’s increased investment in branding and market expansion.

### **Administrative Expenses**

The administrative expenses increased by 136.5% year-on-year from HK\$281 million in the third quarter of 2019 to HK\$665 million in the third quarter of 2020. The increase was mainly due to the consolidation of SEMP TCL and TCL Communication, as well as the exchange differences. Meanwhile, in order to build and enhance its future capabilities, the Group increased one-off investments in consultation related to business process, IT system, finance and taxation, etc., leading to increased fees in employing consultants and other related agencies.

### **Research and Development Costs**

The research and development costs grew by 61.2% year-on-year from HK\$242 million in the third quarter of 2019 to HK\$390 million in the third quarter of 2020. The growth was mainly attributable to the Group’s increased investment in 8K, Mini LED, quantum dot, AI x IoT, Android TV system and other frontier technologies for its long-term development.

### **Impairment Losses on Financial Assets, Net**

The net impairment losses on financial assets decreased by 43.2% year-on-year from HK\$9 million in the third quarter of 2019 to HK\$5 million in the third quarter of 2020. The decrease was mainly because the Group strengthened its credit management.

### **Finance Costs**

The finance costs increased by 103.3% year-on-year from HK\$28 million in the third quarter of 2019 to HK\$57 million in the third quarter of 2020. The increase was mainly because of the newly added loans and the consolidation of SEMP TCL and TCL Communication.

### **Share of Profits and Losses**

The share of profits from joint ventures and associates in the third quarter of 2020 was HK\$27 million, while the share of losses from joint ventures and associates in the third quarter of 2019 was HK\$33 million. The change was mainly caused by the consolidation of SEMP TCL since July 2020 and lesser loss has been shared since then.

### **Profit before Tax from Continuing Operations**

The profit before tax from continuing operations surged by 310.8% year-on-year from HK\$86 million in the third quarter of 2019 to HK\$352 million in the third quarter of 2020, the growth was mainly attributable to the rise of profits driven by revenue growth.

### **Income Tax**

The income tax reduced by 89.0% year-on-year from HK\$50 million in the third quarter of 2019 to HK\$5 million in the third quarter of 2020, mainly due to the timing difference in taxation seasons among subsidiaries of the Group and the recognition of deferred tax assets.

### **Profit for the Period and Profit Attributable to Owners of the Parent from Continuing Operations**

The profit for the period from continuing operations soared by 863.9% year-on-year from HK\$36 million in the third quarter of 2019 to HK\$347 million in the third quarter of 2020. The profit attributable to owners of the parent from continuing operations was HK\$336 million, recording a remarkable year-on-year increase of 950.0%.

## **Profit Attributable to Owners of the Parent from Continuing Operations after Deducting One-off Non-operating Items**

The profit attributable to owners of the parent from continuing operations after deducting one-off non-operating items in the third quarter of 2020 was HK\$359 million, up by 1,021.9% year-on-year. The substantial increase was mainly due to the worries in 2019 about the potential impact of China-U.S. trade frictions on the business for the whole year, our overseas customers stocked up goods in advance in the first half of 2019, resulting in significantly lower profits in the third quarter of last year than other quarters, and our profitability recovered to the normal level in the fourth quarter of 2019. Benefitting from economic recovery after the pandemic eased, and in line with normal seasonal fluctuation, in the third quarter of 2020 our business performance rebounded significantly, which as a result led to a significant year-on-year growth. The Group seized the opportunities by enhancing its product competitiveness, expanding business, seizing new growth opportunities and increasing revenue through innovative marketing model. On the other hand, the Group also improved operating efficiency through reduction of costs and expense control. All these factors contributed to the noticeable business performance of the Group in the third quarter of 2020.

## **Investments**

In June 2020, the Group announced to increase its shareholding in SEMP TCL to 80%, with a maximum investment of approximately HK\$485 million. The completion of the transaction took place on 20 July 2020 (São Paulo time).

The Group disposed its entire 100% equity interest of Moka International Limited (“Moka International”), which mainly engages in the ODM business for TVs to T.C.L. Industries Holdings (H.K.) Limited (“T.C.L. Industries (H.K.)”, the immediate holding company of the Company) for RMB2,500 million. At the same time, the Group acquired 100% equity interest of TCL Communication from Zhengjia Investment Limited (“Zhengjia Investment”, a wholly-owned subsidiary of T.C.L. Industries (H.K.)), with a consideration of RMB1,500 million. These transactions were completed on 31 August 2020.

The acquisition of additional equity interest in SEMP TCL represented the Group’s efforts to further develop the Brazilian market, while acquisition of TCL Communication and disposal of Moka International represented the Group’s dedication to brand businesses and a key move to optimise the “AI x IoT” strategy. Both SEMP TCL and TCL Communication have been consolidated into the Group after the transactions were completed.

## Comparison between the Third Quarter of 2020 and the Second Quarter of 2020

The table below lists and compares the figures of the third quarter and the second quarter of 2020:

	<b>Three months ended</b>	
	<b>30 September</b>	<b>30 June</b>
	<b>2020</b>	<b>2020</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		<i>(restated)</i>
<b>CONTINUING OPERATIONS</b>		
REVENUE	<b>14,683,403</b>	10,203,005
Cost of sales	<b>(11,859,198)</b>	(8,066,422)
Gross profit	<b>2,824,205</b>	2,136,583
Other revenue and gains	<b>361,452</b>	179,368
Selling and distribution expenses	<b>(1,716,747)</b>	(1,228,257)
Administrative expenses	<b>(664,708)</b>	(152,095)
Research and development costs	<b>(389,869)</b>	(256,290)
Other operating expenses	<b>(26,282)</b>	(306)
Impairment losses on financial assets, net	<b>(5,323)</b>	(997)
	<b>382,728</b>	678,006
Finance costs	<b>(57,448)</b>	(39,253)
Share of profits and losses of:		
– Joint ventures	<b>11,673</b>	3,814
– Associates	<b>15,492</b>	(79,071)
Profit before tax from continuing operations	<b>352,445</b>	563,496
Income tax	<b>(5,480)</b>	(81,923)
Profit for the period from continuing operations	<b>346,965</b>	481,573
Profit/(loss) for the period from discontinued operations	<b>1,760,109</b>	(4,277)
Profit for the period	<b>2,107,074</b>	477,296
<b>Profit attributable to owners of the parent</b>		
– For the period (including discontinued operations)	<b>2,095,785</b>	431,244
– From continuing operations	<b>335,676</b>	435,521
<b>Profit attributable to owners of the parent after deducting one-off non-operating items</b>		
– For the period (including discontinued operations)	<b>398,407*</b>	416,992
– From continuing operations	<b>358,615</b>	421,269

\* Excluded the one-off provisional gain on disposal of TV ODM business which had been completed on 31 August 2020.

## Revenue

The Group's revenue increased by 43.9% quarter-on-quarter from HK\$10,203 million in the second quarter of 2020 to HK\$14,683 million in the third quarter of 2020. The following table illustrates the revenue by business in the third quarter of 2020 and the second quarter of 2020:

	<b>Three months ended</b>			
	<b>30 September 2020</b>		<b>30 June 2020</b>	
	<b>(unaudited)</b>		<b>(unaudited)</b>	
	<b>Proportion</b>		<b>Proportion</b>	
	<b>in the total</b>		<b>in the total</b>	
	<b>HK\$'000</b>	<b>revenue</b>	<b>HK\$'000</b>	<b>revenue</b>
			<i>(restated)</i>	
TCL brand TV business				
– Overseas	<b>8,484,884</b>	<b>57.8%</b>	6,053,196	59.3%
– the PRC	<b>3,435,980</b>	<b>23.4%</b>	2,481,664	24.3%
Internet services				
– the PRC	<b>176,431</b>	<b>1.2%</b>	249,689	2.5%
– Overseas	<b>81,442</b>	<b>0.6%</b>	116,021	1.1%
Mobile phones and other consumer electronics products*	<b>1,208,375</b>	<b>8.2%</b>	N/A	N/A
Others <sup>#</sup>	<b>1,296,291</b>	<b>8.8%</b>	1,302,435	12.8%
<b>Total revenue</b>	<b><u>14,683,403</u></b>	<b><u>100.0%</u></b>	<b><u>10,203,005</u></b>	<b><u>100.0%</u></b>

\* Other consumer electronics products mainly include tablets, routers and other smart connection products, and the revenue only includes the revenue of TCL Communication Group after consolidation into the Group's financial statements since September 2020

<sup>#</sup> Others mainly comprise revenue from smart home, smart commercial display and smart AV businesses

## TV Business

### Overseas

Revenue of TCL brand TV increased by 40.2% quarter-on-quarter from HK\$6,053 million in the second quarter of 2020 to HK\$8,485 million in the third quarter of 2020. The sales volume of TCL brand TV grew by 31.4% quarter-on-quarter from 4.20 million sets in the second quarter of 2020 to 5.52 million sets in the third quarter of 2020. The growth was attributable to the Group's earnest endeavour in product innovation, enhanced product competitiveness and brand power, which drove up the TV sales.

### *The PRC*

Revenue of TCL brand TV increased by 38.5% quarter-on-quarter from HK\$2,482 million in the second quarter of 2020 to HK\$3,436 million in the third quarter of 2020. The sales volume of TCL brand TV increased by 7.2% quarter-on-quarter from 1.60 million sets in the second quarter of 2020 to 1.72 million sets in the third quarter of 2020, and the sales volume of offline channels rose by 33.4% quarter-on-quarter. The growth was mainly attributable to the Group's tireless endeavour in innovation, enhanced product competitiveness and brand power, which drove up the TV sales.

### ***Internet Services***

#### *The PRC*

Revenue of the Internet business in the PRC (mainly relevant business of Falcon Network Technology Group) dropped by 29.3% quarter-on-quarter from HK\$250 million in the second quarter of 2020 to HK\$176 million in the third quarter of 2020. Among which, revenue from membership business, value-added business and advertising business of Falcon Network Technology Group reduced by 8.3%, 51.7% and 15.2% respectively over the previous quarter. This was mainly attributable to the fact that business performance has resumed to normal in the third quarter of 2020 owing to the effective control of the COVID-19 pandemic in the PRC.

#### *Overseas*

Revenue from overseas Internet business decreased by 29.8% quarter-on-quarter from HK\$116 million in the second quarter of 2020 to HK\$81 million in the third quarter of 2020, mainly due to the overseas Internet revenue of the first half in 2020 being recognised in the second quarter of 2020.

### **Gross Profit and Gross Profit Margin**

The overall gross profit of the Group was up by 32.1% quarter-on-quarter from HK\$2,137 million in the second quarter of 2020 to HK\$2,824 million in the third quarter of 2020. Moreover, the gross profit margin in the third quarter of 2020 dropped by 1.7 percentage points quarter-on-quarter to 19.2% when compared with that of the second quarter of 2020, which was mainly due to the higher costs in the short term following the rising panel price and adjustment of regional structure.

### ***TV Business***

#### *Overseas*

The gross profit margin of the Group's TCL brand TV in the overseas markets increased by 0.3 percentage points quarter-on-quarter from 17.0% in the second quarter of 2020 to 17.3% in the third quarter of 2020. The increase was mainly attributable to the optimisation of product mix.

### *The PRC*

The gross profit margin of the Group's TCL brand TV in the PRC market decreased by 2.0 percentage points quarter-on-quarter from 24.7% in the second quarter of 2020 to 22.7% in the third quarter of 2020, mainly resulting from the higher costs brought by rising upstream panel price.

### **Other Revenue and Gains**

Other revenue and gains increased by 101.5% quarter-on-quarter from HK\$179 million in the second quarter of 2020 to HK\$361 million in the third quarter of 2020, mainly due to the increase in return on investment in trading financial assets, software value-added tax refund and interest income.

### **Selling and Distribution Expenses**

The selling and distribution expenses grew by 39.8% quarter-on-quarter from HK\$1,228 million in the second quarter of 2020 to HK\$1,717 million in the third quarter of 2020. The growth mainly stemmed from the consolidation of SEMP TCL and TCL Communication, the rising transportation expenses and warehousing costs resulted from the growing sales volume, and the Group's increased investment in branding and market expansion.

### **Administrative Expenses**

The administrative expenses increased by 337.0% quarter-on-quarter from HK\$152 million in the second quarter of 2020 to HK\$665 million in the third quarter of 2020. The increase was mainly due to the consolidation of SEMP TCL and TCL Communication, as well as the exchange differences. Meanwhile, in order to build and enhance its future capabilities, the Group increased one-off investments in consultation related to business process, IT system, finance and taxation, etc., leading to increased fees in employing consultants and other related agencies.

### **Research and Development Costs**

The research and development costs grew by 52.1% quarter-on-quarter from HK\$256 million in the second quarter of 2020 to HK\$390 million in the third quarter of 2020. The growth was mainly attributable to the Group's enhanced competitive advantages and increased investment in R&D for its long-term market development.

### **Impairment Losses on Financial Assets, Net**

The net impairment losses on financial assets increased by 433.9% quarter-on-quarter from HK\$1 million in the second quarter of 2020 to HK\$5 million in the third quarter of 2020. This was mainly attributable to increase in trade receivables and in corresponding impairment losses on financial assets.

### **Finance Costs**

The finance costs increased by 46.4% quarter-on-quarter from HK\$39 million in the second quarter of 2020 to HK\$57 million in the third quarter of 2020. The increase was mainly because of the newly added loans and the consolidation of SEMP TCL and TCL Communication.

### **Shares of Profits and Losses**

The share of losses from joint ventures and associates in the second quarter of 2020 was HK\$75 million, while the share of profits from joint ventures and associates in the third quarter of 2020 was HK\$27 million, mainly caused by the consolidation of SEMP TCL since July 2020 and lesser loss has been shared since then.

### **Profit before Tax from Continuing Operations**

The profit before tax from continuing operations decreased by 37.5% quarter-on-quarter from HK\$563 million in the second quarter of 2020 to HK\$352 million in the third quarter of 2020. The decrease was mainly due to higher short-term costs arising from higher panel price and greater investment in branding and R&D.

### **Income Tax**

The income tax reduced by 93.3% quarter-on-quarter from HK\$82 million in the second quarter of 2020 to HK\$5 million in the third quarter of 2020, mainly due to the timing difference in taxation seasons among subsidiaries of the Group and the recognition of deferred tax assets.

### **Profit for the Period and Profit Attributable to Owners of the Parent from Continuing Operations**

In the third quarter of 2020, the profit for the period of the Group's continuing operations was HK\$347 million, decreased by 28.0% quarter-on-quarter, and the profit attributable to owners of the parent from continuing operations was HK\$336 million, recording a quarter-on-quarter decrease of 22.9%.

### **Profit Attributable to Owners of the Parent from Continuing Operations after Deducting One-off Non-operating Items**

The profit attributable to owners of the parent from continuing operations after deducting one-off non-operating items in the third quarter of 2020 was HK\$359 million, down by 14.7% quarter-on-quarter. The decrease was mainly attributable to higher short-term costs arising from higher panel price and greater investment in branding and R&D.

## Comparison between the First Three Quarters of 2020 and the First Three Quarters of 2019

The table below lists and compares the figures of the first three quarters of 2020 and the first three quarters of 2019:

	Nine months ended	
	30 September 2020 (unaudited) HK\$'000	30 September 2019 (unaudited) HK\$'000 (restated)
<b>CONTINUING OPERATIONS</b>		
REVENUE	31,833,309	26,102,456
Cost of sales	<u>(25,478,479)</u>	<u>(20,888,307)</u>
Gross profit	6,354,830	5,214,149
Other revenue and gains	826,090	1,209,659
Selling and distribution expenses	(3,835,660)	(3,425,425)
Administrative expenses	(1,190,294)	(793,648)
Research and development costs	(897,974)	(593,800)
Other operating expenses	(33,062)	(6,178)
Impairment losses on financial assets, net	<u>(8,427)</u>	<u>(26,347)</u>
	1,215,503	1,578,410
Finance costs	(140,212)	(98,786)
Share of profits and losses of:		
– Joint ventures	18,567	7,244
– Associates	<u>(90,978)</u>	<u>(19,770)</u>
Profit before tax from continuing operations	1,002,880	1,467,098
Income tax	<u>(135,630)</u>	<u>(130,485)</u>
Profit for the period from continuing operations	867,250	1,336,613
Profit for the period from discontinued operations	<u>1,828,985</u>	<u>179,229</u>
Profit for the period	<u><u>2,696,235</u></u>	<u><u>1,515,842</u></u>
<b>Profit attributable to owners of the parent</b>		
– For the period (including discontinued operations)	2,631,657	1,505,534
– From continuing operations	802,672	1,326,305
<b>Profit attributable to owners of the parent after deducting one-off non-operating items</b>		
– For the period (including discontinued operations)	919,800*	697,439
– From continuing operations	811,131	518,210

\* Excluded the one-off provisional gain on disposal of TV ODM business which had been completed on 31 August 2020.

## Revenue

The Group's revenue from continuing operations increased by 22.0% year-on-year from HK\$26,102 million in the first three quarters of 2019 to HK\$31,833 million in the first three quarters of 2020. The table below illustrates our revenue by business for the nine months ended 30 September 2020 and 30 September 2019:

	Nine months ended			
	30 September 2020 (unaudited)		30 September 2019 (unaudited)	
	<i>HK\$'000</i>	Proportion in the total revenue	<i>HK\$'000</i> <i>(restated)</i>	Proportion in the total revenue
TCL brand TV business				
– Overseas	18,807,480	59.1%	15,717,038	60.2%
– the PRC	7,781,883	24.4%	9,060,054	34.7%
Internet services				
– the PRC	573,005	1.8%	230,697	0.9%
– Overseas	205,926	0.6%	158,054	0.6%
Mobile phones and other consumer electronics products*	1,208,375	3.8%	N/A	N/A
Others <sup>#</sup>	3,256,640	10.3%	936,613	3.6%
Total revenue	<u>31,833,309</u>	<u>100.0%</u>	<u>26,102,456</u>	<u>100.0%</u>

\* Other consumer electronics products mainly include tablets, routers and other smart connection products, and the revenue only includes the revenue of TCL Communication Group after consolidation into the Group's financial statements since September 2020

<sup>#</sup> Others mainly comprise revenue from smart home, smart commercial display and smart AV businesses

## TV Business

### Overseas

Revenue of TCL brand TV in overseas markets increased by 19.7% year-on-year from HK\$15,717 million in the first three quarters of 2019 to HK\$18,807 million in the first three quarters of 2020. In terms of sales volume, it grew by 26.8% year-on-year from 10.12 million sets in the first three quarters of 2019 to 12.83 million sets in the first three quarters of 2020.

Business performance was rather impressive in overseas regions. Among them, the sales volume in North American markets increased by 24.8% year-on-year in the first three quarters of 2020; the sales volume in emerging markets for the first three quarters of 2020 recorded a year-on-year growth of 15.5%; and sales volume in European markets increased by 96.3% year-on-year in the first three quarters of 2020.

#### *The PRC*

Revenue of TCL brand TV in the PRC market decreased by 14.1% year-on-year from HK\$9,060 million in the first three quarters of 2019 to HK\$7,782 million in the first three quarters of 2020. The decline was mainly because the overall colour TV market in the PRC was impacted by the pandemic which resulted in overall decline year-on-year. In the first three quarters of 2020, 4.49 million sets of TV were sold by the Group, with a year-on-year decrease of 10.8%, of which online sales volume in the first three quarters of 2020 increased by 9.9% year-on-year, representing 47.3% of total sales volume in the PRC, versus 38.4% for the corresponding period of last year.

#### *Internet service*

##### *The PRC*

In the first three quarters of 2020, the Group's revenue from the domestic Internet business (mainly relevant business of Falcon Network Technology Group) surged by 148.4% year-on-year from HK\$231 million in the first three quarters of 2019 to HK\$573 million in the first three quarters of 2020, partially because Falcon Network Technology Group has only been consolidated into the Group since April 2019. Additionally, Falcon Network Technology Group's operation capability continuously enhanced and in the first three quarters of 2020, the revenue from membership business, value-added business and advertising business of Falcon Network Technology Group rose by 78.4%, 167.6% and 3.8% year-on-year, respectively. ARPU of Falcon Network Technology Group reached HK\$33.8 in the first three quarters of 2020, surging by 36.5% year-on-year.

##### *Overseas*

In the first three quarters of 2020, the Group's revenue from the overseas Internet business increased by 30.3% year-on-year from HK\$158 million in the first three quarters of 2019 to HK\$206 million in the first three quarters of 2020.

## **Gross Profit and Gross Profit Margin**

The overall gross profit was up by 21.9% year-on-year from HK\$5,214 million in the first three quarters of 2019 to HK\$6,355 million in the first three quarters of 2020. The gross profit margin in the first three quarters of 2020, remained flat at 20.0% year-on-year.

### ***TV Business***

#### *Overseas*

The gross profit margin of TCL brand TV in the overseas markets increased by 1.9 percentage points year-on-year from 15.4% in the first three quarters of 2019 to 17.3% in the first three quarters of 2020, which was mainly attributable to the improvement in product mix. In the first three quarters of 2020, the sales volume proportion of smart TVs in overseas markets increased by 4.4 percentage points year-on-year to 91.2%, the sales volume proportion of 4K TVs increased by 5.7 percentage points year-on-year to 50.4%, and the sales volume proportion of quantum dot TVs increased to 3.1%.

#### *The PRC*

The gross profit margin of TCL brand TV in the PRC market decreased by 1.2 percentage points year-on-year from 24.5% in the first three quarters of 2019 to 23.3% in the first three quarters of 2020. The main reason for the decline was due to the increase in costs caused by the rising panel price.

## **Other Revenue and Gains**

Other revenue and gains decreased by 31.7% year-on-year from HK\$1,210 million in the first three quarters of 2019 to HK\$826 million in the first three quarters of 2020. The decline was mainly because the one-off gain of HK\$787 million on the fair value remeasurement of 44.44% pre-existing equity interest of Falcon Network Technology Group was included in the first three quarters of 2019.

## **Selling and Distribution Expenses**

The selling and distribution expenses grew by 12.0% year-on-year from HK\$3,425 million in the first three quarters of 2019 to HK\$3,836 million in the first three quarters of 2020, mainly attributable to the consolidation of SEMP TCL and TCL Communication, the rising transportation expenses and warehousing costs resulted from the growing sales volume, and the Group's increased investment in branding and market expansion.

## **Administrative Expenses**

The administrative expenses increased by 50.0% year-on-year from HK\$794 million in the first three quarters of 2019 to HK\$1,190 million in the first three quarters of 2020. The increase was mainly attributable to the consolidation of SEMP TCL and TCL Communication, as well as the exchange differences. Meanwhile, in order to build and enhance its future capabilities, the Group increased one-off investments in consultation related to business process, IT system, finance and taxation, etc., leading to increased fees in employing consultants and other related agencies.

### **Research and Development Costs**

The research and development costs grew by 51.2% year-on-year from HK\$594 million in the first three quarters of 2019 to HK\$898 million in the first three quarters of 2020. The growth was mainly attributable to the Group's increased investment in 8K, Mini LED, quantum dot, AI x IoT, Android TV system and other frontier technologies for its long-term development.

### **Impairment Losses on Financial Assets, Net**

The net impairment losses on financial assets decreased by 68.0% year-on-year from HK\$26 million in the first three quarters of 2019 to HK\$8 million in the first three quarters of 2020. The decrease was mainly because the Group strengthened its credit management.

### **Finance Costs**

The finance costs increased by 41.9% year-on-year from HK\$99 million in the first three quarters of 2019 to HK\$140 million in the first three quarters of 2020. The increase was mainly because of the newly added loans and the consolidation of SEMP TCL and TCL Communication.

### **Share of Profits and Losses**

The share of losses from joint ventures and associates increased by 478.1% year-on-year from HK\$13 million in the first three quarters of 2019 to HK\$72 million in the first three quarters of 2020. The change was mainly due to exchange fluctuation prior to the consolidation of SEMP TCL in July 2020.

### **Profit Before Tax from Continuing Operations**

Profit before tax from continuing operations decreased by 31.6% year-on-year from HK\$1,467 million in the first three quarters of 2019 to HK\$1,003 million in the first three quarters of 2020. The gap was mainly because the one-off gain of HK\$787 million on the fair value remeasurement of 44.44% pre-existing equity interest of Falcon Network Technology Group was included in the first three quarters of 2019.

### **Income Tax**

The income tax rose by 3.9% year-on-year from HK\$130 million in the first three quarters of 2019 to HK\$136 million in the first three quarters of 2020.

### **Profit for the Period and Profit Attributable to Owners of the Parent from Continuing Operations**

The profit for the period of continuing operations decreased by 35.2% year-on-year from HK\$1,337 million in the first three quarters of 2019 to HK\$867 million in the first three quarters of 2020. The net profit of the continuing operations attributable to owners of the parent was HK\$803 million, recording a year-on-year decrease of 39.4%.

## **Profit Attributable to Owners of the Parent from Continuing Operations after Deducting One-off Non-operating Items**

The one-off gain in the first three quarters of 2019 primarily comprised HK\$787 million on the fair value remeasurement of 44.44% pre-existing equity interest of Falcon Network Technology Group. The profit attributable to owners of the parent from continuing operations after deducting one-off non-operating items in the first three quarters of 2020 was HK\$811 million, up by 56.6% year-on-year. The growth was mainly due to the significant year-on-year increase of the profit attributable to owners of the parent from continuing operations after deducting one-off non-operating items in the third quarter of 2020 (whereas the base, being the corresponding figures in the third quarter of last year, was relatively low).

## **FINANCIAL REVIEW**

### **Significant Investments, Acquisitions and Disposals**

On 12 August 2019 (after trading hours), TCL King Electrical Appliances (Chengdu) Company Limited\* (TCL王牌電器(成都)有限公司) (“TCL King (Chengdu)”) entered into a sale and purchase agreement 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) (“CSOT”)), pursuant to which, CSOT has conditionally agreed to acquire and TCL King (Chengdu) (as the seller) has conditionally agreed to sell the 14.00% equity interest in TCL Finance Co., Ltd.\* (TCL集團財務有限公司) held by TCL King (Chengdu) at the consideration of approximately RMB255 million (equivalent to approximately HK\$279 million). The aforesaid transaction has been completed. For details, please refer to the Company’s announcement dated 12 August 2019.

On 3 June 2020 (after trading hours), TCL Netherlands B.V. (“TCL NL”), SEMP Amazonas S.A. (“STA”), SEMP TCL, Affonso Brandão Hennel and TCL Overseas Consumer Electronics Limited (“OCE”) (each of TCL NL and OCE being an indirect wholly-owned subsidiary of the Company) entered into a share purchase agreement, pursuant to which, among others, STA conditionally agreed to sell and TCL NL conditionally agreed to acquire 40% equity interest of SEMP TCL at the consideration of which is subject to a maximum price of R\$325,407,278.84 (equivalent to approximately HK\$484,922,000). As at the date of the share purchase agreement, SEMP TCL was owned 40% and 60% by OCE and STA respectively. TCL NL would acquire from OCE the entire equity interests held by OCE in SEMP TCL on the closing date of the aforesaid transaction. Therefore, upon closing, SEMP TCL would be owned 80% and 20% by the Group (via TCL NL) and STA respectively, hence SEMP TCL would become an indirect subsidiary of the Company. The transaction was completed on 20 July 2020 (São Paulo time). Further details of this transaction are set out in the Company’s announcements dated 3 June 2020 and 21 July 2020 respectively.

On 29 June 2020, T.C.L. Industries (H.K.), Zhengjia Investment and the Company entered into a conditional share transfer agreement, pursuant to which Zhengjia Investment conditionally agreed to sell and the Company conditionally agreed to acquire 100% equity interest in TCL Communication at the consideration of RMB1.5 billion (equivalent to approximately HK\$1.7 billion). The transaction was completed on 31 August 2020. Further details of this transaction are set out in the Company's announcements dated 29 June 2020 and 31 August 2020 respectively and circular dated 30 June 2020.

On 29 June 2020, T.C.L. Industries (H.K.) and the Company entered into a conditional share transfer agreement, pursuant to which the Company conditionally agreed to sell and T.C.L. Industries (H.K.) conditionally agreed to acquire 100% equity interest in Moka International at the consideration of RMB2.5 billion (equivalent to approximately HK\$2.8 billion). The transaction was completed on 31 August 2020. Further details of this transaction are set out in the Company's announcements dated 29 June 2020 and 31 August 2020 respectively and circular dated 30 June 2020.

On 14 September 2020, TCL Commercial Information Technology (Huizhou) Limited\* (TCL商用信息科技(惠州)有限責任公司) ("CI Tech") entered into an equity transfer agreement with an independent third party, pursuant to which CI Tech agreed to sell, and the independent third party agreed to acquire 100% equity interest in TCL New Technology (Huizhou) Co., Limited\* (TCL新技術(惠州)有限公司) ("New Technology (Huizhou)", a subsidiary of CI Tech) at the consideration of RMB80.09 million (equivalent to approximately HK\$91.14 million). The transaction was completed on 23 September 2020.

Save as disclosed above, the Group has no other significant investment held as at 30 September 2020, nor other material acquisition and disposal of subsidiaries, associates and/or joint ventures during the nine months ended 30 September 2020.

### **Liquidity and Financial Resources**

The Group's principal financial instruments to manage liquidity risk 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 cash equivalents of the Group as at 30 September 2020 amounted to approximately HK\$8,676,818,000, of which 1.1% was in Hong Kong dollars, 25.8% in U.S. dollars, 62.3% in Renminbi, 1.2% in Euros and 9.6% in other currencies for overseas operations.

For the purpose of day-to-day liquidity management and future expansion, the Group has access to bank and other borrowings. The bank and other borrowings of the Group as at 30 September 2020 were HK\$6,071,780,000 which were interest-bearing at fixed rates ranging from 0.62% to 8.00% and denominated in U.S. dollars, Renminbi, Euros and Mexican Peso. The maturity profile of borrowing was on demand to within five years. It is the intention of the Group to maintain a mix of equity and debt to ensure an efficient capital structure and in view of the reasonable interest rate. There was no material change in available credit facilities when compared with the year ended 31 December 2019 and there was no asset held under finance lease as at 30 September 2020.

As at 30 September 2020, the Group's gearing ratio was 0% since the Group's cash and cash equivalents of approximately HK\$8,676,818,000 were higher than the total interest-bearing bank and other borrowings and lease liabilities of approximately HK\$6,340,447,000. Gearing ratio was calculated by net borrowings (i.e. total interest-bearing bank and other borrowings and lease liabilities, less cash and cash equivalents, restricted cash and pledged deposits), divided by equity attributable to owners of the parent. The maturity profile of such borrowings ranged from on demand to within five years.

#### **Pledge of Assets**

As at 30 September 2020, the Group had restricted cash and pledged deposits balances of HK\$5,187,000 (31 December 2019: Nil) pledged as the balance of performance and quality guarantees for the Group.

#### **Capital Commitments and Contingent Liabilities**

As at 30 September 2020, the Group had capital commitments of approximately HK\$175,062,000 (31 December 2019: HK\$139,356,000) and HK\$249,367,000 (31 December 2019: HK\$247,115,000) which were contracted but not provided for and authorised but not contracted for, respectively.

As at 30 September 2020, the Group had the following contingent liabilities which have not been provided for in the financial statements as follows:

- (a) TCL Communication and certain subsidiaries are currently defendants in lawsuits in various countries brought by a leading provider of information and communication technology alleging that certain products sold by TCL Communication Group infringed the patents owned by this provider. The information usually required by HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigations. The Directors, based on the advice from the Group's legal counsel, believe that TCL Communication and certain subsidiaries have a valid defence against the allegation.

- (b) SEMP TCL Mobilidade Ltda. (“SEMP Mobilidade”), formerly known as TCT Mobile – Telefones Ltda. (a former subsidiary of TCL Communication, disposed to SEMP TCL in March 2018) is currently a defendant in a lawsuit in Brazil with Brazil tax authority for improper application of tax credits for the period of 2012 and 2013 for a total amount of undue credit of approximately R\$15,094,000, with the penalty and interests, the assessment is currently around R\$45,000,000. In June 2018, SEMP Mobilidade filed an ordinary appeal and the court ordered the record remanded for a new trial of the administrative defence in March 2019. Up to the date of this announcement, the lawsuits is still ongoing. Based on the response from the independent attorney in charge, it is expected that the litigation will last for 3 to 5 years. The Group has not made any provision as the Directors, based on the advice from the Group’s legal counsel, believe that SEMP Mobilidade has a valid defence against the allegation.

### **Pending Litigation**

Save as disclosed above, the Group was not involved in any material litigation as at 30 September 2020.

### **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 September 2020, the Group had a total of 40,391 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. The remuneration policy of the Group was reviewed regularly, making reference to current legislation, market condition and both the performance of individuals and the Group. In order to align the interests of staff with those of shareholders of the Company, share options were granted to relevant grantees, including employees of the Group, under the Company’s share option scheme. Share options carrying rights to subscribe for a total number of 97,795,565 shares remained outstanding as at 30 September 2020.

A restricted share award scheme (the “Award Scheme”) was also adopted by the Company on 6 February 2008 and was amended on 11 August 2015, 13 June 2016, 24 November 2017 and 4 May 2018 respectively. Pursuant to the Award Scheme, existing shares of the Company may be purchased from the market or new shares may be subscribed for by the designated trustee out of cash contributed by the Company, and would be held on trust by the designated trustee for the relevant selected persons until such shares are vested with the relevant selected persons in accordance with the rules of the Award Scheme.

## FINANCIAL INFORMATION

The following condensed consolidated financial statements have not been audited, but have been reviewed by the Company's audit committee (the "Audit Committee").

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
<b>CONTINUING OPERATIONS</b>					
REVENUE	4	<b>31,833,309</b>	26,102,456	<b>14,683,403</b>	8,313,689
Cost of sales		<b>(25,478,479)</b>	(20,888,307)	<b>(11,859,198)</b>	(6,500,014)
Gross profit		<b>6,354,830</b>	5,214,149	<b>2,824,205</b>	1,813,675
Other revenue and gains		<b>826,090</b>	1,209,659	<b>361,452</b>	113,520
Selling and distribution expenses		<b>(3,835,660)</b>	(3,425,425)	<b>(1,716,747)</b>	(1,245,932)
Administrative expenses		<b>(1,190,294)</b>	(793,648)	<b>(664,708)</b>	(281,072)
Research and development costs		<b>(897,974)</b>	(593,800)	<b>(389,869)</b>	(241,816)
Other operating expenses		<b>(33,062)</b>	(6,178)	<b>(26,282)</b>	(1,870)
Impairment losses on financial assets, net		<b>(8,427)</b>	(26,347)	<b>(5,323)</b>	(9,365)
Finance costs		<b>(140,212)</b>	1,578,410	<b>(57,448)</b>	147,140
Share of profits and losses of:			(98,786)	<b>(15,492)</b>	(28,258)
Joint ventures		<b>18,567</b>	7,244	<b>11,673</b>	926
Associates		<b>(90,978)</b>	(19,770)	<b>15,492</b>	(34,010)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>1,002,880</b>	1,467,098	<b>352,445</b>	85,798
Income tax	5	<b>(135,630)</b>	(130,485)	<b>(5,480)</b>	(49,858)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>867,250</b>	1,336,613	<b>346,965</b>	35,940
<b>DISCONTINUED OPERATIONS</b>					
Profit for the period from discontinued operations	6	<b>1,828,985</b>	179,229	<b>1,760,109</b>	111,350
<b>PROFIT FOR THE PERIOD</b>		<b>2,696,235</b>	1,515,842	<b>2,107,074</b>	147,290

	Nine months ended 30 September		Three months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Cash flow hedges:				
Effective portion of changes in fair value of the hedging instruments arising during the period	5,871	40,505	19,707	34,467
Reclassification adjustments for (gains)/losses included in profit or loss	6,854	(25,109)	(8,634)	(11,993)
Income tax effect	59	–	59	–
	<u>12,784</u>	<u>15,396</u>	<u>11,132</u>	<u>22,474</u>
Exchange differences:				
Translation of foreign operations	178,517	(340,189)	537,429	(253,361)
Reclassification adjustments for foreign operations disposed of or liquidated during the period	(86,819)	983	(86,819)	(673)
Reclassification adjustments for associates disposed of or liquidated during the period	156,360	377	153,452	–
	<u>248,058</u>	<u>(338,829)</u>	<u>604,062</u>	<u>(254,034)</u>
Financial assets at fair value through other comprehensive income:				
Changes in fair value, net of income tax	10,084	9,539	–	–
Reclassification adjustments for subsidiaries disposed of during the period	(1,508)	–	(1,508)	–
	<u>8,576</u>	<u>9,539</u>	<u>(1,508)</u>	<u>–</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>269,418</u>	<u>(313,894)</u>	<u>613,686</u>	<u>(231,560)</u>

	Nine months ended 30 September		Three months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:				
Equity investments designated at fair value through other comprehensive income:				
Changes in fair value, net of income tax	1,427	(1,203)	4,857	14
Share of other comprehensive income/(loss) of associates	4,837	(1,339)	1,899	167
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	6,264	(2,542)	6,756	181
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>275,682</b>	<b>(316,436)</b>	<b>620,442</b>	<b>(231,379)</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>	<b>2,971,917</b>	<b>1,199,406</b>	<b>2,727,516</b>	<b>(84,089)</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Profit attributable to:				
Owners of the parent	2,631,657	1,505,534	2,095,785	143,519
Non-controlling interests	64,578	10,308	11,289	3,771
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	2,696,235	1,515,842	2,107,074	147,290
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total comprehensive income/(loss) attributable to:				
Owners of the parent	2,903,613	1,205,212	2,705,159	(79,956)
Non-controlling interests	68,304	(5,806)	22,357	(4,133)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	2,971,917	1,199,406	2,727,516	(84,089)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>				
Basic				
– For profit for the period	<b>HK113.76 cents</b>	HK66.18 cents		
	<u>          </u>	<u>          </u>		
– For profit from continuing operations	<b>HK34.70 cents</b>	HK58.30 cents		
	<u>          </u>	<u>          </u>		
Diluted				
– For profit for the period	<b>HK112.30 cents</b>	HK64.88 cents		
	<u>          </u>	<u>          </u>		
– For profit from continuing operations	<b>HK34.25 cents</b>	HK57.16 cents		
	<u>          </u>	<u>          </u>		

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2020 (unaudited) <i>HK\$'000</i>	31 December 2019 (audited) <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	2,332,605	1,531,460
Investment properties	420,581	127,908
Right-of-use assets	887,526	285,569
Goodwill	3,351,310	1,867,990
Other intangible assets	992,827	156,166
Investments in joint ventures	83,131	31,323
Investments in associates	1,627,718	1,398,627
Equity investments designated at fair value through other comprehensive income	58,893	143,920
Deferred tax assets	287,794	85,584
Other deferred assets	124,778	44,430
Restricted cash	570	3,396
	<b>10,167,733</b>	<b>5,676,373</b>
<b>CURRENT ASSETS</b>		
Inventories	8,681,431	5,401,416
Trade receivables	8,985,128	5,993,843
Bills receivable	2,623,432	4,167,798
Prepayments, other receivables and other assets	9,037,205	2,743,731
Tax recoverable	97,556	41,180
Financial assets at fair value through profit or loss	1,629,589	961,576
Derivative financial instruments	229,229	139,480
Restricted cash and pledged deposits	231,715	2,431
Cash and cash equivalents	8,676,818	8,194,743
	<b>40,192,103</b>	<b>27,646,198</b>

		<b>30 September 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
	<i>Notes</i>		
<b>CURRENT LIABILITIES</b>			
Trade payables		<b>12,456,458</b>	9,396,398
Bills payable		<b>2,350,313</b>	2,683,814
Other payables and accruals		<b>13,087,789</b>	6,477,884
Interest-bearing bank and other borrowings	9	<b>5,242,762</b>	1,648,612
Lease liabilities		<b>95,005</b>	80,808
Tax payable		<b>97,914</b>	134,708
Derivative financial instruments		<b>59,259</b>	44,086
Provisions		<b>809,318</b>	689,597
		<hr/>	<hr/>
Total current liabilities		<b>34,198,818</b>	21,155,907
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>5,993,285</b>	6,490,291
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>16,161,018</b>	12,166,664
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	9	<b>829,018</b>	89,286
Lease liabilities		<b>173,662</b>	59,621
Financial liabilities associated with put option		<b>88,532</b>	–
Deferred tax liabilities		<b>276,024</b>	46,840
Other long-term payables		<b>41,979</b>	27,252
Derivative financial instruments		<b>6,867</b>	6,899
		<hr/>	<hr/>
Total non-current liabilities		<b>1,416,082</b>	229,898
		<hr/>	<hr/>
Net assets		<b>14,744,936</b>	11,936,766
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	10	<b>2,438,737</b>	2,363,225
Reserves		<b>11,779,360</b>	9,216,765
		<hr/>	<hr/>
		<b>14,218,097</b>	11,579,990
<b>Non-controlling interests</b>		<b>526,839</b>	356,776
		<hr/>	<hr/>
Total equity		<b>14,744,936</b>	11,936,766
		<hr/> <hr/>	<hr/> <hr/>

Notes:

## 1. BASIS OF PREPARATION

The accounting policies and the basis of preparation adopted in the preparation of these unaudited condensed consolidated financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 condensed consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments and certain financial assets which are measured at fair value. These unaudited condensed consolidated financial statements are presented in 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 new and revised HKFRSs for the current period's unaudited condensed consolidated financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 16*	<i>COVID-19 Related Rent Concessions</i>

\* Early adopted by the Group in current period's financial statements.

The accounting policies and methods of computations used in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the preparation of the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2020.

The Group has not adopted any other standard, interpretation or amendment that has been issued but has not yet been effective.

### 3. OPERATING SEGMENT INFORMATION

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

- (a) TV segment - manufacture and sale of TV sets in:
  - TCL brand - the PRC market; and
  - TCL brand - the overseas markets;
- (b) Internet business segment - advertising, value-added, video-on-demand and membership cards;
- (c) Mobile phones and other consumer electronics products segment - manufacture and sale of mobile phones and smart connection products and mobile displays; and
- (d) Others segment - comprises Smart AV, smart home solutions and products and other businesses, including manufacture and sale of TV related components, sale of white goods and air conditioners.

The Group's TV ODM business and safety and inspection equipment business were regarded as discontinued operations whose details are set out in note 6.

The management of the Company 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 segment revenue and gross profit of each operating segment.

Certain reportable operating segments have been restated as the management believes that the information regarding such restated segments would be useful to the users of the unaudited condensed consolidated financial statements.

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

		Nine months ended 30 September													
		Continuing operations				Discontinued operations									
		Internet business		Mobile phones and other consumer electronics products		Others		Total continuing operations							
		TCL brand - overseas markets		TCL brand - the PRC market		TV		Consolidated							
		2019	2020	2019	2020	2019	2020	2019	2020						
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000						
		(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)						
(Unaudited)															
Segment revenue		7,781,883	9,060,054	18,807,480	15,717,038	778,931	388,751#	3,256,640	936,613	31,833,309	26,102,456	6,796,477	7,586,576	38,629,786	33,689,032
Gross profit		1,809,752	2,217,314	3,256,071	2,419,310	517,663	285,544#	503,398	291,981	6,354,830	5,214,149	463,991	511,035	6,818,821	5,725,184

# Falcon Network Technology Group has been consolidated into the Group's consolidated financial statements since April 2019, therefore its revenue and gross profit in the first quarter of 2019 have been excluded.

#### 4. REVENUE

An analysis of revenue from continuing operations is as follows:

	Nine months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
<b>Geographical markets</b>		
Mainland China	10,119,320	10,041,114
Europe	2,938,159	1,720,347
North America	10,185,626	8,399,585
Emerging markets	8,590,204	5,941,410
	<hr/>	<hr/>
Total revenue from contracts with customers	<b>31,833,309</b>	26,102,456
	<hr/> <hr/>	<hr/> <hr/>

#### 5. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 September 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (30 September 2019: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Nine months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
Current – Hong Kong		
Charge for the period	21,428	12,991
Current – Elsewhere		
Charge for the period	147,836	93,476
Underprovision in prior periods	6,695	8,065
Deferred	(40,329)	15,953
	<hr/>	<hr/>
Total tax charge for the period from continuing operations	<b>135,630</b>	130,485
	<hr/> <hr/>	<hr/> <hr/>

## 6. DISCONTINUED OPERATIONS

On 29 June 2020, the Company and T.C.L. Industries (H.K.) entered into a conditional share transfer agreement, pursuant to which T.C.L. Industries (H.K.) has conditionally agreed to acquire from the Company and the Company has conditionally agreed to transfer to T.C.L. Industries (H.K.) its 100% equity interest in Moka International, at a consideration of RMB2,500,000,000 (“Moka International Disposal”), which was satisfied in cash. Moka International and its subsidiaries (collectively, “Moka International Group”) are principally engaged in TV ODM business. The Moka International Disposal has been completed on 31 August 2020.

On 14 September 2020, CI Tech entered into an equity transfer agreement with an independent third party, pursuant to which CI Tech agreed to sell, and the independent third party agreed to acquire 100% equity interest in New Technology (Huizhou) at the consideration of RMB80,092,000 (“New Technology (Huizhou) Disposal”), which was satisfied in cash. New Technology (Huizhou) is principally engaged in safety and inspection equipment business. The New Technology (Huizhou) Disposal has been completed on 23 September 2020.

The Moka International Disposal and the New Technology (Huizhou) Disposal constitute discontinued operations in TV ODM business and safety and inspection equipment business respectively.

As at the date of this announcement, the Group is in the process of finalising the disposal assessments and the results and provisional net gain of disposal of discontinued operations for the period up to the date of disposal are presented below:

	<b>Nine months ended 30 September</b>	
	<b>2020</b>	2019
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Revenue	<b>6,796,477</b>	7,586,576
Cost of sales	<b>(6,332,486)</b>	(7,075,541)
Gross profit	<b>463,991</b>	511,035
Other revenue and gains	<b>89,667</b>	169,250
Selling and distribution costs	<b>(129,589)</b>	(167,566)
Administrative expenses	<b>(151,811)</b>	(143,909)
Research and development costs	<b>(133,014)</b>	(160,300)
Other operating expenses	–	(94)
Impairment losses on financial assets, net	<b>1,919</b>	(180)
Finance costs	<b>141,163</b>	208,236
	<b>(6,326)</b>	(4,760)
Profit before tax from discontinued operations	<b>134,837</b>	203,476
Income tax:		
Related to pre-tax profit	<b>(26,169)</b>	(24,247)
Provisional net gain on disposal of discontinued operations	<b>108,668</b>	179,229
	<b>1,720,317</b>	–
Profit for the period from discontinued operations	<b>1,828,985</b>	179,229

	<b>Nine months ended 30 September</b>	
	<b>2020</b>	2019
	<b>(unaudited)</b>	(unaudited)
Earnings per share from discontinued operations:		
Basic	<b><u>HK79.06 cents</u></b>	<u>HK7.88 cents</u>
Diluted	<b><u>HK78.05 cents</u></b>	<u>HK7.72 cents</u>

The calculations of basic and diluted earnings per share from discontinued operations are based on:

	<b>Nine months ended 30 September</b>	
	<b>2020</b>	2019
	<b>(unaudited)</b>	(unaudited)
Profit attributable to ordinary equity holders of the parent from discontinued operations	<b>HK\$1,828,985,000</b>	HK\$179,229,000
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation ( <i>note 8</i> )	<b>2,313,416,531</b>	2,275,030,463
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation ( <i>note 8</i> )	<b><u>2,343,260,802</u></b>	<u>2,320,299,830</u>

## 7. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2020 (30 September 2019: Nil).

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

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

	<b>Nine months ended 30 September</b>	
	<b>2020</b>	2019
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
		<i>(restated)</i>
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations:		
From continuing operations	<b>802,672</b>	1,326,305
From discontinued operations	<b><u>1,828,985</u></b>	<u>179,229</u>
	<b><u>2,631,657</u></b>	<u>1,505,534</u>

	<b>Number of shares</b>	
	<b>Nine months ended 30 September</b>	
	<b>2020</b>	2019
	<b>(unaudited)</b>	(unaudited)
<b>Shares</b>		
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	<b>2,313,416,531</b>	2,275,030,463
Effect of dilution – weighted average number of ordinary shares:		
Share options	<b>10,975,434</b>	8,621,768
Awarded shares	<b>18,868,837</b>	36,647,599
	<u>2,343,260,802</u>	<u>2,320,299,830</u>
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	<u><b>2,343,260,802</b></u>	<u>2,320,299,830</u>

## 9. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<b>30 September</b>	31 December
	<b>2020</b>	2019
	<b>(unaudited)</b>	(audited)
	<b>HK\$'000</b>	HK\$'000
<b>Current</b>		
Bank loans – unsecured	<b>4,717,744</b>	1,486,171
Trust receipt loans – unsecured	<b>58,639</b>	142,349
Other loans – unsecured	<b>58,038</b>	20,092
Bank advances on factored trade receivables	<b>10,041</b>	–
Loans from a company controlled by TCL Industries Holdings Co., Ltd. (“TCL Holdings”) – unsecured	<b>398,300</b>	–
	<u><b>5,242,762</b></u>	<u>1,648,612</u>
<b>Non-current</b>		
Bank loans – unsecured	<b>808,534</b>	89,286
Other loans – unsecured	<b>20,484</b>	–
	<u><b>829,018</b></u>	<u>89,286</u>
	<u><b>6,071,780</b></u>	<u>1,737,898</u>
Analysed into:		
Within one year or on demand	<b>5,242,762</b>	1,648,612
In the second year	<b>719,348</b>	669
In the third to fifth years	<b>109,670</b>	88,617
	<u><b>6,071,780</b></u>	<u>1,737,898</u>

Notes:

- (a) As at 30 September 2020 and 31 December 2019, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.
- (b) TCL Holdings together with TCL Technology Group Corporation ("TCL Technology") have guaranteed certain of the Group's bank loans up to HK\$2,846,925,000 (31 December 2019: HK\$311,473,000) and TCL Technology has individually guaranteed certain of the Group's bank loans up to HK\$1,881,563,000 (31 December 2019: HK\$399,207,000) as at the end of the reporting period.

## 10. SHARE CAPITAL

	<b>30 September 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
Authorised:		
3,000,000,000 (31 December 2019: 3,000,000,000) shares of HK\$1.00 each	<u><b>3,000,000</b></u>	<u>3,000,000</u>
Issued and fully paid:		
2,438,737,031 (31 December 2019: 2,363,224,646) shares of HK\$1.00 each	<u><b>2,438,737</b></u>	<u>2,363,225</u>

During the nine months ended 30 September 2020, the subscription rights attaching to 36,362,822, 15,749,829, 3,982,736, 4,248,952, 13,100,707 and 2,067,339 share options were exercised at the subscription prices of HK\$3.3918, HK\$4.4834, HK\$4.3860, HK\$3.7329, HK\$4.1520 and HK\$3.5700 per share, respectively, resulting in the issue of an aggregate of 75,512,385 shares of HK\$1.00 each for a total cash consideration of HK\$289,052,000 before expenses.

## 11. EVENTS AFTER THE REPORTING PERIOD

On 6 November 2020, TCL King Electrical Appliances (Huizhou) Company Limited\* (TCL王牌電器(惠州)有限公司), a company established in the PRC with limited liability and a subsidiary of the Company, sold an aggregate of 8,222,400 shares of Amlogic (Shanghai) Co., Ltd.\* (晶晨半導體(上海)股份有限公司) ("Amlogic"), a joint stock company established in the PRC, the shares of which are listed on the sci-tech innovation board of the Shanghai Stock Exchange (Stock Code: 688099) ("Amlogic Shares"), representing approximately 2% of the then total issued Amlogic Shares.

The Group has also informed Amlogic of the Group's intention to further dispose of no more than 2% of the total issued Amlogic Shares as of 8 November 2020 by way of auction on market within approximately seven months from 8 November 2020. Further details of this transaction are set out in the Company's announcement dated 8 November 2020.

## 12. COMPARATIVE AMOUNTS

The comparative consolidated statement of profit or loss and other comprehensive income has been re-presented as if the operations classified as discontinued operations during the period had been discontinued at the beginning of the comparative period (note 6). Certain comparative amounts have been reclassified to conform with the current period's presentation and disclosures.

## **OTHER INFORMATION**

### **PURCHASES, SALE OR REDEMPTION OF SHARES**

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the shares of the Company during the nine months ended 30 September 2020.

### **CORPORATE GOVERNANCE**

The Company has established and will continue to optimise its risk management and internal control system. The management reports to the Board and the subordinated 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 their respective responsibilities in terms of corporate governance.

None of the Directors is aware of any information which would reasonably indicate that the Company had not, throughout the nine months ended 30 September 2020, 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 deviations from Code Provisions D.1.4, E.1.2 and F.1.1. The reasons for the deviations from the Code remain the same as those stated in the Company’s 2020 interim report.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed the Group’s unaudited condensed consolidated financial statements for the three months and nine months ended 30 September 2020, including the accounting principles adopted by the Group, with the Company’s management. As at the date of this announcement, the Audit Committee comprises three members, namely Mr. LAU Siu Ki (chairman), Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang, all being independent non-executive Directors.

On behalf of the Board  
**LI Dongsheng**  
Chairman

Hong Kong, 17 November 2020

*The English translation of Chinese names or words in this announcement, where indicated by “\*”, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

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