



创意感动生活
The Creative Life

TCL ELECTRONICS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 01070



THE CREATIVE LIFE

INTERIM REPORT 2020

TCL ELECTRONICS HOLDINGS LIMITED

INTERIM REPORT 2020



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

- Mr. LI Dongsheng (Chairman)
Mr. WANG Cheng Kevin (CEO)
Mr. YAN Xiaolin
Mr. HU Lihua (appointed as an executive
Director with effect from 28 February 2020)
Mr. WANG Yi Michael (resigned as an executive
Director with effect from 28 February 2020)

Non-executive Directors

- Mr. Albert Thomas DA ROSA, Junior
Mr. SUN Li (appointed as a non-executive
Director with effect from 28 February 2020)
Mr. LI Yuhao
Mr. YANG Anming (resigned as a non-executive
Director with effect from 28 February 2020)

Independent Non-executive Directors

- Mr. Robert Maarten WESTERHOF
Dr. TSENG Shieng-chang Carter
Professor WANG Yijiang
Mr. LAU Siu Ki

COMPANY SECRETARY

Ms. CHOY Fung Yee, Solicitor, Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

LEGAL ADVISOR

Cheung Tong & Rosa Solicitors
Room 501, 5/F
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

PRINCIPAL REGISTRAR

SMP Partners (Cayman) Limited (known as
Suntera (Cayman) Limited with effect from
4 September 2020)
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman
KY1-1110
Cayman Islands

BRANCH REGISTRAR

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL OFFICE

7th Floor, Building 22E
22 Science Park East Avenue
Hong Kong Science Park
Shatin, New Territories
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

INVESTOR AND MEDIA RELATIONS

Hong Kong Zhixin Financial News Agency Limited
Suite 2402, Kingkey Timemark
No. 9289 Binhe Road
Futian District, Shenzhen
The PRC

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

1. Overview

2020 is a year of change, with drastic shifts in lifestyle and consumption habits, brought by the turbulent international environment and the global coronavirus disease 2019 (“COVID-19”), new opportunities brought by the reshuffling in the upstream panel industry and the rapid development of 5G and “AI x IoT” technology, all of which are leading the television (“TV”) industry into the era of smart display. TCL Electronics Holdings Limited (the “Company” or “TCL Electronics”) and its subsidiaries (collectively, the “Group” or “we” and their grammatical derivatives shall be construed accordingly) continue to focus on smart display, vigorously promote the “AI x IoT” strategy and strive to create an all-scenario smart healthy-living experience for users and become a global leading smart technology company.

The Group is committed to seizing the opportunity presented by fast development of 5G and pioneering the overall smart upgrade of the display industry via actively promoting large-screen TV and smart technology. At the extraordinary general meeting of the Company held on 28 July 2020, an overwhelming majority of the shareholders voted in support for the Company’s spin-off of the TV original design manufacture (“ODM”) business and acquisition of the global business of TCL Communication Technology Holdings Limited (“TCL Communication”) and its subsidiaries. On top of focusing on brand business and enriching product and business portfolio, the Group also strives to further develop new Internet value-added service business, offering its users an all-scenario smart display ecosystem. The ecosystem, technically driven by 5G+8K+AI, contains three key scenarios namely smart home, mobile services and commercial displays.

The second quarter of 2020 saw accelerated spread of the COVID-19 pandemic and a series of black swan events in the global market. Given that, we have responded rapidly and proactively to the market changes, seized the opportunities and recorded growth against the downward trend. Benefitting from its leading positions in integrated supply chain, global channels, production capacity layout, hardware, software and content, TCL Electronics, as the brand driving force of the entire TCL display industry chain and a user-centric company, managed to expand its market share amid negative trend by shortening the time needed for balancing supply and demand, optimising the channel structures, seizing opportunities to cut costs and adjusting its model to reduce expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

In the second quarter of 2020, under the circumstance of the global sales volume of TV decreased by 4.9% year-on-year, the sales volume of TCL brand TV still outperformed the market with a 31.6% year-on-year increase, reaching 5.81 million sets. According to the report of Omdia (a global scientific research institution, established on the consolidation of Informa Tech (Ovum, Heavy reading and Tractica) and IHS Markit), the market share by sales volume of TCL brand TV jumped from 9.4% in the second quarter of last year to 12.7% in the second quarter of 2020, up by 3.3 percentage points year-on-year, with its global ranking increased from No.3 in the second quarter of 2019 to No.2 in the second quarter of 2020. According to the latest report of Gesellschaft für Konsumforschung ("GfK", Corporation of Marketing Research for Consumer Product in English, headquartered in Nuremberg, Germany, a global market research group), overseas sales volume market share of TCL brand TV in the first half of 2020 rose by 1.7 percentage points year-on-year, with its TV sales volume ranking among the top five in 19 countries worldwide. Among them for the six months ended 30 June 2020, TCL brand TV ranked No.2 in the United States of America ("United States" or "U.S."), with its market share by sales volume increased by 1.4 percentage points year-on-year; No.3 in France (European markets), up by 0.4 percentage points year-on-year; No.2 in Australia, No.4 in Vietnam and No.4 in Thailand (emerging markets), up by 9.9 percentage points, 2.4 percentage points and 1.9 percentage points year-on-year, respectively. The data of China Market Monitor Co., Ltd. ("CMM", a Chinese institution that focuses on retail market research of consumer goods and home appliances in the People's Republic of China ("PRC")), shows that the market share of TCL brand TV by sales revenue in the PRC rose from ranking No.4 in the first half of 2019 to No.2 in the first half of 2020, increasing by 1.5 percentage points year-on-year to 13.3%.

In the second quarter of 2020, revenue from continuing operations reached HK\$10,277 million, up by 36.6% year-on-year and 46.8% comparing to the preceding quarter. Profit attributable to owners of the parent after deducting one-off non-operating gain was HK\$424 million, up by 116.3% year-on-year. As of 30 June 2020, our total cash reserve had reached HK\$10,758 million.

Benefiting from the relentless hard work of the partners of TCL Electronics, TCL brand TV has been well recognised by consumers around the world. The Group has established its competitive advantages, formed certain barriers to entry against potential competitors, and built great industry alliances. Therefore, despite the increased environmental uncertainties such as the COVID-19 pandemic and geopolitical matters, we still have sufficient reasons not to lower the annual business targets.

MANAGEMENT DISCUSSION AND ANALYSIS

Maintaining heavy investment and developing cutting-edge technology have been the development strategy of TCL Electronics in face of the pandemic. The Eagle Laboratory set up by TCL Electronics focuses on research and development in AI, IoT and cloud services as well as the innovative application of products. It is the core provider of “data service” + “smart scenario” of TCL Electronics. Currently, the Eagle Laboratory consists of four technological centres worldwide, over 200 employees for big data and cloud platform, and more than 400 employees for AI algorithm. In the first half of 2020, research and development investment of TCL Electronics reached HK\$513 million, increased by 43.6% year-on-year.

In the second quarter of 2020, we continued to optimise our global supply chain layout. The MASA factory (phase one) in Juarez, Mexico, has begun mass production as planned. It is mainly dedicated to the production of large-screen smart TVs. The construction of MASA factory (phase two) is already under preparation. The production capacity of the Vietnam factory (phase one) continued to rise and reached the set target. The Vietnam factory (phase two) is under construction. The Group’s total global production capacity of brand TV has risen to 27 million sets per year, thus further optimising the overseas supply chain capacity layout.

We continue to transform to “intelligent manufacturing in China”, promote the 5G + industrial Internet process, and create a technology-leading, scene-extensive and replicable 5G + industrial Internet demonstration park. In the first half of 2020, we built the TCL Electronics 5G + Industrial Internet Application Demonstration Park, integrated 5G-equipped AMR (automated mobile robot) intelligent logistics vehicle with MES (manufacturing execution system), WMS (warehouse management system) and other internal systems, and intelligenced the “last mile” of logistics work. With these measures, we reduced online material overstocking by more than 20%, greatly improved the production management efficiency, and raised the workshop comprehensive efficiency by 21%.

We are leading in worldwide sales growth of high-tech smart large-screen TV. The average size of our TV sold increased from 43.3 inches in the second quarter of 2019 to 45.6 inches in the second quarter of 2020; the sales volume of 65-inch and above super-large TV increased by 40.0% year-on-year; and the proportion of 4K TV sales volume increased from 43.9% in the second quarter of 2019 to 55.7% in the second quarter of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

We persist in fostering and expanding our family Internet business globally. By the end of June 2020, with the continuous access of smart TV devices, the number of monthly active users of the domestic Internet platform, Shenzhen Falcon Network Technology Co., Ltd.* (深圳市雷鳥網絡科技有限公司) (“Falcon Network Technology”), increased by 24.2% year-on-year to 16.96 million, the average time spent on TV per user increased by 16.8% year-on-year, and the average revenue per user (“ARPU”) in the first half of 2020 increased by 28.8% year-on-year to HK\$23.9. Apart from that, we joined hands with overseas Internet giants to expand our worldwide household Internet business. Starting in the second quarter of 2020, we cooperated with Google for the first time to expand the North American markets, and in the next year we will work with Roku to expand the United Kingdom and Brazilian markets, providing users in key markets with operating systems and smart TV products of different experiences, as well as a wider range of Internet value-added services.

In the first half of 2020, the Company’s products were awarded a number of international and domestic honors, achievements and recognition. TCL X9 8K QLED TV received the “8K QLED TV Gold Award 2019-2020” by International Data Group Co. Ltd. (“IDG”, a technology media, data and marketing services company) at the 2020 International Consumer Electronics Show (“CES”); TCL-XESS Rotary Smart Screen won the Appliance & Electronics World Expo 2020 (“AWE 2020”) Award for Outstanding Products at the AWE 2020, and TCL 9 Series RAY•DANZ soundbar was bestowed with “iF Design Award 2020”. In addition, Falcon Network Technology incubated by TCL Electronics was enlisted on “China’s TOP100 most investor-focused start-ups in 2020” by 36Kr. The brand price index of TCL brand TV in the PRC market was 103 in the first half of 2020, ranking the second among all Chinese brands, according to CMM’s omni-channel data.

MANAGEMENT DISCUSSION AND ANALYSIS

2. TCL Brand TV

Overseas markets

TV business generated HK\$6,053 million in the second quarter of 2020, up by 42.5% year-on-year and 41.8% quarter-on-quarter. Moreover, the TV shipment reached 4.20 million sets in the second quarter of 2020, up by 40.4% year-on-year and 35.1% quarter-on-quarter. In the face of the sudden outbreak of COVID-19, benefitting from our leading advantages in branding, product competitiveness and global supply chain, we were able to respond rapidly and adjust our marketing and supply strategy in the first quarter. In the second quarter, the sales of the Group swiftly recovered and recorded growth.

According to the latest report of GfK, market share of TCL brand TV in terms of sales volume in overseas markets increased by 1.7 percentage points year-on-year in the first half of 2020. Sales volume of TCL brand TV ranked top five in 19 countries worldwide with year-on-year market share growth:

- **North American Markets:** Shipment in the second quarter of 2020 surged by 68.5% year-on-year and 104.7% quarter-on-quarter. On the rankings of market share by sales volume of TCL brand TV for the six months ended 30 June 2020, the Group ranked No.2 in the U.S., up by 1.4 percentage points year-on-year, and jumped to No.3 and No.4 respectively in Canada and Mexico. (Source: The NPD Group, Inc., U.S./Canada/Mexico Retail Tracking Service, LCD TV, based on unit sales from January to June of 2019 and January to June of 2020).
- **Emerging Markets:** Shipment in the second quarter of 2020 rose by 5.0% year-on-year, down by 12.6% quarter-on-quarter. For the six months ended 30 June 2020, the market share by sales volume of TCL brand TV jumped to No.1 in Pakistan, No.2 in the Philippines and Australia, No.3 in Saudi Arabia and Morocco, and No.4 in Brazil, Thailand and Vietnam (Source: GfK).
- **European Markets:** Shipment in the second quarter of 2020 soared by 55.0% year-on-year and 10.6% quarter-on-quarter. For the six months ended 30 June 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, Czech Republic, Italy and the United Kingdom (Source: GfK).

MANAGEMENT DISCUSSION AND ANALYSIS

The PRC market

In the second quarter of 2020, our TV sales generated revenue of HK\$2,504 million, decreased by 2.7% year-on-year, mainly due to the increased proportion of online sales that was of relatively lower average selling price (“ASP”), and TV sales revenue of the second quarter up by 32.5% quarter-on-quarter, and the TV shipment reached 1.61 million sets, an increase of 13.1% year-on-year, up by 38.2% quarter-on-quarter. According to CMM’s omni-channel data, the market share of our brand TV by sales revenue in the PRC increased from 11.8% in the first half of 2019 to 13.3% in the first half of 2020, with the rank jumped from No.4 in the first half of 2019 to No.2 in the first half of 2020.

During the COVID-19 outbreak, we seized the trend of consumption transformation, strengthened the layout of online channels, and boosted the proportion of online sales through live streaming. In the second quarter, the online sales volume of our brand TV reached 870,000 sets, up by 39.6% year-on-year, and the proportion of online sales volume increased significantly to 54.1% from 43.8% in the corresponding period of last year. According to the data of CMM and JD.com, during the period of the 18 June shopping gala (i.e. 1 June to 21 June) in 2020, sales volume of our brand TV online ranked No.2, and the sales volume on JD.com ranked No.1 on 18 June 2020.

In spring 2020, we unveiled 13 new TV models marketed as “Sound and Picture Experts with Large-screen that Understand You”. These TVs were categorised in 3 series. The “C8 Zhizhen QLED TV”, equipped with the quantum dot (“QLED”) Pro 2020 technology for the first time and combined with TCL self-developed Q image quality engine technology, had made further optimisation of brightness, colour and sharpness, thus presenting outstanding picture quality for users; the “P9 Hollywood Theatre TV”, equipped with premier Onkyo Hi-Fi audio, was positioned as a large-screen home theater with impressive Hi-Fi sound effects for users; while “V8 full-scenario AI TV” made upgrades of four aspects of all time, all family members, all functions and all house range based on the original artificial intelligence operation, and thus users can enjoy the supreme picture quality, sound quality and full-scenario AI technology and functions.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Internet Services

The PRC market

In the second quarter of 2020, revenue from the domestic Internet business (mainly relevant business of Falcon Network Technology) reached HK\$250 million, up by 87.5% year-on-year and 70.0% quarter-on-quarter. During the period, Falcon Network Technology continued to strengthen product competitiveness, enrich platform content, and optimise user experience. With all these moves, user loyalty continued to be enhanced and membership penetration rate continued to improve. The number of existing subscribers in June 2020 increased by 63.1% year-on-year, and the membership revenue in the second quarter of 2020 increased by 69.7% year-on-year, and by 12.0% quarter-on-quarter. Besides, Falcon Network Technology aggressively expanded its value-added businesses, including services for children, education and Falcon Alliance, with value-added business revenue increasing by 169.3% year-on-year and 363.8% quarter-on-quarter.

As of 30 June 2020, the number of monthly active users of Falcon Network Technology reached 16.96 million, up by 24.2% year-on-year, the average time spent on TV per user increased by 16.8% year-on-year to 6.14 hours, and the ARPU of Falcon Network Technology reached HK\$23.9 in the first half of 2020, up by 28.8% year-on-year.

Overseas markets

In the second quarter, revenue from overseas Internet business reached HK\$116 million, up by 20.2% year-on-year. In the second quarter of 2020, we started cooperation with Google in North America, hence the partnership has fully covered major overseas markets. Meanwhile, our partnership with Roku will expand from the United States to worldwide, showing the increasing coverage and influence of our overseas Internet business.

In addition, we actively promote TCL Channel overseas. As of the end of June 2020, TCL Channel has been successfully launched in eight countries namely Vietnam, India, Japan, Brazil, Russia, Thailand, France and Germany, providing overseas users with rich local content resources. TCL Channel will be launched in more countries in the second half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Corporate Social Responsibilities

Although the pandemic has far-reaching impact on everyone, TCL Electronics, as a global enterprise, has actively undertaken social responsibilities and contributed its power to the global fight against the pandemic. On 26 January 2020, we donated LCD equipment to Wuhan Huoshenshan Hospital and Leishenshan Hospital, and sent an installation team to support them. Also, TCL Electronics' Internet business platform Falcon Network Technology launched a campaign against the spread of the pandemic, instantly provided special pandemic reports on the front page of TCL brand TV's content platform, and provided some popular paid content to users free of charge.

In addition, we offered care and necessary pandemic prevention materials to overseas employees, users and channel vendors. At the beginning of the year, we donated a batch of pandemic prevention materials to the European branch of TCL Communication, and the European branches of the Company took all necessary measures, including wearing masks and conducting telecommuting and intelligent office. In July 2020, TCL, as vice president of the China International Chamber of Commerce, being informed of the urgent need for pandemic prevention materials at UN-Habitat headquartered in Nairobi, Kenya, instructed TCL Foundation to prepare and collect pandemic prevention materials to support UN-Habitat headquarters in combating the coronavirus pandemic. Since the outbreak, we have made every effort and contributed our own strength to fight against the pandemic.

5. Interim Dividend

The Board declared an interim dividend of HK9.70 cents per share, with a dividend yield of 45% (after deducting one-off non-operating gain). Since 2017, TCL Electronics has paid cash dividends for three consecutive years, with a cumulative dividend of more than HK\$1,370 million. We will continue to implement the existing dividend policy to reward our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Outlook

COVID-19 pandemic is continuing its spread across the world. However, the growth of the business performance in the second quarter of 2020 against the downward trend gives the Company strong confidence. We will endeavor to maintain double-digit year-on-year growth across both revenue and profit in 2020. Meanwhile, we will also seize more opportunities amidst uncertainties. In the second half of 2020, we will continue to focus on the core strategy of “AI x IoT”:

- increase research and development investment to further develop industry-leading high-end display technologies namely QLED, Mini LED and 8K, and continue to consolidate our core competitiveness in technological areas including AI, Internet-based big data, 5G and smart manufacturing;
- leverage our distinctive advantage of vertically integrated industrial chain to further increase TCL Electronics’ market share in both domestic and overseas TV markets to a global leading position;
- continue to increase the market share of our Internet business, seek new source of growth and enhance ARPU in the domestic market. We will 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 TCL Electronics’ capability of generating profits; and
- seize the business opportunity of the 5G era to propel product and application upgrades. We will further develop the three major smart scenarios namely smart home, mobile services and commercial displays to offer users with smart and healthy living experience and services across all scenarios and categories featuring inter-connectivity.

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, research and development innovation, and digital transformation, while seeking to expand our Internet value-added services. Confident and determined as ever, we will endeavor 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 Second Quarter of 2020 and the Second Quarter of 2019**

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

	Three months ended	
	30 June 2020	30 June 2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
		(restated)
CONTINUING OPERATIONS		
REVENUE	10,277,411	7,523,973
Cost of sales	(8,133,029)	(5,868,195)
Gross profit	2,144,382	1,655,778
Other revenue and gains	180,729	904,348
Selling and distribution expenses	(1,231,799)	(1,014,410)
Administrative expenses	(152,244)	(271,546)
Research and development costs	(259,407)	(182,547)
Other operating expenses	(306)	(600)
Impairment losses on financial assets, net	(997)	(5,507)
	680,358	1,085,516
Finance costs	(39,253)	(28,655)
Share of profits and losses of:		
– Joint ventures	3,814	4,643
– Associates	(79,071)	(3,203)
Profit before tax from continuing operations	565,848	1,058,301
Income tax	(82,276)	(43,380)
Profit for the period from continuing operations	483,572	1,014,921
Profit/(loss) for the period from a discontinued operation	(6,276)	83,677
Profit for the period	477,296	1,098,598
Profit attributable to owners of the parent		
– For the period (included a discontinued operation)	431,244	1,088,168
– From continuing operations	437,520	1,004,491
Profit attributable to owners of the parent after deducting one-off non-operating gain		
– For the period (included a discontinued operation)	416,992	280,073
– From continuing operations	423,268	196,396

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The Group's revenue from continuing operations increased by 36.6% year-on-year from HK\$7,524 million in the second quarter of 2019 to HK\$10,277 million in the second quarter of 2020. The table below shows our revenue by business for the three months ended 30 June 2020 and 30 June 2019:

	Three months ended			
	30 June 2020 (unaudited)	Proportion in the total revenue	30 June 2019 (unaudited)	Proportion in the total revenue
	HK\$'000		HK\$'000 (restated)	
TCL brand TV business				
– Overseas	6,053,196	58.9%	4,247,726	56.5%
– the PRC	2,504,517	24.4%	2,574,296	34.2%
Internet services				
– the PRC	249,689	2.4%	133,192	1.8%
– Overseas	116,021	1.1%	96,487	1.3%
Others*	1,353,988	13.2%	472,272	6.2%
Total revenue	10,277,411	100.0%	7,523,973	100.0%

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

MANAGEMENT DISCUSSION AND ANALYSIS

TV Business

Overseas

Revenue of TCL brand TV in overseas markets increased by 42.5% year-on-year from HK\$4,248 million in the second quarter of 2019 to HK\$6,053 million in the second quarter of 2020. In terms of sales volume, it increased by 40.4% year-on-year from 2.99 million sets in the second quarter of 2019 to 4.20 million sets in the second quarter of 2020.

The growth of revenue and sales volume was driven by enhanced product competitiveness, improved product structure and global industrial chain layout, as well as the Group's rapid response and deployment to market changes and demand during the pandemic.

The PRC

Revenue of TCL brand TV in the PRC market decreased by 2.7% year-on-year from HK\$2,574 million in the second quarter of 2019 to HK\$2,504 million in the second quarter of 2020. The decline was mainly due to the Group's optimisation of its online and offline channel portfolio and the active deployment of online channels. In the second quarter of 2020, 1.61 million TV sets were sold by the Group, with a year-on-year growth of 13.1%, among which online sales volume increased by 39.6% year-on-year and offline sales volume decreased by 7.6% year-on-year.

Internet Services

The PRC

In the second quarter of 2020, the Group's revenue from the domestic Internet business (mainly relevant business of Falcon Network Technology) rose by 87.5% year-on-year from HK\$133 million in the second quarter of 2019 to HK\$250 million in the second quarter of 2020. Among which, Falcon Network Technology's revenue from its membership business increased by 69.7% year-on-year, value-added business increased by 169.3% year-on-year and advertising business increased by 27.4% year-on-year, respectively. ARPU of Falcon Network Technology reached HK\$23.9 in the first half of this year, surging by 28.8% year-on-year.

Overseas

In the second quarter of 2020, the Group's revenue from the overseas Internet business increased by 20.2% year-on-year from HK\$96 million in the second quarter of 2019 to HK\$116 million in the second quarter of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

The overall gross profit in the second quarter of 2020 was HK\$2,144 million, up by 29.5% year-on-year from HK\$1,656 million in the second quarter of 2019. The gross profit margin was 20.9% in the second quarter of 2020.

TV Business

Overseas

The gross profit margin of the TCL brand TV in the overseas markets decreased by 0.3 percentage points year-on-year from 17.3% in the second quarter of 2019 to 17.0% in the second quarter of 2020. The decrease was attributable to the influence of regional structure changes. In the second quarter of this year, the sales volume growth of the Group in the U.S. was much greater than that of other regions, which accounted for a higher proportion of the businesses with lower gross profit and expenses.

The PRC

The gross profit margin of the TCL brand TV in the PRC market decreased by 1.7 percentage points year-on-year from 26.2% in the second quarter of 2019 to 24.5% in the second quarter of 2020. With the pandemic being gradually contained, the Group actively conducted promotion campaigns to drive up sales and profits.

Other Revenue and Gains

Other revenue and gains decreased by 80.0% year-on-year from HK\$904 million in the second quarter of 2019 to HK\$181 million in the second quarter of 2020. The gap was mainly due to the one-off gain of HK\$787 million on the fair value remeasurement of 44.44% pre-existing equity interest of Falcon Network Technology included in the second quarter of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Expenses

The selling and distribution expenses grew by 21.5% year-on-year from HK\$1,014 million in the second quarter of 2019 to HK\$1,232 million in the second quarter of 2020. The growth was mainly driven by the rise in logistics costs in North American markets and the increase in transportation expenses caused by the growth in domestic online sales volume.

Administrative Expenses

The administrative expenses decreased by 44.1% year-on-year from HK\$272 million in the second quarter of 2019 to HK\$152 million in the second quarter of 2020, mainly due to the fact that the administrative expenses in the second quarter of 2020 included the write-back of exchange losses of HK\$97 million while that in the second quarter of 2019 included the exchange losses of HK\$29 million.

Research and Development Costs

The research and development costs grew by 41.5% year-on-year from HK\$183 million in the second quarter of 2019 to HK\$259 million in the second quarter of 2020. The growth was mainly attributable to the Group's increased investment in "AI x IoT" and other frontier technologies for its long-term development.

Impairment Losses on Financial Assets, Net

The net impairment losses on financial assets decreased by 83.3% year-on-year from HK\$6 million in the second quarter of 2019 to HK\$1 million in the second quarter of 2020. The decrease was mainly because the Group strengthened its credit management.

Finance Costs

The finance costs increased by 34.5% year-on-year from HK\$29 million in the second quarter of 2019 to HK\$39 million in the second quarter of 2020. The increase was mainly because of the newly added loans.

MANAGEMENT DISCUSSION AND ANALYSIS

Share of Profits and Losses

The share of losses in the second quarter of 2020 was HK\$75 million, while the share of profits in the second quarter of 2019 was HK\$1 million. The share of losses was mainly caused by exchange fluctuation of SEMP TCL Indústria e Comércio de Eletroeletrônicos S.A. ("SEMP TCL").

Profit Before Tax from Continuing Operations

The profit before tax from continuing operations decreased by 46.5% year-on-year from HK\$1,058 million in the second quarter of 2019 to HK\$566 million in the second quarter 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 was included in the same period last year.

Income Tax

The income tax rose by 89.7% year-on-year from HK\$43 million in the second quarter of 2019 to HK\$82 million in the second quarter of 2020, mainly due to the increase in pre-tax profits of overseas subsidiaries and the increase of accrued income tax. One-off gain on fair value remeasurement of 44.44% equity interest in Falcon Network Technology in 2019 did not have impact on income tax.

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

The profit for the period from continuing operations decreased by 52.3% year-on-year from HK\$1,015 million in the second quarter of 2019 to HK\$484 million in the second quarter of 2020. The profit attributable to owners of the parent from continuing operations was HK\$438 million, a year-on-year decrease of 56.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The one-off gain in the second quarter of 2019 primarily comprised HK\$787 million on the fair value remeasurement of 44.44% pre-existing equity interest of Falcon Network Technology. The profit attributable to owners of the parent from continuing operations after deducting one-off non-operating gain in the second quarter of 2020 was HK\$424 million, up by 116.3% year-on-year. The Group actively rose to the challenges posed by the pandemic by expanding business, seizing new growth opportunities and increasing revenue through innovative marketing model. On the other hand, the Group improved operating efficiency through reduction of costs and expense control.

Investment

On 3 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 will sell its entire 100% equity interest of Moka International Limited ("Moka International"), which mainly engages in ODM business for TVs to T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries (H.K.)", an immediate holding company of the Company) for RMB2,500 million. At the same time, the Group will acquire 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.

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 will be consolidated into the financial statements of the Group in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Comparison between the Second Quarter and the First Quarter of 2020

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

	Three months ended	
	30 June 2020 (unaudited) <i>HK\$'000</i>	31 March 2020 (unaudited) <i>HK\$'000</i>
CONTINUING OPERATIONS		
REVENUE	10,277,411	6,999,668
Cost of sales	(8,133,029)	(5,599,562)
Gross profit	2,144,382	1,400,106
Other revenue and gains	180,729	286,547
Selling and distribution expenses	(1,231,799)	(895,028)
Administrative expenses	(152,244)	(373,771)
Research and development costs	(259,407)	(253,351)
Other operating expenses	(306)	(6,474)
Impairment losses on financial assets, net	(997)	(2,107)
Finance costs	680,358 (39,253)	155,922 (43,511)
Share of profits and losses of:		
– Joint ventures	3,814	3,080
– Associates	(79,071)	(27,399)
Profit before tax from continuing operations	565,848	88,092
Income tax	(82,276)	(48,400)
Profit for the period from continuing operations	483,572	39,692
Profit/(loss) for the period from a discontinued operation	(6,276)	72,173
Profit for the period	477,296	111,865
Profit attributable to owners of the parent		
– For the period (included a discontinued operation)	431,244	104,628
– From continuing operations	437,520	32,455
Profit attributable to owners of the parent after deducting one-off non-operating gain		
– For the period (included a discontinued operation)	416,992	104,401
– From continuing operations	423,268	32,228

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The Group's revenue from continuing operations increased by 46.8% quarter-on-quarter from HK\$7,000 million in the first quarter of 2020 to HK\$10,277 million in the second quarter of 2020. The following table illustrates the revenue in the second quarter and the first quarter of 2020 based on different businesses:

	Three months ended			
	30 June 2020 (unaudited)	Proportion in the total revenue	31 March 2020 (unaudited)	Proportion in the total revenue
	HK\$'000		HK\$'000	
TCL brand TV business				
– Overseas	6,053,196	58.9%	4,269,400	61.0%
– the PRC	2,504,517	24.4%	1,889,501	27.0%
Internet services				
– the PRC	249,689	2.4%	146,885	2.1%
– Overseas	116,021	1.1%	8,463	0.1%
Others*	1,353,988	13.2%	685,419	9.8%
Total revenue	10,277,411	100.0%	6,999,668	100.0%

* Others mainly comprise revenue from smart home, smart commercial display and Smart AV businesses

MANAGEMENT DISCUSSION AND ANALYSIS

TV Business

Overseas

Revenue of TCL brand TV increased by 41.8% from HK\$4,269 million in the first quarter of 2020 to HK\$6,053 million in the second quarter of 2020. The sales volume of TCL brand TV grew by 35.1% from 3.11 million sets in the first quarter of 2020 to 4.20 million sets in the second quarter of 2020. The turnaround was attributable to the Group's active response to the pandemic by swiftly adjusting market strategies and supply capacity which drove up the TV sales.

The PRC

Revenue of TCL brand TV rose by 32.5% from HK\$1,890 million in the first quarter of 2020 to HK\$2,504 million in the second quarter of 2020. The sales volume of TCL brand TV increased by 38.2% from 1.16 million sets in the first quarter of 2020 to 1.61 million sets in the second quarter of 2020. The increase was driven by the Group's active adjustment of distribution sales and introduction of live-streaming sales, offline channel promotion and other types of sales methods, which contributed to impressive online and offline sales performance.

The sales volume of TCL brand TV through online distribution channels in the PRC market increased by 70.6% from 510,000 sets in the first quarter of 2020 to 870,000 sets in the second quarter of 2020. The offline sales volume increased by 13.9% from 650,000 sets in the first quarter of 2020 to 740,000 sets in the second quarter of 2020. The growth was powered by the Group's increased investment in marketing resources of online sales and maintenance of advantages of offline sales distribution channels.

MANAGEMENT DISCUSSION AND ANALYSIS

Internet Services

The PRC

Revenue of the Internet business in the PRC (mainly relevant business of Falcon Network Technology) increased by 70.0% from HK\$147 million in the first quarter of 2020 to HK\$250 million in the second quarter of 2020. Among which, revenue from membership business, value-added business and advertising business of Falcon Network Technology rose by 12.0%, 363.8% and 23.4% respectively over the previous quarter. The progress was mainly attributable to Falcon Network Technology's constant enrichment of platform content and improvement of user experience, which contributed to continuous enhancement of user loyalty. Meanwhile, under the positive influence of homebound life due to the pandemic, more and more consumers chose large-screen TV as the entertainment terminal.

Overseas

Revenue from overseas Internet business increased by 1,270.9% from HK\$8 million in the first quarter of 2020 to HK\$116 million in the second quarter of 2020, mainly due to the overseas Internet revenue of the first half in 2020 recognised in the second quarter.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

Due to the Group's efforts in catching up business in the second quarter of 2020, the overall gross profit of the Group increased by 53.2% from HK\$1,400 million in the first quarter of 2020 to HK\$2,144 million in the second quarter of 2020. Moreover, the gross profit margin in the second quarter of 2020 increased by 0.9 percentage points to 20.9% compared with the first quarter of 2020.

TV Business

Overseas

The gross profit margin of the Group's TCL brand TV in the overseas markets decreased by 0.8 percentage points from 17.8% in the first quarter of 2020 to 17.0% in the second quarter of 2020. The change was mainly attributable to adjustment of regional structure. Rapid growth was seen in the European and emerging markets with high gross profit in the first quarter, while the business in North America with low gross profit (low expenses) grew fast in the second quarter.

The PRC

The gross profit margin of the Group's TCL brand TV in the PRC market rose by 2.4 percentage points from 22.1% in the first quarter of 2020 to 24.5% in the second quarter of 2020. The growth was mainly powered by the enhanced competitiveness of the Group's new products, improvement of products structure and higher proportion of high-end products.

Other Revenue and Gains

Other revenue and gains decreased by 36.9% from HK\$287 million in the first quarter of 2020 to HK\$181 million in the second quarter of 2020. The decrease was mainly due to the quarter-on-quarter drop of HK\$170 million in investment gains from trading financial assets.

Selling and Distribution Expenses

The selling and distribution expenses increased by 37.6% from HK\$895 million in the first quarter of 2020 to HK\$1,232 million in the second quarter of 2020, mainly due to the increased sales volume in the second quarter and hence increase in costs of sales and distribution.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

The administrative expenses decreased by 59.2% from HK\$374 million in the first quarter of 2020 to HK\$152 million in the second quarter of 2020. The decrease was mainly because administrative expenses in the first quarter included exchange losses of HK\$97 million, while that in the second quarter included the write-back of exchange losses of HK\$97 million and additional exchange gains of HK\$10 million, which was recognised in other revenue and gains in the second quarter.

Research and Development Costs

The research and development costs increased by 2.4% from HK\$253 million in the first quarter of 2020 to HK\$259 million in the second quarter of 2020. The increase was mainly due to the Group's increase in investment in research and development to prepare for future market development.

Impairment Losses on Financial Assets, Net

The net impairment losses on financial asset decreased by 52.7% from HK\$2 million in the first quarter of 2020 to HK\$1 million in the second quarter of 2020. The decrease was mainly because the Group strengthened its credit management.

Finance Costs

The finance costs decreased by 9.8% from HK\$44 million in the first quarter of 2020 to HK\$39 million in the second quarter of 2020. The decline was mainly attributable to the decrease of bank loans for the period.

Share of Profits and Losses

The share of losses increased by 209.5% from loss of HK\$24 million in the first quarter of 2020 to loss of HK\$75 million in the second quarter of 2020, which was mainly caused by exchange fluctuation of SEMP TCL.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit before Tax from Continuing Operations

The profit before tax from continuing operations surged by 542.3% from HK\$88 million in the first quarter of 2020 to HK\$566 million in the second quarter of 2020. The growth was attributable to the Group's efforts to actively launch new products, seize the growth opportunities, and increase sales and profits with the pandemic being gradually contained.

Income Tax

The income tax grew by 70.0% from HK\$48 million in the first quarter of 2020 to HK\$82 million in the second quarter of 2020, which was mainly due to substantial rise in the corresponding profit before tax in the second quarter.

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

In the second quarter of 2020, the profit for the period of the Group's continuing operations was HK\$484 million. The profit attributable to owners of the parent from continuing operations was HK\$438 million.

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

The profit attributable to owners of the parent from continuing operations after deducting one-off non-operating gain in the second quarter was HK\$424 million, up by 1,225.0% quarter-on-quarter. The growth was mainly attributable to the Group's efforts to promote new products, seize the opportunities of growth and increase the sales and profits with the pandemic being gradually contained.

Liquidity and Financial Resources

As of 30 June 2020 and 31 March 2020, the cash and cash equivalents were HK\$10,758 million and HK\$9,368 million, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS**Summary of Condensed Consolidated Statement of Cash Flows**

	Three months ended	
	30 June 2020	31 March 2020
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash flows from operating activities	893,819	8,101
Net cash flows from/(used in) investing activities	(177,443)	121,059
Net cash flows from financing activities	659,197	1,270,169
Net increase in cash and cash equivalents	1,375,573	1,399,329
Cash and cash equivalents at beginning of period	9,368,197	8,194,743
Effect of foreign exchange rate change, net	13,762	(225,875)
Cash and cash equivalents at end of period	10,757,532	9,368,197
Analysis of Balances of Cash and Cash Equivalents:		
Cash and cash equivalents	9,156,265	7,651,254
Less: Restricted cash	(5,664)	(5,663)
Cash and cash equivalents as stated in the consolidated statement of financial position	9,150,601	7,645,591
Cash and cash equivalents attributable to a disposal group classified as held for sale	1,606,931	1,722,606
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	10,757,532	9,368,197

MANAGEMENT DISCUSSION AND ANALYSIS

Net Cash Flows from Operating Activities

The net cash flows from operating activities were the result of deduction of income taxes paid and interest from the cash generated from operations. The cash generated from operations mainly includes profit for the period (after adjustment of non-cash items and operating capital). In the second quarter of 2020, the net cash flows from operating activities were HK\$894 million, resulting from deduction of HK\$110 million of income taxes paid and HK\$30 million of interest paid from the HK\$1,030 million cash generated from operations. The cash generated from operations in the second quarter of 2020 was mainly caused by HK\$570 million of profit before tax and comprising of the increase of HK\$400 million in trade payables, reduction of HK\$850 million in inventories and increase of HK\$1,040 million in trade receivables.

Net Cash Flows Used in Investing Activities

In the second quarter of 2020, the net cash used in investing activities was HK\$177 million, which was caused by the net cash outflow of HK\$140 million in financial assets at fair value through profit or loss.

Net Cash Flows from Financing Activities

In the second quarter of 2020, the cash flows from financing activities were HK\$659 million, which was caused by the net cash inflows of HK\$590 million from net changes in new loans.

MANAGEMENT DISCUSSION AND ANALYSIS**Comparison between the First Half of 2020 and the First Half of 2019**

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

	Six months ended	
	30 June 2020	30 June 2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
		(restated)
CONTINUING OPERATIONS		
REVENUE	17,277,079	17,824,606
Cost of sales	(13,732,591)	(14,414,494)
Gross profit	3,544,488	3,410,112
Other revenue and gains	467,276	1,100,036
Selling and distribution expenses	(2,126,827)	(2,185,232)
Administrative expenses	(526,015)	(513,424)
Research and development costs	(512,758)	(357,045)
Other operating expenses	(6,780)	(4,308)
Impairment losses on financial assets, net	(3,104)	(16,910)
	836,280	1,433,229
Finance costs	(82,764)	(70,528)
Share of profits and losses of:		
– Joint ventures	6,894	6,318
– Associates	(106,470)	14,240
Profit before tax from continuing operations	653,940	1,383,259
Income tax	(130,676)	(80,001)
Profit for the period from continuing operations	523,264	1,303,258
Profit for the period from a discontinued operation	65,897	65,294
Profit for the period	589,161	1,368,552
Profit attributable to owners of the parent		
– For the period (included a discontinued operation)	535,872	1,362,015
– From continuing operations	469,975	1,296,721
Profit attributable to owners of the parent after deducting one-off non-operating gain		
– For the period (included a discontinued operation)	521,393	553,920
– From continuing operations	455,496	488,626

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The Group's revenue from continuing operations declined by 3.1% year-on-year from HK\$17,825 million in the first half of 2019 to HK\$17,277 million in the first half of 2020. The table below shows our revenue by business for the six months ended 30 June 2020 and 30 June 2019:

	Six months ended			
	30 June 2020 (unaudited)	Proportion in the total revenue	30 June 2019 (unaudited)	Proportion in the total revenue
	HK\$'000		HK\$'000 (restated)	
TCL brand TV business				
– Overseas	10,322,596	59.7%	10,768,357	60.4%
– the PRC	4,394,018	25.4%	6,217,984	34.9%
Internet services				
– the PRC	396,574	2.3%	133,192	0.7%
– Overseas	124,484	0.7%	96,486	0.5%
Others*	2,039,407	11.9%	608,587	3.5%
Total revenue	17,277,079	100.0%	17,824,606	100.0%

* Others mainly comprise revenue from smart home, smart commercial display and Smart AV businesses

MANAGEMENT DISCUSSION AND ANALYSIS

TV Business

Overseas

Revenue of TCL brand TV in overseas markets dropped by 4.1% year-on-year from HK\$10,768 million in the first half of 2019 to HK\$10,322 million in the first half of 2020. In terms of sales volume, it increased by 3.4% year-on-year from 7.07 million sets in the first half of 2019 to 7.31 million sets in the first half of 2020.

The sales volume in North America for the first quarter of 2020 recorded a year-on-year decline, mainly because trade friction between China and the U.S. concerned some distributors who significantly piled up inventories in the first quarter of 2019. The sales volume in North America for the first quarter of 2019 recorded year-on-year growth of 112.0% compared to the first quarter of 2018, resulting in an unusually high basis to compare this year. Despite the outbreak of pandemic in the world, the Group made rapid response and deployment to dynamic changes in the market and demand. In the second quarter of 2020, sales volume in overseas markets recorded strong growth comparing to the preceding quarter, resulting in a single digit year-on-year growth of sales volume in overseas markets for the first half of 2020.

The decline in revenue was mainly attributable to the impact on ASP due to change in geographic structure and market strategies the Group applied to cope with the pandemic.

The PRC

Revenue of TCL brand TV in the PRC market decreased by 29.3% year-on-year from HK\$6,218 million in the first half of 2019 to HK\$4,394 million in the first half of 2020. The decline was mainly because the offline sales in the PRC market was heavily impacted by the pandemic in the first quarter, the Group optimised its online and offline sales channels, and proactively deployed online distribution channel while the ASP of online sales was relatively lower than offline channels. In the first half of 2020, 2.77 million TV sets were sold by the Group, with a year-on-year decrease of 14.5%, of which online sales volume in this period increased by 13.4% year-on-year, representing 50.0% of total sales volume in the PRC, versus 37.7% for the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Internet Services

The PRC

In the first half of 2020, the Group's revenue from the domestic Internet business (mainly relevant business of Falcon Network Technology) rocketed by 197.7% year-on-year from HK\$133 million in the first half of 2019 to HK\$397 million in the first half of 2020, partially because Falcon Network Technology has been consolidated into the Group since April 2019. Additionally, Falcon Network Technology's operation capability was continuously enhanced and in the first half of 2020, revenue from its membership business, value-added business and advertising business increased by 76.6%, 136.5% and 1.5% year-on-year, respectively. ARPU of Falcon Network Technology reached HK\$23.9 in the first half of 2020, surging by 28.8% year-on-year.

Overseas

In the first half of 2020, the Group's revenue from the overseas Internet business increased by 29.0% year-on-year from HK\$96 million in the first half of 2019 to HK\$124 million in the first half of 2020.

Gross Profit and Gross Profit Margin

The overall gross profit in the first half of 2020 was HK\$3,544 million, up by 3.9% year-on-year from HK\$3,410 million in the first half of 2019. The gross profit margin was 20.5% in the first half of 2020, up by 1.4 percentage points year-on-year.

TV Business

Overseas

The gross profit margin of the TCL brand TV in the overseas markets increased by 2.2 percentage points from 15.1% in the first half of 2019 to 17.3% in the first half of 2020. The increase was attributable to improvement in geographic structure due to higher proportion in sales volume from high gross profit margin markets.

The PRC

The gross profit margin of the TCL brand TV in the PRC market decreased by 1.1 percentage points from 24.6% in the first half of 2019 to 23.5% in the first half of 2020. The decrease was mainly attributable to the promotion campaigns actively conducted by the Group to drive up sales and profits after the pandemic was gradually contained.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Revenue and Gains

Other revenue and gains decreased by 57.5% year-on-year from HK\$1,100 million in the first half of 2019 to HK\$467 million in the first half 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 was included in the first half of 2019.

Selling and Distribution Expenses

The selling and distribution expenses dropped by 2.7% year-on-year from HK\$2,185 million in the first half of 2019 to HK\$2,127 million in the first half of 2020, mainly attributable to lower expenditure on advertisement during the pandemic.

Administrative Expenses

The administrative expenses grew by 2.5% year-on-year from HK\$513 million in the first half of 2019 to HK\$526 million in the first half of 2020, mainly attributable to increase in legal and professional fee.

Research and Development Costs

The research and development costs grew by 43.6% year-on-year from HK\$357 million in the first half of 2019 to HK\$513 million in the first half of 2020. The growth was mainly attributable to the Group's increased investment in "AI x IoT" and other frontier technologies for its long-term development.

Impairment Losses on Financial Assets, Net

The net impairment losses on financial assets decreased by 81.6% year-on-year from HK\$17 million in the first half of 2019 to HK\$3 million in the first half of 2020. The decrease was mainly because the Group strengthened its credit management.

Finance Costs

The finance costs increased by 17.4% year-on-year from HK\$71 million in the first half of 2019 to HK\$83 million in the first half of 2020. The increase was mainly because of the newly added loans.

MANAGEMENT DISCUSSION AND ANALYSIS

Share of Profits and Losses

The share of losses in the first half of 2020 was HK\$100 million, while the share of profits in the first half of 2019 was HK\$21 million. The share of losses was mainly due to exchange fluctuation of SEMP TCL.

Profit Before Tax from Continuing Operations

The profit before tax from continuing operations decreased by 52.7% year-on-year from HK\$1,383 million in the first half of 2019 to HK\$654 million in the first half 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 was included in the first half of 2019.

Income Tax

The income tax rose by 63.3% year-on-year from HK\$80 million in the first half of 2019 to HK\$131 million in the first half of 2020, mainly due to the increase in pre-tax profits of overseas subsidiaries and the increase of accrued income tax. One-off gain on fair value remeasurement of 44.44% equity interest in Falcon Network Technology in 2019 did not have impact on income tax.

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

The profit for the period from continuing operations decreased by 59.9% year-on-year from HK\$1,303 million in the first half of 2019 to HK\$523 million in the first half of 2020. The profit attributable to owners of the parent from continuing operations was HK\$470 million, a year-on-year decrease of 63.8%.

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

The one-off gain in the first half of 2019 primarily comprised HK\$787 million on the fair value remeasurement of 44.44% pre-existing equity interest of Falcon Network Technology. The profit attributable to owners of the parent from continuing operations after deducting one-off non-operating gain in the first half of 2020 was HK\$455 million, down by 7.0% year-on-year, which was mainly due to the Group's increased investment in "AI x IoT" and other frontier technologies for its long-term development.

MANAGEMENT DISCUSSION AND ANALYSIS

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\$290 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. The transaction has not yet been completed as at the date of this interim report. Further details of this transaction are set out in the Company's announcement and circular dated 29 June 2020 and 30 June 2020 respectively.

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. The transaction has not yet been completed as at the date of this interim report. Further details of this transaction are set out in the Company's announcement and circular dated 29 June 2020 and 30 June 2020 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, the Group had no other significant investment held as at 30 June 2020, nor other material acquisition and disposal of subsidiaries, associates and/or joint ventures during the six months ended 30 June 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 bank balance of the Group as at 30 June 2020 amounted to approximately HK\$10,757,532,000, of which 0.7% was in Hong Kong dollars, 25.2% in U.S. dollars, 70.6% in Renminbi, 0.7% in Euros and 2.8% 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 June 2020 were HK\$3,578,596,000 which were interest-bearing at fixed rates ranging from 0.8% to 4.8% and denominated in U.S. dollars and Renminbi. 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 June 2020.

As at 30 June 2020, the Group's gearing ratio was 0% since the Group's cash and bank balances of approximately HK\$10,757,532,000 were higher than the total interest-bearing bank and other borrowings and lease liabilities of approximately HK\$3,696,299,000. Gearing ratio was calculated by net borrowings (i.e. total interest-bearing bank and other borrowings and lease liabilities, less cash and bank balances and restricted cash), 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 June 2020, the Group had restricted cash balance of HK\$5,664,000 (31 December 2019: Nil) pledged as the balance of performance and quality guarantees for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Commitments and Contingent Liabilities

As at 30 June 2020, the Group had capital commitments of approximately HK\$2,230,615,000 (31 December 2019: HK\$139,356,000) and HK\$241,579,000 (31 December 2019: HK\$247,115,000) which were contracted but not provided for and authorised but not contracted for, respectively. There was no significant change in contingent liabilities of the Group compared to the position outlined in the Company's 2019 annual report.

Pending Litigation

The Group was not involved in any material litigation as at 30 June 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 June 2020, the Group had a total of 28,678 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 individual 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 166,280,013 shares remained outstanding as at 30 June 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.

INTERIM RESULTS

The board (the “Board”) of directors (“Directors” and each a “Director”) of TCL Electronics is pleased to announce the unaudited consolidated results and financial position of the Group for the three months and six months ended 30 June 2020 with comparative figures for the corresponding period last year as follows and these condensed consolidated interim 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	Six months ended 30 June		Three months ended 30 June	
		2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
CONTINUING OPERATIONS					
REVENUE	5	17,277,079	17,824,606	10,277,411	7,523,973
Cost of sales		(13,732,591)	(14,414,494)	(8,133,029)	(5,868,195)
Gross profit		3,544,488	3,410,112	2,144,382	1,655,778
Other revenue and gains		467,276	1,100,036	180,729	904,348
Selling and distribution expenses		(2,126,827)	(2,185,232)	(1,231,799)	(1,014,410)
Administrative expenses		(526,015)	(513,424)	(152,244)	(271,546)
Research and development costs		(512,758)	(357,045)	(259,407)	(182,547)
Other operating expenses		(6,780)	(4,308)	(306)	(600)
Impairment losses on financial assets, net		(3,104)	(16,910)	(997)	(5,507)
Finance costs	6	836,280	1,433,229	680,358	1,085,516
Share of profits and losses of:		(82,764)	(70,528)	(39,253)	(28,655)
Joint ventures		6,894	6,318	3,814	4,643
Associates		(106,470)	14,240	(79,071)	(3,203)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	653,940	1,383,259	565,848	1,058,301
Income tax	8	(130,676)	(80,001)	(82,276)	(43,380)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		523,264	1,303,258	483,572	1,014,921
DISCONTINUED OPERATION					
Profit/(loss) for the period from a discontinued operation	9	65,897	65,294	(6,276)	83,677
PROFIT FOR THE PERIOD		589,161	1,368,552	477,296	1,098,598

INTERIM RESULTS**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(continued)**

	Six months ended 30 June		Three months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
OTHER COMPREHENSIVE INCOME/(LOSS)				
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	(13,836)	6,038	(7,365)	(5,436)
Reclassification adjustments for (gains)/losses included in profit or loss	15,488	(13,116)	7,527	(8,205)
	1,652	(7,078)	162	(13,641)
Exchange differences:				
Translation of foreign operations	(358,912)	(86,828)	(63,057)	(213,112)
Reclassification adjustments for foreign operations liquidated during the period	-	1,656	-	-
Reclassification adjustments for associates disposed of or liquidated during the period	2,908	377	(961)	-
	(356,004)	(84,795)	(64,018)	(213,112)
Financial assets at fair value through other comprehensive income:				
Changes in fair value, net of income tax	10,084	9,539	10,084	9,539
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(344,268)	(82,334)	(53,772)	(217,214)

INTERIM RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Note	Six months ended 30 June		Three months ended 30 June	
	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	(3,430)	(1,217)	(3,430)	(1,217)
Share of other comprehensive income/(loss) of associates	2,938	(1,506)	2,933	(1,738)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(492)	(2,723)	(497)	(2,955)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(344,760)	(85,057)	(54,269)	(220,169)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	244,401	1,283,495	423,027	878,429
Profit attributable to:				
Owners of the parent	535,872	1,362,015	431,244	1,088,168
Non-controlling interests	53,289	6,537	46,052	10,430
	589,161	1,368,552	477,296	1,098,598
Total comprehensive income/(loss) attributable to:				
Owners of the parent	198,454	1,285,168	377,132	876,067
Non-controlling interests	45,947	(1,673)	45,895	2,362
	244,401	1,283,495	423,027	878,429
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11			
Basic				
– For profit for the period	HK23.30 cents	HK60.01 cents		
– For profit from continuing operations	HK20.43 cents	HK57.13 cents		
Diluted				
– For profit for the period	HK23.05 cents	HK58.70 cents		
– For profit from continuing operations	HK20.22 cents	HK55.89 cents		

INTERIM RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,387,113	1,531,460
Investment properties		105,560	127,908
Right-of-use assets		275,634	285,569
Goodwill		1,834,840	1,867,990
Other intangible assets		140,604	156,166
Investments in joint ventures		34,677	31,323
Investments in associates		892,008	1,398,627
Equity investments designated at fair value through other comprehensive income		137,433	143,920
Deferred tax assets		69,678	85,584
Other deferred assets		43,578	44,430
Restricted cash		2,794	3,396
Total non-current assets		4,923,919	5,676,373
CURRENT ASSETS			
Inventories		4,752,530	5,401,416
Trade receivables	12	5,234,973	5,993,843
Bills receivable		2,345,238	4,167,798
Prepayments, other receivables and other assets		4,326,953	2,743,731
Tax recoverable		84,741	41,180
Financial assets at fair value through profit or loss		1,220,561	961,576
Derivative financial instruments		129,133	139,480
Restricted cash		2,870	2,431
Cash and cash equivalents		9,150,601	8,194,743
Assets classified as held for sale	9	27,247,600 4,872,856	27,646,198 –
Total current assets		32,120,456	27,646,198

INTERIM RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

		30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade payables	13	6,871,888	9,396,398
Bills payable		2,611,200	2,683,814
Other payables and accruals		7,473,719	6,477,884
Interest-bearing bank and other borrowings	14	2,780,212	1,648,612
Lease liabilities		56,104	80,808
Tax payable		95,275	134,708
Derivative financial instruments		44,863	44,086
Provisions		513,462	689,597
		20,446,723	21,155,907
Liabilities directly associated with assets classified as held for sale	9	3,688,818	–
Total current liabilities		24,135,541	21,155,907
NET CURRENT ASSETS		7,984,915	6,490,291
TOTAL ASSETS LESS CURRENT LIABILITIES		12,908,834	12,166,664
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	14	798,384	89,286
Lease liabilities		60,331	59,621
Deferred tax liabilities		38,246	46,840
Other long-term payables		27,127	27,252
Derivative financial instruments		6,867	6,899
Total non-current liabilities		930,955	229,898
Net assets		11,977,879	11,936,766
EQUITY			
Equity attributable to owners of the parent			
Issued capital	15	2,371,437	2,363,225
Reserves		9,194,354	9,216,765
Non-controlling interests		11,565,791	11,579,990
		412,088	356,776
Total equity		11,977,879	11,936,766

INTERIM RESULTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent											Non-controlling interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000		
	Issued capital (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Share option reserve (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Reserve funds (unaudited) HK\$'000	Cash flow hedge reserve (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Other reserve (unaudited) HK\$'000	Shares held for the Award Scheme (unaudited) HK\$'000	Awarded share reserve (unaudited) HK\$'000	Fair value reserve of financial assets at fair value through other comprehensive income (unaudited) HK\$'000			Retained profits (unaudited) HK\$'000	
At 1 January 2019	2,335,494	5,488,276	277,231	84,275	910,655	1,775	(240,754)	22,911	(245,269)	158,321	(7,667)	991,635	9,779,321	244	9,779,565
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	1,362,015	1,362,015	6,537	1,368,552
Other comprehensive income/(loss) for the period:															
Cash flow hedge	-	-	-	-	-	(7,078)	-	-	-	-	-	-	(7,078)	-	(7,078)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(76,618)	-	-	-	-	-	(76,618)	(8,210)	(86,828)
Reclassification of exchange differences for foreign operations liquidated	-	-	-	-	-	-	1,656	-	-	-	-	-	1,656	-	1,656
Reclassification of exchange differences for associates disposed of	-	-	-	-	-	-	377	-	-	-	-	-	377	-	377
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	9,539	-	9,539	-	-	9,539
Change in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	-	(1,217)	-	(1,217)	-	(1,217)
Share of other comprehensive loss of associates	-	-	-	-	-	-	-	(1,506)	-	-	-	-	(1,506)	-	(1,506)
Total comprehensive income/(loss) for the period	-	-	-	-	-	(7,078)	(76,585)	(1,506)	-	8,332	1,362,015	1,285,168	(1,673)	1,283,495	
Acquisition of subsidiaries	-	-	-	-	-	-	(8,613)	-	-	-	-	(8,613)	324,864	-	316,251
Capital injection from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	8,524	-	8,524
Share option schemes and long term incentive plans of subsidiaries	-	-	-	-	-	-	-	644	-	-	-	644	429	-	1,073
Equity-settled share option arrangements	-	-	19,789	-	-	-	-	-	-	-	-	19,789	-	-	19,789
Issue of shares upon exercise of share options	25,061	98,390	(37,056)	-	-	-	-	-	-	-	-	86,415	-	-	86,415
Forfeiture of share options during the period	-	-	(15,901)	-	-	-	-	-	-	-	-	15,901	-	-	-
Employees share-based compensation benefits under the Award Scheme	-	-	-	-	-	-	-	-	17,001	-	-	17,001	-	-	17,001
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	23,720	(29,109)	-	-	(5,389)	-	-	(5,389)
Purchase of shares for the Award Scheme	-	-	-	-	-	-	-	(9,647)	-	-	-	(9,647)	-	-	(9,647)
2018 final dividend paid	-	(214,120)	-	-	-	-	-	-	-	-	-	(214,120)	-	-	(214,120)
Transfer from retained profits	-	-	-	-	176	-	-	-	-	-	-	(176)	-	-	-
At 30 June 2019	2,360,555	5,373,046	240,063	84,275	910,811	(5,306)	(177,379)	13,406	(221,196)	146,213	655	2,368,375	10,950,549	332,388	11,282,937

INTERIM RESULTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to owners of the parent													Total equity (unaudited) HK\$'000	
	Issued capital (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Share option reserve (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Reserve funds (unaudited) HK\$'000	Cash flow hedge reserve (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Other reserve (unaudited) HK\$'000	Shares held for the Award Scheme (unaudited) HK\$'000	Awarded share reserve (unaudited) HK\$'000	Fair value reserve of financial assets at fair value through other comprehensive income (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Total (unaudited) HK\$'000		Non-controlling interests (unaudited) HK\$'000
	At 1 January 2020	2,365,225	5,142,127	249,916	84,141	944,152	(9,705)	(488,656)	11,793	(228,196)	165,035	(11,702)	3,338,840		11,579,990
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	535,872	535,872	53,209	589,161
Other comprehensive income (loss) for the period:															
Cash flow hedge	-	-	-	-	-	1,652	-	-	-	-	-	-	1,652	-	1,652
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(351,570)	-	-	-	-	-	(351,570)	(7,342)	(358,912)
Reclassification of exchange differences for associates disposed of or liquidated	-	-	-	-	-	-	2,908	-	-	-	-	-	2,908	-	2,908
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	-	10,084	-	10,084	-	10,084
Change in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	-	(3,430)	-	(3,430)	-	(3,430)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	2,938	-	-	-	-	2,938	-	2,938
Total comprehensive income (loss) for the period	-	-	-	-	-	1,652	(348,662)	2,938	-	6,654	535,872	535,872	198,454	45,947	244,401
Disposal of partial interests in a subsidiary without losing control	-	-	-	4,143	-	-	-	-	-	-	-	-	4,143	10,022	14,165
Equity-settled share option arrangements	-	-	8,245	-	-	-	-	-	-	-	-	-	8,245	-	8,245
Issue of shares upon exercise of share options	8,212	32,092	(11,971)	-	-	-	-	-	-	-	-	-	28,332	-	28,332
Forfeiture of share options during the period	-	-	(8,211)	-	-	-	-	-	-	-	-	8,211	-	-	-
Employee share-based compensation benefits under the Award Scheme	-	-	-	-	-	-	-	-	-	1,453	-	-	1,453	-	1,453
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	-	36,255	(39,715)	-	-	(3,470)	-	(3,470)
2019 final dividend declared	-	(251,356)	-	-	-	-	-	-	-	-	-	-	(251,356)	-	(251,356)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(657)	(657)
Transfer from retained profits	-	-	-	-	524	-	-	-	-	-	-	(524)	-	-	-
At 30 June 2020	2,371,437	4,922,065*	237,978*	88,284*	944,676*	(8,053)*	(837,280)*	14,731*	(192,941)*	126,765*	(5,040)*	3,902,399*	11,565,791	412,088	11,977,879

* These reserve accounts comprise the consolidated reserves of HK\$9,194,354,000 (31 December 2019: HK\$9,216,765,000) in the consolidated statement of financial position.

INTERIM RESULTS**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
<i>Note</i>		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	1,180,381	787,520
Interest paid	(61,377)	(53,020)
Interest element of lease payments	(2,075)	(3,417)
Income taxes paid	(215,009)	(88,419)
Net cash flows from operating activities	901,920	642,664
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(182,960)	(129,163)
Proceeds from disposal of items of property, plant and equipment	34,536	3,133
Acquisition of subsidiaries	16	501,786
Investments in associates	(13,292)	(18,989)
Proceeds from disposal of associates	279,175	46,638
Purchases of financial assets at fair value through profit or loss, net	(246,437)	(575,656)
Other investing cash flows, net	72,594	73,145
Net cash flows used in investing activities	(56,384)	(99,106)

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
		<i>(restated)</i>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares upon exercise of share options	28,332	86,415
Purchases of shares for the Award Scheme	–	(9,647)
New bank and other loans	4,148,199	2,341,206
Repayment of bank and other loans	(2,301,237)	(2,597,016)
Advances from TCL Industries Holdings Co., Ltd. (“TCL Holdings”)	99,001	–
Dividends paid	–	(214,120)
Principal portion of lease payments	(36,819)	(35,862)
Other financing cash flows, net	(8,110)	(16,572)
Net cash flows from/(used in) financing activities	1,929,366	(445,596)
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	2,774,902	97,962
Effect of foreign exchange rate changes, net	8,194,743	6,741,976
	(212,113)	(21,940)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	10,757,532	6,817,998
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	9,156,265	6,817,998
Less: Restricted cash	(5,664)	–
Cash and cash equivalents as stated in the consolidated statement of financial position	9,150,601	6,817,998
Cash and cash equivalents attributable to a disposal group classified as held for sale	1,606,931	–
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	10,757,532	6,817,998

INTERIM RESULTS

Notes:

1. BASIS OF PREPARATION

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

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclose in note 2 below.

These unaudited interim 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. Disposal group held for sale is stated at the lower of their carrying amounts and fair values less costs to sell. These unaudited interim condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the new and revised HKFRSs effective as of 1 January 2020.

Amendments to HKFRS 3
Amendments to HKFRS 9, HKAS 39 and HKFRS 7
Amendments to HKAS 1 and HKAS 8
Amendments to HKFRS 16*

Definition of a Business
Interest Rate Benchmark Reform
Definition of Material
COVID-19 Related Rent Concessions

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

INTERIM RESULTS**2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

The amendments to HKFRS 3 clarify that to be considered as a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

The amendments to HKFRS 9, HKAS 39 and HKFRS 7 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as the Group does not have any interest rate hedge relationships.

The amendments to HKAS 1 and HKAS 8 provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

The Group has early adopted the amendments to HKFRS 16 which provides relief to lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The Group elects to adopt the practical expedient to account for the COVID-19 pandemic related rent concession as negative variable lease payments. Accordingly, the Group credited HK\$4,432,000 to profit or loss for the rent concessions received by the Group during the period.

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

INTERIM RESULTS

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

Except for the amendments to HKFRS 16, the Group does not early adopt the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited interim condensed consolidated financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework¹</i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 17	<i>Insurance Contracts²</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current²</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract¹</i>
Amendments to HKFRSs	<i>Annual Improvements 2018-2020 Cycle¹</i>

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

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

INTERIM RESULTS

4. 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 three reportable operating segments as follows:

- (a) TV segment – manufacture and sale of TV sets in:
 - TCL brand – the PRC market;
 - TCL brand – the overseas markets; and
 - ODM business (discontinued during the six months ended 30 June 2020 (note 9));
- (b) Internet business segment – advertising, value-added, video-on-demand and membership cards; and
- (c) 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, mobile phones and air conditioners.

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 reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that finance costs, interest income, share of profits and losses of joint ventures and associates as well as head office and corporate income and expenses are excluded from such measurement.

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 interim condensed consolidated financial statements.

INTERIM RESULTS

4. OPERATING SEGMENT INFORMATION (continued)

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

	Six months ended 30 June															
	Continuing operations								Discontinued operation							
	TV				Internet business				Others		Total continuing operations		TV		Consolidated	
	TCL brand - the PRC market		TCL brand - overseas markets								ODM business					
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019		
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
	(restated)		(restated)		(restated)		(restated)		(restated)		(restated)		(restated)			
Sales to external customers	4,394,018	6,217,984	10,322,596	10,768,357	521,058	229,678*	2,039,407	608,587	17,277,079	17,824,606	4,484,989	4,899,797	21,762,068	22,724,405		
Segment results	(9,500)	11,486	418,821	440,620	223,424	97,149*	(25,235)	38,156	607,510	587,411	68,874	69,978	676,384	657,389		
Corporate income, net									129,682	804,139**	-	-	129,682	804,139**		
Finance costs									(82,764)	(70,528)	(5,574)	(2,481)	(88,338)	(73,009)		
Interest income									99,088	41,679	15,514	12,041	114,602	53,720		
Share of profits and losses of:																
Joint ventures	(3)	(6)	6,884	6,324	13	-	-	-	6,894	6,318	-	-	6,894	6,318		
Associates	(6,573)	10,504	(109,250)	(11,154)	10,931	13,257	(1,578)	1,633	(106,470)	14,240	-	-	(106,470)	14,240		
Profit before tax									653,940	1,385,259	78,814	79,538	732,754	1,462,797		
Income tax									(130,676)	(80,001)	(12,917)	(14,244)	(143,593)	(94,245)		
Profit for the period									523,264	1,305,258	65,897	65,294	589,161	1,368,552		

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

** Included a one-off gain of HK\$787 million on fair value remeasurement of 44.44% pre-existing equity interest in Falcon Network Technology Group.

INTERIM RESULTS

5. REVENUE

An analysis of revenue from continuing operations is as follows:

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
Revenue from contracts with customers	17,277,079	17,824,606

Disaggregated revenue information from continuing operations for revenue from contracts with customers

For the six months ended 30 June 2020

Segments	TV and other products (unaudited) HK\$'000	Internet business (unaudited) HK\$'000	Total (unaudited) HK\$'000
Types of goods or services			
Sale of goods	16,756,021	25,670	16,781,691
Video-on-demand services	–	130,336	130,336
Advertising, value-added and other services	–	365,052	365,052
Total revenue from contracts with customers	16,756,021	521,058	17,277,079
Geographical markets			
Mainland China	5,412,667	396,574	5,809,241
Europe	1,462,955	–	1,462,955
North America	5,381,025	8,837	5,389,862
Emerging markets	4,499,374	115,647	4,615,021
Total revenue from contracts with customers	16,756,021	521,058	17,277,079
Timing of revenue recognition			
Goods transferred at a point in time	16,756,021	25,670	16,781,691
Services transferred over time	–	130,336	130,336
Services transferred at a point in time	–	365,052	365,052
Total revenue from contracts with customers	16,756,021	521,058	17,277,079

INTERIM RESULTS**5. REVENUE (continued)****Disaggregated revenue information from continuing operations for revenue from contracts with customers (continued)**

For the six months ended 30 June 2019

Segments	TV and other products (unaudited) <i>HK\$'000</i> (restated)	Internet business (unaudited) <i>HK\$'000</i> (restated)	Total (unaudited) <i>HK\$'000</i> (restated)
Types of goods or services			
Sale of goods	17,594,928	227	17,595,155
Video-on-demand services	–	30,379	30,379
Advertising, value-added and other services	–	199,072	199,072
<hr/>			
Total revenue from contracts with customers	17,594,928	229,678	17,824,606
<hr/>			
Geographical markets			
Mainland China	6,498,046	133,655	6,631,701
Europe	1,203,025	–	1,203,025
North America	6,333,731	14,807	6,348,538
Emerging markets	3,560,126	81,216	3,641,342
<hr/>			
Total revenue from contracts with customers	17,594,928	229,678	17,824,606
<hr/>			
Timing of revenue recognition			
Goods transferred at a point in time	17,594,928	227	17,595,155
Services transferred over time	–	30,379	30,379
Services transferred at a point in time	–	199,072	199,072
<hr/>			
Total revenue from contracts with customers	17,594,928	229,678	17,824,606

INTERIM RESULTS

5. REVENUE (continued)

Disaggregated revenue information from continuing operations for revenue from contracts with customers (continued)

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

For the six months ended 30 June 2020

Segments	TV and other products (unaudited) HK\$'000	Internet business (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue from contracts with customers			
External customers	16,756,021	521,058	17,277,079
Intersegment sales	1,166,031	7,081	1,173,112
	17,922,052	528,139	18,450,191
Intersegment adjustments and eliminations	(1,166,031)	(7,081)	(1,173,112)
	16,756,021	521,058	17,277,079

For the six months ended 30 June 2019

Segments	TV and other products (unaudited) HK\$'000 (restated)	Internet business (unaudited) HK\$'000 (restated)	Total (unaudited) HK\$'000 (restated)
Revenue from contracts with customers			
External customers	17,594,928	229,678	17,824,606
Intersegment sales	899,530	5,554	905,084
	18,494,458	235,232	18,729,690
Intersegment adjustments and eliminations	(899,530)	(5,554)	(905,084)
	17,594,928	229,678	17,824,606

INTERIM RESULTS

6. FINANCE COSTS

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
Interest on:		
Bank and other loans	79,990	63,213
Loans from a company controlled by TCL Technology Group Corporation ("TCL Technology")	338	–
Loans from companies controlled by TCL Holdings	269	–
Discounted bills receivable from a company controlled by TCL Technology	129	–
Discounted bills receivable from an associate	–	3,971
Interest expense on lease liabilities	2,038	3,344
Total finance costs for the period from continuing operations	82,764	70,528

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
Depreciation of property, plant and equipment	84,750	83,062
Depreciation of investment properties	1,552	1,623
Depreciation of right-of-use assets	40,489	40,192
Amortisation of other intangible assets	13,010	9,975
Employee share-based compensation benefits under the Award Scheme	777	14,946
Equity-settled share option expense	7,549	17,663

INTERIM RESULTS

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 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 June 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.

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (restated)
Current – Hong Kong		
Charge for the period	43,305	–
Current – Elsewhere		
Charge for the period	79,634	61,289
Underprovision in prior periods	11,091	7,625
Deferred	(3,354)	11,087
Total tax charge for the period from continuing operations	130,676	80,001

9. DISCONTINUED OPERATION

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, which is to be satisfied in cash. Moka International and its subsidiaries (collectively, "Moka International Group") are principally engaged in TV ODM business. The Group will not involve in the TV ODM business after completion of the disposal.

On 28 July 2020, the conditional share transfer agreement and the transactions contemplated thereunder were approved by the shareholders of the Company in an extraordinary general meeting of the Company. The completion of transaction is still subject to the satisfaction of other conditions precedent. The disposal of Moka International Group is expected to be completed at the end of August 2020. As at 30 June 2020, the business of Moka International Group was classified as a disposal group held for sale and as a discontinued operation. The TV ODM business segment is reported as a discontinued operation in the Group's consolidated financial statements.

INTERIM RESULTS**9. DISCONTINUED OPERATION (continued)**

The results of Moka International Group for the period are presented below:

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Revenue	4,484,989	4,899,797
Cost of sales	(4,250,349)	(4,585,963)
Gross profit	234,640	313,834
Other revenue and gains	112,469	68,183
Selling and distribution costs	(80,977)	(99,500)
Administrative expenses	(93,161)	(94,949)
Research and development costs	(88,089)	(105,268)
Other operating expenses	(494)	(32)
Impairment losses on financial assets, net	-	(249)
Finance costs	84,388 (5,574)	82,019 (2,481)
Profit before tax from the discontinued operation	78,814	79,538
Income tax:		
Related to pre-tax profit	(12,917)	(14,244)
Profit for the period from the discontinued operation	65,897	65,294

INTERIM RESULTS

9. DISCONTINUED OPERATION (continued)

The major classes of assets and liabilities of Moka International Group classified as held for sale as at 30 June 2020 are as follows:

	30 June 2020 (unaudited) HK\$'000
Assets	
Property, plant and equipment	124,163
Right-of-use assets	786
Deferred tax assets	14,322
Inventories	700,591
Trade receivables	1,167,370
Bills receivable	767,277
Prepayments, other receivables and other assets	463,559
Tax recoverable	1,285
Derivative financial instruments	26,572
Cash and cash equivalents	1,606,931
Assets classified as held for sale	4,872,856

INTERIM RESULTS**9. DISCONTINUED OPERATION (continued)**

	30 June 2020 (unaudited) HK\$'000
Liabilities	
Trade payables	1,910,837
Bills payable	661,852
Other payables and accruals	864,297
Lease liabilities	1,268
Tax payable	17,580
Derivative financial instruments	26,822
Provisions	202,127
Deferred tax liabilities	4,035
	<hr/>
Liabilities directly associated with assets classified as held for sale	3,688,818
	<hr/>
Net assets directly associated with the disposal group	1,184,038

The net cash flows incurred by Moka International Group are as follows:

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Operating activities	(221,670)	(418,965)
Investing activities	8,468	(10,348)
Financing activities	(1,611)	(1,770)
	<hr/>	<hr/>
Net cash outflow	(214,813)	(431,083)

INTERIM RESULTS

9. DISCONTINUED OPERATION (continued)

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Earnings per share from the discontinued operation:		
Basic	HK2.87 cents	HK2.88 cents
Diluted	HK2.83 cents	HK2.81 cents

The calculations of basic and diluted earnings per share from Moka International Group are based on:

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Profit attributable to ordinary equity holders of the parent from the discontinued operation	HK\$65,897,000	HK\$65,294,000
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (note 11)	2,300,000,339	2,269,633,346
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation (note 11)	2,324,466,156	2,320,129,539

10. DIVIDENDS

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Interim dividend – HK9.70 cents (30 June 2019: HK10.56 cents) per ordinary share	230,029	249,275

INTERIM RESULTS**11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

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

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
		(restated)

Earnings

Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations:

From continuing operations	469,975	1,296,721
From the discontinued operation	65,897	65,294
	535,872	1,362,015

	Number of shares	
	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)

Shares

Weighted average number of ordinary shares in issue less shares held for Award Scheme during the period used in the basic earnings per share calculation

2,300,000,339 2,269,633,346

Effect of dilution – weighted average number of ordinary shares:

Share options	3,629,814	10,441,904
Awarded shares	20,836,003	40,054,289

Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation

2,324,466,156 2,320,129,539

INTERIM RESULTS

12. TRADE RECEIVABLES

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

In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable. Trade receivables are non-interest-bearing.

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

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Current to 90 days	4,348,474	5,243,566
91 to 180 days	504,901	375,080
181 to 365 days	69,572	156,633
Over 365 days	453,618	409,538
	5,376,565	6,184,817
Impairment allowance	(141,592)	(190,974)
	5,234,973	5,993,843

Included in the Group's trade receivables are receivables to be factored of HK\$412,149,000 (31 December 2019: HK\$95,770,000), which are classified as financial assets at fair value through profit or loss. The remaining trade receivables with gross carrying amount of HK\$4,964,416,000 (31 December 2019: HK\$6,089,047,000) are measured at amortised cost.

INTERIM RESULTS**13. TRADE PAYABLES**

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

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Current to 90 days	6,074,664	8,885,987
91 to 180 days	579,204	217,802
181 to 365 days	17,127	79,237
Over 365 days	200,893	213,372
	6,871,888	9,396,398

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

INTERIM RESULTS

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Current		
Bank loans – unsecured	2,724,068	1,486,171
Trust receipt loans – unsecured	56,144	142,349
Other loans – unsecured	–	20,092
	2,780,212	1,648,612
Non-current		
Bank loans – unsecured	778,678	89,286
Other loans – unsecured	19,706	–
	798,384	89,286
	3,578,596	1,737,898
Analysed into:		
Bank and other loans repayable:		
Within one year or on demand	2,780,212	1,648,612
In the second year	692,040	669
In the third to fifth years	106,344	88,617
	3,578,596	1,737,898

Notes:

- (a) As at 30 June 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 have guaranteed certain of the Group's bank loans up to HK\$1,299,859,000 (31 December 2019: HK\$311,473,000) and TCL Technology has individually guaranteed certain of the Group's bank loans up to HK\$777,965,000 (31 December 2019: HK\$399,207,000) as at the end of the reporting period.

INTERIM RESULTS

15. SHARE CAPITAL

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Authorised:		
3,000,000,000 (31 December 2019: 3,000,000,000) shares of HK\$1.00 each	3,000,000	3,000,000
Issued and fully paid:		
2,371,437,404 (31 December 2019: 2,363,224,646) shares of HK\$1.00 each	2,371,437	2,363,225

During the six months ended 30 June 2020, the subscription rights attaching to 7,060,984, 480,692, 330,993 and 340,089 share options were exercised at the subscription prices of HK\$3.3918, HK\$3.7329, HK\$4.1520 and HK\$3.5700 per share, respectively, resulting in the issue of an aggregate of 8,212,758 shares of HK\$1.00 each for a total cash consideration of HK\$28,332,000 before expenses.

16. BUSINESS COMBINATION

Six months ended 30 June 2019

Acquisition of equity interest in Falcon Network Technology Group

On 23 January 2019, the Group entered into a sale and purchase agreement with Shenzhen Qianhai Fende Industries Investment Company Limited* (深圳市前海芬德實業投資有限公司) ("Qianhai Fende"), an independent third party, pursuant to which the Group agreed to acquire an additional 15.56% equity interest in Falcon Network Technology, a former 44.44% owned associate of the Group, at the consideration of RMB420,120,000 (equivalent to approximately HK\$489,776,000). Falcon Network Technology Group is principally engaged in research and development of software on smart TV devices and Internet platform operation. The transaction was completed on 22 March 2019 and Falcon Network Technology has become a 60% owned subsidiary of the Group since then.

This equity transfer was considered as a business combination achieved in stages. The Group accordingly remeasured the fair value of its previously held equity interest in Falcon Network Technology Group at the step acquisition date and recognised a gain of HK\$787,394,000 in profit or loss for the six months ended 30 June 2019.

INTERIM RESULTS

16. BUSINESS COMBINATION (continued)

Six months ended 30 June 2019 (continued)

Acquisition of equity interest in Falcon Network Technology Group (continued)

The Group has elected to measure the non-controlling interests in Falcon Network Technology Group at the non-controlling interests' proportionate share of Falcon Network Technology Group's identifiable net assets.

The fair values of the identifiable assets and liabilities of Falcon Network Technology Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	842
Other intangible assets	73,011
Investment in a joint venture	2,856
Inventories	8,401
Trade receivables	128,077
Prepayments, other receivables and other assets	24,000
Cash and bank balances	700,895
Trade payables	(27,233)
Other payables and accruals	(81,378)
Tax payable	(9,113)
Deferred tax liabilities	(8,200)
<hr/>	
Total identifiable net assets at fair value	812,158
Non-controlling interests	(324,864)
Fair value of 44.44% equity interest held immediately before the step acquisition	(1,119,055)
Goodwill on acquisition	1,121,537
<hr/>	
	489,776

INTERIM RESULTS**16. BUSINESS COMBINATION (continued)**

Six months ended 30 June 2019 (continued)

Acquisition of equity interest in Falcon Network Technology Group (continued)

Satisfied by:

	<i>HK\$'000</i>
Cash	199,109
Other receivables	290,667
	489,776

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK\$128,077,000 and HK\$8,155,000 respectively. The gross contractual amounts of trade receivables and other receivables were HK\$128,077,000 and HK\$8,155,000, respectively.

Included in the goodwill of HK\$1,121,537,000 recognised above is mainly expected synergies which are not recognised separately. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of subsidiaries was as follows:

	<i>HK\$'000</i>
Cash consideration	(199,109)
Cash and bank balances acquired	700,895
	501,786

Since the completion of the acquisition, Falcon Network Technology Group contributed HK\$133,655,000 to the Group's revenue and HK\$39,419,000 to the consolidated profit for the six months ended 30 June 2019.

Had the combination been completed on 1 January 2019, the revenue from continuing operations of the Group and the consolidated profit of the Group for the six months ended 30 June 2019 would have been HK\$17,934,311,000 and HK\$1,398,381,000, respectively.

INTERIM RESULTS

17. RELATED PARTY TRANSACTIONS

- (a) The Group had the following material transactions with related parties during the reporting period:

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Joint ventures:		
Sales of finished goods	162,909	166,273
After-sale service income	1,100	696
Associates:		
Interest income	207	19,951
Interest expense	-	3,971
Other finance service fees	-	32
Purchases of raw materials	-	33,953
Sales of finished goods	886,446	794,715
Sales of raw materials	2,123	1,162
IT and other services fees	4,743	7,955
Other service income	40,174	-
Companies controlled by TCL Technology:		
Interest income	333	-
Interest expense	467	-
Sales of raw materials	8	47,390
Sales of finished goods	990	1,301,782
Purchases of raw materials	5,184,486	4,461,584
Purchases of finished goods	15,016	119,747
Subcontracting income	-	6
Rental, maintenance income and facilities usage income	192	4,639
Rental expense and licence fee	21,813	10,897
Reimbursement of brand advertising costs	-	112,020
Reimbursement of research and development and rental expenses	67,076	56,412
After-sale service income	4,894	21,032
After-sale service fee	-	72,923
Promotion fee income	4,731	1,760
Platform service fee	-	332
Depreciation of right-of-use assets	3,869	-
Interest expense on lease liabilities	285	-
Other service income	-	43,447
Other finance service fees	1	-

INTERIM RESULTS

17. RELATED PARTY TRANSACTIONS (continued)

- (a) The Group had the following material transactions with related parties during the reporting period: (continued)

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Affiliates of TCL Technology:		
Purchases of raw materials	159,127	348,865
Sales of raw materials	181,270	804
Sales of finished goods	-	58,715
Logistics service fee expense	-	128,828
After-sale service fee	1,008	4,058
Rental income	-	502
Companies controlled by TCL Holdings:		
Interest income	1,790	-
Interest expense	269	-
Brand promotion fee	149,958	-
Sales of raw materials	27,334	10,750
Sales of finished goods	1,793,604	457,389
Purchases of raw materials	70,986	17,470
Purchases of finished goods	1,582,166	76,471
Rental, maintenance income and facilities usage income	3,988	2,843
Rental expense	332	5,071
After-sale service income	689	53
After-sale service fee	164,482	83,467
Platform service fee	3,626	2,549
Additions of right-of-use assets	38,994	53,034
Depreciation of right-of-use assets	16,923	-
Interest expense on lease liabilities	1,504	-
Other service income	2,902	6,716
IT and other service fees	12,987	-

INTERIM RESULTS

17. RELATED PARTY TRANSACTIONS (continued)

- (a) The Group had the following material transactions with related parties during the reporting period: (continued)

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Affiliates of TCL Holdings:		
Purchases of raw materials	558,436	283,208
Sales of finished goods	201,436	28,907
Sales of raw materials	1,112	34
Subcontracting fee expense	22,538	–
Logistics service fee expense	176,767	68,315
Depreciation of right-of-use assets	333	–
Interest expense on lease liabilities	45	–
Rental income	1,099	503
Rental expense	–	299
Other related parties:		
Sales of finished goods	285,803	219,236

- (b) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Joint ventures	106,587	80,448	–	278
Associates	622,649	322,695	17,209	16,791
TCL Technology and its affiliates	227,968	283,947	1,072,896	2,420,211
TCL Holdings and its affiliates	2,492,409	1,155,735	3,295,547	1,026,827
Other related parties	210,546	264,948	878	3,721

INTERIM RESULTS

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	137,433	143,920	137,433	143,920
Restricted cash, non-current portion	2,794	3,396	2,423	3,130
Trade receivables classified as financial assets at fair value through profit or loss	412,149	95,770	412,149	95,770
Bills receivable	2,345,238	4,167,798	2,345,238	4,167,798
Financial assets at fair value through profit or loss	1,220,561	961,576	1,220,561	961,576
Derivative financial instruments	129,133	139,480	129,133	139,480
	4,247,308	5,511,940	4,246,937	5,511,674
Financial liabilities				
Interest-bearing bank and other borrowings	3,578,596	1,737,898	3,525,142	1,718,006
Derivative financial instruments	51,730	50,985	51,730	50,985
Other long-term payables	27,127	27,252	25,499	25,029
	3,657,453	1,816,135	3,602,371	1,794,020

Management has assessed that the fair values of cash and cash equivalents, the current portion of restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

INTERIM RESULTS**18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)**

The Group's finance department headed by the finance controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance controller reports directly to the chief financial officer and the Audit Committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of non-current portion of restricted cash, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The change in fair value as a result of the Group's own non-performance risk for non-current portion of restricted cash and interest-bearing bank and other borrowings as at 30 June 2020 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

INTERIM RESULTS

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The Group invests in unlisted investments, which represent wealth management products issued by banks in the PRC. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Derivative financial instruments, including forward currency contracts, foreign currency swaps and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The Group enters into these kind of derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including call options and put options, are measured using valuation techniques of Black-Scholes Options Pricing Model. The model incorporates various market observable inputs including risk-free rate and volatility. The carrying amounts of forward currency contracts, foreign currency swaps, interest rate swaps, call options and put options are the same as their fair values.

As at 30 June 2020, the mark-to-market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

For the fair value of the unlisted equity investments at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

INTERIM RESULTS

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2020 and 31 December 2019:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average EV/EBIT multiple of peers	30 June 2020: 3.0x to 6.9x (31 December 2019: 3.8x to 7.7x)	5% (31 December 2019: 5%) increase in multiple would result in increase in fair value by HK\$2,350,000 (31 December 2019: HK\$4,832,000)
		Average EV/S multiple of peers	30 June 2020: 0.3x to 10.1x (31 December 2019: 0.2x to 6.1x)	5% (31 December 2019: 5%) increase in multiple would result in increase in fair value by HK\$269,000 (31 December 2019: HK\$263,000)
		Average P/S multiple of peers	30 June 2020: 2.2x to 3.2x (31 December 2019: 2.3x to 4.0x)	5% (31 December 2019: 5%) increase in multiple would result in increase in fair value by HK\$272,000 (31 December 2019: HK\$490,000)

INTERIM RESULTS

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Call options	Black-Scholes Options Pricing Model	Risk-free rate	30 June 2020: 1.78% (31 December 2019: 1.78%)	1% (31 December 2019: 1%) increase (decrease) in risk-free rate would have no material impact on the fair value
		Volatility	30 June 2020: 26.84% to 43.89% (31 December 2019: 26.84% to 43.89%)	1% (31 December 2019: 1%) increase (decrease) in volatility would have no material impact on the fair value
Put options	Black-Scholes Options Pricing Model	Risk-free rate	30 June 2020: 1.69% (31 December 2019: 1.69%)	1% (31 December 2019: 1%) increase (decrease) in risk-free rate would have no material impact on the fair value
		Volatility	30 June 2020: 26.20% to 46.83% (31 December 2019: 26.20% to 46.83%)	1% (31 December 2019: 1%) increase (decrease) in volatility would have no material impact on the fair value

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

INTERIM RESULTS**18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

*Assets measured at fair value:***As at 30 June 2020**

	Fair value measurement using			Total (unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (unaudited) HK\$'000	Significant observable inputs (Level 2) (unaudited) HK\$'000	Significant unobservable inputs (Level 3) (unaudited) HK\$'000	
Equity investments designated at fair value through other comprehensive income	-	-	137,433	137,433
Trade receivables classified as financial assets at fair value through profit or loss	-	412,149	-	412,149
Bills receivable	-	2,345,238	-	2,345,238
Financial assets at fair value through profit or loss	-	1,220,561	-	1,220,561
Derivative financial instruments	-	28,458	100,675	129,133
	-	4,006,406	238,108	4,244,514

INTERIM RESULTS**18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy (continued)***Assets measured at fair value: (continued)*

As at 31 December 2019

	Fair value measurement using			Total (audited) HK\$'000
	Quoted prices in active markets (Level 1) (audited) HK\$'000	Significant observable inputs (Level 2) (audited) HK\$'000	Significant unobservable inputs (Level 3) (audited) HK\$'000	
Equity investments designated at fair value through other comprehensive income	–	–	143,920	143,920
Trade receivables classified as financial assets at fair value through profit or loss	–	95,770	–	95,770
Bills receivable	–	4,167,798	–	4,167,798
Financial assets at fair value through profit or loss	–	961,576	–	961,576
Derivative financial instruments	–	38,336	101,144	139,480
	–	5,263,480	245,064	5,508,544

INTERIM RESULTS

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

The movements in fair value measurements within Level 3 during the period are as follows:

	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Equity investments at fair value through other comprehensive income:		
At 1 January	143,920	128,770
Total losses recognised in other comprehensive income	(3,430)	(1,217)
Income tax effect	(323)	(592)
Exchange realignment	(2,734)	(398)
At 30 June	137,433	126,563
Derivative financial instruments:		
At 1 January	101,144	–
Exchange realignment	(469)	–
At 30 June	100,675	–

INTERIM RESULTS**18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy (continued)***Liabilities measured at fair value:***As at 30 June 2020**

	Fair value measurement using			Total (unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (unaudited) HK\$'000	Significant observable inputs (Level 2) (unaudited) HK\$'000	Significant unobservable inputs (Level 3) (unaudited) HK\$'000	
Derivative financial instruments	–	44,863	6,867	51,730

As at 31 December 2019

	Fair value measurement using			Total (audited) HK\$'000
	Quoted prices in active markets (Level 1) (audited) HK\$'000	Significant observable inputs (Level 2) (audited) HK\$'000	Significant unobservable inputs (Level 3) (audited) HK\$'000	
Derivative financial instruments	–	44,086	6,899	50,985

INTERIM RESULTS**18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy (continued)***Liabilities measured at fair value: (continued)*

The movements in fair value measurements within Level 3 during the period are as follows:

	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Derivative financial instruments:		
At 1 January	6,899	–
Exchange realignment	(32)	–
	<hr/>	<hr/>
At 30 June	6,867	–

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2019: Nil).

INTERIM RESULTS**18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy (continued)***Assets for which fair value are disclosed:***As at 30 June 2020**

	Fair value measurement using			Total (unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (unaudited) HK\$'000	Significant observable inputs (Level 2) (unaudited) HK\$'000	Significant unobservable inputs (Level 3) (unaudited) HK\$'000	
Restricted cash, non-current portion	–	2,423	–	2,423

As at 31 December 2019

	Fair value measurement using			Total (audited) HK\$'000
	Quoted prices in active markets (Level 1) (audited) HK\$'000	Significant observable inputs (Level 2) (audited) HK\$'000	Significant unobservable inputs (Level 3) (audited) HK\$'000	
Restricted cash, non-current portion	–	3,130	–	3,130

INTERIM RESULTS

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities for which fair value are disclosed:

As at 30 June 2020

	Fair value measurement using			Total (unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (unaudited) HK\$'000	Significant observable inputs (Level 2) (unaudited) HK\$'000	Significant unobservable inputs (Level 3) (unaudited) HK\$'000	
Interest-bearing bank and other borrowings	-	3,525,142	-	3,525,142
Other long-term payables	-	25,499	-	25,499
	-	3,550,641	-	3,550,641

As at 31 December 2019

	Fair value measurement using			Total (audited) HK\$'000
	Quoted prices in active markets (Level 1) (audited) HK\$'000	Significant observable inputs (Level 2) (audited) HK\$'000	Significant unobservable inputs (Level 3) (audited) HK\$'000	
Interest-bearing bank and other borrowings	-	1,718,006	-	1,718,006
Other long-term payables	-	25,029	-	25,029
	-	1,743,035	-	1,743,035

INTERIM RESULTS

19. EVENTS AFTER THE REPORTING PERIOD

- (a) On 3 June 2020 (after trading hours), TCL NL, STA, SEMP TCL, Affonso Brandão Hennel and 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\$463,478,000).

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 as at the date of approval of these condensed consolidated financial statements. Further details of this transaction are set out in the Company's announcements dated 3 June 2020 and 21 July 2020 respectively.

- (b) On 29 June 2020, Zhengjia Investment, T.C.L. Industries (H.K.) and the Company entered into a conditional share transfer agreement, pursuant to which the Company has conditionally agreed to acquire from Zhengjia Investment and Zhengjia Investment has conditionally agreed to transfer to the Company its 100% equity interest in TCL Communication, at a consideration of RMB1,500,000,000, which is to be financed by the proceeds from the disposal of 100% equity interest in Moka International.

Meanwhile, 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, which is to be satisfied in cash.

The above acquisition and disposal are inter-conditional. Upon completion, TCL Communication will become a wholly-owned subsidiary of the Company and Moka International will cease to be a subsidiary of the Company.

The transactions were not yet completed as at the date of approval of these condensed consolidated financial statements. Further details of these transactions are set out in the Company's announcement dated 29 June 2020 and circular dated 30 June 2020.

INTERIM RESULTS

20. COMPARATIVE AMOUNTS

The comparative consolidated statement of profit or loss and other comprehensive income has been re-presented as if the operation classified as discontinued operation during the period had been discontinued at the beginning of the comparative period (note 9). Certain comparative amounts have been reclassified to conform with the current period's presentation and disclosures.

21. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board on 25 August 2020.

OTHER INFORMATION

CHANGES OF PARTICULARS OF THE DIRECTORS

Certain particulars of the Director(s) have been changed in the following respects since the published date of the 2019 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Effective Date	Change
29 May 2020	Mr. LI Dongsheng, the chairman of the Board, an executive Director and the chairman of the strategy committee of the Company, retired as a non-executive director of Fantasia Holdings Group Co., Limited (stock code: 1777)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong, hereinafter the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("Model Code"), were as follows:

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)**(A) Interests in the Company – Long Positions**

Name of Directors	Number of ordinary shares interested or deemed to be interested			Number of underlying shares interested or deemed to be interested under equity derivatives		Total	Approximate percentage of the number of issued shares of the Company (Note 2)
	Personal interests	Spouse interests	Other interests (Note 1)	Personal interests	Spouse interests		
LI Dongsheng	55,823,410	2,453,975	413,515	7,312,235	504,895	66,508,030	2.80%
WANG Cheng Kevin	1,204,084	-	827,031	7,262,284	-	9,293,399	0.39%
YAN Xiaolin	258,315	-	22,389	1,970,324	-	2,251,028	0.09%
Albert Thomas DA ROSA, Junior	85,722	-	22,389	315,907	-	424,018	0.02%
LI Yuhao	24,000	-	-	-	-	24,000	0.001%
Robert Maarten WESTERHOF	22,389	-	22,389	315,907	-	360,685	0.02%
WANG Yijiang	21,923	-	22,389	242,260	-	286,572	0.01%
LAU Siu Ki	22,389	-	22,389	236,301	-	281,079	0.01%

OTHER INFORMATION**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)****(B) Interests in Associated Corporations of the Company – Long Positions****(i) TCL Holdings (Note 3)**

Name of Director	Number of ordinary shares held	Approximate percentage of the number of issued shares of TCL Holdings (Note 4)
LI Dongsheng (Note 5)	2,149,980,000	33.33%

(ii) Tonly Electronics Holdings Limited (“Tonly Electronics”) (Note 6)

Name of Directors	Number of ordinary shares interested or deemed to be interested			Number of underlying shares interested or deemed to be interested under equity derivatives		Total	Approximate percentage of the number of issued shares of Tonly Electronics (Note 7)
	Personal interests	Spouse interests	Other interests (Note 8)	Personal interests	Spouse interests		
LI Dongsheng	894,777	149,124	–	137,500	23,416	1,204,817	0.44%
WANG Cheng Kevin	43,147	–	–	–	–	43,147	0.02%
YAN Xiaolin	48,054	–	–	46,271	–	94,325	0.03%

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Notes:

1. These interests are restricted shares that have been granted to the relevant Directors under the Award Scheme of the Company and were not vested as at 30 June 2020. Further, the restricted shares, if any, granted to the spouse of the relevant Directors under the Award Scheme of the Company are included.
2. The percentages are calculated based on the number of issued shares of the Company as at 30 June 2020, i.e. 2,371,437,404 shares of the Company.
3. TCL Holdings, a joint stock company established under the laws of the PRC, is the ultimate controlling shareholder of the Company.
4. The percentages are calculated based on the number of issued shares of TCL Holdings as at 30 June 2020, being 6,450,000,000 shares in issue, as informed by TCL Holdings.
5. As at 30 June 2020, Ningbo Lida Zhihui Enterprise Management Partnership (Limited Partnership)* (寧波礪達致輝企業管理合夥企業(有限合夥)) ("Lida Zhihui") was a limited partnership and Mr. LI Dongsheng owned more than 50% economic interest in Lida Zhihui as a limited partner. The general partner of Lida Zhihui is Huizhou Lida Tiancheng Investment Co., Ltd.* (惠州礪達天成股權投資有限公司), in which Mr. LI Dongsheng owns more than 50% equity interest. Accordingly, Mr. LI Dongsheng was deemed to be interested in those shares in the issued share capital of TCL Holdings held by Lida Zhihui as at 30 June 2020.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Notes: (continued)

6. Tonly Electronics is a subsidiary of TCL Holdings and hence an associated corporation of the Company under Part XV of the SFO.
7. The percentages are calculated based on the number of issued shares of Tonly Electronics as at 30 June 2020, being 273,104,917 shares in issue, as disclosed by Tonly Electronics on the website of the Hong Kong Stock Exchange.
8. These interests are awarded shares that have been granted to the relevant Directors under the share award scheme of Tonly Electronics and were not vested as at 30 June 2020. Further, the awarded shares, if any, granted to the spouse of the relevant Director(s) under the share award scheme of Tonly Electronics are included.

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long position in shares of the Company

Shareholders	Capacity	Number of shares held	Approximate percentage of the number of issued shares of the Company (Note 1)
TCL Holdings (Note 2)	Interest of controlled corporation	1,260,358,288 (Note 3)	53.15%
WANG Jingbo	Interest of controlled corporation	348,850,000 (Note 4)	14.71%
ZENG Edward Qiang	Interest of controlled corporation	348,850,000 (Note 4)	14.71%
Noah Holdings Limited	Interest of controlled corporation	348,850,000 (Note 5)	14.71%
Shanghai Noah Investment Management Co., Ltd* (上海諾亞投資管理有限公司)	Interest of controlled corporation	348,850,000 (Note 4)	14.71%
諾亞正行基金銷售有限公司	Interest of controlled corporation	348,850,000 (Note 5)	14.71%

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS
IN SHARES AND UNDERLYING SHARES (continued)

Long position in shares of the Company (continued)

Shareholders	Capacity	Number of shares held	Approximate percentage of the number of issued shares of the Company (Note 1)
China Bridge Capital Management Co., Ltd* (北京鑫根投資管理有限公司)	Interest of controlled corporation	348,850,000 (Note 4)	14.71%
歌斐創世鑫根併購一號投資基金	Interest of controlled corporation	348,850,000 (Note 4)	14.71%
歌斐創世鑫根併購基金F投資基金	Interest of controlled corporation	348,850,000 (Note 6)	14.71%
Aeon Life Insurance Co. Ltd* (百年人壽保險股份有限公司)	Interest of controlled corporation	348,850,000 (Note 7)	14.71%
Wuhu Gopher Asset Management Co., Ltd* (蕪湖歌斐資產管理有限公司)	Interest of controlled corporation	348,850,000 (Note 4)	14.71%
Leshi Internet Information and Technology Corp., Beijing* (樂視網信息技術(北京)股份有限公司)	Interest of controlled corporation	348,850,000 (Note 4)	14.71%
深圳市樂視鑫根併購基金投資管理企業(有限合夥)	Interest of controlled corporation	348,850,000 (Note 4)	14.71%
深圳市樂視鑫根併購基金投資管理有限公司	Interest of controlled corporation	348,850,000 (Note 4)	14.71%

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Long position in shares of the Company (continued)

Notes:

1. The percentage in respect of the interest of the relevant substantial shareholders was calculated based on the number of shares and underlying shares of the Company in which such substantial shareholder was interested as notified to the Company and disclosed on the website of the Hong Kong Stock Exchange against the number of issued shares of the Company as at 30 June 2020, being 2,371,437,404 shares in issue.
2. As at 30 June 2020, the following Directors were directors/employees of a company who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:
 - (a) Mr. LI Dongsheng was also a director of TCL Holdings and T.C.L. Industries (H.K.);
 - (b) Mr. WANG Cheng Kevin was also the chief executive officer of TCL Holdings;
 - (c) Mr. HU Lihua was also the financial controller of TCL Holdings; and
 - (d) Mr. SUN Li was also the chief technology officer of TCL Holdings.
3. TCL Holdings was deemed to be interested in 1,260,358,288 shares of the Company held by T.C.L. Industries (H.K.).
4. Based on the information set out in the relevant disclosures made by the said substantial shareholder(s), the 348,850,000 shares of the Company were held by Zeal Limited, a wholly-owned subsidiary of 深圳市樂視鑫根併購基金投資管理企業(有限合夥), which was in turn indirectly held as to (i) 0.1% by Mr. ZENG Edward Qiang through China Bridge Capital Management Co., Ltd.* (北京鑫根投資管理有限公司); (ii) 20.81% by Leshi Internet Information and Technology Corp., Beijing* (樂視網信息技術(北京)股份有限公司) through 深圳市樂視鑫根併購基金投資管理有限公司; (iii) 63.14% by Mr. WANG Jingbo through Shanghai Noah Investment Management Co., Ltd.* (上海諾亞投資管理有限公司), Wuhu Gopher Asset Management Co., Ltd.* (蕪湖歌斐資產管理有限公司) and 歌斐創世鑫根併購一號投資基金.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Long position in shares of the Company (continued)

Notes: (continued)

5. Based on the information set out in the relevant disclosures made by the said substantial shareholder(s), the 348,850,000 shares of the Company were held on trust for 諾亞正行基金銷售有限公司 as one of the beneficiaries, and Noah Holdings Limited was deemed to be interested in the shares of the Company through its indirect 100% interest in 諾亞正行基金銷售有限公司.
6. Based on the information set out in the relevant disclosures made by the said substantial shareholder(s), 歌斐創世鑫根併購基金F投資基金 was deemed to be interested in 348,850,000 shares of the Company through its 65.4% indirect interest in 歌斐創世鑫根併購一號投資基金.
7. Based on the information set out in the relevant disclosures made by the said substantial shareholder(s), the 348,850,000 shares of the Company were held on trust for Aeon Life Insurance Co. Ltd* (百年人壽保險股份有限公司) as one of the beneficiaries.

Save as disclosed above, as at 30 June 2020, no person, other than the Directors and chief executives of the Company whose interests or short positions are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES", "SHARE OPTION SCHEMES" and "AWARD SCHEME" in the section "OTHER INFORMATION" in this interim report, at no time during the six months ended 30 June 2020 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; nor was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

OTHER INFORMATION

SHARE OPTION SCHEMES

The Company adopted the share option scheme on 15 February 2007 (“2007 Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. By a shareholders’ resolution passed in the annual general meeting (“AGM”) of the Company held on 18 May 2016, the new share option scheme (“2016 Scheme”) was adopted and the 2007 Scheme was terminated. As a result, the Company can no longer grant any further options under the 2007 Scheme but all options granted prior to the termination of the 2007 Scheme will remain in full force and effect. Eligible participants of the 2007 Scheme include the Directors, including independent non-executive Directors, other employees of the Group, advisers, consultants, agents, contractors, suppliers of goods or services to the Group, customers of the Group, the Company’s shareholders, any non-controlling shareholder in the Company’s subsidiaries and any other person whom the Board at its sole discretion considers may contribute or have contributed to the Group. The 2016 Scheme mainly refined the definition of “any other person” in the eligible participants of the 2007 Scheme to employees and officers of TCL Technology (as the then ultimate beneficial owner of the Company) and its affiliated companies. The 2016 Scheme became effective on 18 May 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares of the Company which may be issued upon exercise of all share options to be granted under the 2016 Scheme of the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of approval of the share option scheme. The 10% limit may be refreshed with the approval by ordinary resolution of the shareholders of the Company. The maximum number of shares of the Company which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2016 Scheme of the Company must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares of the Company issued or to be issued upon exercise of share options granted to (i.e. the maximum entitlement of) any one participant in a 12-month period shall not exceed 1% (or 0.1% for any substantial shareholder of the Company, independent non-executive Director or their associates) of the issued shares of the Company, unless otherwise approved by the Company’s shareholders in general meeting of the Company.

OTHER INFORMATION

SHARE OPTION SCHEMES (continued)

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder of the Company or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the shares of the Company at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted upon payment of a non-refundable nominal consideration of HK\$1.00 by each grantee. The 2016 Scheme does not specify any minimum holding period but the Board has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised. The exercise period of the share options granted is determinable by the Directors, and commences on a specified date and ends on a date which is not later than ten years from the date of grant of the relevant share option.

The exercise price of a share option to subscribe for shares of the Company is determinable by the Directors, but may not be less than the highest of (i) the closing price of the shares of the Company on the Hong Kong Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to receive dividends or to vote at general meetings of the Company.

The Directors have estimated the values of the share options granted, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

OTHER INFORMATION

SHARE OPTION SCHEMES (continued)

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Details of the 2016 Scheme and the amendments were set out in the circular of the Company dated 18 April 2016.

At the AGM of the Company held on 23 May 2018, an ordinary resolution was passed to refresh the scheme mandate limit under the 2016 Scheme provided that the total number of shares of the Company which may be allotted and issued pursuant to the grant or exercise of share option under the 2016 Scheme shall not exceed 10% of the number of issued shares of the Company as at the date on which the resolution was passed (i.e. 10% of 2,332,613,561 shares, that is 233,261,356 shares of the Company). For details, please also refer to the circular of the Company dated 20 April 2018.

As at 30 June 2020, the number of shares of the Company that could be issued upon exercise of (i) all outstanding share options; and (ii) all share options that could be granted under the then available scheme mandate limit were 166,280,013 and 233,261,356, respectively, which represented about 7.01% and 9.84% of the total number of issued shares of the Company as at 30 June 2020, respectively.

OTHER INFORMATION

SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the share option schemes during the period:

Name or category of participants	Number of share options						At 30 June 2020	Date of grant of share options	Exercise price of share options HK\$	Exercise period of share options	Share closing price immediately before the date of grant of share options HK\$	Weighted average share closing price immediately before the exercise dates HK\$
	At 1 January 2020	Reclassification	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period						
Directors												
<i>Executive Directors</i>												
LI Dongsheng	3,078,650	-	-	-	-	-	3,078,650	09-Mar-15	4.4834	Note 1	4.40	N/A
	277,645	-	-	-	-	-	277,645	31-Aug-15	3.3918	Note 2	3.54	N/A
	205,337	-	-	-	-	-	205,337	02-Jun-16	4.3860	Note 3	4.49	N/A
	2,150,700	-	-	-	-	-	2,150,700	23-Jan-18	4.1520	Note 5	3.91	N/A
	1,599,903	-	-	-	-	-	1,599,903	25-Apr-18	3.5700	Note 6	3.55	N/A
	7,312,235	-	-	-	-	-	7,312,235					
WANG Cheng Kevin	670,261	-	-	-	-	-	670,261	09-Mar-15	4.4834	Note 1	4.40	N/A
	1,449,817	-	-	-	-	-	1,449,817	31-Aug-15	3.3918	Note 2	3.54	N/A
	158,282	-	-	-	-	-	158,282	02-Jun-16	4.3860	Note 3	4.49	N/A
	291,063	-	-	-	-	-	291,063	12-May-17	3.7329	Note 4	3.70	N/A
	4,301,397	-	-	-	-	-	4,301,397	23-Jan-18	4.1520	Note 5	3.91	N/A
	391,464	-	-	-	-	-	391,464	25-Apr-18	3.5700	Note 6	3.55	N/A
	7,262,284	-	-	-	-	-	7,262,284					
YAN Xiaolin	1,005,391	-	-	-	-	-	1,005,391	09-Mar-15	4.4834	Note 1	4.40	N/A
	156,621	-	-	-	-	-	156,621	31-Aug-15	3.3918	Note 2	3.54	N/A
	153,478	-	-	-	-	-	153,478	02-Jun-16	4.3860	Note 3	4.49	N/A
	116,442	-	-	-	-	-	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	538,392	-	-	-	-	-	538,392	25-Apr-18	3.5700	Note 6	3.55	N/A
	1,970,324	-	-	-	-	-	1,970,324					
WANG Yi Michael*	1,005,391	(1,005,391)	-	-	-	-	-	09-Mar-15	4.4834	Note 1	4.40	N/A
	2,174,725	(2,174,725)	-	-	-	-	-	31-Aug-15	3.3918	Note 2	3.54	N/A
	178,579	(178,579)	-	-	-	-	-	02-Jun-16	4.3860	Note 3	4.49	N/A
	2,150,700	(2,150,700)	-	-	-	-	-	23-Jan-18	4.1520	Note 5	3.91	N/A
	5,509,395	(5,509,395)	-	-	-	-	-					
	22,054,238	(5,509,395)	-	-	-	-	16,544,843					

OTHER INFORMATION

SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the share option schemes during the period:
(continued)

Name or category of participants	Number of share options						Date of grant of share options	Exercise price of share options HK\$	Exercise period of share options	Share closing price immediately before the date of grant of share options HK\$	Weighted average share closing price immediately before the exercise dates HK\$	
	At 1 January 2020	Reclassification	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period						At 30 June 2020
<i>Non-executive Directors</i>												
Albert Thomas DA ROSA, Junior	199,465	-	-	-	-	-	199,465	09-Mar-15	4.4834	Note 1	4.40	N/A
	116,442	-	-	-	-	-	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	315,907	-	-	-	-	-	315,907					
YANG Arming*	48,628	(48,628)	-	-	-	-	-	31-Aug-15	3.3918	Note 2	3.54	N/A
	33,579	(33,579)	-	-	-	-	-	02-Jun-16	4.3860	Note 3	4.49	N/A
	188,715	(188,715)	-	-	-	-	-	25-Apr-18	3.5700	Note 6	3.55	N/A
	270,922	(270,922)	-	-	-	-	-					
<i>Independent Non-executive Directors</i>												
Robert Maarten WESTERHOF	199,465	-	-	-	-	-	199,465	09-Mar-15	4.4834	Note 1	4.40	N/A
	116,442	-	-	-	-	-	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	315,907	-	-	-	-	-	315,907					
WANG Yijiang	125,818	-	-	-	-	-	125,818	02-Jun-16	4.3860	Note 3	4.49	N/A
	116,442	-	-	-	-	-	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	242,260	-	-	-	-	-	242,260					
LAU Siu Ki	116,442	-	-	-	-	-	116,442	23-Jan-18	4.1520	Note 5	3.91	N/A
	119,859	-	-	-	-	-	119,859	25-Apr-18	3.5700	Note 6	3.55	N/A
	236,301	-	-	-	-	-	236,301					
	1,381,297	(270,922)	-	-	-	-	1,110,375					

OTHER INFORMATION

SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the share option schemes during the period:
(continued)

Name or category of participants	Number of share options						Date of grant of share options	Exercise price of share options HK\$	Exercise period of share options	Share closing price immediately before the date of grant of share options HK\$	Weighted average share closing price immediately before the exercise dates HK\$	
	At 1 January 2020	Reclassification	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period						At 30 June 2020
Associate(s) of Director(s)												
(CHIKAWA Yuki (WEI Xue) (Spouse of Mr. LI Dongsheng)	105,098	-	-	-	-	-	105,098	31-Aug-15	3.3918	Note 2	3.54	N/A
	127,329	-	-	-	-	-	127,329	02-Jun-16	4.3860	Note 3	4.49	N/A
	272,468	-	-	-	-	-	272,468	25-Apr-18	3.5700	Note 6	3.55	N/A
	504,895	-	-	-	-	-	504,895					
Other employees of the Group												
	12,785,992	1,005,391	-	-	-	(368,643)	13,422,740	09-Mar-15	4.4834	Note 1	4.40	N/A
	47,736,475	2,174,725	-	(7,060,984)	-	(673,597)	42,176,619	31-Aug-15	3.3918	Note 2	3.54	4.23
	5,905,744	178,579	-	-	-	(195,316)	5,889,007	02-Jun-16	4.3860	Note 3	4.49	N/A
	10,572,102	-	-	(480,692)	-	(675,719)	9,415,691	12-May-17	3.7329	Note 4	3.70	4.38
	66,466,284	2,150,700	-	(330,935)	-	(7,918,928)	60,367,063	23-Jan-18	4.1520	Note 5	3.91	4.25
	143,466,597	5,509,395	-	(7,872,669)	-	(9,832,203)	131,271,120					
Those who have contributed or may contribute to the Group¹												
	6,157,301	-	-	-	-	-	6,157,301	09-Mar-15	4.4834	Note 1	4.40	N/A
	2,356,792	48,628	-	-	-	-	2,405,420	31-Aug-15	3.3918	Note 2	3.54	N/A
	1,975,680	33,579	-	-	-	-	2,009,259	02-Jun-16	4.3860	Note 3	4.49	N/A
	6,554,954	188,715	-	(340,089)	-	(126,780)	6,276,800	25-Apr-18	3.5700	Note 6	3.55	4.14
	17,044,727	270,922	-	(340,089)	-	(126,780)	16,848,780					
	184,451,754	-	-	(8,212,758)	-	(9,958,983)	166,280,013					

OTHER INFORMATION

SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the share option schemes during the period:
(continued)

Note 1 One-third of such share options are exercisable commencing from 9 January 2017, a further one-third are exercisable commencing from 9 January 2018, and the remaining one-third are exercisable commencing from 9 January 2019, up to 8 March 2021.

Note 2 For share options granted to the employees of the Group, approximately one-third of such share options are exercisable commencing from 9 January 2017, a further approximately one-third are exercisable commencing from 9 January 2018, and the remaining approximately one-third are exercisable commencing from 9 January 2019, up to 30 August 2021.

For share options granted to the employees of TCL Technology and its subsidiaries ("TCL Technology Group") (excluding the Group), approximately one-third of such share options are exercisable commencing from 31 December 2015, a further approximately one-third are exercisable commencing from 31 December 2016, and the remaining approximately one-third are exercisable commencing from 31 December 2017, up to 30 August 2021.

Note 3 For share options granted to the employees of the Group, approximately 13% of such share options are exercisable commencing from 9 January 2017, a further approximately 43% are exercisable commencing from 9 January 2018, and the remaining approximately 44% are exercisable commencing from 9 January 2019, up to 1 June 2022.

For share options granted to the employees of TCL Technology Group (excluding the Group), approximately one-third of such share options are exercisable commencing from 31 December 2016, a further approximately one-third are exercisable commencing from 31 December 2017, and the remaining approximately one-third are exercisable commencing from 31 December 2018, up to 1 June 2022.

Note 4 Approximately 21% of such share options are exercisable commencing from 9 January 2018, and the remaining approximately 79% are exercisable commencing from 9 January 2019, up to 11 May 2023.

OTHER INFORMATION

SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the share option schemes during the period:
(continued)

Note 5 Approximately one-sixth of such share options are exercisable commencing from 18 May 2019, approximately one-sixth from 9 January 2020, approximately one-sixth from 18 May 2020, approximately one-sixth from 9 January 2021, a further approximately one-sixth are exercisable commencing from 18 May 2021, and the remaining approximately one-sixth are exercisable commencing from 9 January 2022, up to 22 January 2024.

Note 6 For share options granted to the employees of the Group, all of such share options are exercisable commencing from 9 January 2019, up to 24 April 2024.

For share options granted to the employees of TCL Technology Group (excluding the Group), approximately one-third of such share options are exercisable commencing from 15 June 2018, a further approximately one-third are exercisable commencing from 15 June 2019, and the remaining approximately one-third are exercisable commencing from 15 June 2020, up to 24 April 2024.

- * Mr. WANG Yi Michael resigned as an executive Director with effect from 28 February 2020.
- ** Mr. YANG Anming resigned as a non-executive Director with effect from 28 February 2020.
- * This category of participants comprises grantees who were employees and/or officers of TCL Technology and/or its affiliated companies as of the date of grant, some of them have become employees and/or officers of TCL Holdings and/or its affiliated companies as a result of the restructuring of TCL Technology. For details of the restructuring, please refer to the circular of the Company dated 19 June 2019.

OTHER INFORMATION

AWARD SCHEME

The Company adopted the Award Scheme on 6 February 2008. By a shareholders' resolution passed in the extraordinary general meeting of the Company held on 11 August 2015, the Award Scheme was amended. Details of the Award Scheme and the amendments were set out in the announcements dated 6 February 2008 and 25 June 2015 respectively and the circulars dated 19 March 2008 and 27 July 2015 respectively. On 13 June 2016, the Board further resolved to amend the Award Scheme to allow the Board, at its sole and absolute discretion, to accelerate the vesting of awarded shares and/or waive and/or alter any or all of the vesting conditions attached to the awarded shares. On 24 November 2017, the Board resolved to, among others, divide the Award Scheme into two sub-schemes, namely the Restricted Share Award Scheme for Management and the Restricted Share Award Scheme for Employees and Others respectively for the said two groups of participants for better management and administration ("2017 Amendments").

On 4 May 2018, the Board further resolved to, among others, introduce a refreshment mechanism that allowed for refreshment of the scheme limit subject to fulfilment of certain conditions, as well as an annual specific mandate be granted to the Directors, subject to shareholders' approval, to allot and issue new shares of the Company under the Award Scheme for not exceeding 3% of the number of shares of the Company in issue as at the date on which the resolution was passed, and make other consequential amendments to the Award Scheme (collectively "2018 Amendments"). For further details of the 2017 Amendments and the 2018 Amendments, please refer to the circular of the Company dated 7 May 2018. On 23 May 2018, ordinary resolutions were passed by the shareholders of the Company to approve the amended Award Scheme with the 2018 Amendments incorporated, as well as the specific mandate.

The current specific mandate for the issuance and allotment of new shares of the Company pursuant to the Award Scheme was passed by the shareholders of the Company at the annual general meeting of the Company held on 2 June 2020. As at 2 June 2020, the total number of issued shares of the Company was 2,371,274,404 and the maximum number of new shares of the Company which could be issued as approved under the said specific mandate was therefore 71,138,232. No shares of the Company had been awarded under the said specific mandate up to 30 June 2020. The said specific mandate would expire at the forthcoming AGM of the Company and the Company would seek its shareholders' approval for a new specific mandate at the forthcoming AGM of the Company.

OTHER INFORMATION**AWARD SCHEME (continued)**

The Company has appointed BOCI-Prudential Trustee Limited (the "Trustee") for the administration of the Award Scheme. To the knowledge and belief of the Company, the Trustee is an independent third party to the Company. No one, including the Trustee, may exercise any voting rights in respect of the awarded shares held by the Trustee.

Information in relation to the Award Scheme was as follows:

Number of awarded shares				
Granted but not vested as at 1 January 2020	Granted during the period	Vested during the period	Lapsed during the period	Granted but not vested as at 30 June 2020
'000	'000	'000	'000	'000
29,008	–	(9,921)	(3,933)	15,154

As at 30 June 2020, (i) 233,229,930 further awarded shares might be granted to the eligible participants of the Award Scheme and (ii) a maximum of 71,138,232 new shares might be allotted and issued as awarded shares under the specific mandate, which represented approximately 9.83% and 3.00% of the total number of issued shares of the Company as at 30 June 2020, respectively.

The expenses in relation to the Award Scheme recorded during the period from 1 January 2020 to 30 June 2020 were approximately HK\$777,000.

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 six months ended 30 June 2020.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend for the six months ended 30 June 2020, of HK9.70 cents (30 June 2019: HK10.56 cents) in cash per share out of the share premium account of the Company.

Under section 34(2) of the Companies Law of the Cayman Islands, the share premium account may be applied by a company in paying dividends to members provided that no dividend may be paid to members out of the share premium account unless, immediately following the date on which the dividend is proposed to be paid, the company shall be able to pay its debts as they fall due in the ordinary course of business. Subject to the foregoing, the said interim dividend will be payable on or about 23 October 2020, Friday to shareholders whose names appear on the register of members of the Company at the close of business at 4:30 p.m. on 7 October 2020, Wednesday.

RECORD DATE AND CLOSURE OF REGISTER OF MEMBERS

The record date for determining the entitlements of the shareholders of the Company to the said interim dividend is 7 October 2020, Wednesday. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 7 October 2020, Wednesday. The register of members of the Company will be closed from 8 October 2020, Thursday to 9 October 2020, Friday (both dates inclusive). No transfer of shares may be registered during the said period.

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 six months ended 30 June 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.

OTHER INFORMATION

CORPORATE GOVERNANCE (continued)

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

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

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

Due to other pre-arranged business commitments which must be attended to by Mr. LI Dongsheng (being the chairman of the Board and an executive Director), he was not present at the AGM held on 2 June 2020 ("2020 AGM"). However, Mr. LAU Siu Ki (being the chairman of the Audit Committee and an independent non-executive Director), Professor WANG Yijiang (being the chairman of the nomination committee of the Company and an independent non-executive Director) and Dr. TSENG Shieng-chang Carter (being the chairman of the remuneration committee of the Company and an independent non-executive Director) were present at the 2020 AGM to maintain an ongoing dialogue and communicate with the shareholders and encourage their participation.

OTHER INFORMATION

CORPORATE GOVERNANCE (continued)

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

The company secretary of the Company, Ms. CHOY Fung Yee ("Ms. CHOY") being a practising solicitor in Hong Kong and a partner of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors, is not an employee of the Company. Mr. HU Lihua, the executive Director and the chief financial officer of the Company, has been assigned as the contact person with Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. CHOY through the contact person assigned. Given the long-term relationship between Ms. CHOY and the Group, Ms. CHOY is very familiar with the operations of the Group and has an in-depth knowledge of the management of the Group. Having in place a mechanism that Ms. CHOY will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. CHOY as the company secretary of the Company is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

AUDIT COMMITTEE

The Audit Committee has reviewed this interim report and the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2020, including the accounting principles adopted by the Group, with the Company's management. As at the date of this report, the Audit Committee comprises three members, namely Mr. LAU Siu Ki (chairman), Dr. TSENG Shien-chang Carter and Professor WANG Yijiang, all being independent non-executive Directors. Mr. YANG Anming had been a member of the Audit Committee until his resignation with effect from 28 February 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard as set out in the Model Code. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the six months ended 30 June 2020.

OTHER INFORMATION

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received two confirmations (the “Confirmations”) from TCL Technology and T.C.L. Industries (H.K.) (collectively the “Covenants”) signed by them confirming that for the period from 1 January 2020 to 30 June 2020 and up to the date of signing the Confirmations by the relevant Covenants, they have fully complied with the deed of non-competition executed by the Covenants in favour of the Group on 15 November 1999 as amended from time to time (the “Deed of Non-Competition”).

On 29 June 2020, TCL Technology, T.C.L. Industries (H.K.) and the Company conditionally entered into a deed of termination, pursuant to which each of the parties has agreed to, among others, terminate the Deed of Non-Competition. On the same day, TCL Holdings, T.C.L. Industries (H.K.) and the Company conditionally entered into a deed of non-competition in favour of the Company, whereby each of TCL Holdings and T.C.L. Industries (H.K.) has undertaken not to (save for certain exceptions), directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TCL brand TVs and smart phones. The aforesaid deed of termination and deed of non-competition are not yet effective as at the date of this interim report. Further details are set out in the Company’s announcement and circular dated 29 June 2020 and 30 June 2020 respectively.

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

OTHER INFORMATION

THE USE OF PROCEEDS FROM THE RIGHTS ISSUE

Reference is made to the prospectus published by the Company dated 28 December 2017 (the "Prospectus") in respect of the rights issue in the proportion of one rights share for every three then existing shares held by the qualifying shareholders on the record date of 27 December 2017 ("Rights Issue"). Unless otherwise specified, terms used in this section shall have the same meanings as those defined in the Prospectus.

As disclosed in the Prospectus, the net proceeds from the Rights Issue after deduction of expenses and professional fees amounted to approximately HK\$2,000 million ("Rights Issue Proceeds").

The breakdown of the Company's proposed use of the Rights Issue Proceeds as disclosed in the Prospectus and its actual use of the Rights Issue Proceeds from the date of completion of the Rights Issue to 30 June 2020 were as follows:

Intended use:	Proposed use of the Rights Issue Proceeds as disclosed in the Prospectus <i>HK\$ million (approximately)</i>	Actual use of the Rights Issue Proceeds from the date of completion of the Rights Issue to 30 June 2020 <i>HK\$ million (approximately)</i>	Balance of the unutilised Rights Issue Proceeds as of 30 June 2020 <i>HK\$ million (approximately)</i>
Future joint ventures and M&A opportunities	750	750	–
Phase I of the Tonghu Project	350	166	184
Research and development	350	350	–
General working capital	550	550	–
Total	2,000	1,816	184

OTHER INFORMATION

THE USE OF PROCEEDS FROM THE RIGHTS ISSUE (continued)

Whilst Phase I of the Tonghu Project commenced construction in May 2017 and was originally expected to be completed by May 2019 as disclosed in the Prospectus, there is a delay in the construction and implementation progress and the said process is still undergoing as of the date of this report. Based on the current circumstances, it is estimated that Phase I of the Tonghu Project would be completed by the end of 2021 and the entire balance of the unutilised Rights Issue Proceeds as of 30 June 2020, being approximately HK\$184 million, is therefore expected to be fully utilised by then.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 25 August 2020

The English translation of Chinese names or words in this report, 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.*