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## **TCL ELECTRONICS HOLDINGS LIMITED**

### **TCL 電子控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 01070)

### **RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021 AND CHANGE IN USE OF RIGHTS ISSUE PROCEEDS**

The board (the “Board”) of directors (“Directors” and each a “Director”) of TCL Electronics Holdings Limited (the “Company” or “TCL Electronics”) is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2021 with comparative figures for the corresponding period in 2020.

	<b>Six months ended 30 June</b>		<b>Change</b>
	<b>2021</b>	<b>2020</b>	
	<b>(unaudited)</b>	<b>(unaudited)</b>	
	<b>HK\$ Million</b>	<b>HK\$ Million</b>	
		<i>(restated)</i>	
<b>FINANCIAL HIGHLIGHTS</b>			
<b>CONTINUING OPERATIONS</b>			
Revenue	<b>34,934</b>	17,150	103.7%
Gross profit	<b>5,566</b>	3,531	57.6%
Profit for the period from continuing operations	<b>1,078</b>	520	107.3%
Profit attributable to owners of the parent	<b>1,041</b>	467	122.9%
Profit attributable to owners of the parent after deducting one-off non-operating items	<b>245</b>	453	(45.9%)
Basic earnings per share ( <i>HK cents</i> )	<b>43.30</b>	20.30	113.3%

## BUSINESS REVIEW AND PROSPECTS

### 1. Overview

In the first half of 2021, the global economy continued to rebound and the external environment for corporate development has improved. However, the supply and demand in the TV panel industry chain remains tight. With the accelerated application of cutting-edge technologies, the competitive landscape of the TV industry continues to change and intelligence and high-technology are leading the tide of transformation. The Group has increased its research and development (“R&D”) investment and seized the opportunity of industry changes by firmly taking smart display as its core business, and vigorously implementing the “AI x IoT” all-scenario smart and healthy-living strategy. In the first half of 2021, the Group achieved solid growth in its global smart screen<sup>1</sup> sales and Internet business.

- **Market Share of TCL Smart Screen by Sales Volume Steadily Increased, Accelerated Penetration by High-end Products**

For the six months ended 30 June 2021, the global sales volume of TCL smart screen reached 11.27 million sets, representing a year-on-year growth of 11.8%, among others, sales volume of TCL smart screen in overseas markets increased by 22.2% year-on-year. According to the latest report of Sigmaintell<sup>2</sup>, the market share by shipment of TCL smart screen in the global TV market increased by 1.0 percentage point to 11.6% in the first half of 2021, firmly ranking top 3 in the world.

- According to the latest report by GfK<sup>3</sup> and NPD<sup>4</sup>, sales volume of TCL smart screen in the first five months of 2021 ranked top 5 in 19 overseas countries and regions;
- According to omni-channel data from CMM<sup>5</sup>, TCL smart screen accounted for 13.9% of the market share by sales volume in the People’s Republic of China (“PRC”), ranking No.3 across the PRC; and market share of TCL smart screen in terms of sales revenue in the PRC reached 13.2%, with its ranking rising to No.2 in the first half of 2021.

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<sup>1</sup> Smart screen business mainly refers to smart television (“TV”) related business. By shipment over 90% of the Group’s TV products are smart screen products.

<sup>2</sup> Sigmaintell is an information technology research and advisory company with focus on global high-tech industry.

<sup>3</sup> GfK stands for Gesellschaft für Konsumforschung, a consumer goods market research company and global market research organisation headquartered in Nuremberg, Germany.

<sup>4</sup> NPD refers to the NPD Group, a market research company that provides global data, industry expertise and insightful analysis.

<sup>5</sup> CMM refers to China Market Monitor Co., Ltd., a research institute focusing on the research of consumer goods and home appliance retail market in the PRC.

The Group is at the forefront of industry changes and continues to lead the trend of smart, high-tech and Internet-oriented large-screen displays globally. In the first half of 2021, the proportion of smart screen by sales volume increased by 1.5 percentage points year-on-year to 91.6%; the proportion of TCL 4K smart screen by sales volume remained at a high level of 53.2% and the proportion of TCL Quantum dot (“QLED”) smart screen by sales volume increased by 3.1 percentage points year-on-year to 5.0%.

- **Business Scale Continued to Expand with Cost Reduction and Efficiency Enhancement**

For the six months ended 30 June 2021, the Group’s revenue from continuing operations reached HK\$34,934 million, increasing by 103.7% year-on-year. The gross profit reached HK\$5,566 million with an increase of 57.6% year-on-year, and the gross profit margin was impacted by the increasing panel prices and decreased by 4.7 percentage points to 15.9%. By focusing on the development of its core business and benefitting from its active supply chain optimisation and channel deployment as well as cost reduction and efficiency enhancement, the Group’s expense ratio decreased by 1.2 percentage points year-on-year to 14.2%. In the first half of 2021, the Group’s profit attributable to owners of the parent from continuing operations reached HK\$1,041 million, representing an increase of 122.9% year-on-year. The profit attributable to owners of the parent from continuing operations after deducting one-off non-operating items reached HK\$245 million. The Group’s basic earnings per share from continuing operations for the first half of 2021 was HK43.30 cents, representing an increase of 113.3% year-on-year.

- **Global Internet Business Revenue Growth Remained Rapid, Profitability Continued to be Enhanced**

The Group has been steadily developing its home Internet business on a global scale, providing users with all-scenario products and services for multi-screen, real-time interaction and smart sensing. By the end of June 2021, the Group’s global Internet business revenue reached HK\$721 million, representing an increase of 38.3% year-on-year. In particular, with the strengthening of product competitiveness, smart commercial applications as well as the continued expansion of new businesses, the number of monthly active users of the Group’s domestic Internet platform operated by Shenzhen Falcon Network Technology Co. Ltd\* (深圳市雷鳥網絡科技有限公司) (“Falcon Network Technology”) and its subsidiaries (collectively, “Falcon Network Technology Group”) increased by 13.8% year-on-year to 19.29 million. In the first half of 2021, average revenue per user (“ARPU”) increased by 31.5% year-on-year to HK\$31.4. During the reporting period,

the Group continued to deepen its close cooperation with Internet giants such as Roku, Google and Netflix, and completed the commercialisation of TCL Channel to further expand its global home Internet business. As of the end of June 2021, the Group's integrated contents application, TCL Channel, has already covered 18 countries around the world. The Group will continue to promote the launch of TCL Channel in more countries in the future with a commitment to provide users with better experience and services in each key market.

- **Continued to Strengthen R&D Efforts, Leading the Transformation of High-end Display and Intelligent Interaction**

The Group attaches great importance to the design, R&D and advanced manufacturing of the next generation smart TV, especially in the fields of display technology, AI and intelligent interaction. The Group is committed to bringing better experience to users, further enhancing product competitiveness and brand power, and gradually increasing the penetration rate of smart screen in home scenarios. In the first half of 2021, the Group continued to launch various mid-to-high-end intelligent products, including TCL X12 8K Mini LED starlight smart screen, TCL C12 QLED Mini LED smart screen, and the new TCL 20 Series mobile phones. Among them, the new smart screen product launched by the Group, TCL X12 8K Mini LED starlight smart screen, is the world's first OD Zero Mini LED smart screen as well as the thinnest Mini LED smart screen in the world, demonstrating the Group's strength in technology deployment and product development. In addition, the Group continued to increase its investments and efforts in the R&D of "AI x IoT" technologies, covering various frontier areas such as AI, IoT, cloud services, big data, intelligent interaction, Android TV system and Internet applications. For the six months ended 30 June 2021, the Group's R&D expenditure significantly increased by 102.6% year-on-year to HK\$1,029 million, representing an R&D expense ratio of 2.9%.

- **Accelerated the Consolidation of Smart Mobile, Connective Devices and Services Sector, Expanding Market Potential through Diversification**

The Group accelerated the consolidation of its smart mobile, connective devices and services-related business, which has been consolidated since September 2020, to further advance the development of the Group's "AI x IoT" strategy. The Group strives to become a full-scenario smart technology company with numerous product lines to diversify its business and embrace greater market potential. In the first half of 2021, the Group's total sales volume of smart mobile, connective devices and services grew by 37.7% year-on-year to 14.70 million sets, generating revenue of HK\$7,087 million.

## 2. *TCL Smart Screen Business*

### *Overseas Markets*

In the first half of 2021, the sales volume of TCL smart screen in the Group's overseas markets increased by 22.2% year-on-year, the average selling price increased by 32.0% year-on-year and the revenue reached HK\$16,657 million, representing an increase of 61.4% year-on-year. Gross profit of the Group's TCL smart screen business in overseas markets reached HK\$2,398 million in the first half of 2021, representing an increase of 34.3% year-on-year. Gross profit margin reached 14.4%, down by 2.9 percentage points year-on-year, which was mainly attributable to the increase in panel cost.

According to the latest report by GfK and NPD, in the first five months of 2021, the market share of the Group's TCL smart screen in terms of sales volume ranked top 5 in nearly 20 overseas countries and regions, among which:

- North American Markets: the Group continued to optimise the channel structure and increase the share of mid-to-high-end products. The sales volume of TCL smart screen grew by 3.8% year-on-year in the first half of 2021. For the five months ended 31 May 2021, the market share of TCL smart screen by sales volume ranked No.3 in the United States of America ("U.S.") and rose to No.2 in Canada (Source: NPD<sup>6</sup>);
- Emerging Markets: the sales volume of TCL smart screen grew by 27.0% year-on-year in the first half of 2021. For the five months ended 31 May 2021, the market share of TCL smart screen by sales volume rose to No.1 in Pakistan, ranked No.2 in Australia, the Philippines and Myanmar, rose to No.3 in Brazil, and ranked No.4 in Vietnam, Morocco and Thailand (Source: GfK); and
- European Markets: the sales volume of TCL smart screen maintained a high growth rate in the first half of 2021, up by 83.2% year-on-year. For the five months ended 31 May 2021, the market share of TCL smart screen by sales volume ranked No.5 in France and Poland (Source: GfK).

The Group has been developing overseas markets for over 20 years, while fully leveraging on its advantages in vertically integrated industrial chain and global production capacity, optimising its channel and product structure, and continuing to enhance the competitiveness of its international business. In addition to the PRC, the Group has set up factories in Mexico, Vietnam, Poland, and South America, etc., with its annual global production capacity of TCL smart screen reaching 27 million sets, which strongly supports the long-term growth of overseas business. The Group will continue to further develop its global production capacity layout in the future.

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<sup>6</sup> This report refers to NPD's U.S./Canada retail market research report, based on LCD TV sales volume during January to May 2021 and during January to May 2020.

### *The PRC Market*

In the first half of 2021, the overall retail TV market underperformed due to the continuous increase in panel prices and the rise in retail prices. According to CMM's omni-channel data, the overall retail sales volume of the TV industry in the PRC market dropped by 10.7% year-on-year in the first half of 2021. Nonetheless, TCL Electronics continued to buck the market trend. The market share by retail sales volume of TCL smart screen in the PRC market increased by 1.1 percentage points year-on-year to 13.9% in the first half of 2021, ranking No.3. The market share by retail sales revenue reached 13.2%, increased ranking to No.2 in the PRC.

In response to the increase in raw material prices, the Group adopted strategies such as raising selling prices and optimising product mix to actively cope with the price rise and offset part of the cost pressure. In the first half of 2021, the Group's sales volume of TCL smart screen in the PRC market declined by 15.8% year-on-year, but the average selling price recorded a year-on-year increase of 75.8%. Revenue reached HK\$6,429 million, representing a year-on-year increase of 47.9%. Gross profit reached HK\$1,311 million, representing a year-on-year increase of 17.7%, and gross profit margin was 20.4%, down by 5.2 percentage points year-on-year.

Meanwhile, the Company has made remarkable breakthroughs in high-end products. The sales volume of TCL QLED smart screen increased by 61.8% year-on-year in the first half of 2021, and its proportion by sales volume increased by 2.1 percentage points year-on-year to 4.5%. The Group's products are also becoming increasingly large-screened, with the average size of TCL smart screen sold in the PRC market increasing by 2.6 inches from 49.9 inches in the first half of 2020 to 52.5 inches in the corresponding period of 2021, among which the proportion of TCL smart screen of 65 inches and above by sales volume increased by 7.6 percentage points to 25.1%. The Group is committed to the mid-to-high-end segment and will continue to optimise its product mix and channel structure, enhance operational efficiency, strengthen its competitive edge, and improve its business performance.

### **3. *Internet Business***

#### *The PRC Market*

In the first half of 2021, revenue from the Group's domestic Internet business (mainly relating to the business of Falcon Network Technology Group) reached HK\$600 million in the first half of 2021, representing a significant increase of 51.3% year-on-year, among which revenue from Falcon Network Technology's membership business, value-added business and advertising business grew by 75.9%, 44.8% and 13.0% year-on-year, respectively. ARPU of Falcon Network Technology reached HK\$31.4 in the first half of 2021, representing a year-on-year growth of 31.5%.

In the first half of 2021, Falcon Network Technology concentrated on improving user experience. The competitiveness of its software continued to improve, and the number of monthly active users grew steadily. As of the end of June 2021, the number of monthly active users of Falcon Network Technology Group reached 19.29 million, representing a 13.8% year-on-year increase. In addition, Falcon Network Technology has deepened its cooperation with major long-video content providers while vigorously developing innovative businesses such as children's business, large-screen education, and elders' business, as well as exploring vertical content areas such as cloud gaming and short videos. For example, it has jointly launched a short video channel with ByteDance, resulting in a continuous increase in user loyalty, and the average daily time spent on TV per user reaching 5.13 hours in the first half of 2021.

#### *Overseas Markets*

In the first half of 2021, the revenue from the Group's overseas Internet business reached HK\$121 million, which remained flat when compared to that of the previous year. In the first half of 2021, the Group continued to work closely with Internet giants such as Roku, Google and Netflix and completed the commercial transformation of TCL Channel with a view to further expanding its global home Internet business. As of the end of June 2021, the Group's integrated contents application, TCL Channel, has already covered 18 countries around the world. The Group will continue to promote the launch of TCL Channel in more countries in the future with a commitment to provide users with better experience and services in every important market.

#### **4. *Smart Mobile, Connective Devices and Services***

In the first half of 2021, the Group's total sales volume of smart mobile, connective devices and services reached 14.70 million sets, representing a year-on-year growth of 37.7%. Revenue was HK\$7,087 million and gross profit margin was 14.1%.

In terms of key global markets, according to the latest IDC<sup>7</sup> report, in the first quarter of 2021, sales volume of the Group's mobile phone ranked No.4 in the U.S., Canada and Australia and No.5 in Western Europe. In the first quarter of 2021, sales volume of the Group's smart tablet ranked No.5 in global Android smart tablet market, ranked No.3 in the U.S. and No.5 in Western Europe.

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<sup>7</sup> IDC refers to International Data Corporation, a global provider of market intelligence and advisory services for the information technology, telecommunications, and consumer technology markets.

## 5. *Outlook*

Despite the ongoing resurgence of the coronavirus disease 2019 (“Covid-19”) worldwide and the changing landscape of the panel industry, which has further polarised the TV industry, the Group has delivered a solid and strong performance since the pandemic outbreak. With more than 20 years of experience in developing overseas business, the Group has built up a comprehensive global production capacity layout and established worldwide channels. Coupled with its distinctive advantage of vertically integrated industrial chain, it will be able to better seize the new opportunities of industry development in the post-pandemic era. In the second half of 2021, the Group will remain vigilant about the changes in the pandemic situation, continue to consolidate its industry leading position while ensuring the safety of its employees, and further implement its “AI x IoT” all-scenario smart and healthy living strategy:

- enhance R&D and product innovation, attach great importance to R&D investment and vigorously develop industry-leading high-end display technologies such as QLED, Mini LED and 8K. Continue to focus on intelligent interaction technologies, strengthen R&D and innovation around AI, Internet-based big data, 5G, intelligent manufacturing and other technology areas to continuously enhance TCL Electronics’ core competitiveness;
- fully leverage on the Group’s distinctive advantage of vertically integrated industrial chain to minimise the pressure on gross profit caused by shortage and increasing price of upstream panel, and further reinforce its advantages over global supply chain and channels to strengthen the development of emerging markets, continue to enhance the brand power and competitiveness of the Group in the domestic and overseas TV markets, and move firmly towards the goal of becoming No.1 brand in the global TV market;
- accelerate the further development of the global Internet business, deepen the cooperation with overseas Internet partners while vigorously enhancing the operation and profitability of Falcon Network Technology, to improve the integration of domestic and overseas content resources, enhance product competitiveness, continuously explore and develop innovative business and reinforce the operation and profitability of global Internet business; and

- seize the opportunities brought by the accelerated implementation of cutting-edge technologies such as AI and IoT. Amid the intelligent and technological transformations, the Group will step up its efforts in implementing the all-scenario smart and healthy living strategy of “AI x IoT”; accelerate the integration of smart mobile, connective devices and service related business with smart display business as the core, step up the development of three major smart scenarios namely smart home, mobile services and smart commercial display to offer users smart living services across “All Scenarios, All Categories and Inter-connectivity”, drive steady expansion of all-category business and firmly move towards global leadership.

Looking into the full year of 2021, although the increasing price of raw materials such as panel has brought considerable operating pressure to both the industry and the Group, the Group forges ahead by actively adjusting its product mix, optimising its supply chain and channel structure in order to minimise the impact caused by cost increase. The Group maintains double-digit increase across both sales volume of smart screen and overall revenue as its full year target for 2021. Looking ahead, with the rapid development of cutting-edge technologies such as AI and IoT, the digital and intelligentised transformation of the display industry will see a comprehensive speed-up, bringing significant development opportunities. The Group will, with “Smart Screens Interconnect Everything and Lead to the Future” as the core, continue to focus on high-end display and smart interaction technologies, and vigorously promote and implement the development strategy of intelligentisation and globalisation. The Group will continuously place great emphasis on and increase its investment in R&D and product innovation, deepen its global supply chain and channel deployment, accelerate its digital transformation, support the development of innovative businesses and steadily increase its revenue from value-added Internet services. Confident and determined as ever, the Group will endeavour to become a global leader in providing users around the world with the best products and services that enable multi-screen, real-time interactions, and all scenario smart sensing, and bring long-term sustainable growth and returns to the shareholders of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Comparison between the First Half of 2021 and the First Half of 2020

The table below lists and compares the figures of the first half of 2021 and the first half of 2020:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		<i>(restated)</i>
<b>CONTINUING OPERATIONS</b>		
<b>REVENUE</b>	<b>34,933,848</b>	17,149,906
Cost of sales	<u>(29,368,005)</u>	<u>(13,619,281)</u>
Gross profit	<b>5,565,843</b>	3,530,625
Other income and gains	<b>1,810,251</b>	464,638
Selling and distribution expenses	<b>(3,219,353)</b>	(2,118,913)
Administrative expenses	<b>(1,744,368)</b>	(525,586)
Research and development costs	<b>(1,029,187)</b>	(508,105)
Other operating expenses	<b>(31,982)</b>	(6,780)
Impairment losses of financial assets, net	<u>(6,613)</u>	<u>(3,104)</u>
	<b>1,344,591</b>	832,775
Finance costs	<b>(216,944)</b>	(82,764)
Shares of profits and losses of:		
– Joint ventures	<b>9,982</b>	6,894
– Associates	<u>12,762</u>	<u>(106,470)</u>
Profit before tax from continuing operations	<b>1,150,391</b>	650,435
Income tax	<u>(72,038)</u>	<u>(130,150)</u>
Profit for the period from continuing operations	<b>1,078,353</b>	520,285
Profit for the period from discontinued operations	<u>–</u>	<u>68,876</u>
Profit for the period	<u><b>1,078,353</b></u>	<u>589,161</u>
<b>Profit attributable to owners of the parent</b>		
– For the period (included discontinued operations)	<b>1,041,140</b>	535,872
– From continuing operations	<b>1,041,140</b>	466,996
<b>Profit attributable to owners of the parent after deducting one-off non-operating items</b>		
– For the period (included discontinued operations)	<b>244,718</b>	521,393
– From continuing operations	<b>244,718</b>	452,517

## Revenue

The Group's revenue from continuing operations increased by 103.7% year-on-year from HK\$17,150 million in the first half of 2020 to HK\$34,934 million in the first half of 2021. The following table shows the Group's revenue by business segments for the six months ended 30 June 2021 and 30 June 2020:

	Six months ended 30 June			
	2021 (unaudited)		2020 (unaudited)	
	HK\$'000	Proportion of the total revenue	HK\$'000 (restated)	Proportion of the total revenue
TCL smart screen business				
– Overseas	16,656,831	47.7%	10,322,596	60.2%
– the PRC	6,428,749	18.4%	4,345,903	25.3%
Internet business				
– the PRC	599,930	1.7%	396,574	2.3%
– Overseas	120,842	0.3%	124,484	0.7%
Smart mobile, connective devices and services	7,086,805	20.3%	N/A	N/A
Smart commercial display, smart home and other businesses	4,040,691	11.6%	1,960,349	11.5%
Total revenue	<u>34,933,848</u>	<u>100.0%</u>	<u>17,149,906</u>	<u>100.0%</u>

### *TCL Smart Screen Business*

#### *Overseas*

The revenue from TCL smart screen in overseas markets increased from HK\$10,322 million in the first half of 2020 to HK\$16,657 million in the first half of 2021, up by 61.4% year-on-year. Such growth was mainly driven by a significant 22.2% year-on-year increase in the Group's overseas sales volume of TCL smart screen and a 32.0% year-on-year increase in average selling price due to an improved product mix.

### *The PRC*

The revenue from TCL smart screen in the PRC market increased by 47.9% year-on-year from HK\$4,346 million in the first half of 2020 to HK\$6,429 million in the first half of 2021. The increase was mainly attributable to the Group's aggressive adjustment of its product mix and a significant 75.8% year-on-year increase in average selling price.

### ***Internet Business***

#### *The PRC*

The Group's revenue from the domestic Internet business (mainly relevant business of Falcon Network Technology Group) increased by 51.3% year-on-year from HK\$397 million in the first half of 2020 to HK\$600 million in the first half of 2021. Among others, revenue from Falcon Network Technology's membership business increased by 75.9% year-on-year, value-added business increased by 44.8% year-on-year and advertising business increased by 13.0% year-on-year.

#### *Overseas*

The revenue from the Group's overseas Internet business reached HK\$121 million in the first half of 2021, which remained flat when compared to that of the previous year.

### ***Smart Mobile, Connective Devices and Services (Consolidated since September 2020)***

In the first half of 2021, the Group's revenue from smart mobile, connective devices and services reached HK\$7,087 million.

### ***Smart Commercial Display, Smart Home and Other Businesses***

In the first half of 2021, revenue from the Group's smart commercial display, smart home and other businesses increased by 106.1% year-on-year to HK\$4,041 million, with revenue from the smart commercial display business increasing by 228.9% year-on-year and revenue from the smart home business increasing by 183.2% year-on-year.

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

Overall gross profit increased by 57.6% year-on-year from HK\$3,531 million in the first half of 2020 to HK\$5,566 million in the first half of 2021. Gross profit margin was 15.9% in the first half of 2021, down by 4.7 percentage points when compared to that of the corresponding period in 2020, mainly due to the increase in panel prices. According to the data from Sigmaintell, in June 2021, the price of small and medium-sized panels such as 32-inch, 43-inch and 55-inch panels increased by more than 100% year-on-year, and the price of large-sized 65-inch panels increased by more than 60% year-on-year. In the second half of 2021, the Group will continue to actively adjust its product mix and strive to improve its gross profit margin.

## ***TCL Smart Screen Business***

### *Overseas*

The gross profit margin of TCL smart screen in overseas markets decreased by 2.9 percentage points year-on-year from 17.3% in the first half of 2020 to 14.4% in the first half of 2021, which was mainly caused by the increase in panel cost. In the first half of 2021, the proportion of the Group's high-end product QLED smart screen by sales volume increased by 3.3 percentage points year-on-year, and the Group will continue to promote the sales of high-end products and improve its product mix in the second half of the year.

### *The PRC*

The gross profit margin of TCL smart screen in the PRC market decreased by 5.2 percentage points year-on-year from 25.6% in the first half of 2020 to 20.4% in the first half of 2021. The decrease was mainly due to the increase in panel prices which in turn increased costs. The average size of TCL smart screen sold in the PRC market increased by 2.6 inches from 49.9 inches in the first half of 2020 to 52.5 inches in the first half of 2021, of which, the proportion of TCL smart screen of 65-inch and above by sales volume increasing by 7.6 percentage points year-on-year to 25.1%. The Group will firmly focus on the mid-to-high-end segment in the future and continue to optimise its product mix and channel structure to enhance its gross profit margin.

### ***Smart Mobile, Connective Devices and Services (Consolidated since September 2020)***

In the first half of 2021, the Group's gross profit margin for smart mobile, connective devices and services was 14.1%.

### **Other Income and Gains**

Other income and gains increased by 289.6% year-on-year from HK\$465 million in the first half of 2020 to HK\$1,810 million in the first half of 2021. The increase was mainly due to the one-off gain of HK\$741 million from the partial disposal of the equity interest of an associate of the Company, Amlogic (Shanghai) Co., Ltd.\* (晶晨半導體(上海)股份有限公司) (“Amlogic”, a joint stock limited company established in the PRC, the shares of which are listed on the sci-tech innovation board of the Shanghai Stock Exchange, stock code: 688099.SH) in the first half of 2021. For details, please refer to the Company's announcement dated 4 March 2021.

### **Selling and Distribution Expenses**

The selling and distribution expenses increased by 51.9% year-on-year to HK\$3,219 million in the first half of 2021 from HK\$2,119 million in the first half of 2020. The growth was mainly driven by the consolidation of SEMP TCL Indústria e Comércio de Eletroeletrônicos S.A. (“SEMP TCL”) and TCL Communication Technology Holdings Limited (“TCL Communication”) and its subsidiaries (collectively, the “TCL Communication Group”) since July and September 2020, respectively.

### **Administrative Expenses**

The administrative expenses increased by 231.9% year-on-year from HK\$526 million in the first half of 2020 to HK\$1,744 million in the first half of 2021. This was mainly caused by the consolidation of SEMP TCL and TCL Communication in the second half of 2020.

### **R&D Costs**

The R&D costs increased by 102.6% year-on-year from HK\$508 million in the first half of 2020 to HK\$1,029 million in the first half of 2021. The growth was mainly attributable to the Group's increased investments in frontier technologies such as 8K, Mini LED, QLED, AI x IoT and Android TV system for its long-term development, as well as the impact of the consolidation of TCL Communication.

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

The net impairment losses on financial assets increased by 113.0% year-on-year from HK\$3 million in the first half of 2020 to HK\$7 million in the first half of 2021. The increase was mainly because the Group increased its provision for expected credit losses on trade receivables during the period.

### **Finance Costs**

The finance costs increased by 162.1% year-on-year from HK\$83 million in the first half of 2020 to HK\$217 million in the first half of 2021, mainly due to the increase in new loans.

### **Share of Profits and Losses – Joint Ventures and Associates**

The share of losses in the first half of 2020 was HK\$100 million and the share of profits in the first half of 2021 was HK\$23 million. The share of losses in the corresponding period of 2020 was mainly caused by the impact of exchange rate fluctuation before the consolidation of SEMP TCL in July 2020.

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

The profit before tax from continuing operations increased by 76.9% year-on-year from HK\$650 million in the first half of 2020 to HK\$1,150 million in the first half of 2021. The increase was mainly due to the one-off gain of HK\$741 million from the partial disposal of the equity interest of Amlogic in the first half of 2021.

### **Income Tax**

The income tax decreased by 44.7% year-on-year from HK\$130 million in the first half of 2020 to HK\$72 million in the first half of 2021. The decrease was mainly caused by the over-provision in the previous years and the recognition of deferred tax assets by the Company's subsidiaries.

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

The profit for the period from continuing operations increased by 107.3% year-on-year from HK\$520 million in the first half of 2020 to HK\$1,078 million in the first half of 2021. Profit attributable to owners of the parent from continuing operations for the first half of 2021 was HK\$1,041 million, representing an increase of 122.9% year-on-year. The increase was mainly due to the one-off gain of HK\$741 million from the partial disposal of the equity interest of Amlogic in the first half of 2021.

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

The profit attributable to owners of the parent from continuing operations after deducting one-off non-operating items in the first half of 2021 was HK\$245 million, down by 45.9% year-on-year, mainly due to the significant increase in upstream panel cost and persistent rise in R&D expenditure of the Group.

## **FINANCIAL REVIEW**

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

During the period from 3 March 2021 to 4 March 2021, TCL King Electrical Appliances (Huizhou) Company Limited\* (TCL王牌電器(惠州)有限公司, a subsidiary of the Company) (“TCL King (Huizhou)”) sold an aggregate of 8,222,400 shares of Amlogic (the “Amlogic Shares”) (representing approximately 2% of the total issued Amlogic Shares as at 4 March 2021) by way of block trading in the open market at an average price of approximately RMB79.36 per share for an aggregate consideration of approximately RMB652.51 million (equivalent to approximately HK\$781.90 million) (before transaction costs), which was receivable in cash on settlement. Further details of these transactions are set out in the Company’s announcement dated 4 March 2021. During the period from 6 May 2021 to 25 May 2021, TCL King (Huizhou) further sold 658,458 Amlogic Shares (representing approximately 0.16% of the total issued Amlogic Shares as at 25 May 2021) by way of auction in the open market at an average price of approximately RMB85.64 per share for an aggregate consideration of approximately RMB56.39 million (equivalent to approximately HK\$67.69 million) (before transaction costs), which was receivable in cash on settlement (collectively the “Amlogic Disposals”).

Immediately following the completion of the Amlogic Disposals, the Company (through TCL King (Huizhou)) held 20,555,950 Amlogic Shares (representing approximately 5.00% of the total issued Amlogic Shares as at 25 May 2021).

Save as disclosed above, the Group had no other significant investment held as at 30 June 2021, and did not undertake any material acquisition or disposal of subsidiaries, associates or joint ventures during the six months ended 30 June 2021.

## **Liquidity and Financial Resources**

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

The cash and cash equivalents of the Group as at 30 June 2021 amounted to approximately HK\$10,011,129,000, of which 0.8% was in Hong Kong dollars, 40.7% was in U.S. dollars, 51.0% was in Renminbi, 2.5% was in Euros and 5.0% was 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 2021 were approximately HK\$7,051,171,000 which were interest-bearing at fixed rates ranging from 0.48% to 5.70% and denominated in U.S. dollars, Renminbi, Euros and Mexican Peso. The maturity profile of borrowing was on demand to within four 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 2020 and there was no asset held under finance lease as at 30 June 2021.

As at 30 June 2021, the Group's gearing ratio was 0% since the Group's cash and cash equivalents, and restricted cash and pledged deposits of approximately HK\$10,322,131,000 were higher than the total interest-bearing bank and other borrowings and lease liabilities of approximately HK\$7,484,366,000. Gearing ratio was calculated by net borrowings (i.e. total interest-bearing bank and other borrowings and lease liabilities, less cash and cash equivalents, and restricted cash and pledged deposits), divided by equity attributable to owners of the parent. The maturity profile of such borrowings ranged from on demand to within four years.

## **Pledge of Assets**

As at 30 June 2021, the Group had restricted cash and pledged deposits balance of approximately HK\$311,002,000 (31 December 2020: HK\$202,229,000) pledged as the balance of performance and quality guarantees, financial assets and banking facilities for the Group.

## **Capital Commitments and Contingent Liabilities**

As at 30 June 2021, the Group had capital commitments of approximately HK\$172,706,000 (31 December 2020: HK\$231,096,000) and HK\$134,179,000 (31 December 2020: HK\$256,002,000) which were contracted but not provided for and authorised but not contracted for, respectively.

As at 30 June 2021, the Group had the following contingent liabilities which have not been provided for in the financial statements:

SEMP TCL Mobilidade Ltda. (“SEMP Mobilidade”), formerly known as TCT Mobile – Telefones Ltda. (a former subsidiary of TCL Communication, disposed to SEMP TCL, a subsidiary of the Company, in March 2018) is currently a defendant in a lawsuit in Brazil with Brazil tax authority for alleged improper application of tax credits for the period of 2012 and 2013. In June 2018, SEMP Mobilidade filed an ordinary appeal and the court ordered the record remanded for a new trial of the administrative defence in March 2019. As at the date of this announcement, the lawsuit is still ongoing. The information usually required by HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigations. Based on the response from the independent attorney in charge, it is expected that the litigation will last for 3 to 5 years. The Group has not made any provision as the Group, based on the advice from the Group’s legal counsel, believes that SEMP Mobilidade has a valid defence against the allegation.

### **Pending Litigation**

Saved as disclosed above, the Group was not involved in any material litigation as at 30 June 2021.

### **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 2021, the Group had a total of 32,392 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 58,170,397 shares of the Company remained outstanding as at 30 June 2021.

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

## FINANCIAL INFORMATION

The following condensed consolidated interim financial statements have not been audited, but have been reviewed by the audit committee of the Company (the “Audit Committee”).

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

	Notes	Six months ended 30 June		Three months ended 30 June	
		2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000 (restated)	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000 (restated)
<b>CONTINUING OPERATIONS</b>					
<b>REVENUE</b>	6	<b>34,933,848</b>	17,149,906	<b>17,465,230</b>	10,203,005
Cost of sales		<b>(29,368,005)</b>	(13,619,281)	<b>(14,291,497)</b>	(8,066,422)
Gross profit		<b>5,565,843</b>	3,530,625	<b>3,173,733</b>	2,136,583
Other income and gains		<b>1,810,251</b>	464,638	<b>516,117</b>	179,368
Selling and distribution expenses		<b>(3,219,353)</b>	(2,118,913)	<b>(1,686,796)</b>	(1,228,257)
Administrative expenses		<b>(1,744,368)</b>	(525,586)	<b>(883,180)</b>	(152,095)
Research and development costs		<b>(1,029,187)</b>	(508,105)	<b>(504,704)</b>	(256,290)
Other operating expenses		<b>(31,982)</b>	(6,780)	<b>(12,510)</b>	(306)
Impairment losses on financial assets, net		<b>(6,613)</b>	(3,104)	<b>(5,204)</b>	(997)
Finance costs	7	<b>1,344,591</b> <b>(216,944)</b>	832,775 (82,764)	<b>597,456</b> <b>(142,223)</b>	678,006 (39,253)
Share of profits and losses of Joint ventures		<b>9,982</b>	6,894	<b>9,936</b>	3,814
Associates		<b>12,762</b>	(106,470)	<b>12,856</b>	(79,071)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	8	<b>1,150,391</b>	650,435	<b>478,025</b>	563,496
Income tax	9	<b>(72,038)</b>	(130,150)	<b>(46,345)</b>	(81,923)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>1,078,353</b>	520,285	<b>431,680</b>	481,573
<b>DISCONTINUED OPERATIONS</b>					
Profit/(loss) for the period from discontinued operations	10	–	68,876	–	(4,277)
<b>PROFIT FOR THE PERIOD</b>		<b>1,078,353</b>	589,161	<b>431,680</b>	477,296

	Six months ended		Three months ended	
	30 June		30 June	
	2021	2020	2021	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Cash flow hedges:				
Effective portion of changes in fair value of the hedging instruments arising during the period	25,470	(13,836)	(61,570)	(7,365)
Reclassification adjustments for (gains)/losses included in profit or loss	(52,377)	15,488	(34,980)	7,527
Income tax effect	4,808	–	(4,237)	–
	<u>(22,099)</u>	<u>1,652</u>	<u>(100,787)</u>	<u>162</u>
Exchange differences:				
Translation of foreign operations	235,681	(359,112)	433,896	(63,055)
Reclassification adjustments for foreign operations liquidated during the period	16,750	–	–	–
Reclassification adjustments for associates deemed partial disposed, partial disposed, disposed of or liquidated during the period	(6,572)	2,908	(3,139)	(961)
	<u>245,859</u>	<u>(356,204)</u>	<u>430,757</u>	<u>(64,016)</u>
Financial assets at fair value through other comprehensive income:				
Changes in fair value, net of income tax	8,099	10,084	8,099	10,084
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>231,859</u>	<u>(344,468)</u>	<u>338,069</u>	<u>(53,770)</u>

	Note	Six months ended 30 June		Three months ended 30 June	
		2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000 (restated)	2021 (unaudited) HK\$'000	2020 (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		7,239	(3,430)	2,369	(3,430)
Share of other comprehensive income of associates		5,567	2,938	5,442	2,933
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		12,806	(492)	7,811	(497)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>		<b>244,665</b>	<b>(344,960)</b>	<b>345,880</b>	<b>(54,267)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>1,323,018</b>	<b>244,201</b>	<b>777,560</b>	<b>423,029</b>
Profit attributable to:					
Owners of the parent		1,041,140	535,872	408,537	431,244
Non-controlling interests		37,213	53,289	23,143	46,052
		1,078,353	589,161	431,680	477,296
Total comprehensive income attributable to:					
Owners of the parent		1,269,949	198,254	734,504	377,134
Non-controlling interests		53,069	45,947	43,056	45,895
		1,323,018	244,201	777,560	423,029
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	12		(restated)		
Basic					
– For profit for the period		HK43.30 cents	HK23.30 cents		
– For profit from continuing operations		HK43.30 cents	HK20.30 cents		
Diluted					
– For profit for the period		HK42.29 cents	HK23.05 cents		
– For profit from continuing operations		HK42.29 cents	HK20.09 cents		

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>30 June 2021</b>	<b>31 December 2020</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	<b>2,808,927</b>	2,757,190
Investment properties	<b>576,716</b>	579,559
Right-of-use assets	<b>927,634</b>	844,369
Goodwill	<b>3,333,881</b>	3,301,381
Other intangible assets	<b>1,316,861</b>	1,314,735
Investments in joint ventures	<b>123,878</b>	89,793
Investments in associates	<b>1,356,667</b>	1,343,495
Equity investments designated at fair value through other comprehensive income	<b>109,980</b>	101,670
Deferred tax assets	<b>341,056</b>	271,552
Other deferred assets	<b>143,189</b>	136,396
Restricted cash and pledged deposits	<b>58</b>	131
	<b>11,038,847</b>	10,740,271
<b>CURRENT ASSETS</b>		
Inventories	<b>13,997,818</b>	10,026,153
Trade receivables	<b>10,988,468</b>	10,851,368
Bills receivable	<b>1,759,881</b>	2,829,150
Prepayments, other receivables and other assets	<b>9,444,140</b>	5,764,323
Tax recoverable	<b>85,918</b>	114,766
Financial assets at fair value through profit or loss	<b>1,110,695</b>	1,083,253
Derivative financial instruments	<b>237,367</b>	339,992
Restricted cash and pledged deposits	<b>310,944</b>	202,098
Cash and cash equivalents	<b>10,011,129</b>	10,384,885
	<b>47,946,360</b>	41,595,988
Total current assets	<b>47,946,360</b>	41,595,988

		<b>30 June 2021 (unaudited) HK\$'000</b>	31 December 2020 (audited) HK\$'000
	<i>Notes</i>		
<b>CURRENT LIABILITIES</b>			
Trade payables	14	<b>15,528,130</b>	14,417,138
Bills payable		<b>3,014,847</b>	3,051,721
Other payables and accruals		<b>13,325,677</b>	10,688,229
Interest-bearing bank and other borrowings	15	<b>6,897,616</b>	4,588,751
Lease liabilities		<b>128,555</b>	95,469
Tax payable		<b>135,566</b>	142,874
Derivative financial instruments		<b>203,913</b>	179,942
Provisions		<b>847,742</b>	800,412
		<hr/>	<hr/>
Total current liabilities		<b>40,082,046</b>	33,964,536
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>7,864,314</b>	7,631,452
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>18,903,161</b>	18,371,723
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	15	<b>153,555</b>	858,037
Lease liabilities		<b>304,640</b>	250,563
Financial liability associated with put option		<b>130,428</b>	123,916
Deferred tax liabilities		<b>354,822</b>	355,190
Other long-term payables		<b>35,733</b>	34,313
Derivative financial instruments		<b>14,850</b>	14,827
		<hr/>	<hr/>
Total non-current liabilities		<b>994,028</b>	1,636,846
		<hr/>	<hr/>
Net assets		<b>17,909,133</b>	16,734,877
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	16	<b>2,471,062</b>	2,452,482
Reserves		<b>14,796,987</b>	13,711,708
		<hr/>	<hr/>
		<b>17,268,049</b>	16,164,190
<b>Non-controlling interests</b>		<b>641,084</b>	570,687
		<hr/>	<hr/>
Total equity		<b>17,909,133</b>	16,734,877
		<hr/> <hr/>	<hr/> <hr/>

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 2020.

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 2020, 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. 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 2020, except for the adoption of the revised HKFRSs effective as of 1 January 2021.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and have been applied retrospectively, but are not required to restate the comparative information.

The Group had certain interest-bearing bank and other borrowings denominated in foreign currencies based on various Interbank Offered Rates as at 30 June 2021. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the “economically equivalent” criterion is met and no significant modification gain or loss arises as a result of applying the amendments to these changes.

Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the Covid-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK\$224,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2021.

### 3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>2</sup>
Amendments to HKFRS 17	<i>Insurance Contracts</i> <sup>2,5</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>2,4</sup>
Amendments to HKAS 1	<i>Disclosure of Accounting Policies</i> <sup>2</sup>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> <sup>2</sup>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> <sup>2</sup>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> <sup>1</sup>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> <sup>1</sup>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>3</sup> No mandatory effective date yet determined but available for adoption

<sup>4</sup> As a consequence of the amendments to HKAS 1 issued in August 2020, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

<sup>5</sup> As a consequence of the amendments to HKFRS 17 issued in October 2020, the effective date of HKFRS 17 was deferred to 1 January 2023, and HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

#### 4. ADJUSTMENTS ARISING FROM PRIOR YEAR PROVISIONAL ACCOUNTING

During the year ended 31 December 2020, the Group has finalised the fair value assessment of the acquisition of 100% equity interest in Shenzhen Hawk Internet Company Limited\* (深圳豪客互聯網有限公司) and its subsidiary (collectively, “Shenzhen Hawk Internet Group”) (the “Shenzhen Hawk Internet Group Acquisition”). On completion of the fair value assessment, retrospective adjustments were made to the provisional calculation of identifiable assets and liabilities as of 1 November 2019, being the closing day of the Shenzhen Hawk Internet Group Acquisition. Consequently, the Group’s consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2020, and certain explanatory notes have been restated in this announcement to reflect these restatements.

The effects of the adjustments arising from completion of the Shenzhen Hawk Internet Group Acquisition described above on the profit or loss for the period ended 30 June 2020 by line items presented in the consolidated statement of profit or loss and other comprehensive income were as follows:

	Six months ended 30 June 2020 (unaudited) HK\$'000
<i>Impact on other comprehensive income for the period</i>	
Adjustment arising from completion of the Shenzhen Hawk Internet Group Acquisition:	
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:	
Exchange differences:	
Translation of foreign operations	(200)
Net decrease in other comprehensive income for the period	(200)
Net decrease in total comprehensive income attributable to:	
Owners of the parent	(200)

## 5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their geographical television (“smart screen” or “TV”) segments and other product types and has four reportable operating segments as follows:

- (a) Smart screen segment - manufacture and sale of smart screen in:
  - TCL smart screen - the PRC market; and
  - TCL smart screen - the overseas markets;
- (b) Internet business segment - advertising, value-added, video-on-demand and membership cards;
- (c) Smart mobile, connective devices and services segment – manufacture and sale of mobile phones, smart connective products and display and service; and
- (d) Smart commercial display, smart home and other businesses segment.

The Group’s TV ODM business and safety and inspection equipment business were regarded as discontinued operations which details are set out in note 10.

The management of the Company monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on segment revenue and gross profit of each operating segment.

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

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

	Six months ended 30 June														
	Continuing operations						Discontinued operations			Consolidated					
	Smart screen		Internet business		Smart mobile, connective devices and services		Smart commercial display, smart home and other		Total continuing operations			Discontinued operations			
TCL smart screen - the PRC market		TCL smart screen - overseas markets													
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
	4,345,903	10,322,596	720,772	521,058	-	4,040,691	1,960,349	17,149,906	4,612,162	-	34,933,848	34,933,848	21,762,068		
	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
Sales to external customers	6,428,749	16,656,831	720,772	521,058	-	4,040,691	1,960,349	17,149,906	4,612,162	-	34,933,848	34,933,848	21,762,068		
Gross profit	1,310,957	1,785,713	403,159	335,829	-	455,241	294,941	3,530,625	248,502	-	5,565,843	5,565,843	3,779,127		
	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)

## 6. REVENUE

An analysis of revenue from continuing operations is as follows:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(restated)</i>
Revenue from contracts with customers	<b>34,933,848</b>	17,149,906

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

### For the six months ended 30 June 2021

Segments	Smart screen and other products (unaudited) <i>HK\$'000</i>	Internet business (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
<b>Types of goods or services</b>			
Sale of goods	34,213,076	98,869	34,311,945
Video-on-demand services	–	182,149	182,149
Advertising, value-added and other services	–	439,754	439,754
Total revenue from contracts with customers	<b>34,213,076</b>	<b>720,772</b>	<b>34,933,848</b>
<b>Geographical markets</b>			
Mainland China	8,877,976	599,930	9,477,906
Europe	5,604,802	–	5,604,802
North America	10,352,444	10,157	10,362,601
Emerging markets	9,377,854	110,685	9,488,539
Total revenue from contracts with customers	<b>34,213,076</b>	<b>720,772</b>	<b>34,933,848</b>
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	34,213,076	98,869	34,311,945
Services transferred over time	–	182,149	182,149
Services transferred at a point in time	–	439,754	439,754
Total revenue from contracts with customers	<b>34,213,076</b>	<b>720,772</b>	<b>34,933,848</b>

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

For the six months ended 30 June 2020

Segments	Smart screen and other products (unaudited) <i>HK\$'000</i> <i>(restated)</i>	Internet business (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i> <i>(restated)</i>
<b>Types of goods or services</b>			
Sale of goods	16,628,848	25,670	16,654,518
Video-on-demand services	–	130,336	130,336
Advertising, value-added and other services	–	365,052	365,052
	<hr/>	<hr/>	<hr/>
Total revenue from contracts with customers	<u>16,628,848</u>	<u>521,058</u>	<u>17,149,906</u>
<b>Geographical markets</b>			
Mainland China	5,285,494	396,574	5,682,068
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
	<hr/>	<hr/>	<hr/>
Total revenue from contracts with customers	<u>16,628,848</u>	<u>521,058</u>	<u>17,149,906</u>
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	16,628,848	25,670	16,654,518
Services transferred over time	–	130,336	130,336
Services transferred at a point in time	–	365,052	365,052
	<hr/>	<hr/>	<hr/>
Total revenue from contracts with customers	<u>16,628,848</u>	<u>521,058</u>	<u>17,149,906</u>

## 7. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>(unaudited)</b>	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank and other loans	<b>188,788</b>	79,990
Loans from a company controlled by TCL Technology Group Corporation ("TCL Technology")	<b>4,550</b>	338
Loans from companies controlled by TCL Industries Holdings Co., Ltd. ("TCL Holdings")	<b>11,601</b>	269
Discounted bills receivable from a company controlled by TCL Technology	–	129
Interest expense on lease liabilities	<b>12,005</b>	2,038
	<u>          </u>	<u>          </u>
Total finance costs for the period from continuing operations	<b><u>216,944</u></b>	<b><u>82,764</u></b>

## 8. PROFIT BEFORE TAX

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>(unaudited)</b>	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(restated)</i>
Depreciation of property, plant and equipment	<b>172,214</b>	84,522
Depreciation of investment properties	<b>7,437</b>	1,552
Depreciation of right-of-use assets	<b>67,136</b>	40,489
Amortisation of other intangible assets	<b>284,686</b>	12,830
Employee share-based compensation benefits under the Award Scheme	<b>23,839</b>	777
Share award benefits of a subsidiary	<b>39,327</b>	–
Equity-settled share option expense	<b>327</b>	7,549
	<u>          </u>	<u>          </u>

## 9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2020: 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 2020: 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	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000 (restated)
Current – Hong Kong		
Charge for the period	22,369	43,305
Overprovision in prior periods	(602)	–
Current – Elsewhere		
Charge for the period	124,782	79,108
(Overprovision)/Underprovision in prior periods	(10,276)	11,091
Deferred	(64,235)	(3,354)
	<hr/>	<hr/>
Total tax charge for the period from continuing operations	<b>72,038</b>	130,150

## 10. DISCONTINUED OPERATIONS

On 29 June 2020, the Company and T.C.L. Industries Holdings (H.K.) Limited (“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 Limited (“Moka International”), at a consideration of RMB2,500,000,000 (“Moka International Disposal”), which was satisfied in cash. Moka International and its subsidiaries (collectively, “Moka International Group”) are principally engaged in TV ODM business. The Moka International Disposal had been completed on 31 August 2020.

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

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

The results of discontinued operations for the six months ended 30 June 2020 were presented below:

	Six months ended 30 June 2020 (unaudited) <i>HK\$'000</i>
Revenue	4,612,162
Cost of sales	<u>(4,363,659)</u>
Gross profit	248,503
Other revenue and gains	115,107
Selling and distribution costs	(88,891)
Administrative expenses	(93,590)
Research and development costs	(92,742)
Other operating expenses	<u>(494)</u>
	87,893
Finance costs	<u>(5,574)</u>
Profit before tax from the discontinued operations	82,319
Income tax:	
Related to pre-tax profit	<u>(13,443)</u>
Profit for the period from the discontinued operations	<u><u>68,876</u></u>
	Six months ended 30 June 2020 (unaudited)
Earnings per share from the discontinued operations:	
Basic	<u><u>HK3.00 cents</u></u>
Diluted	<u><u>HK2.96 cents</u></u>

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

	Six months ended 30 June 2020 (unaudited)
Profit attributable to ordinary equity holders of the parent from the discontinued operations	HK\$68,876,000
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation ( <i>note 12</i> )	2,300,000,339
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation ( <i>note 12</i> )	<u>2,324,466,156</u>

## 11. DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2021 (30 June 2020: HK9.70 cents per ordinary share, amounting to HK\$230,029,000).

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

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(restated)</i>
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations:		
From continuing operations	<b>1,041,140</b>	466,996
From the discontinued operations	–	68,876
	<u>1,041,140</u>	<u>535,872</u>
<b>Shares</b>		
<b>Number of shares</b>		
<b>Six months ended 30 June</b>		
	<b>2021</b>	2020
	(unaudited)	(unaudited)
Weighted average number of ordinary shares in issue less shares held for Award Scheme during the period used in the basic earnings per share calculation	<b>2,404,554,107</b>	2,300,000,339
Effect of dilution – weighted average number of ordinary shares:		
Share options	<b>21,671,544</b>	3,629,814
Awarded shares	<b>35,966,063</b>	20,836,003
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	<u>2,462,191,714</u>	<u>2,324,466,156</u>

### 13. TRADE RECEIVABLES

The majority of the Group's sales in Mainland China 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.

Save for those amounts due from related parties, in view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any 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:

	<b>30 June 2021 (unaudited) HK\$'000</b>	31 December 2020 (audited) HK\$'000
Current to 90 days	<b>8,748,847</b>	8,774,198
91 to 180 days	<b>1,282,143</b>	981,656
181 to 365 days	<b>587,808</b>	120,536
Over 365 days	<b>525,203</b>	1,133,218
	<b>11,144,001</b>	11,009,608
Impairment allowance	<b>(155,533)</b>	(158,240)
	<b>10,988,468</b>	10,851,368

Included in the Group's trade receivables are (i) receivables to be factored of HK\$721,692,000 (31 December 2020: HK\$549,631,000), as well as (ii) the assets and the associated liabilities representing the extent of the Group's continuing involvement in the factored trade receivables of which the Group neither retained nor transferred substantially all of the risks and rewards, amounted to HK\$4,398,000 (31 December 2020: HK\$6,808,000). These receivables are classified as financial assets at fair value through profit or loss. The remaining trade receivables with gross carrying amount of HK\$10,417,911,000 (31 December 2020: HK\$10,453,169,000) are measured at amortised cost.

#### 14. TRADE PAYABLES

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

	<b>30 June</b> <b>2021</b> <b>(unaudited)</b> <b>HK\$'000</b>	31 December 2020 (audited) HK\$'000
Current to 90 days	<b>13,133,616</b>	13,236,751
91 to 180 days	<b>1,794,271</b>	768,348
181 to 365 days	<b>233,230</b>	162,076
Over 365 days	<b>367,013</b>	249,963
	<b><u>15,528,130</u></b>	<b><u>14,417,138</u></b>

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

## 15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<b>30 June 2021 (unaudited) HK\$'000</b>	31 December 2020 (audited) HK\$'000
<b>Current</b>		
Bank loans – unsecured	<b>6,871,584</b>	4,522,538
Other loans – unsecured	<b>21,634</b>	59,405
Advances from banks as consideration for factored trade receivables	<b>4,398</b>	6,808
	<b><u>6,897,616</u></b>	<u>4,588,751</u>
<b>Non-current</b>		
Bank loans – unsecured	<b>153,555</b>	836,651
Other loans – unsecured	–	21,386
	<b><u>153,555</u></b>	<u>858,037</u>
	<b><u><u>7,051,171</u></u></b>	<u><u>5,446,788</u></u>
Analysed into:		
Bank loans repayable:		
Within one year or on demand	<b>6,875,982</b>	4,529,346
In the second year	<b>38,056</b>	736,125
In the third to fifth years	<b>115,499</b>	100,526
	<b><u>7,029,537</u></b>	<u>5,365,997</u>
Analysed into:		
Other loans repayable:		
Within one year or on demand	<b>21,634</b>	59,405
In the second year	–	21,386
	<b><u>21,634</u></b>	<u>80,791</u>
	<b><u><u>7,051,171</u></u></b>	<u><u>5,446,788</u></u>

Notes:

- (a) As at 30 June 2021 and 31 December 2020, 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\$2,624,169,000 (31 December 2020: HK\$2,687,453,000) and TCL Technology has individually guaranteed certain of the Group's bank loans up to HK\$2,287,800,000 (31 December 2020: HK\$1,726,855,000) as at the end of the reporting period.

## 16. SHARE CAPITAL

	<b>30 June 2021 (unaudited) HK\$'000</b>	31 December 2020 (audited) HK\$'000
Authorised:		
3,000,000,000 (31 December 2020: 3,000,000,000) shares of HK\$1.00 each	<u><b>3,000,000</b></u>	<u>3,000,000</u>
Issued and fully paid:		
2,471,062,196 (31 December 2020: 2,452,481,691) shares of HK\$1.00 each	<u><b>2,471,062</b></u>	<u>2,452,482</u>

During the six months ended 30 June 2021, the subscription rights attaching to 4,175,998, 939,917, 855,978, 7,071,337, 747,999 and 4,789,276 share options were exercised at the subscription prices of HK\$3.3918, HK\$3.7329, HK\$3.5700, HK\$4.1520, HK\$4.3860 and HK\$4.4834 per share, respectively, resulting in the issue of an aggregate of 18,580,505 shares of HK\$1.00 each for a total cash consideration of HK\$74,842,000 before expenses.

## 17. COMPARATIVE AMOUNTS

As explained in note 4 to the financial statements, retrospective adjustments arising from prior year provisional accounting was made, and certain items and balances in prior year financial statements and explanatory notes have been restated. As mentioned in note 10 to the financial statements, the comparative consolidated statement of profit or loss and other comprehensive income has been re-presented as if the operation classified as discontinued operations during the period had been discontinued at the beginning of the comparative period. Certain comparative amounts have been reclassified to conform with the current period's presentation and disclosures.

## **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 2021.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of any dividend for the six months ended 30 June 2021 (30 June 2020: HK9.70 cents per ordinary share).

## **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 2021, 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.

**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 the abovementioned Directors have been serving as Directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and them, 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 annual general meeting (“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, Mr. LI Dongsheng (“Mr. LI”, being the Chairman of the Board and an executive Director) was not present at the AGM held on 21 May 2021 (“2021 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 2021 AGM to maintain an ongoing dialogue and communicate with the shareholders and encourage their participation.

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

During the period from 1 January 2021 to 9 June 2021, the company secretary of the Company was Ms. CHOY Fung Yee (“Ms. CHOY”). Ms. CHOY, being a practising solicitor in Hong Kong and a partner of the Company’s legal advisor, is not an employee of the Company. Mr. HU Dien Chien (“Mr. HU”), the executive Director and the chief financial officer of the Company, was the assigned 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) is 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. On 10 June 2021, Mr. HU has been appointed as a joint company secretary of the Company for a term of three years with effect from 10 June 2021, whilst Ms. CHOY has been re-designated as the other joint company secretary of the Company. For details, please refer to the announcement of the Company dated 10 June 2021.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021, including the accounting principles adopted by the Group, with the Company's management. As at the date of this announcement, the Audit Committee comprises three members, namely Mr. LAU Siu Ki (chairman), Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang, all being independent non-executive Directors.

## **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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquiries have been made with all Directors who have confirmed that, save as disclosed below, 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 2021.

On 16 March 2021, the spouse of Mr. LI disposed of 124,000 shares of the Company (approximately 0.005% of the then total number of issued shares of the Company) on-exchange without first notifying the designated Directors and receiving a dated written acknowledgement as required under Rule A.3(a)(i) and B.8 of the Model Code (the "Disposal") due to inadvertent omission, notwithstanding that Mr. LI has used his best endeavours to intercept such disposal order as soon as he realised that it was within the blackout period.

The Company has maintained an effective system to ensure the Directors to comply with the Model Code, and has taken various steps to address the aforementioned non-compliance of the Model Code, including providing briefings and trainings to the Directors to enhance their awareness of the importance of complying with the Model Code in their dealings of the securities of the Company, and strengthening communication with Directors and their assistants in relation to securities dealings and blackout notices. The Company was informed by Mr. LI that he had already taken remedial measures to prevent similar incidents from happening again.

## **COMPLIANCE WITH DEED OF NON-COMPETITION**

The Company has received a confirmation on the deed of non-competition executed by TCL Holdings and T.C.L. Industries (H.K.) in favour of the Group dated 29 June 2020 ("Deed of Non-Competition (2020)") from TCL Holdings and T.C.L. Industries (H.K.) signed by each of them confirming that for the period from 1 January 2021 to 30 June 2021 (both dates inclusive), they had fully complied with the Deed of Non-Competition (2020).

The Company has received a confirmation on the deed of termination executed by and among TCL Technology, T.C.L. Industries (H.K.) and the Company dated 29 June 2020 (“Deed of Termination (2020)”) from TCL Technology signed by it confirming that for the period from 1 January 2021 to 30 June 2021 (both dates inclusive), it had fully complied with the Deed of Termination (2020).

The independent non-executive Directors have reviewed the relevant confirmations on Deed of Non-Competition (2020) and Deed of Termination (2020), and all of them are satisfied that Deed of Non-Competition (2020) and Deed of Termination (2020) have been complied with during the period.

### **CHANGE IN USE OF RIGHTS ISSUE PROCEEDS**

Reference is made to (i) the prospectus published by the Company dated 28 December 2017 (the “Prospectus”); and (ii) the 2020 annual report of the Company (the “2020 Annual Report”). Unless otherwise specified, capitalised terms used in this section shall have the same meanings as those defined in the Prospectus and the 2020 Annual Report.

On 28 November 2017, the Company announced the Rights Issue on the basis of one Rights Share for every three then existing Shares at a subscription price of HK\$3.46 per Rights Share. The net proceeds from the Rights Issue after deduction of expenses and professional fees amounted to approximately HK\$2,000 million (the “Rights Issue Proceeds”).

As disclosed in the 2020 Annual Report, as at 31 December 2020, the Company has utilised an aggregate of approximately HK\$1,873 million of the Rights Issue Proceeds in accordance with the proposed uses as disclosed in the Prospectus, leaving a balance of then unutilised Rights Issue Proceeds in the sum of approximately HK\$127 million, which was allocated for Phase I of the Tonghu Project, and was expected to be fully utilised by the end of 2021.

As at the date of this announcement, the Group has completed Phase I of the Tonghu Project. Out of the approximately HK\$350 million of Rights Issue Proceeds originally allocated to Phase I of the Tonghu Project as disclosed in the Prospectus, only approximately HK\$280 million had been used for such purpose attributable to efficient administration of the project and cost control of the construction work. Accordingly, the remaining balance of unutilised Rights Issue Proceeds as at the date of this announcement is approximately HK\$70 million (“Remaining Rights Issue Proceeds”). In view of such surplus of Rights Issue Proceeds and for the reasons as set out in the paragraph headed “Reasons for and Benefits of the Change in Use of Rights Issue Proceeds” below, the Board has resolved on 6 August 2021 that the entire balance of the Remaining Rights Issue Proceeds will be reallocated to the general working capital of the Group.

The breakdown of the Company's proposed use of the Rights Issue Proceeds as disclosed in the Prospectus, its actual use of the Rights Issue Proceeds from the date of completion of the Rights Issue up to the date of this announcement, and the proposed change in use of Remaining Rights Issue Proceeds are summarised as follows:

<b>Intended use</b>	<b>Proposed use of the Rights Issue Proceeds as disclosed in the Prospectus <i>HK\$ million (approximately)</i></b>	<b>Actual use of the Rights Issue Proceeds from the date of completion of the Rights Issue to the date of this announcement <i>HK\$ million (approximately)</i></b>	<b>Balance of unutilised Rights Issue Proceeds as at the date of this announcement <i>HK\$ million (approximately)</i></b>	<b>Revised use of Remaining Rights Issue Proceeds <i>HK\$ million (approximately)</i></b>
Future joint ventures and M&A opportunities	750	750	–	–
Phase I of the Tonghu Project	350	280	70	–
R&D	350	350	–	–
General working capital	550	550	–	70
<b>Total</b>	<b>2,000</b>	<b>1,930</b>	<b>70</b>	<b>70</b>

Subject to change based on the current and future development of market conditions, and the best estimation of the future market conditions and business needs made by the Group, it is expected that the entire balance of the Remaining Rights Issue Proceeds will be fully utilised by the end of 2021.

## **REASONS FOR AND BENEFITS OF THE CHANGE IN USE OF RIGHTS ISSUE PROCEEDS**

In order to strengthen the efficiency and effectiveness of the capital use and to strengthen the business liquidity of the Group, the Board has resolved to reallocate the entire balance of the Remaining Rights Issue Proceeds to the general working capital of the Group. Furthermore, in light of the challenges brought by the pandemic and fierce competition in the industry, boosting the Group's working capital will enhance the flexibility in the Group's capital utilisation and reduce additional finance costs. A stable and healthy liquidity position is also conducive to the Group's business development, thereby enabling the Group to grasp business opportunity and increase its market share. Based on the aforementioned reasons, the Board considers that the reallocation of the entire balance of the Remaining Rights Issue Proceeds as general working capital is beneficial to the future development of the Group.

The Directors confirm that the aforementioned change in use of Rights Issue Proceeds does not have material effect on the Group's business strategies and visions as disclosed in the Prospectus, and consider that the change in use of Rights Issue Proceeds is in the best interest of the Company and its shareholders as a whole and will not have any material adverse effect on the existing business and operations of the Group.

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

Hong Kong, 6 August 2021

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

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