THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitors, professional accountant or other professional advisor.

If you have sold or transferred all your Shares in TCL ELECTRONICS HOLDINGS LIMITED, you should at once hand this circular and proxy form enclosed herein to the purchaser or transferee, or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

TCL ELECTRONICS HOLDINGS LIMITED
TCL 電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION
(2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL
(3) THE NON-COMPETITION ARRANGEMENT
AND
(4) NOTICE OF EGM

Independent Financial Adviser to the Independent Board Committee and the Shareholders

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 43 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Shareholders is set out on page 44 of this circular. A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Shareholders is set out on pages 45 to 75 of this circular.

A notice convening the EGM of the Company to be held at 8/F., Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 28 July 2020, Tuesday at 2:30 p.m. is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the EGM or any adjournment thereof (as the case may be) in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch of the share registrar of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

30 June 2020

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"AI x IoT"	Artificial Intelligence x Internet of Things, the Company's strategy;
"Acquisition"	the acquisition of 100% equity interest in TCL Communication as contemplated under the Acquisition Agreement;
"Acquisition Agreement"	the conditional share transfer agreement dated 29 June 2020 entered into between Zhengjia Investment, TCL Industries and the Company relating to the acquisition of 100% interest in the issued shares of TCL Communication by the Company from Zhengjia Investment;
"Announcement"	the announcement of the Company dated 29 June 2020 relating to the Acquisition, the Disposal and the Non-Competition Arrangement;
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Business Day"	a day (other than Saturdays, Sundays or days on which a typhoon signal No. 8 or "black" rainstorm signal is hoisted in Hong Kong) on which banks are generally open for business in Hong Kong;
"Business Transformation"	collectively, the transactions contemplated under the Acquisition and the Disposal;
"Company"	TCL Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 01070);
"connected person(s)"	has the meanings ascribed to it under the Listing Rules;
"Completion Date"	the fifteenth Business Day (or such other later date as the parties may agree in writing) following the satisfaction or waiver, as the case may be, of all conditions precedent set out in each of the Acquisition Agreement and the Disposal Agreement;
"CSOT"	TCL China Star Optoelectronics Technology Co., Ltd.* (TCL華星光電技術有限公司), a company established under the laws of the PRC with limited liability and a Subsidiary of TCL Tech;
"Deed of Non-Competition (1999)"	the deed executed by TCL Tech, TCL Electronics Corporation (deregistered on 29 January 2002) and TCL Industries on 15 November 1999 in favour of the Company whereby each of TCL Tech, TCL Electronics Corporation and TCL Industries has undertaken not to, directly or indirectly, carry on or be engaged or interested in certain restricted activities, which were disclosed in the Company's prospectus dated 17 November 1999;

"Deed of Non-Competition (2020)"	the deed executed by TCL Holdings, TCL Industries and the Company on 29 June 2020 in favour of the Company whereby each of TCL Holdings and TCL Industries has undertaken not to, directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TCL brand TVs and smart phones;
"Deed of Termination (2020)"	the deed executed by TCL Tech, TCL Industries and the Company on 29 June 2020 pursuant to which the parties agreed to terminate the Deed of Non-Competition (1999), the First Variation Deed (2002), the Second Variation Deed (2013) and the Third Variation Deed (2014);
"Director(s)"	the director(s) of the Company;
"Disposal"	the disposal of 100% equity interest in Moka International as contemplated under the Disposal Agreement;
"Disposal Agreement"	the conditional share transfer agreement dated 29 June 2020 entered into between TCL Industries and the Company relating to the disposal of the 100% interest in the issued shares of Moka International by the Company to TCL Industries;
"EGM"	the extraordinary general meeting of the Company to be convened and held at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, on 28 July 2020, Tuesday at 2:30 p.m. for the purposes of considering, and if thought fit, approving (i) the Acquisition Agreement and the transactions contemplated thereunder; (ii) the Disposal Agreement and the transactions contemplated thereunder; and (iii) the Non-Competition Arrangement;
"First Variation Deed (2002)"	the variation deed entered into among TCL Tech, TCL Industries and the Company on 10 June 2002, for purpose of modifying the scope of the Original Restricted Activity;
"Group"	the Company and its Subsidiaries;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	an independent committee of the Board, comprising all independent non-executive Directors, established for the purpose of reviewing the terms of the Acquisition Agreement and the transactions contemplated thereunder, the Disposal Agreement and the transactions contemplated thereunder and the Non-Competition Arrangement;

"Independent Financial Adviser" or "Somerley Capital Limited"	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder, the Disposal Agreement and the transactions contemplated thereunder and the Non-Competition Arrangement;
"Independent Shareholders"	Shareholders of the Company (other than TCL Holdings, TCL Industries, Mr. LI Dongsheng, Mr. WANG Cheng Kevin and their respective associates, and any Shareholders who are involved in, or interested in the Acquisition, the Disposal and the Non-Competition Arrangement);
"Independent Shareholders' Approval"	the approval for the Acquisition, the Disposal and the Non-Competition Arrangement to be obtained from the Independent Shareholders at the EGM;
"Independent Third Party(ies)"	a person(s) or company(ies) which is/are independent of and not connected with any Directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its Subsidiaries and their respective associates;
"Independent Valuer"	China United Assets Appraisal Group Co., Ltd.;
"Latest Practicable Date"	24 June 2020, being the latest practicable date prior to the bulk printing of this circular for the purpose of ascertaining certain information contained in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	31 December 2020;
"Moka International"	Moka International Limited, a company incorporated in the British Virgin Islands and a wholly-owned Subsidiary of the Company;
"Moka International Group"	Moka International and its Subsidiaries;
"Non-competition Arrangement"	collectively, the termination of the existing non-competition arrangement in terms set out in the Deed of Termination (2020) and the commencement of the new non-competition arrangement in terms set out in the Deed of Non-Competition (2020);
"ODM"	original design manufacture;

"Original Restricted Activity"	manufacture, assembly, distribution and maintenance of audio-visual products, white goods and products relating to internet related information technology from time to time;
"PRC" or "China" or "Mainland China"	the People's Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular;
"Restricted Activity"	manufacture and assembly of TCL brand TVs and smart phones;
"RMB"	Renminbi, the lawful currency of the PRC;
"Second Variation Deed (2013)"	the variation deed dated 15 July 2013 entered into among TCL Tech, TCL Industries and the Company for the purpose of further modifying the scope of the Original Restricted Activity;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) of HK$1.00 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of Share(s);
"Shareholders' Approval Date"	the date on which the Independent Shareholders of the Company approve the transactions contemplated under the Acquisition Agreement, the transactions contemplated under the Disposal Agreement and the Non-Competition Arrangement;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subsidiary"	any entity within the meaning of the term "subsidiary" as defined in the Listing Rules and the term "Subsidiaries" shall be construed accordingly;
"TCL brand TVs and smart phones"	TVs and smart phones bearing TCL brand or other brands owned or used by the Group;
"TCL Communication"	TCL Communication Technology Holdings Limited, a company incorporated in the Cayman Islands and a direct wholly-owned Subsidiary of Zhengjia Investment;
"TCL Communication Group"	TCL Communication and its Subsidiaries;
"TCL Holdings"	TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司), a joint stock company established under the laws of the PRC and the ultimate controlling shareholder of the Company;

"TCL Industries"	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong with limited liability, the immediate controlling shareholder of the Company and a wholly-owned Subsidiary of TCL Holdings;
"TCL Tech"	TCL Technology Group Corporation (TCL科技集團股份有限公司), formerly known as TCL Corporation (TCL集團股份有限公司), a joint stock company established under the laws of the PRC, the shares of which are listed on Shenzhen Stock Exchange (stock code: 000100);
"Third Variation Deed (2014)"	the variation deed dated 24 April 2014 entered into among TCL Tech, TCL Industries and the Company for the purpose of further modifying the scope of the Original Restricted Activity;
"Tonly Electronics"	Tonly Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 01249);
"TV(s)"	television sets;
"US$"	the United States dollar, the lawful currency of United States of America;
"Valuation Benchmark Date"	31 December 2019;
"Variation Deeds"	collectively the First Variation Deed (2002), the Second Variation Deed (2013) and the Third Variation Deed (2014);
"Zhengjia Investment"	Zhengjia Investment Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned Subsidiary of TCL Industries and the immediate holding company of TCL Communication; and
"%"	percentage.

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

TCL ELECTRONICS HOLDINGS LIMITED
TCL電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

Executive Directors:
LI Dongsheng *(Chairman)*
WANG Cheng Kevin
YAN Xiaolin
HU Lihua

Non-executive Directors:
Albert Thomas DA ROSA, Junior
SUN Li
LI Yuhao

Independent Non-executive Directors:
Robert Maarten WESTERHOF
TSENG Shieng-chang Carter
WANG Yijiang
LAU Siu Ki

Registered Office:
P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
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Principal Place of Business in Hong Kong:
7th Floor, Building 22E
22 Science Park East Avenue
Hong Kong Science Park
Shatin, New Territories
Hong Kong

30 June 2020

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION
(2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL
(3) THE NON-COMPETITION ARRANGEMENT AND
(4) NOTICE OF EGM

I. INTRODUCTION

Reference is made to the announcement of the Company dated 29 June 2020 in relation to, among others, the Business Transformation and the Non-Competition Arrangement.

The Business Transformation is comprised of the Acquisition and the Disposal.

In respect of the Acquisition:

Zhengjia Investment, TCL Industries and the Company entered into the Acquisition Agreement on 29 June 2020, pursuant to which the Company has conditionally agreed to acquire from Zhengjia Investment and Zhengjia Investment has conditionally agreed to transfer to the Company its entire interest in TCL Communication, representing all the issued shares of TCL Communication.

In respect of the Disposal:

(i) the Company and TCL Industries entered into the Disposal Agreement on 29 June 2020, pursuant to which TCL Industries has conditionally agreed to acquire from the Company and the Company has conditionally agreed to transfer to TCL Industries its entire interest in Moka International, representing all the issued shares of Moka International;

(ii) TCL Tech, TCL Industries and the Company entered into the Deed of Termination (2020) on 29 June 2020, pursuant to which each of the parties has agreed to, among others, terminate the Deed of Non-Competition (1999) and the Variation Deeds; and

(iii) TCL Holdings, TCL Industries and the Company entered into the Deed of Non-Competition (2020) on 29 June 2020 in favour of the Company whereby each of TCL Holdings and TCL Industries has undertaken not to (save for the Exception as defined on page 37 of this circular), directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TCL brand TVs and smart phones by themselves or their respective associates.

The Disposal and the Acquisition are inter-conditional. Upon completion, TCL Communication will become a wholly-owned Subsidiary of the Company and Moka International will cease to be a Subsidiary of the Company.

Each of TCL Industries and Zhengjia Investment is a connected person of the Company under the Listing Rules. As one or more of the applicable percentage ratios in relation to the transactions under each of the Acquisition and the Disposal exceed 5%, each of the Acquisition and the Disposal constitutes a connected transaction of the Company and is subject to the reporting, announcement, Independent Shareholders' Approval and annual review requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios in relation to the Acquisition exceed 25% but all applicable percentage ratios are less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. As one or more of the applicable percentage ratios in relation to the Disposal exceed 25% but all applicable percentage ratios are less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Each of TCL Holdings and TCL Industries is a connected person of the Company under the Listing Rules. Therefore, each of the Deed of Termination (2020) and the Deed of Non-Competition (2020) constitutes a connected transaction of the Company. The Deed of Termination (2020) and the Deed of Non-Competition (2020) are not conducted in the ordinary and usual course of business of the Company and are subject to the reporting, announcement and Independent Shareholders' Approval requirements under the Listing Rules accordingly.

The purposes of this circular are:

(i) to provide the Shareholders with further information regarding the details of the Acquisition, the Disposal and the Non-Competition Arrangement (including particulars in compliance with the requirements of the Listing Rules for major and connected transactions);

(ii) to set out the recommendation of the Independent Board Committee to the Shareholders and the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Disposal and the Non-Competition Arrangement; and

(iii) to give the Shareholders the notice of the EGM and other information in accordance with the requirements of the Listing Rules.

II. BACKGROUND INFORMATION OF THE PARTIES

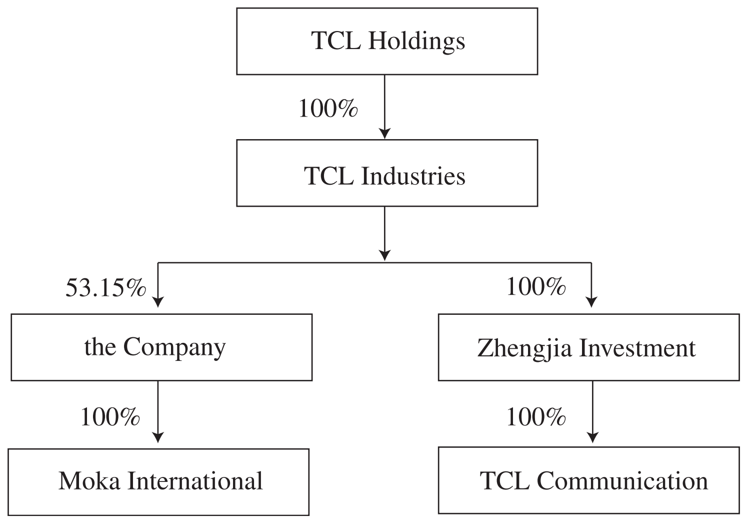
The Group is principally engaged in the manufacture and sale of a wide range of electronic consumer products including television sets and distributes its products in all major markets globally. For more information on the Group, please visit its official website at http://electronics.tcl.com (the information that appears in this website does not form part of this circular).

TCL Holdings is an investment holding company with a diverse investment portfolio. Its investments are principally in the business of development, manufacturing and distribution of audio/video products, electronic products, communication equipment, home appliances, provision of cloud video conferencing services, intelligent manufacturing solutions, solid waste dismantling and disposal, development and leasing of building and industrial park, supply chain finance, etc. As at the Latest Practicable Date, TCL Holdings, through its wholly-owned Subsidiary TCL Industries, held approximately 53.15% of the issued Shares of the Company and is the ultimate controlling shareholder of the Company.

TCL Industries is a wholly-owned Subsidiary of TCL Holdings and also an immediate holding company of Zhengjia Investment. Zhengjia Investment is a wholly-owned Subsidiary of TCL Industries and also an immediate holding company of TCL Communication.

TCL Tech is a technology innovation industry group focusing on semiconductor display and materials business, and develops its industrial finance and investment business through industry traction. CSOT, a Subsidiary of TCL Tech, is a leader in the global semiconductor display industry.

The relationship between the Company, TCL Holdings, TCL Industries and Zhengjia Investment is as follows:



Therefore, each of TCL Holdings, TCL Industries and Zhengjia Investment is a connected person of the Company under the Listing Rules. Each of the Acquisition, the Disposal and the Non-Competition Arrangement constitutes a connected transaction of the Company under the Listing Rules.

III. BUSINESS STRATEGIES OF THE GROUP AND REASONS FOR AND BENEFITS OF THE BUSINESS TRANSFORMATION

(A) Business Strategies of the Group

For years, the Group has been focusing on offering the best in class immersive experience both in terms of audio and picture quality to users. Nowadays, display has further embraced the role of smart display which can be controlled by users through various ways, such as voice, vision, gestures, etc., after installing various sensors. This signifies the transformation of TV, from a device for pastime to a smart display carrier in the living space that makes the rendering of more extensive and exciting Internet services possible. In this new era, we may refer TV as smart display. The smart display will be integrated with display applications for multiple scenarios and complement with each other perfectly, thus offering more colorful and personalized smart experience. In addition to the current video and music services, it will also expand into areas such as education, telemedicine and commercial display. And these Internet services bring a wide range of scenarios and possibilities to users thanks to the more robust sensors carried by the smart display and interconnectivity with smartphones and other devices.

With "AI x IoT" as the core, the Group is committed to becoming a leading global intelligent technology company by creating an all-scenario smart lifestyle user experience. The Group's brand TV sales worldwide reached 20.64 million units in 2019, firmly taking one of the top three positions worldwide. The Group is the only Chinese company in the industry with the advantages of vertical industry chain integration, and has been in collaboration with CSOT and access to various cutting-edge display technologies such as QLED, Mini LED and 8K. In 2019, revenue from the Group's Internet service worldwide totalled HK$626 million and operating profit contributed by the segment amounted to HK$317 million. The Group not only aspires to be a global leader in large display, picture quality and audio quality, but also strives to develop of AI x IoT, smart cameras, 5G and WiFi connectivity and becomes a large display expert who is fully aware of its clients' needs and is capable of providing the best picture quality and audio quality possible based on its in-house Android-based platform and smart interaction features. The Group is committed to achieving substantial growth in its smart TV market share and revenue from its Internet service over the next four years. Meanwhile, the Group will focus on developing devices and services for smart home, smart commercial display and mobile scenarios.

(B) Reasons for and Benefits of the Business Transformation

At present, some ICT companies regard mobile communication products as a fulcrum and opportunity to extend beyond their original industry and expand into the large display industry. These communications companies are attempting to create a new type of TV with their experience in mobile and content operation capabilities. The Company has always attached great importance to the integration of TV and mobile phone business, and has been continuously enhancing its cross-device integrated operation capability. It has also been undergoing continuous transformation to its product and service portfolio according to the everchanging users' habits. The interconnection among the screens of mobile phone, TV and commercial display will enable interactions and create dynamics between multiple scenarios and cross devices, and is expected to adapt to changes in users' habits, from focused and long hours usage to staggered and intermittent usage. The Business Transformation will help further leverage the Company's advantages in the area of industrial synergies.

Specifically, the Board considers that the Business Transformation will be beneficial to the Group in following areas:

(1) Business Transformation is instrumental to extending smart scenarios from home and office scenario to mobile and outdoor as well as the creation of all-scenario smart living experience and is one of the important initiatives of the "AI x IoT" strategic plan

TCL Communication Group is a global leading mobile device company and also provides Internet applications and services to its customers. Currently, TCL Communication Group operates two major international brands, TCL and Alcatel, with a wide range of best-selling and popular models and its products and services are distributed to and provided for more than 150 countries and regions worldwide. TCL Communication Group has attained world-class standards in product innovation, manufacturing and quality control. In addition to mobile phones, TCL Communication Group has formed a comprehensive product portfolio of communication IoT devices such as tablets, smart routing, smart CPE devices, smart monitoring and tracking devices, personal wearables, AR/VR, etc.. TCL Communication Group's multi-category product lines will complement the Group's inherent TV-based product line and realize product synergies in various vertical scenarios for home, office and personal users. The intelligent connectivity of large screens + small screens + wearable mobile devices will accelerate the Group's transformation into an industry leading provider of intelligent products and services and further advance the Group's "AI x IoT" strategy.

In addition, TCL Communication Group's extensive and well-diversified product portfolio extends intelligent scenarios from home and office scenario to outdoor, enabling enhanced intelligentization and convenient multi-screen human-computer interaction. Through the establishment of an all-scenario intelligent ecosphere, the Group can provide users with multi-scenario integrated solutions, which is conducive to further developing its "product + service" strategy.

(2) Further improving the infrastructure for building a smart living ecosystem

As mentioned in this sub-section above, the Group plans to focus on the further development of value-added services and apply its products to home, commercial and mobile scenarios to achieve smart connection and intelligent services. In 2019, the Group's global TCL brand TV sales reached 20.64 million units and the Group's cumulative activated users amounted to 42.34 million; TCL Communication Group's mobile device sales reached 27.80 million units. By combining over-the-top (OTT) device and services with mobile device, more interactive scenarios can be created, such as multi-screen interaction for information flow, a unified content service platform and a mega membership system. In addition, TCL Communication Group will not only strive for device innovation and further development for various scenarios in the customer-targeted smart device domain through technology research and development empowerment for smart TVs, but will also provide the infrastructure for a fully connected smart home environment with the smart router as the core, and such strategy is expected to provide users with more value-added services and to expand the Group's revenue stream from value-added services.

(3) Accelerate the development of commercial display business targeting business sector clients for mainstream scenarios such as remote work, and realize the interconnection of users' daily life and workplace scenarios

The domestic commercial display market has been on a continuous growth trend, with rapid product mix adjustment and rapid expansion of scenario applications. The market size of the eight major categories in the commercial display sector reached RMB78.9 billion in 2019 and is expected to exceed RMB100 billion in 2020 and reach RMB150 billion in 2023, with a CAGR of 25%. TCL's smart display business is focused on telecommuting, smart conferencing, education, business, scheduling, medical care and eldercare, transportation and other mainstream scenarios, which is in line with the Group's business philosophy and vision of offering all-scenario smart living experience for its users. The integration of TCL Communication Group with the Group's business and research and development capabilities will contribute to the acceleration of the Group's research and development and marketing strategies in the areas of hardware and software of commercial display and management platform for business sector clients, as well as the building of an agile "user-centered" development and delivery system. The addition of TCL Communication is conducive to the realization of TCL's "1+1+N" strategic planning (hardware platform + software platform + sub-scenario applications). TCL Communication will become the connecting hub for TCL's smart large screen and smart commercial display and will be committed to the further extension of scenarios and exploration of sub-scenarios, realizing multi-display interaction between user's daily life and workplace scenarios, and bringing people more efficient and convenient services in the areas of business management and daily life.

(4) A more focused business strategy of the Group that is fully devoted to the development of "product + service" under TCL's proprietary brands will be enabled by the Disposal

(a) In line with the Group's "AI x IoT" development strategy

In the era of the expeditious development of 5G technology, intelligentization and IoT have become the next hot trends and the Group has proactively taken various initiatives in developing smart home business based on its "AI x IoT' strategy. In order to further create all-scenario smart living experiences for users and establish a comprehensive smart ecosphere, divesting the ODM business will be conducive to focusing on the integration of technology, products and application scenarios of the our brand's core product line, which will help further implement the Group's "AI x IoT" strategy, accelerate the development of the Group's business inspired by intelligentization and IoT, and further develop and expand more scenarios and realize more possibilities.

(b) More focused business scope and concentrate on TCL's proprietary brands with exciting growth potential

The Group will focus on proprietary brands product business in the future. There are significant differences between the ODM business and the TCL brand products business in terms of business models and management and operations, and there exists a conflict of interest between the two businesses which can easily lead to inefficient resource allocation. The separation of proprietary brands business and the ODM business is beneficial to the Group's management efficiency and eliminate direct competition with ODM customers, which is a common practice among peers with ODM operations in the industry. Furthermore, the divestment of the ODM business is conducive to the Group's future focus on the development of the TCL brand and is expected to further strengthen the market recognition of TCL's proprietary brands.

(c) The reasonable valuation implied in the Disposal will create better operating value for the Group

Through this divestment, the Group can further focus its resources on the high-growth, highly profitable Internet operation service business, concentrating on the development of hardware + software + technology under its brands, conducting business with software users efficiently on the basis of brand synergy and technology interoperability, greatly enhancing the development potential of the high value-added Internet operation business, and creating remarkable synergies with various devices under its proprietary brands and opening up room for the Group's future growth.

(5) Enormous synergies upon Business Transformation is conducive to value creation for Shareholders

(a) Synergies in terms of global footprint

In 2019, the product sales of the Group and TCL Communication Group in overseas markets amounted to 13.46 million units and 25.88 million units, respectively. The Group and TCL Communication Group have remarkable complementarities in terms of overseas regional coverage and sales channels and can collaborate to develop global markets. After completion of the Business Transformation, the Group will also establish a comprehensive and stable smart device customer relationship with key operators in North America and Europe through TCL Communication Group, which will facilitate the penetration and expansion of the Group's products, including smart home products such as TV, into overseas markets, create economic moat and lead to focused collaboration to achieve breakthroughs into key markets overseas.

The Group's branded TVs have already enjoyed distinguished brand recognition overseas, and TCL Communication Group's products can leverage the notable recognition of the TCL TV brand in overseas markets to access more independent sales channels. Both parties can integrate branding and marketing resources and focus on the global promotion of the TCL brand, making TCL a leading brand of smart devices that young people around the world adore and trust. This will provide more room for TCL to expand its TVs and mobile phones business in the global market.

(b) Synergies in terms of technology and product

Nowadays, research and development for mobile phone represents the highest level of research and development capacity for smart devices. In the Group's strategic layout, both the research and development of innovative smart display devices for customer-targeted applications and that of business intelligent devices for business-targeted applications will be iteratively upgraded and brought into line with latest mobile phone technology. As TCL Communication Group is one of the very few communications companies in the world that also holds patents for 2G-5G core technologies, the Business Transformation can further enhance the Company's deployment in the areas of smart products and smart connectivity. Operating system is the core of smart-rich media flow across displays. TCL Communication Group has developed its own ROM and these operating system platform accumulations can also be migrated to more displays in the future. Through a unified operating system, more features enabling restriction-free smart connectivity, inter-connectivity, security and artificial intelligence are expected to offer. Therefore, the integration of the Group's and TCL Communication Group's years of research and development and technology accumulation in their respective fields can accelerate the Group's product layout and iteration in the field of innovative equipment and create more distinct competitive advantages from other traditional home appliances enterprises.

TCL Communication Group possesses state-of-art hardware and software technologies for mobile phones while the Group possesses industry-leading smart display technologies. Both technological areas represent the most crucial technologies that are instrumental for the future development of smart hardware, smart homes and IoT. On the one hand, the Group's technological advantages in displays can enhance TCL Communication Group's competitive edge in handsets, tablets, wearable hardware and commercial display, allowing TCL Communication Group to become one of the very few mobile phone manufacturers with its screen display technologies among its peers. On the other hand, TCL Communication Group has various technical capabilities in communication and mobile phones, including Android operating system and embedded capabilities, 5G/WIFI/BLE Mesh wireless communication capabilities, camera imaging and voice multimedia capabilities, multi-screen and multi-device audio and video streaming capabilities, face, voice, fingerprint and other biometric identification capabilities and VR/AR and other innovative capabilities in the area of display and interaction. The extension of TCL Communication Group's technical capabilities to the smart and large display, smart home and IoT business will expedite the Group's development of intelligentization and IoT, and achieve sharing of research and development costs and technical empowerment for the Group's electronics products.

(c) Financial synergies

The development of 5G technology will drive the rapid development of the communications industry in the future, and the acquisition of TCL Communication Group will create significant growth opportunities to the Group's revenue and act as driving forces for rapid revenue growth in the future. Meanwhile, TCL Communication Group's gross margin reached 21.6% in 2019. Upon completion of the Acquisition, the Group's overall gross profit margin is expected to increase to nearly 20%, further enhancing the resilience in the Group's performance. The Group and TCL Communication Group have certain segments of supply chain that are in common, therefore Business Transformation is conducive to the optimization of the structure of logistics, capital flow and information flow, further enhancing the Group's profit growth potential.

Meanwhile, TCL Communication, a fellow subsidiary of the Group, shares the same or similar strategic direction and TCL corporate culture with the Group, therefore, the Acquisition of TCL Communication Group is expected to realize tremendous synergies both in terms of business cooperation and communication efficiency that would be unmatched by other comparable target companies. The Group's future development strategy is to focus on high brand premiums, thus growing sustainable service revenues. Disposing of asset-heavy and labour-intensive ODM businesses will propel the Group's agile transformation into an asset-light, high value-added business model that could deliver better returns for the Group and its Shareholders.

The Group's decision to dispose Moka International Group was made after careful assessment of the latter's overall strategic fit and business outlook. Although the ODM business has consistently been profitable, the ODM business has increasingly become challenging for the Group to manage as our TCL brand TVs compete directly with our certain customers resulting in significant conflict of interests. We believe the Disposal is in the best interest of the Group as such move will enable us to focus on developing our TCL brand products while maximizing shareholder value by re-deploying the sale proceeds to further strengthen our core business and capture growth in mobile communications. Similar actions were taken by several Taiwan-based electronics manufacturers that historically operated both a branded and ODM business, with examples including Wistron Corporation's spin-off of Wiwynn Corporation and ASUSTek Computer, Inc.'s spin-off of Pegatron Corporation, in order to resolve conflict of interests with their external customers.

As the Group's global sales of brand TVs already ranked among the top three globally in 2019, we have been reviewing our strategy and finding new sources that offer key synergy potential with our core business to further achieve our ''AI x IoT'' strategy. We have been also studying traditional and new coming competitors in our TV business, including Samsung, LG and Xiaomi. Samsung and LG both have their TV business and mobile phone business under a single listed company, and Xiaomi's entire product ecosystem is housed under the Xiaomi publicly listed company. Such structure is common in the industry to build a strong ecosystem and maximize synergies. TCL Communication Group offers a platform to realize our strategic goals and allow us to fully recognize the synergies with our TV business in market reach, distributions channels, customers, product and technology, and financial performance. It has become clear that in order to compete effectively in TV business and to create an all scenario display expert, we need to have TCL Communication under TCL Electronics.

When TCL Industries privatized TCL Communication in 2016, TCL Communication was faced with headwinds with challenging economic environment and unfavorable market conditions in some countries. Upon completion of privatisation, TCL Communication has conducted reforms through the implementation of a series of restructuring initiatives, such as selective market exit, sale channel restructuring, and other cost cutting initiatives. As the result, the business performance has shown significant improvement in the last 3 years, turning from HK$2.3 billion net loss in 2017 to net profit of HK$179 million in 2019. The fundamentals of TCL Communication are now on the solid footing while the overall market condition has also shifted in TCL Communication's favor, particularly with the emergence of 5G technology globally. The Group believes now is the right time to acquire TCL Communication as it is well-positioned to thrive in its target segments and fulfill our ''AI x IoT'' strategy after last three years' restructuring effort that put it on a solid foundation for growth and profitability.

In short, Business Transformation is an important part of the Group's strategic planning. It would facilitate the Group's extension of smart scenario from home to mobile and outdoor and commercial applications as well as providing users with an all-scenario smart living experience. Meanwhile, through Business Transformation, the Group will focus on its brand business and gain more dimensions in extending its global footprint, attain higher level of technology and product level, as well as more optimized revenue and cost structure, which is one step closer to realizing the corporate vision of ''becoming the world's leading intelligent technology company''.

The Directors believe that the proposed Business Transformation is beneficial for the Group's long-term strategic objectives and is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

IV. THE ACQUISITION

ACQUISITION AGREEMENT

On 29 June 2020, Zhengjia Investment, TCL Industries and the Company entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire from Zhengjia Investment and Zhengjia Investment has conditionally agreed to transfer to the Company its entire interest in the issued shares of TCL Communication, representing all the shares of TCL Communication, at a consideration of RMB1.5 billion (or its equivalent in other currency(ies) at an exchange rate as mutually agreed between the vendor and purchaser), which is to be financed by the proceeds from the Disposal. Upon completion of the Acquisition, TCL Communication will become a wholly-owned Subsidiary of the Company.

The principal terms of the Acquisition Agreement are summarized below:

Date: 29 June 2020

Parties: Zhengjia Investment, as vendor;
TCL Industries, as covenantor; and
the Company, as purchaser

Subject matter: Pursuant to the terms and conditions of the Acquisition Agreement, the Company has conditionally agreed to acquire from Zhengjia Investment, Zhengjia Investment has conditionally agreed to transfer its 100% interest in the issued shares of TCL Communication to the Company.

Consideration: The consideration is RMB1.5 billion (or its equivalent in other currency(ies) at an exchange rate as mutually agreed between the vendor and purchaser), which shall be settled by the Company using the proceeds from the Disposal on or before the Completion Date.

Conditions precedents: Completion of the Acquisition is conditional upon the satisfaction of the following conditions precedents:

(i) warranties given by Zhengjia Investment in the Acquisition Agreement are true, accurate and not misleading as at the date of entering into the Acquisition Agreement and remain true, accurate and not misleading upon repetition of the same immediately before completion of the Acquisition under the Acquisition Agreement;

(ii) approval of the Acquisition Agreement and the transaction contemplated thereunder by the Independent Shareholders;

(iii) delivery by Zhengjia Investment of a Cayman Islands legal opinion in connection with TCL Communication in such form that is acceptable to the Company;

(iv) all consents, waivers, approvals, authorizations and clearances, if any, from any relevant governmental or regulatory authority or any relevant third party that are necessary for entering into and performance of the Acquisition Agreement having been obtained by Zhengjia Investment and the Company;

(v) completion of the due diligence on TCL Communication Group to the satisfaction of the Company; and

(vi) the Disposal Agreement having become unconditional, i.e. all conditions precedent, other than the condition precedent set out in (v) under the Disposal Agreement, are satisfied.

If any of the conditions precedent is not fulfilled or waived by Zhengjia Investment or as the case may be the Company before the Long Stop Date (or any other later date as Zhengjia Investment and the Company may agree in writing), the Acquisition Agreement shall be terminated and none of the parties (including TCL Industries) shall have any obligations and liabilities thereunder save for any antecedent breach of the terms thereof. Both Zhengjia Investment and the Company acknowledge that conditions precedent in (ii) and (vi) are not waivable.

As at the Latest Practicable Date, conditions precedents set out in (iii) and (v) above have been satisfied.

Both Zhengjia Investment and the Company do not have any present intention to waive any of the above conditions precedent.

Covenants provided by TCL Industries: By joining as a party to the Acquisition Agreement, TCL Industries covenanted to the Company that (i) the warranties given by Zhengjia Investment in the Acquisition Agreement are true, accurate and not misleading as at the date of entering into the Acquisition Agreement and remain true, accurate and not misleading upon repetition of the same immediately before completion of the Acquisition under the Acquisition Agreement; and (ii) TCL Industries will procure Zhengjia Investment to complete the Acquisition pursuant to the terms of the Acquisition Agreement.

Completion: Completion of the Acquisition Agreement and the Disposal Agreement is inter-conditional (unless such conditions are waived by the Company) and will take place on the fifteenth Business Day (or such other later date as Zhengjia Investment and the Company may agree in writing) upon satisfaction or waiver, as the case may be, of all conditions precedents set out in each of the Acquisition Agreement and the Disposal Agreement.

Information on TCL Communication

(A) General Information

TCL Communication was incorporated in the Cayman Islands on 26 February 2004 and is principally engaged in investment holding.

TCL Communication was listed on the Main Board of the Stock Exchange from 27 September 2004 to 30 September 2016 (former stock code: 2618). In October 2016, TCL Industries completed the acquisition of all the shares then in issue of TCL Communication other than the shares held by TCL Industries (including scheme shares, outstanding share options and unallotted awarded shares) by way of a scheme of arrangement for a consideration of approximately HK$3.51 billion and the privatized TCL Communication then became a wholly-owned subsidiary of TCL Industries. The total costs and expense involved in the privatization of TCL Communication by TCL Industries amounted to approximately HK$3.53 billion.

On 19 October 2017, TCL Industries disposed of its 18%, 18% and 13% shareholding in TCL Communication to Unisplendour Technology Venture Capital Ltd., Oriente Grande Investment Fund L.P. and Vivid Victory Developments Limited for considerations of HK$180,000,000, HK$180,000,000 and HK$130,000,000 respectively. Accordingly, TCL Industries held 51% of TCL Communication.

On 14 June 2019, each of Oriente Grande Investment Fund L.P. and Unisplendour Technology Venture Capital Ltd. disposed of its respective 18% shareholding in TCL Communication to TCL Industries for considerations of approximately HK$215,300,000 and approximately HK$215,270,000 respectively. As a results TCL Industries held 87% of TCL Communication whereas Vivid Victory Developments Limited held 13% of TCL Communication upon completion of the said changes in shareholding.

On 19 July 2019, in view of the need to adjust the internal structure of TCL Industries, TCL Industries transferred its aggregate 87% direct shareholding in TCL Communication to Zhengjia Investment, its wholly-owned subsidiary, at the book value of the original investment cost of approximately HK$4,076,440,000. Accordingly, Zhengjia Investment held 87% of TCL Communication whereas Vivid Victory Developments Limited held 13% of TCL Communication upon completion of the said change in shareholding.

On 31 December 2019, Vivid Victory Developments Limited disposed of its aggregate 13% shareholding in TCL Communication to Zhengjia Investment for a consideration of approximately HK$172,530,000. As a result, Zhengjia Investment holds 100% of TCL Communication upon completion of the said change in shareholding.

(B) Business Information

Business Overview

TCL Communication Group is one of the world's leading mobile device companies, with major products including mobile phones, tablets, mobile connected devices, wearable devices and accessories. Meanwhile, TCL Communication Group also provides Internet applications and services to its users. Currently, TCL Communication Group provides a wide range of best-selling models and products and services to more than 150 countries and regions worldwide under two international brands – TCL and Alcatel.

Industry and Market Overview

According to the Mobile Economy Report published by the Global System for Mobile Communications Association (GSMA), as at 31 December 2019, mobile technologies and services generated 4.7% of GDP across the globe – a contribution that amounted to US$4.1 trillion of economic value added. By 2024, such contribution is expected to reach US$4.9 trillion, accounting for 4.9% of GDP, as countries around the world increasingly benefit from the improvements in productivity and efficiency brought about by the increased take-up of mobile services. Furthermore, GSMA expects that operators will invest around US$1.1 trillion worldwide between 2020 and 2025 in mobile capex, roughly 80% of which will be in 5G networks. As at the end of January 2020, mobile 5G is now commercially available from 46 operators in 24 countries or regions worldwide. By 2025, 5G will account for 20% of global connections.

Over the years, TCL Communication Group has established multiple research and development centers and an extensive sales network worldwide. TCL Communication's first 5G smartphone model has been handpicked by major carriers in North America, Europe, etc.. It is also one of the members in the China Mobile 5G Terminal Pioneer Industry Alliance that is conducting scale trials and user experience tests with carrier partner. As one of the very few communications companies in the world that also holds patents for 2G, 3G, 4G and 5G core technologies, TCL Communication Group is destined to further provide strong momentum for global economic output in the future.

Business Competitive Advantage

(1) Diversified product portfolio with leading market position in target market segments

TCL Communication Group is committed to offering the global consumers with an extensive product portfolio, with major products including mobile phones, tablets, mobile connected devices, wearable devices and accessories. Meanwhile, it also provides remarkable Internet applications and services.

TCL Communication Group is currently engaged in mobile device business under its two major brands, namely TCL and Alcatel, worldwide. TCL Communication Group has developed a number of best-selling models, and has been developing TCL's proprietary brand mobile phone business since 2019. Currently, TCL Communication Group's mobile phone business ranked number 12 globally in the fourth quarter of 2019, in particular, it ranked first in the entry-level market segment in the United States as well as ranked fourth in the entire price spectrum segment in the United States, Canada and Australia market (source: IDC Report).

(2) Globalized marketing network

TCL Communication Group has established a globalized marketing network underpinned by six core sales regions, namely North America, Latin America, Europe, Middle East and Africa, Asia Pacific and China, and has established long-term and solid strategic partnerships with leading global carriers such as Vodafone, Orange, as well as retail giants such as Walmart and Best Buy.

(3) Innovation excellence

TCL Communication Group has established various research and development centers around the world. With ample research projects and development equipment, TCL Communication Group is one of the very few communications companies in the world that own core patented technologies ranging from 2G to 5G.

(4) State-of-art industrial chain layout and production capacity

TCL Communication Group operates a global manufacturing base in Huizhou, Guangdong Province, the PRC and its overall annual capacity reaches 120 million units. The manufacturing base possesses world leading SMT production lines and MMI fully automatic testing systems. TCL Communication Group is one of the largest and most robust mobile phone manufacturing bases in the PRC. With its strong and highly efficient global supply chain, it always maintains its advantages in both quality and cost.

Furthermore, TCL Communication Group has established a comprehensive quality control system. It has obtained ISO 9001, ISO 14001, OHSAS 18001, SA8000, TL9000, GSV and other certifications and meets the standards and requirements of QC080000. It also has a number of internationally renowned suppliers as its solid backing. Meanwhile, TCL Communication Group has established a periodic follow-up management system to ensure that the procurement work is carried out strictly in accordance with the quality requirements and process specifications.

(5) Highly efficient operating system

TCL Communication Group has implemented a number of first-class processes such as industry-advanced and mature IPD and IPMS to build a highly efficient research and development, marketing and sales organization that can swiftly respond to and meet customers' needs. These fundamental processes enable TCL Communication to maintain highly efficient and low-risk operations and achieve remarkable commercial achievements.

In terms of operational asset efficiency, TCL Communication has promoted various factoring arrangements with banks, insurance companies and customers to accelerate the turnover of accounts receivable. TCL Communication has established long-term cooperation relationships with various global air freight forwarders to improve inventory turnover efficiency through stringent financial control and highly efficient supply chain management system.

Future Plans for Business Development

In 2019, TCL Communication Group redefined its "3074 Strategy" for the next four years, with the goal of strengthening its capabilities of serving end-users while furthering its development in the carrier market and is fully devoted to becoming a leading global mobile device provider.

TCL Communication Group will focus on the following three areas to achieve breakthroughs in the future:

(1) Market selection:

North America, Europe and Latin America will be the main sales regions, while other regions will gradually and steadily increase their scale after turnaround from loss. Building on the basis of strengthening its current business, TCL Communication Group will continue to strengthen its advantageous position in the carrier market, focus on targeted countries and key customers, and seize the opportunity of the carrier-centered market at the initial stage of 5G activation to enter the mid-to-high-end market through TCL brand 5G mobile phones, so as to build advantages and achieve breakthroughs by focusing its efforts.

(2) Business segments:

(i) Mobile phone business

TCL Communication will focus on 5G smartphones. We are committed to building a smart device brand that young people around the world would adore and trust. The 5G smartphone market has entered an explosive growth era since 2020 and 5G handset shipments will increase significantly in the future. In North America and Europe, the carrier channel remains its dominant position in the market, with retail as a complement sector, and e-commerce and other channels coming after. TCL Communication Group is already well prepared to grow its business in the 5G era. It has extensive experience and robust technological capability in providing customized services for carriers. Leveraging the technical advantages in terms of screens offered by CSOT and the Group and through the integration of vertical supply chains, we are able to satisfy the requirements of carriers to provide customized display development services. In 2020, TCL Communication Group's 5G products have been awarded tenders as a supplier to various carriers in North America and Europe. Meanwhile, it is also expanding to other Tier 2 carriers and open channels by its models customized for carriers. Demand for smartphones in the mid- to high-end price segment is increasing year on year, especially in North America and Latin America. The number of Chinese suppliers targeting this price range is limited, and the development of certain Chinese suppliers in the United States is under certain constraints in the short term, therefore TCL Communication Group has a first mover advantage. TCL Communication Group is currently ranked as the fourth smartphone players in the United States and the number one leader among domestic manufacturers. It aims at capitalizing on the 5G market opportunities in North America and will focus on further breakthroughs in terms of product and market development. It will further increase its market share in Latin America and Europe by enhancing product competitiveness.

In the meantime, TCL Communication Group will maintain its current core Alcatel handset business scope and focus on the entry-level smartphone segment. By virtue of its strong partnerships with major global carriers, remarkable industrial manufacturing capabilities and outstanding quality control capabilities, TCL Communication Group was the number one manufacturer in the entry-level smartphone segment in North America in the fourth quarter of 2019. It also captured leading positions in a number of countries and regions, including Australia and Canada (source: IDC Report). In the future, TCL Communication Group will continue to strive to become the number one leader in the entry-level smartphone segment worldwide through the carrier market.

(ii) Smart connectivity business

TCL Communication Group's smart connectivity business mainly includes mobile MIFI, indoor CPE, Mesh, WIFI routers, as well as smart wearables and locators. With 13 years of long term research and development and technology accumulation in the field of communications connectivity, TCL Communication Group has established stable and satisfactory cooperation relationships with major telecom operators around the world. With the strong support of our team's experts in various fields, such as baseband, RF, antenna, heat dissipation, structure and industrial design, we have gradually built a leading research and development as well as supply chain system. Stable strategic partnerships such as Qualcomm, quality control for global Tier 1 carrier product and manufacturing capabilities, rapid and flexible customization capabilities, professional technical support and sales capabilities underpinned by local language expertise have contributed to the realization of global product distribution and after-sales service system as well as strong product and service competitiveness. We currently provide products, services and solutions to over 400 clients worldwide. With keen industry and market insights, we will seize growth opportunities in the industry and continue to grow our scale and profit. TCL Communication Group will continue to tap into new categories of IoT products, build service platforms, enable interconnectivity among mobile phones, tablets and other TCL branded products, provide integrated services for multiple product categories, and contribute to the implementation of "AI x IoT" strategy. As a result of the outbreak of the novel coronavirus pandemic since the beginning of this year, governments have ordered for the suspension of business activities and the closure of schools. The demand for smart connected devices such as wireless routers rose sharply in 2020 as a result of increased demand stemming from home office arrangement and online teaching.

(iii) Smart mobile display business

In 2020, the smart mobile display business sets its base over two regions, North America and the PRC, to strengthen the traditional tablet business and actively expand the smart education tablet business. The smart mobile display business achieved breakthrough growth in North America in the first quarter of 2020, with its performance improved and took the third place in the North American Android tablet market (source: IDC Report). Underpinned by its North American and PRC operations, the global market share of TCL's tablet products in the first quarter of 2020 recorded a significant increase when compared to that of 2019. With the launch of new products in the market in the third quarter of 2020, year-on-year growth expected to double for the full year.

(3) Core competency:

(i) Focus on DISPLAY GREATNESS (display + video), the flagship display is continuously introduced into the mid-to-high-end market at the fastest rate, create new screen shapes (curved/waterfall/foldable/wrappable) for mobile phones, improve the quality of mobile phone display, enrich the mobile phone screen functions, and continuously improve the video display effect through the NXTVISION display chip, so as to bring consumers the best product experience;

(ii) Keeping abreast of 5G technology development trends, providing customers with comprehensive solutions, launching mobile communication devices that support both Sub6 and mmWave, and providing a full range of customized solutions for network operators such as TMO/VZW/VDF/CMCC;

(iii) In IoT, TCL Communication Group will leverage its strengths in connectivity technology and extensive experience to achieve interconnectivity among various product categories, including home living, interactive sharing, entertainment experience, intelligent education, etc., providing one-stop solutions for customers and users;

(iv) In addition to the hardware business, TCL Communication Group will continue to strengthen the construction of the software ecosystem and consolidate total software solutions targeting the carrier market. continuously enhance the UE design, performance optimization and details embodying convenience, accessibility and the concept of user-friendly, and focus on multi-screen interaction, software display enhancement as well as investment and building up in the area of privacy and security, to create TCL ROM that offers industry-leading core experience as well as outstanding features and selling points;

(v) In terms of branding and marketing capabilities, TCL Communication Group will strive to build a smart device brand that young people around the world adore and trust, and create a new category of TCL smart devices by deeply integrating online and offline OMOs. TCL Communication Group will build content that is mind-inspiring as well as create a cultural icon for young people around the world, establish a global BD resource pool, and connect with the top traffic channels on the Internet.

Although certain mainstream products of TCL Communication are on the list of Chinese products subject to tariffs in the midst of the United States-China trade war, the relevant list has since been suspended or such mainstream products have already been excluded from the list. Accordingly, as at the Latest Practicable Date, no tariff has been imposed on TCL Communication's mainstream products. In response to the potential impact of the United States-China trade war in the future, TCL Communication has strategically increased its production capacity in India and its local plant has commenced operation in the third quarter of 2019. Furthermore, the United States sanctions against Chinese companies mainly focus on some particular products or particular companies. Accordingly, the Company believes that the United States-China trade war and the United States sanctions against Chinese companies will not have significant negative impact on TCL Communication in the foreseeable future, and TCL Communication is well positioned to respond to the foregoing.

(C) Financial Information

The following is certain consolidated financial information of TCL Communication Group for the years ended 31 December 2017, 2018 and 2019 and as at 31 December 2017, 2018 and 2019, which is derived from the audited report of TCL Communication Group for the relevant years prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	17,168,345	14,835,003	12,216,404
Profit/(loss) before tax	(2,254,200)	(388,789)	190,019
Profit/(loss) after tax	(2,347,946)	(505,468)	178,859

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	10,836,329	8,317,511	10,606,534
Net asset/(liabilities)	65,572	(770,793)	(778,819)

The carrying amount of TCL Communication Group's net liabilities as at 31 December 2019 was approximately HK$779 million, of which:

(i) the carrying amount of assets of TCL Communication Group are stated at historical cost, rather than their respective fair prices in the market. According to the Independent Valuer's valuation report, there is an appreciation of approximately HK$1.64 billion in the aggregate fair value of immovable properties, equity investments and intangible assets such as patents and customer relationships currently held by TCL Communication Group when compared to historical costs;

(ii) decrease in other reserves in the amount of approximately HK$993 million was resulted from the acquisition of equity interests in a fellow subsidiary, which is principally responsible for the mobile phone sales business in the PRC and under the control of the same ultimate parent company, in 2017 and the acquisition was accounted for using the pooling of interests method. The fellow subsidiary recorded a net liabilities position prior to the acquisition. As the transaction was a one-off acquisition and TCL Communication Group has made a downsizing adjustment and significant revitalisation of the business, it is expected to have very limited impact on TCL Communication Group's future operations and no adverse impact on net assets; and

(iii) TCL Communication Group is a global enterprise with assets located all over the world. In view of the depreciation of various currencies such as the RMB, Mexican peso and Euro against the Hong Kong dollar in recent years, loss on translation of financial statements presented in foreign currency of approximately HK$985 million was recorded upon the book values of major assets in China, Mexico, Europe and other countries being translated to Hong Kong dollar from their respective local currency. The loss on translation of financial statements presented in foreign currency is non-cash and unrealized loss in nature. Unless such assets are disposed of, the above loss on translation of financial statements presented in foreign currency will not have any material adverse effect on TCL Communication Group's operations. In addition, loss on translation of financial statements presented in foreign currency reflects the prevailing depreciation of the respective local currency against the Hong Kong dollar, and such loss on translation of financial statements presented in foreign currency may reduce or turn into profit if the respective local currency appreciates against the Hong Kong dollar in the future.

TCL Communication Group has completed its internal business transformation by three-years' efforts. Over the past three years, TCL Communication Group has shown year-over-year gross profit margin improvement, continuing decline in selling and distribution expenses as a percentage of revenue and continuous increase in net profit and TCL Communication has turned around from loss to profit. Meanwhile, TCL Communication Group has further improved its product technology. Looking forward, with the opportunity of the advent of 5G era, it is expected that TCL Communication Group will take advantage of its integrated production layout and globalized marketing network to further enhance its market share.

In addition, according to the "Asset Evaluation Practicing Standards – Enterprise Value" issued by the China Appraisal Society, the discounted cash flow (DCF) method is commonly used in the valuation of enterprise value. DCF is a method of appraising asset value by discounting the expected income (net cash flow) of the enterprise in future. The basic conditions for the application of this method include the followings: the enterprise possesses all bases and conditions to operate its business as a going concern; there is a positive correlation between operation and income; and future income and risks are predictable and quantitative. The approach was adopted by the Valuer and the valuation conclusion of the valuation of TCL Communication Group based on income approach was primarily derived from the DCF approach.

(1) The enterprise possesses all bases and conditions to operate its business as a going concern

TCL Communication Group experienced a consecutive decline in revenue from 2017 to 2019, which was primarily due to TCL Communication Group's business restructuring in various overseas sales regions and the selective exit of unprofitable businesses in the past three years which have led to a decline in revenue in the short to medium term. However, TCL Communication's operations continued to improve in 2018 and 2019 following a significant loss in 2017:

(i) Gross profit margin improving year by year

TCL Communication Group's gross profit margin increased from 15.3% in 2017 to 21.6% in 2019, which is mainly attributable to TCL Communication Group's business focus on regions with high gross profit margin; strategic reduction of business in some countries such as Mexico where the price competition was fierce; continued implementation of cost reduction measures throughout the value chain; improvement in product mix; enhanced PSI management and channel inventory risk control to reduce subsidies for price reduction and losses arising from price reduction.

TCL Communication Group has vigorously implemented cost reduction measures throughout its value chain in recent years and gained cost advantages through various cost reduction measures, including: product design optimization, supply chain optimization, manufacturing process optimization, changes in operating models, etc..

Based on the financial data of 2018 and 2019, TCL Communication Group's measures to improve gross profit margin were effective as evidenced by the fact that its gross profit margin increased by 5.4% to 20.7% in 2018 while its gross profit margin in 2019 increased by approximately 1% to 21.6% as compared to 2018.

(ii) Selling and distribution expenses as a percentage of revenue on a continuous decline

TCL Communication Group recorded significant losses in 2017 as a result of excessive burdens of expense, and TCL Communication Group has introduced significant reforms since the second half of 2017. TCL Communication Group's selling and distribution expenses continued to decline, with its selling and distribution expenses as a percentage of revenue decreased from 10.7% in 2017 to 6.6% in 2019. TCL Communication introduced changes to business model to lower its selling and distribution expenses. Details are as follow:

Reduce or abolish local organizations to promote further optimization of expenses; take specific measures include marketing and retail activities to focus on product marketing, reduce investment for retail marketing, and strictly control advertising in traditional media and sponsorships; develop marketing plans to match new product launch schedule and sales progress, and control the pace in deploying marketing expenses; establish acceptance standards and rules for marketing services to improve input and output efficiency.

(iii) Continued increase in net profit

Despite the continued decline in TCL Communication Group's revenues from 2017 to 2019, through the implementation of a series of reforms introduced by TCL Communication's management, the deterioration in operating conditions has been halted since 2017 and continuous improvement was recorded in 2018 and 2019. As a result, TCL Communication Group has significantly improved from HK$2.3 billion net loss in 2017 to net profit of HK$179 million in 2019.

In summary, the continuous decline in revenue in 2018 and 2019 was due to TCL Communication Group's proactive exit of certain unprofitable businesses. With the continuous improvement in TCL Communication Group's gross profit margin and expense to revenue ratio, TCL Communication Group has successfully recorded a turnaround from loss to profit. Therefore, TCL Communication Group possesses the basis and conditions to continue as a going concern.

(2) There is a positive correlation between operation and income; and future income and risks are predictable and quantitative

The basis and assumptions relating to the operations of TCL Communication in preparing the future earnings forecasts used in the DCF method are based on the actual operating conditions of TCL Communication Group in 2019 and the future business plans of TCL Communication Group prepared by the directors of TCL Communication Group.

(i) In preparing the future earnings forecasts, the future revenue forecast was prepared based on the revenue in 2019, taking into account the macro environment, industry trends, market capacity, future business planning of TCL Communication Group and specific operating measures.

(ii) The forecast of future costs and expenses is based on the cost and expense rates in 2019, and for the sake of prudence, revenue-related variable costs and expenses are considered at the rates in 2019. The earnings forecast has been prepared without regard to the factor that TCL Communication's current implementation of a series of cost-cutting and cost-control measures is more likely than further to reduce TCL Communication Group's cost and expense levels in the year(s) under forecast.

(iii) For the forecast of research and development costs, considering the assumption that "the products could maintain a leading position in terms of technologies employed, with necessary investment in research and development", the research and development costs as a percentage of revenue in the years under forecast are maintained at the same level as in 2019, with increase in research and development investment in the same proportion as the revenue growth in the years under forecast.

Based on the above, after reviewing the profit forecast prepared by TCL Communication, the Directors is of the view that the profit forecast have fully considered the potential benefits and risks of TCL Communication's future operations and therefore the assumptions and basis for the valuation of TCL Communication Group by DCF method are fair and reasonable.

Basis of the consideration

The consideration under the Acquisition Agreement was determined after negotiations between the parties on an arm's length basis and taking into account various factors, including:

(i) the fair market value of the 100% interest in TCL Communication Group as at 31 December 2019, being the Valuation Benchmark Date, of RMB1,590,711,300 as assessed by the Independent Valuer using the income approach, specifically the discounted cash flow method, which has taken into account TCL Communication Group's discounted cash flow projections; the intrinsic value of immovable properties, equity investments and intangible assets such as patents and customer relationships that are currently held by TCL Communication Group is fairly reflected in the valuation conclusion but not fairly reflected in TCL Communication Group's net asset value;

(ii) TCL Communication Group has implemented business transformation and selectively exited unprofitable operations in various overseas sales regions including Lithuania, Israel, Finland, Thailand, Singapore, Paraguay, Algeria, Palestine etc. over the past three years. As at the Latest Practicable Date, TCL Communication Group had completed the transformation and exit plan. This laid a solid foundation to significantly enhance TCL Communication Group's profitability;

(iii) TCL Communication Group undertook large-scale business transformation across its global operations and achieved a turnaround to profit in 2019. It has been focusing its operations on its core and key markets. The Company believes that TCL Communication Group will bring tremendous value to the Group in the future through its development plans, as detailed in the section headed "Future Business and Development Plans" in the Letter from the Board; and

(iv) the prospects of the business engaged in by TCL Communication Group, as detailed in the section headed "Information on TCL Communication" in the letter from the Board in this circular.

Based on the foregoing, the Directors (including the independent non-executive Directors) consider that the above consideration is fair and reasonable.

POST-ACQUISITION CORPORATE GOVERNANCE

After completion of the Acquisition, the ownership of TCL Communication will be changed. The Company has no current intention to appoint new members to the board of directors of TCL Communication as the Company expects that TCL Communication's existing key management and employees will continue to play a critical role in the future development of TCL Communication Group.

As at the Latest Practicable Date, the Company has no concrete plan regarding TCL Communication Group's share incentives arrangement after completion of the Acquisition.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Acquisition, TCL Communication will become a wholly-owned Subsidiary of the Company and the financial information of TCL Communication Group will be consolidated into the accounts of the Group. The unaudited pro forma financial information of the Group upon completion of the Acquisition has been prepared to illustrate the effect of the acquisition of the entire issued share capital of TCL Communication, as if the Acquisition had taken place on 31 December 2019, is set out in Appendix IIIA to this circular.

Assets and liabilities

As at 31 December 2019, the latest published audited consolidated total assets, total liabilities and net assets of the Group amounted to approximately HK$33.32 billion, HK$21.38 billion and HK$11.94 billion respectively. Based on the unaudited pro forma financial information of the Group upon completion of the Acquisition as set out in Appendix IIIA to this circular, taking into account the Completion had taken place on 31 December 2019, the unaudited pro forma consolidated total assets, total liabilities and net assets of the Group upon completion of the Acquisition would have been approximately HK$44.90 billion, HK$32.97 billion and HK$11.93 billion respectively as a result of the Acquisition.

Earnings

As set out in Appendix IIA to this circular, the audited consolidated profit after tax of TCL Communication Group for the year ended 31 December 2019 was approximately HK$179 million.

As the financial results of TCL Communication Group will be consolidated with those of the Group after Completion, the earnings of the Group upon completion of the Acquisition will be affected by the performance of TCL Communication Group in the future. It is expected that the Acquisition would bring in a diversity of revenue to the Group upon completion of the Acquisition.

Further details of the financial effect of the Acquisition together with the bases in preparing the unaudited pro form financial information of the Group upon completion of the Acquisition are set out in Appendix IIIA to this circular.

V. THE DISPOSAL AND THE NON-COMPETITION ARRANGEMENT

A. DISPOSAL AGREEMENT

On 29 June 2020, the Company and TCL Industries entered into the Disposal Agreement, pursuant to which TCL Industries has conditionally agreed to acquire from the Company and the Company has conditionally agreed to transfer to TCL Industries its entire interest in Moka International, representing all the shares of Moka International, at a consideration of RMB2.5 billion (or its equivalent in other currency(ies) at an exchange rate as mutually agreed between the vendor and purchaser), which is to be satisfied in cash. Upon completion of the Disposal, Moka International will cease to be a Subsidiary of the Company.

The principal terms of the Disposal Agreement are summarized below:

Date:	29 June 2020
Parties:	the Company, as vendor; and TCL Industries, as purchaser
Subject matter:	Pursuant to the terms and conditions of the Disposal, the TCL Industries has conditionally agreed to acquire from the Company and the Company has conditionally agreed to transfer its 100% interest in Moka International to TCL Industries.
Consideration:	The consideration is RMB2.5 billion (or its equivalent in other currency(ies) at an exchange rate as mutually agreed between the vendor and purchaser), which shall be settled by TCL Industries in cash on or before the Completion Date.
Conditions precedents:	Completion of the Disposal is conditional upon the satisfaction of the following conditions precedents:

(i) warranties given by the Company in the Disposal Agreement are true, accurate and not misleading as at the date of entering into the Disposal Agreement and remain true, accurate and not misleading upon repetition of the same immediately before completion of the Disposal under the Disposal Agreement;

(ii) approval of the Disposal Agreement and the transactions contemplated thereunder by the Independent Shareholders;

(iii) all consents, waivers, approvals, authorizations and clearances, if any, from any relevant governmental or regulatory authority or any relevant third party that are necessary for entering into and performance of the Disposal Agreement having been obtained by both parties;

(iv) the Deed of Termination (2020) and the Deed of Non-Competition (2020) having been approved by the Independent Shareholders; and

(v) the Acquisition Agreement having becoming unconditional, i.e. all conditions precedent, other than the condition precedent set out in (vi) under the Acquisition Agreement, are satisfied.

If any of the conditions precedent is not fulfilled or waived by the other party before the Long Stop Date (or any other later date as the parties may agree in writing), the Disposal Agreement shall be terminated and none of the parties shall have any obligations and liabilities thereunder save for any antecedent breach of the terms thereof. The parties acknowledge that conditions precedent in (ii), (iv) and (v) are not waivable.

As at the Latest Practicable Date, none of the conditions precedents set out above has been satisfied.

The parties do not have any present intention to waive any of the above conditions precedent.

Completion: Completion of the Disposal Agreement and the Acquisition Agreement are inter-conditional (unless such conditions are waived by TCL Industries) and will take place on the fifteenth Business Day (or such other later date as the parties may agree in writing) upon satisfaction or waiver, as the case may be, of all conditions precedents set out in each of the Acquisition Agreement and the Disposal Agreement.

Information on Moka International

(A) General Information

Moka International was incorporated in the British Virgin Islands in February 2013 and is principally engaged in the research and development, procurement, production and sales of TV and related products.

(B) Business Information

Established in 2013 by the Group's investment, Moka International Group has been focusing on the TV ODM business, with remarkable research and development capability, industrial capability and product delivery capability as well as well-established quality control system. Its ODM clients include first-tier clients in the domestic and international markets. Moka International Group's shipments in 2019 amounted to 11.36 million units and its production and operation are in good condition.

Moka International Group has established manufacturing bases in Huizhou, Mexico and India. The intelligent manufacturing base in Tonghu, Huizhou has formally commenced operation since April 2020. The manufacturing base in India is currently under construction which is expected to be completed within the year.

Currently, Moka International Group has a workforce of approximately 5,500 employees. The focus of its main technological directions is the research and development of manufacturing technologies related to its ODM business. At present, Moka International Group has a comprehensive ODM product matrix with products covering all sizes from 19" to 86" and capable of providing various tailored mid- to high-end product solutions including curved screen, quantum dot, bezel-less display, Linux and Android compatibility according to clients' needs.

The Group will not involve in the TV ODM business after completion of the Disposal. After the Disposal, the Company will be engaged in the manufacture, distribution and sales of TCL brand TVs aiming for higher profitability and more rapid growth across the globe, operation of Internet TV business for continuous growth in revenue and profit, as well as expansion of commercial display and smart home businesses to take the lead in "AI x IoT" strategic layout and realise the interconnection of hardware, software and IoT in various scenarios so as to become a global leading intelligent technology enterprise in the smart display industry.

(C) Financial Information

The following is certain consolidated financial information of Moka International Group for the years ended 31 December 2018 and 2019 and as at 31 December 2018 and 2019, which is derived from the audited report of Moka International Group for the relevant years prepared in accordance with PRC Financial Reporting Standards:

	For the year ended 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
Revenue	9,433,999	10,496,215
Profit before tax	270,696	382,874
Profit after tax	235,701	320,987

	As at 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
Total assets	5,740,334	7,339,682
Net asset	429,218	640,378

BASIS OF THE CONSIDERATION

The consideration under the Disposal Agreement was determined after negotiations between the parties on an arm's length basis and taking into account various factors, including:

(i) the fair market value of the 100% interest in Moka International as at 31 December 2019, being the Valuation Benchmark Date, of RMB2,469,621,000 as assessed by the Independent Valuer using the income approach, specifically the discounted cash flow method, which has taken into account Moka International Group's discounted cash flow projections;

(ii) the historical operating results of Moka International Group; and

(iii) factors such as the outlook of the business in which Moka International Group is engaged.

As disclosed in the Valuation Report on Moka International Group as set out in Appendix IVA of this circular, the valuation of Moka International Group was valued, as at the valuation benchmark date of 31 December 2019, at RMB2,469,621,000 by adopting the income approach and RMB2,507,047,100 by adopting the market approach.

According to the Valuer, as the business operations of Moka International Group are more influenced by the global macroeconomic situation, the economies of various countries, the market environment and the competitive situation in the market. The income approach is the judgment of the value of the valuated entity after a comprehensive analysis of its internal business operation and external market environment, combined with the valuated entity's historical profit condition, the forecast of future business development and many other factors. The valuation results can better reflect the value of shareholders' equity interest in the enterprise. With the market approach, valuation is indirectly determined by referring to the equity transactions of peers and the valuation results are affected more by the volatility of the stock market.

Taken into account the special features relevant to the valuation, the Valuer has arrived at the valuation conclusion based on income approach.

Based on the valuation conclusion of the Valuation Report on Moka International Group, the Directors are of the view that the income approach recommended by the Valuer can better reflect the value of the shareholders' equity interest in the enterprise.

Based on the foregoing, the Directors (including the independent non-executive Directors) consider that the valuation based on income approach can better reflect the shareholders' equity in Moka International and therefore are of the view that the setting of above consideration at RMB2.5 billion is fair and reasonable to the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE DISPOSAL

Based on the information available, the Group estimates to recognize an unaudited gain of approximately HK$1,979 million from the Disposal, calculated as the difference between consideration for the Disposal receivable by the Group and the net book value of approximately HK$714 million of Moka International Group as at 31 December 2019.

Upon the completion of the Disposal, Moka International will cease to be a Subsidiary of the Company and the financial results of Moka International Group will no longer be consolidated into the Group's financial statements. It is expected that the total assets of the Group would increase by approximately HK$1,668 million and the total liabilities of the Group would decrease by approximately HK$405 million upon the completion of the Disposal. As mentioned above, the expected gain from the Disposal of approximately HK$1,979 million would have an immediate positive impact on the earnings of the Group as at 31 December 2019.

The actual gain as a result of the Disposal to be recorded by the Group is subject to final audit to be performed by the Company's auditors.

Shareholders should note that the above figures are for illustrative purpose only. The actual gain or loss on the Disposal may be different from the above and will be determined based on the financial position of Moka International on the Completion Date and the review by the Group's auditors upon finalization of the consolidated financial statements of the Group.

USE OF PROCEEDS

The Group will further deliver its vision of building an "all-scenario smart lifestyle", focus on TCL's global brand business and enhance the revenue and profitability of value-added services. Therefore, the net proceeds from the Disposal of Moka International, net of the consideration of the Acquisition, of approximately RMB1 billion will be used as follows:

1. Increase investment in research and development to enhance product experience: smart TVs and smartphones will take center stage in the forthcoming smart space era. The Company will focus on the development of 5G, interconnectivity, edge computing, the application of advanced sensors, cloud platform and other related technologies to manage and organize the smart devices under all-scenarios so as to provide consumers with a more comprehensive and more tailor-made experience of smart space, accelerating the Group's development in the area of intelligentization and IoT;

2. Increase market share of TCL brand business: to promote the TCL brand globally and build a leading smart device brand that users adore and trust, including but not limited to strengthening the branding and marketing team, establishing a global network of TCL brand stores and enhancing the recognition and reputation of the TCL brand; and

3. Strengthen value-added service capability: further expand the platform's content resources, focusing on home entertainment, online education, AI fitness, video communication, eldercare and healthcare, multi-screen interaction, application distribution and other Internet value-added services. In the future, the Group will strive to further enhance the profit contribution from its application services and broaden its economic moat.

4. Focus on the strategic deployment in the smart commercial display sector: focus on remote office, smart conferencing, education, business, scheduling, medical care and eldercare, transportation and other mainstream scenarios, further strengthen its investments in hardware platform, software platform and sub-scenario applications based on its original layout to build the industry leading smart commercial display platform.

B. NON-COMPETITION ARRANGEMENT

Historical Background of the Non-Competition Arrangement among TCL Tech, TCL Industries and the Company

Pursuant to the Deed of Non-Competition (1999), TCL Tech and TCL Industries have undertaken not to (save for the Exception as defined on page 37 of this circular), directly or indirectly, carry on or be engaged or interested in the manufacture, assembly, distribution and maintenance of audio-visual products, white goods and products relating to Internet related information technology from time to time. Pursuant to the First Variation Deed (2002), the manufacture, assembly, distribution and maintenance of white goods have been excluded from the scope of the Original Restricted Activity. Please refer to the circular of the Company dated 24 May 2002 for details.

To implement the spin-off plan of Tonly Electronics, the Company sought for (and has obtained) its Shareholders' approval for further amendment to the Deed of Non-Competition (1999) (as amended) by way of the entering into the Second Variation Deed (2013) with TCL Tech and TCL Industries. Pursuant to the Second Variation Deed (2013), the Company agreed to exclude the research and development, manufacturing and sales relating to audio-visual products (excluding TV sets) from the scope of the Original Restricted Activity. Please refer to the circular of the Company dated 17 July 2013 for details.

To implement the capital increase of Huizhou Kuyu Network Technology Co. Ltd., the Company sought for (and has obtained) its Shareholders' approval for further amendment to the Deed of Non-Competition (1999) (as amended) by way of the entering into the Third Variation Deed (2014) with TCL Tech and TCL Industries. Pursuant to the Third Variation Deed (2014), the Company agreed that the scope of the Original Restricted Activity shall only cover the manufacture and assembly of TV sets. Please refer to the circular of the Company dated 27 May 2014 for details.

The following table further illustrates the changes of the scope of the Original Restricted Activity under the Deed of Non-Competition (1999), the First Variation Deed (2002), the Second Variation Deed (2013) and the Third Variation Deed (2014).

	Audio-visual products				White goods				Products relating to internet-related information technology from time to time			
	Manufacture	Assembly	Distribution	Maintenance	Manufacture	Assembly	Distribution	Maintenance	Manufacture	Assembly	Distribution	Maintenance
Deed of Non-Competition (1999)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
First Variation Deed (2002)	✓	✓	✓	✓	X	X	X	X	✓	✓	✓	✓
Second Variation Deed (2013)	X (except TV sets)	X (except TV sets)	X (except TV sets)	X (except TV sets)	X	X	X	X	✓	✓	✓	✓
Third Variation Deed (2014)	X (except TV sets)	X (except TV sets)	X	X	X	X	X	X	X	X	X	X

BACKGROUND OF AND REASONS FOR THE DEED OF TERMINATION (2020) AND THE DEED OF NON-COMPETITION (2020)

On 7 December 2018, TCL Tech and its affiliates entered into a restructuring agreement with TCL Holdings to transfer its smart terminal and ancillary businesses in the area of consumer electronics and home appliances to TCL Holdings. As of 31 March 2019, legal ownership of all assets in the business restructuring was transferred to TCL Holdings. Following completion of such restructuring, TCL Tech ceased to be the ultimate controlling shareholder of the Company. TCL Tech does not, directly or indirectly, hold any interest in the Company. Therefore, on 29 June 2020, TCL Tech, TCL Industries and the Company entered into the Deed of Termination (2020) to terminate the Deed of Non-Competition (1999) and the Variation Deeds. However, for so long as the Deed of Non-Competition (2020) is in force, TCL Tech shall continue not to, and shall continue to procure its subsidiaries and associates not to (save for the Exception as defined on page 37 of this circular), directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TV sets bearing TCL brand.

To improve the delineation of business between the Group and TCL Industries upon the Business Transformation, and to clarify and rationalize their respective business positioning and relationships among themselves, on 29 June 2020, TCL Holdings, TCL Industries and the Company entered into the Deed of Non-Competition (2020) in favour of the Company. Pursuant to the Deed of Non-Competition (2020), TCL Holdings and TCL Industries have undertaken that they and their respective associates will not (save for the Exception as defined on page 37 of this circular), directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TCL brand TVs and smart phones.

Deed of Termination (2020)

The principal terms of the Deed of Termination (2020) are summarised below:

Date:	29 June 2020
Parties:	TCL Tech; TCL Industries; and the Company (collectively, the "**Parties**").
Subject matter:	The Deed of Non-Competition (1999) and the Variation Deeds will be terminated unanimously among the Parties thereto. However, for so long as the Deed of Non-Completion (2020) is in force, TCL Tech shall continue not to, and shall continue to procure its subsidiaries and associates not to (save for the Exception as defined on page 37 of this circular), directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TV sets bearing TCL brand.
Conditions precedent:	The Deed of Termination (2020) and the rights and obligations thereunder are subject to and conditional upon the satisfaction of the following: (i) the Deed of Non-Competition (2020) being approved by the Independent Shareholders at the EGM; (ii) the Deed of Termination (2020) being approved by the Independent Shareholders at the EGM; and (iii) completion of the Disposal of 100% equity interest in Moka International according to the terms of the Disposal Agreement. If the conditions precedent set out above are not fulfilled on or before 31 December 2020 or such later date as may be agreed by the Parities, the Deed of Termination (2020) shall be terminated with immediate effect and the Deed of Non-Competition (1999) and the Variation Deeds shall continue to be effective and binding on the Parties.

Deed of Non-Competition (2020)

The principal terms of the Deed of Non-Competition (2020) are summarised below:

Date:	29 June 2020
Parties:	TCL Holdings; TCL Industries; and the Company
Non-competition undertaking:	TCL Holdings and TCL Industries (collectively, the "**Covenantors**") have undertaken that they and their respective associates will not (save for the Exception as defined below), directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TCL brand TVs and smart phones. Notwithstanding the undertaking above, there is no restriction on the Covenantors either directly or indirectly holding or being interested in shares or other securities in any company which is engaged or interested in any Restricted Activity (the "**Subject Company**") provided that such shares or securities are listed on a stock exchange and the aggregate number of shares held by the Covenantor or in which they are interested does not amount to more than 15% of the issued shares of the Subject Company (the "**Exception**").
Conditions precedent:	The Deed of Non-Competition (2020) and the rights and obligations thereunder are subject to and conditional upon the satisfaction of the following: (i) the Deed of Termination (2020) being approved by the Independent Shareholders at the EGM; (ii) the Deed of Non-Competition (2020) being approved by the Independent Shareholders at the EGM; and (iii) completion of the Disposal of 100% equity interest in Moka International according to the terms of the Disposal Agreement.

Termination: The Deed of Non-Competition (2020) will terminate immediately and permanently upon the occurrence of the following events:

(i) the aggregate shareholding of the Covenantors in the Company is less than 30% of the entire issued share capital of the Company; or

(ii) the Shares of the Company cease to be listed and traded on the Stock Exchange; or

(iii) the principal business of the Group ceases to be the Restricted Activity.

Measures to be taken: For good corporate governance practices, in relation to compliance with the terms of the Deed of Non-Competition (2020), TCL Holdings, TCL Industries and the Company, as the case may be, shall adopt the following measures respectively:

(i) Each of TCL Holdings and TCL Industries shall make a semi-annual confirmation to the Company regarding their respective compliance with the Deed of Non-Competition (2020) and disclosure in this regard will be made in the interim or annual reports of the Company;

(ii) The independent non-executive Directors of the Company shall review the information provided by TCL Holdings and TCL Industries in respect of their respective compliance and implementation of the Deed of Non-Competition (2020) as required under (i) above;

(iii) Each of TCL Holdings and TCL Industries shall provide all information necessary for the review by the independent non-executive Directors of the Company as required under (ii) above and the implementation of the Deed of Non-Competition (2020); and

(iv) The Company shall disclose decisions on matters reviewed by its independent non-executive Directors in relation to the compliance and implementation of the Deed of Non-Competition (2020) either through its interim or annual report, or by way of announcements to the public (as the case may be).

As mentioned above, the non-competition undertaking contained in the Deed of Non-Competition (2020) will not be applicable if the Covenantors own less than 15% of the issued shares of the Subject Company. The Directors consider that, as a starting point, the Covenantors should be restricted from owning the controlling stake in any Subject Company, which would normally require them to own 30% of more of the issued shares of the Subject Company. The setting of 15% threshold, which is far below the threshold of an associated company (i.e. 20%), is in line with the previous arrangement as in the Deed of Non-Competition (1999) and the Variation Deeds. As such, the Directors consider that the setting of 15% threshold is fair and reasonable in protecting the Company's interest.

VI. FINANCIAL EFFECTS OF BUSINESS TRANSFORMATION

Upon completion of the Acquisition, TCL Communication will become a wholly-owned Subsidiary of the Company and the financial results, assets and liabilities of TCL Communication Group will be consolidated with the financial results, assets and liabilities of the Group. Upon completion of the Disposal, Moka International will cease to be a Subsidiary of the Company and the financial results of Moka International Group will no longer be consolidated into the financial statements of the Group.

Assets and liabilities

As set out in Appendix IIIB ''Unaudited Pro Forma Financial Information of the Group upon Completion of Business Transformation'' to this circular, if the Business Transformation had taken place on 31 December 2019, the total assets of the Group would have increased from approximately HK$33.32 billion to approximately HK$46.57 billion and the total liabilities would have increased from approximately HK$21.39 billion to approximately HK$32.57 billion, resulting in an overall increase in the consolidated total net assets from approximately HK$11.94 billion as at 31 December 2019 to approximately HK$14.00 billion upon Completion.

Earnings

As set out in the section headed ''Business Strategies of the Group and Reasons for and Benefits of the Business Transformation'', taken into account (a) the Acquisition of TCL Communication will promote diversification in the Group's revenue streams and enhance the Group's profitability; (b) the Disposal of Moka International will enable the Group to focus on the development of the TCL brand business in the future; and (c) the Business Transformation is expected to bring synergies to the Group which would enhance the Group's financial results. The Board is of the view that the Business Transformation will enhance the long-term financial results of the Group and will be beneficial to the Group in the long run.

VII. CONTINUING CONNECTED TRANSACTIONS

There are currently certain transactions between the Group, TCL Holdings and its associates. Such transactions include sale and purchase of products, provision of services, brand promotion expenses, rental and finance services, etc.

After completion of the Acquisition, TCL Communication will become a wholly-owned Subsidiary of the Company and the existing on-going transactions between TCL Communication Group with TCL Holdings and TCL Industries and their respective associates will become continuing connected transactions of the Company.

The Company will as soon as reasonably practicable review the status and scale of the ongoing connected transactions between the Group (including TCL Communication Group) and TCL Holdings and TCL Industries and their respective associates, and will publish announcement and seek Independent Shareholders' approval in compliance with the requirements under Chapter 14A of the Listing Rules. If the continuing connected transactions would require Independent Shareholders' approval, such transaction shall not become effective until and unless Independent Shareholders' approval has been obtained.

VIII. BOARD APPROVAL

As at the Latest Practicable Date, TCL Holdings is an associate of Mr. LI Dongsheng, the Chairman and executive Director of the Company, under Chapter 14A of the Listing Rules. Mr. LI Dongsheng has 33.33% equity interest in TCL Holdings indirectly held via Ningbo Lida Zhihui Enterprise Management Partnership (Limited Partnership)*(寧波礪達致輝企業管理合夥企業(有限合夥)).

In view of Mr. LI Dongsheng's indirect interests in TCL Holdings as mentioned above, he did not vote in the board meeting during which the Board approved the Acquisition, the Disposal and the Non-Competition Arrangement. To avoid any potential conflict of interests, Mr. LI Dongsheng will abstain from voting in respect of the resolutions relevant to the Acquisition, the Disposal and the Non-Competition Arrangement at the EGM.

Out of the other Directors, Mr. WANG Cheng Kevin is also the chief executive officer of TCL Holdings and the chief executive officer and director of TCL Communication, whereas Mr. HU Lihua is the financial controller of TCL Holdings and Mr. SUN Li is the chief technology officer of TCL Holdings. Notwithstanding their offices held in TCL Holdings, as none of them holds directorship in TCL Holdings or has a personal interest in the Acquisition and/or the Disposal, their respective direct or indirect interests in TCL Holdings are insignificant and that none of the associates of TCL Holdings are associates of any of the Directors (other than Mr. LI Dongsheng), none of them or the other Directors are considered as having a material interest in the Acquisition, the Disposal and the Non-Competition Arrangement. However, for good corporate governance, Mr. WANG Cheng Kevin has abstained from voting on the relevant board resolutions. Therefore, all the Directors (other than Mr. LI Dongsheng and Mr. WANG Cheng Kevin) are entitled to vote on such board resolutions according to the Company's articles of association.

IX. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, 1,260,358,288 Shares of the Company, representing approximately 53.15% of the total number of issued Shares, were held by TCL Industries, which in turn was held as to 100% by TCL Holdings. As such, TCL Industries is a substantial Shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules. As TCL Holdings is the holding company of TCL Industries, it is an associate of TCL Industries and also a connected person of the Company under Chapter 14A of the Listing Rules. Zhengjia Investment is a wholly-owned Subsidiary of TCL Industries and therefore also a connected person of the Company under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratios in relation to the transactions under each of the Acquisition and the Disposal exceed 5%, each of the Acquisition and the Disposal constitutes a connected transaction of the Company and is subject to the reporting, announcement, Independent Shareholders' Approval and annual review requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios in relation to the Acquisition exceed 25% but all applicable percentage ratios are less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. As one or more of the applicable percentage ratios in relation to the Disposal exceed 25% but all applicable percentage ratios are less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Each of TCL Holdings and TCL Industries is a connected person of the Company under the Listing Rules. Therefore, each of the Deed of Termination (2020) and the Deed of Non-Competition (2020) constitutes a connected transaction of the Company. The Deed of Termination (2020) and the Deed of Non-Competition (2020) are not conducted in the ordinary and usual course of business of the Company and are subject to the reporting, announcement and Independent Shareholders' Approval requirements under the Listing Rules accordingly.

As at the Latest Practicable Date, TCL Holdings, through its wholly-owned subsidiary TCL Industries, indirectly held 1,260,358,288 Shares, representing approximately 53.15% of the total number of issued Shares. Mr. LI Dongsheng and his spouse together held 58,277,385 Shares, representing approximately 2.46% of the total number of issued Shares as at Latest Practicable Date. Mr. WANG Cheng Kevin held 1,204,084 Shares, representing approximately 0.05% of the total number of issued Shares as at the Latest Practicable Date. TCL Holdings, TCL Industries, Mr. LI Dongsheng and Mr. WANG Cheng Kevin and their respective associates will abstain from voting in respect of ordinary resolutions to be put forward at the EGM for approving the Acquisition, the Disposal and the Non-Competition Arrangement.

Save as aforesaid, the Directors are not aware of any other Shareholders who are required to abstain from voting on the ordinary resolutions in respect of the Acquisition, the Disposal and the Non-Competition Arrangement to be put forward at the EGM.

X. EGM

The Company will convene the EGM at 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories Hong Kong on 28 July 2020, Tuesday at 2:30 p.m., at which resolutions will be proposed for the purposes of considering and, if thought fit, approving the Acquisition, the Disposal and the Non-Competition Arrangement. The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM or any adjournment thereof (as the case may be) in person, please complete the form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

XI. RECORD DATE

Record date (being the last date of registration of any transfer of Shares given there will be no closure of register of members) for the purpose of determining the entitlements of the Shareholders to attend and vote at the EGM will be on 22 July 2020, Wednesday. In order to qualify for the aforesaid entitlements, all transfers must be lodged with the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 22 July 2020, Wednesday.

XII. APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

Under the Listing Rules, the Independent Board Committee is required to advise the Independent Shareholders on the Acquisition, the Disposal and the Non-Competition Arrangement. Pursuant to Rule 14A.22 of the Listing Rules, the Company has appointed Somerley Capital Limited as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the Acquisition Agreement, the Disposal Agreement, the Deed of Termination (2020) and the Deed of Non-Competition (2020) are on normal commercial terms or better, in the ordinary and usual course of business of the Company and are fair and reasonable, and whether they are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how they should vote.

XIII. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 44 of this circular which contains the recommendation of the Independent Board Committee to the Shareholders regarding the resolutions to approve the Acquisition, the Disposal and the Non-Competition Arrangement; (ii) the letter from Somerley Capital Limited, the Independent Financial Adviser, set out on pages 45 to 75 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the Acquisition, the Disposal and the Non-Competition Arrangement; and (iii) additional information set out in the appendices to this circular.

The Independent Board Committee, having taken into account the advice of Somerley Capital Limited considers that the Acquisition Agreement and the Disposal Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Company, and they are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Acquisition and the Disposal.

The Independent Board Committee, having taken into account the advice of Somerley Capital Limited considers that notwithstanding that they are not in the ordinary and usual course of business of the Company, the Deed of Termination (2020) and the Deed of Non-Competition (2020) are fair and reasonable, on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Non-Competition Arrangement.

The Board considers that the Acquisition Agreement, the Disposal Agreement, the Deed of Termination (2020) and the Deed of Non-Competition (2020) are fair and reasonable, and on normal commercial terms or better, and they are in the interests of the Company and the Shareholders as a whole.

Having considered, among other things, the foregoing reasons for and benefits of the Business Transformation, the Directors are of the opinion that the terms of relevant agreements are normal commercial terms and are fair and reasonable and that the Acquisition Agreement, the Disposal Agreement, the Deed of Termination (2020) and the Deed of Non-Competition (2020), are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders should vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM.

XIV. PRECAUTIONARY MEASURES FOR THE EGM IN VIEW OF THE RECENT CORONAVIRUS PANDEMIC

In view of the recent development of the coronavirus pandemic caused by novel coronavirus 2019 (COVID-19), and in order to better protect the safety and health of the Shareholders, a series of epidemic precautionary measures will be implemented at the venue of the EGM:

(i) compulsory body temperature check will be conducted for every person at the entrance of the venue of EGM. Any person with a body temperature of over 37.5 degrees Celsius will not be admitted to the venue; and

(ii) every person is required to wear facial mask at the venue of the EGM.

Furthermore, the Company will not serve refreshment at the EGM to avoid the coming into close contact amongst participants. The Company wishes to remind the Shareholders and other participants who will attend the EGM in person to take personal precautions and abide by the requirements of pandemic precaution and control at the venue of the EGM. The Company also advises the Shareholders to attend and vote at the EGM by way of non-physical presence. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the EGM, and appoint the chairman of the EGM as a proxy to vote on relevant resolution(s) as instructed in accordance with the relevant proxy form instead of attending the EGM in person. For more details, please refer to the proxy form for the EGM.

Yours faithfully,
On behalf of the Board
LI Dongsheng
Chairman

TCL ELECTRONICS HOLDINGS LIMITED
TCL 電 子 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

30 June 2020

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION
(2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL
(3) THE NON-COMPETITION ARRANGEMENT AND
(4) NOTICE OF EGM

We refer to the circular of the Company dated 30 June 2020 of the Company (the "**Circular**") to the Shareholders, of which this letter forms part. Terms defined in the Circular bear the same meanings in this letter unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider and advise the Shareholders in respect of the Acquisition, the Disposal and the Non-Competition Arrangement, details of which are set out in the Circular.

We wish to draw your attention to the letter from the Board and the letter of advice from Somerley Capital Limited set out on pages 6 to 43 and pages 45 to 75 of the Circular respectively.

Having taken into account the advice of Somerley Capital Limited, the Independent Financial Adviser, we consider that the Acquisition and the Disposal are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Company, and they are in the interests of the Company and the Shareholders as a whole.

Having taken into account of the advice of Somerley Capital Limited, the Independent Financial Adviser, we consider that notwithstanding that they are not in the ordinary and usual course of business of the Company, the Deed of Termination (2020) and the Deed of Non-Competition (2020) are fair and reasonable on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Acquisition, the Disposal and the Non-Competition Arrangement.

Yours faithfully,
Robert Maarten WESTERHOF, TSENG Shieng-chang Carter, WANG Yijiang and LAU Siu Ki
Independent Board Committee

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor, China Building
29 Queen's Road Central
Hong Kong

30 June 2020

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION (2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL AND (3) THE NON-COMPETITION ARRANGEMENT

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and Independent Shareholders in connection with the Acquisition, the Disposal and the Non-Competition Arrangement (together as the "**Transactions**"). Details of the Transactions are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 30 June 2020 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, 1,260,358,288 Shares of the Company, representing approximately 53.15% of the total number of issued Shares, were held by TCL Industries, which in turn was held as to 100% by TCL Holdings. As such, TCL Industries (a substantial shareholder of the Company), TCL Holdings (holding company of TCL Industries) and Zhengjia Investment (a wholly-owned Subsidiary of TCL Industries) are connected persons of the Company under the Listing Rules. As one or more applicable percentage ratios in relation to the transactions under each of the Acquisition and the Disposal exceed 5%, each of the Acquisition and the Disposal constitutes a connected transaction of the Company and is subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios in relation to (i) the Acquisition exceed 25% but all applicable percentage ratios are less than 100%; and (ii) the Disposal exceed 25% but all applicable percentage ratios are less than 75%, each of the Acquisition and the Disposal constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Each of TCL Holdings and TCL Industries is a connected person of the Company under the Listing Rules. Therefore, each of the Deed of Termination (2020) and the Deed of Non-Competition (2020) constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules accordingly.

An Independent Board Committee comprising all four independent non-executive Directors, namely Mr. Robert Maarten WESTERHOF, Dr. TSENG Shieng-chang Carter, Professor WANG Yijiang and Mr. LAU Siu Ki, has been established to consider and advise the Independent Shareholders as to whether (1) the terms of the Acquisition Agreement, the Disposal Agreement, the Deed of Termination (2020) and the Deed of Non-Competition (2020) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Acquisition, the Disposal and the entering into of the Deed of Termination (2020) and the Deed of Non-Competition (2020) are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee of the Company in relation to mandatory unconditional cash offers as detailed in the Company's composite document dated 22 November 2019. The past engagement was limited to providing independent advisory services to independent board committee of the Company pursuant to the Code on Takeovers and Mergers. Under the past engagement, Somerley Capital Limited received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group, Zhengjia Investment, TCL Holdings and TCL Industries that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the matters set out above.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and will remain so up to the date of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, Zhengjia Investment, TCL Holdings and TCL Industries, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (1) the terms of the Acquisition Agreement, the Disposal Agreement, the Deed of Termination (2020) and the Deed of Non-Competition (2020) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Acquisition, the Disposal, the Deed of Termination (2020) and the Deed of Non-Competition (2020) are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

I. Reasons for and benefits of the Business Transformation

The Group is principally engaged in the manufacture and sale of a wide range of electronic consumer products including television sets, and distributes its products in major markets globally. As set out in the Group's 2019 annual report, for the year ended 31 December 2019, the Group recorded revenue amounting to approximately HK$47 billion, of which the "TCL brand" TV business and the TV ODM business contributed approximately 72% and 22% to the Group's total revenue respectively. It is further set out in the Group's 2019 annual report that in 2019, the accumulated revenue from the Group's Internet business amounted to approximately HK$626 million. The Group's profit attributable to owners of the parent after deducting one-time non-operating gain was approximately HK$1.07 billion, representing an increase of approximately 35% compared to 2018.

Prospects and business strategies of the Group

It is stated in the Company's 2019 annual report that the Group is dedicated to building TCL into a world-leading brand of consumer and household electronics. In 2019, the Group continued to adopt the "AI x IoT" strategy and is committed to becoming a leading global intelligent technology company by creating an all-scenario smart lifestyle user experience. The Company will focus on developing devices and services for smart home, smart commercial display and mobile scenarios. We note from the Mobile Economy 2020 report (the "**GSMA Report**") published by the Global System for Mobile Communications Association (GSMA), a global member-led organisation representing the mobile industry with more than 750 operators and almost 400 companies in the broader mobile ecosystem as its members, that IoT connections will reach almost 25 billion globally by 2025, up from 12 billion in 2019, with smart home as one of the key growth drivers. As set out in the sub-section headed "Business strategies of the Group" in the "Letter from the Board" contained in the Circular, the Company's brand TV sales worldwide reached 20.64 million units in 2019, taking one of the top three positions worldwide. As the development of 5G technology continues to accelerate, the Group will, on the basis of consolidating and improving its existing TV business, further expand into new business fields including smart home and smart commercial display to enhance its overall profitability. In 2019, the accumulated revenue from the Group's Internet business amounted to approximately HK$626 million and operating profit contributed by the segment amounted to approximately HK$317 million. The Group's target is to achieve growth in its smart TV market share and revenue from its Internet service over the coming years.

As set out in the section headed "Financial and trading prospects" in Appendix I to this Circular, the Group will focus on the branded terminal business, consolidation of sales channels and marketing of TV and mobile phones, enriching the branded product portfolio and strengthening its competitiveness in regions such as North America, Europe and emerging markets. Further, while improving the operation and profitability of Falcon Network Technology (the Internet business operating platform of the Group that is mainly active in the PRC market and some overseas emerging markets) , the Group will further deepen its strategic cooperation with overseas Internet business partners, establish a global Internet user system and focus on the development of Internet value-added services. In addition to current video and music services, the Group will also expand into areas such as education, telemedicine and commercial display, to further enhance the Group's profitability.

Reasons for and benefits of the Business Transformation

As set out in the sub-section headed "Reasons for and benefits of the Business Transformation" in the "Letter from the Board" contained in the Circular, TCL Communication Group is a global mobile device company and also provides Internet applications and services to its customers, with major products including mobile phones, tablets, mobile connected devices, wearable devices and accessories. The executive Directors believe that the proposed transaction will accelerate the business transformation of the Group to enter into potentially high growth, high value-added businesses, from a traditional, TV-centric consumer electronic company to a world-leading intelligent technology company. The executive Directors consider that benefits to be derived from the Business Transformation include the following:

(i) Extending smart scenarios from home and office to mobile and outdoor and forming one of the important initiatives of the "AI x IoT" strategic plan

TCL Communication Group is currently engaged in mobile device business worldwide under its two major brands, namely TCL and Alcatel. As set out in the paragraph headed "Business competitive advantage" in the "Letter from the Board" contained in the Circular, according to IDC, a premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets, TCL Communication Group's mobile phone business is ranked number 12 globally in the fourth quarter of 2019, in particular, it ranked first in the entry-level market segment in the United States as well as ranked fourth in the entire price spectrum segment in the United States, Canada and Australia markets. In addition to mobile phones, TCL Communication Group offers other communication IoT devices such as tablets, smart routing, smart CPE devices, smart monitoring and tracking devices, personal wearables and AR/VR. These multi-category product lines will complement the Group's TV-based product line to achieve connectivity of large screens + small screens + wearable mobile devices, and extend intelligent scenarios from home and office to outdoor, and enable the Group to accelerate its development in the intelligent products and services under the "AI x IoT" strategy as mentioned above.

(ii) Further improving the infrastructure for building a smart living ecosystem

As mentioned above, the Group plans to focus on the further development of value-added services and apply its products to home, commercial and mobile scenarios to achieve smart connection and intelligent services. As stated in the sub-section headed "Reasons for and benefits of the Business Transformation" in the "Letter from the Board" contained in the Circular, in 2019, the Group's global TCL brand TV sales reached 20.64 million units and the Group's cumulative activated users amounted to 42.34 million, and TCL Communication Group's mobile device sales reached 27.80 million units. By combining over-the-top (OTT) device and services with mobile device, more interactive scenarios can be created, such as multi-screen interaction for information flow, a unified content service platform and a mega membership system. In addition, TCL Communication Group will not only strive for device innovation and further development for various scenarios in the customer-targeted smart device domain through technology research and development empowerment for smart TVs, but will also provide the infrastructure for a fully connected smart home environment with the smart router as the core, and the above strategy is expected to provide users with more value-added services and expand the Group's revenue stream from value-added services.

(iii) Accelerate the development of commercial display business targeting business sector clients and realize the interconnection of users' daily life and workplace scenarios

As set out in the sub-section headed "Reasons for and benefits of the Business Transformation" in the "Letter from the Board" of the Circular, the domestic commercial display market has been on a continuous growth trend. The Group's smart display business is focused on telecommuting, smart conferencing, education, scheduling etc., and the integration of TCL Communication Group with the Group's business and research and development capabilities will contribute to the acceleration of the Group's research and development and marketing strategies in the areas of hardware and software of commercial display and management platform for business sector clients. TCL Communication Group will become the connecting hub for the Group's smart large screen and commercial display, realizing multi-display interaction between the user's daily life and workplace scenarios.

(iv) A more focused business strategy of the Group that concentrates on the long-term development of TCL's proprietary brands

In line with the Group's "AI x IoT" development strategy and with the development of 5G technology, the Group has taken various initiatives in developing smart home business in order to further create all-scenario smart living experiences for users. Further, the Group will focus on TCL brand product business with the aim to achieve higher selling prices and better profitability through brand premium. Divesting the ODM business through the Disposal would allow the Company to focus on the integration of technology, products and application scenarios for the Group's branded core product line and devote more resources to the future development of TCL brand business and value-added services as discussed above. The separation of TCL brand business and the ODM business is beneficial to the Group's management efficiency due to differences in business models and operations, as well as eliminating direct competition with ODM customers. Through this divestment, the Group can capture opportunities resulting from growth in mobile communications, and further focus its resources in Internet operation service business with potentially higher growth and enhance the Group's profitability in the longer run.

The net proceeds from the Disposal, net of the consideration of the Acquisition, amounting to approximately RMB1 billion, will be used for, among other things, increasing investment in research and development to enhance product experience, increasing market share of TCL brand business, strengthening value-added service capability and focusing on the smart commercial display sector. Further details regarding the use of proceeds are set out in this letter below.

(v) Synergies upon Business Transformation to create value for Shareholders

Synergies in terms of global footprint

TCL Communication Group has established a globalized marketing network in six core sales regions, namely North America, Latin America, Europe, Middle East and Africa, Asia Pacific and China, whereas the Group will continue to strengthen its competitiveness in regions such as North America, Europe and emerging markets. The Group and TCL Communication Group can complement each other in terms of overseas regional coverage and sales channels and can collaborate to develop global markets. After completion of the Business Transformation, the Group will also establish a comprehensive and stable smart device customer relationship with key operators in North America and Europe through TCL Communication Group, which will facilitate the penetration and expansion of the Group's products, including smart home products such as TV, into overseas markets. We understand from the executive Directors and note from the information provided by TCL Communication Group that it has established relationships with major carriers worldwide such as Vodafone, AT&T and T-Mobile, which is expected to facilitate the Group in expanding its sales channels in overseas market.

Synergies in terms of technology and product

TCL Communication Group has established various research and development centers around the world and owns core patented technologies ranging from 2G to 5G. TCL Communication Group has various technical capabilities in communication and mobile phones, including Android operating system and embedded capabilities, 5G/WIFI/BLE Mesh wireless communication capabilities, camera imaging and other capabilities in the area of display and interaction. These capabilities will boost the advancement of TV products, making them smarter, more interactive and user-friendly as the centre hub for smart homes. On the other hand, the Group's technological advantages in displays can enhance TCL Communication Group's competitive edge in handsets, tablets, wearable hardware and commercial display. The integration of the Group's and TCL Communication Group's years of research and development and technology accumulation in their respective fields can accelerate the Group's product layout and iteration in the field of innovative equipment and create more distinct competitive advantages from other traditional home appliances enterprises. The Business Transformation can further enhance the Company's deployment in the areas of smart products and smart connectivity, and the technology collaboration for product innovation will expedite the Group's development of intelligentization and IoT.

Financial synergies

According to the GSMA Report, it expects that operators will invest around US$1.1 trillion worldwide between 2020 and 2025 in mobile capex, roughly 80% of which will be in 5G networks. As at the end of January 2020, mobile 5G is now commercially available from 46 operators in 24 markets worldwide. By 2025, it is expected that 5G will account for approximately 20% of global connections. 5G connectivity in North America, one of TCL Communication Group's key markets, is expected to reach approximately 48% in 2025, far exceeding the global average of approximately 20%. The acquisition of TCL Communication Group will create growth opportunities for the Company and the development of 5G technology will be a key driver for growth in the Group's revenue in future. TCL Communication Group's gross profit margin reached approximately 21.6% in 2019. Upon completion of the Acquisition, the Group's overall gross profit margin is expected to increase to nearly 20% (according to the Company's 2019 annual report, the gross profit margin was approximately 17.4% for the year ended 31 December 2019). Furthermore, as the consideration for the Acquisition will be financed by the proceeds from the Disposal, the Group's capital resources will not be utilised in this respect. The Group and TCL Communication Group have certain segments of supply chain that are in common and therefore the Business Transformation is conducive to the optimization of the logistics structure, capital flow and information flow, further enhancing the Group's profit growth potential.

As set out in the sub-section headed "Reasons for and benefits of the Business Transformation" in the "Letter from the Board" contained in the Circular and as advised by the executive Directors, the divestment of the Group's ODM business through the Disposal is an integral part of the Business Transformation to allow the Group to devote more focus and resources to develop its proprietary brands product business and capture growth in mobile communications under its "AI x IoT" strategy. Although the ODM business has consistently been profitable, it has increasingly become challenging for the Group to manage the ODM business as the TCL brand TVs compete directly with the Group's certain customers. Such conflict of interest between the two businesses and differences in terms of business models, management and operations can lead to inefficient resource allocation.

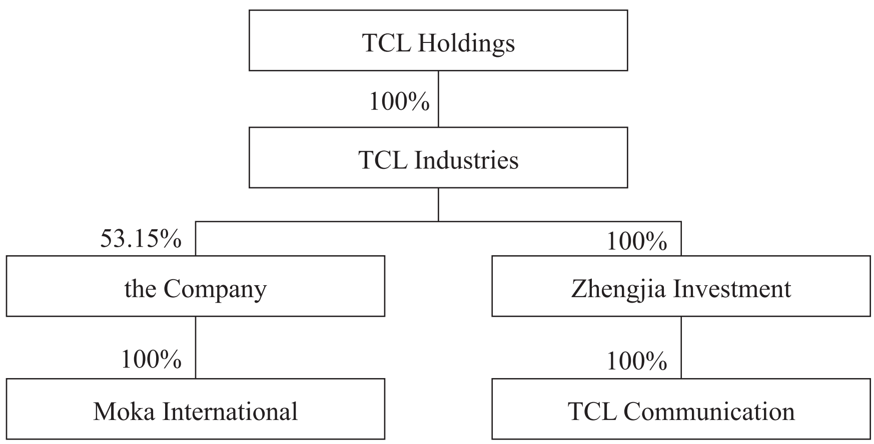
On the other hand, as discussed in this letter above, the Acquisition is expected to maximize synergies in various areas including overseas regional coverage and sales channels, technology and product and financial aspects. As the development of 5G technology continues to accelerate, the Group will, on the basis of consolidating and improving its existing TV business, further expand into new business fields including smart home and smart commercial display to enhance overall profitability. As further discussed in the sub-section headed "Financial information of the TCL Communication Group" of this letter below, TCL Communication Group has carried out reforms through the implementation of a series of restructuring initiatives, such as selective market exit, sales channel restructuring and other cost cutting initiatives. TCL Communication Group's gross profit margin has been improving (approximately 15.3%, 20.7% and 21.6% for the three financial years ended 31 December 2019 respectively), and net profit of approximately HK$179 million in 2019 was recorded, comparing to net loss of approximately HK$2.35 billion in 2017. The executive Directors believe that this is the right time to acquire TCL Communication Group as it is well-positioned to thrive in its target segments and achieve the Group's "AI x IoT" strategy, and the restructuring carried out in the past few years has set a solid foundation for growth and sustainable profitability in the long term.

Further details with respect to the reasons for and benefits of the Business Transformation are set out in the above-mentioned sub-section in the Circular. Considering the factors set out above, we concur with the executive Directors that the Business Transformation is in line with the Group's development strategy and benefits the Group in the longer term.

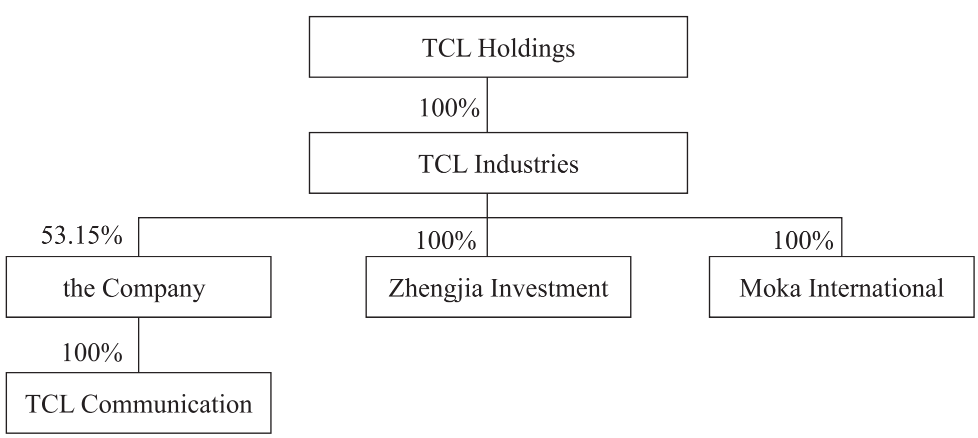
Shareholding structure as at the Latest Practicable Date and upon completion of the Business Transformation

The following charts set out the simplified shareholding structure of the Group as at the Latest Practicable Date and upon completion of the Business Transformation:

As at the Latest Practicable Date:



Upon completion of the Business Transformation:



II. The Acquisition

(a) Principal terms of the Acquisition Agreement

Set out below is a summary of the principal terms of the Acquisition Agreement. Further details of the principal terms of the Acquisition Agreement are set out in the sub-section headed ''Acquisition Agreement'' in the ''Letter from the Board'' contained in the Circular.

(i) Subject matter

On 29 June 2020, Zhengjia Investment (as vendor), TCL Industries (as covenantor) and the Company (as purchaser) entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire from Zhengjia Investment and Zhengjia Investment has conditionally agreed to transfer to the Company its entire interest in the issued shares of TCL Communication, representing all the shares of TCL Communication. Upon completion of the Acquisition, TCL Communication will become a wholly-owned Subsidiary of the Company. Further details of TCL Communication Group are set out in the paragraph headed ''Information on TCL Communication'' in the ''Letter from the Board'' contained in the Circular and the sub-section headed ''Information on TCL Communication Group'' of this letter below.

(ii) Consideration and payment terms

The consideration is RMB1.5 billion (or its equivalent in other currency(ies) at an exchange rate as mutually agreed between the vendor and purchaser), which shall be settled by the Company using the proceeds from the Disposal on or before the Completion Date.

As set out in the sub-section headed ''Basis of the consideration'' in the ''Letter from the Board'' contained in the Circular, the consideration under the Acquisition Agreement was determined after negotiations between the parties on an arm's length basis and taking into account various factors including (a) the fair market value of the 100% interest in the issued shares of TCL Communication as at 31 December 2019, being the Valuation Benchmark Date, of approximately RMB1,591 million as assessed by the Independent Valuer using the income approach which has taken into account TCL Communication's discounted cash flow projections, the intrinsic value of immovable properties, equity investments and intangible assets such as patents and customer relationships that are currently held by TCL Communication Group which are reflected in the valuation but have not been reflected in TCL Communication's net asset value; (b) TCL Communication Group has implemented business transformation and selectively exited unprofitable operations in various overseas sales regions over the past three years. As at the Latest Practicable Date, TCL Communication Group had completed the transformation and exit plan. This laid a solid foundation for TCL Communication Group's future profitability; (c) TCL Communication Group undertook large-scale business transformation across its global operations and achieved a turnaround to profit in 2019, and has been focusing its operation on core markets; and (d) the growth prospects of the business engaged in by TCL Communication Group. Further details are set out in the above-mentioned sub-section in the ''Letter from the Board'' contained in the Circular.

(iii) Conditions precedent

Completion of the Acquisition is conditional upon the satisfaction of the conditions precedent in accordance with the Acquisition Agreement, which include, among others, (a) approval of the Acquisition Agreement and the transaction contemplated thereunder by the Independent Shareholders; and (b) the Disposal Agreement having become unconditional. Further details of the conditions precedent are set out in the sub-section headed "Acquisition Agreement" in the "Letter from the Board" contained in the Circular. As at the Latest Practicable Date, conditions (iii) and (v) as set out in the abovementioned sub-section in the "Letter from the Board" have been satisfied.

(iv) Completion

Completion of the Acquisition Agreement and the Disposal Agreement is inter-conditional (unless such conditions are waived by the Company) and will take place on the fifteenth Business Day (or such other later date as Zhengjia Investment and the Company may agree in writing) upon satisfaction or waiver, as the case may be, of all conditions precedent set out in each of the Acquisition Agreement and the Disposal Agreement.

(b) Information on TCL Communication Group

(i) Principal activities of TCL Communication Group

TCL Communication Group is principally engaged in research and development, manufacture and sale of mobile devices and other products and rendering of services. As set out in the paragraph headed "Business information" under the paragraph headed "Information on TCL Communication" in the "Letter from the Board" contained in the Circular, TCL Communication Group is one of the world's leading mobile device companies, with major products including mobile phones, tablets, mobile connected devices, wearable devices and accessories. Meanwhile, TCL Communication Group also provides Internet applications and services to its users. Currently, TCL Communication Group provides a wide range of models, products and services to more than 150 countries and regions worldwide under two international brands – TCL and Alcatel. Further details on TCL Communication Group are set out in the abovementioned sub-section in the "Letter from the Board" contained in the Circular.

(ii) Financial information of TCL Communication Group

Details of the historical financial information of TCL Communication Group prepared in accordance with Hong Kong Financial Reporting Standards for the three years ended 31 December 2017, 2018 and 2019 are set out in Appendix IIA to the Circular.

(a) Financial performance

The following is a summary of the financial results of TCL Communication Group for the three years ended 31 December 2017, 2018 and 2019 as extracted from the accountants' report on TCL Communication Group set out in Appendix IIA to the Circular. Further details on the management discussion and analysis of TCL Communication Group are set out in Appendix IIC to the Circular.

	For the year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	17,168,345	14,835,003	12,216,404
Cost of sales	(14,542,726)	(11,766,034)	(9,573,211)
Gross profit	2,625,619	3,068,969	2,643,193
Profit/(loss) attributable to owners of the parent	(2,354,059)	(505,468)	178,859

(i) Revenue

TCL Communication Group recorded revenue of approximately HK$17.2 billion, HK$14.8 billion and HK$12.2 billion in 2017, 2018 and 2019 respectively. As advised by the executive Directors, for the three years ended 2017, 2018 and 2019, revenue from (a) mobile phones accounted for approximately 81.1%, 82.0% and 77.8% of the total revenue of TCL Communication Group. Out of the mobile phone sales revenue, smart phone sales contributed to approximately 85.7%, 80.9% and 75.0% for the three years ended 31 December 2017, 2018 and 2019 respectively; (b) tablets accounted for approximately 13.0%, 8.8% and 11.4% of the total revenue of TCL Communication Group with mobile connected devices and others contributing to the rest of total revenue.

As set out in the section headed "Review on the past performance" in Appendix IIC to the Circular, the decrease in revenue was mainly attributable to, (i) the business restructuring of TCL Communication Group in various overseas sales regions and the selective exit of unprofitable businesses during the three financial years ended 31 December 2019. Over the period from 2017 to 2019, TCL Communication Group had implemented large-scale business transformation in its global operations and focused its business on its core markets, such as North America, and adjusted its business model in countries with high-risk exposure such as Brazil and Argentina in South America. TCL Communication Group's scale of sales during this period has been affected as a result. In addition, TCL Communication Group has taken the initiative to invest more resources in the mid-end smartphone market sector to enhance the Group's sustainable growth both in scale and gross profit level in the future. Details of TCL Communication Group's future development plan are set out in the paragraph headed "Future plans for business development" in the "Letter from the Board" contained in the Circular.

(ii) Gross profit

TCL Communication Group's cost of sales in 2018 was approximately 19.1% lower than that of 2017, and further decreased by approximately 18.6% in 2019. Cost of sales as a percentage of total revenue decreased from approximately 84.7% in 2017 to 79.3% in 2018, and further decreased to 78.4% in 2019. Such decrease in percentage levels is manly attributable to the implementation of various cost reduction measures including (a) product design optimisation (e.g. improving design standardisation); (b) supply chain optimisation (e.g. reasonable increase in strategic inventory reserves and centralised negotiations on the integration of supply and demand for customised devices); (c) manufacturing process optimisation (e.g. improving the application of automation equipment); and (d) changes in operating models (e.g. changes in North American after-sales service model and in Latin American after-sales service providers to expand domestic direct distribution business and reduce local operating processes and costs overseas).

The gross profit of TCL Communication Group for the three financial years ended 31 December 2019 was approximately HK$2,626 million, HK$3,069 million and HK$2,643 million respectively. Gross profit margin was approximately 15.3%, 20.7% and 21.6% for the three financial years ended 31 December 2019 respectively. The increase in gross profit margin was mainly attributable to factors including targeting regions with high gross profit margin such as North America, strategic reduction of business in countries such as Mexico where the price competition was fierce, continued implementation of cost reduction measures as discussed above, and improvement in product mix.

(iii) Profit attributable to owners of the parent

TCL Communication Group recorded loss attributable to owners of the parent of approximately HK$505 million in 2018, representing a significant reduction in loss of approximately 78.5% as compared to approximately HK$2,354 million in 2017. In 2019, TCL Communication Group achieved a turnaround and recorded profit attributable to owners of the parent of approximately HK$179 million. As advised by the executive Directors, the improvement in profitability is sustainable and was attributable to, among others, (i) the business optimisation strategies and gradual increase in gross profit margin as discussed above; and (ii) more efficient selling and distribution model. Selling and distribution expenses as a percentage of total revenue for the three financial years ended 31 December 2017, 2018 and 2019 were approximately 10.7%, 7.7% and 6.6% respectively. The significant decrease in sales and distribution expenses was mainly due to TCL Communication Group's sales transformation in a number of overseas sales regions, the implementation of business restructuring, the establishment of a customer-focused sales organisation and the streamlining of manpower by nearly half. Further details of the financial performance of TCL Communication Group are set out in the accountants' report on TCL Communication Group contained in Appendix IIA to the Circular and the management discussion and analysis of TCL Communication Group contained in Appendix IIC to the Circular.

(b) Financial position

Set out below is a summary of the financial position of TCL Communication Group as at 31 December 2017, 2018 and 2019 as extracted from the accountants' report on TCL Communication Group set out in Appendix IIA to the Circular.

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	10,836,329	8,317,511	10,606,534
Total liabilities	10,770,757	9,088,304	11,385,353
Total (deficit)/equity	65,572	(770,793)	(778,819)

As at 31 December 2019, TCL Communication Group recorded total assets of approximately HK$10.6 billion. Assets of TCL Communication Group mainly include (a) prepayments, other receivables and other assets of approximately HK$5.2 billion; (b) inventories of approximately HK$1.3 billion; and (c) trade receivables of approximately HK$1.2 billion. The carrying amount of assets of TCL Communication Group are stated at historical cost. As set out in the unaudited pro forma financial information of the Group upon completion of Business Transformation contained in Appendix IIIB to the Circular, there is a fair value surplus of approximately HK$1.64 billion in respect of immovable properties, equity investments and intangible assets such as patents and customer relationships currently held by TCL Communication Group, which is based on the valuation prepared by the Independent Valuer.

As at 31 December 2019, TCL Communication Group recorded total liabilities of approximately HK$11.4 billion, which mainly include (a) interest-bearing bank and other borrowings of approximately HK$3.6 billion (comprising (i) secured bank borrowings of approximately HK$2.5 billion; (ii) unsecured bank borrowings of approximately HK$386 million; and (iii) loan from a related company of approximately HK$785 million); (b) trade and notes payables of approximately HK$2.1 billion; and (c) other payables and accruals of approximately HK$5.1 billion. As at 31 December 2019, TCL Communication Group recorded net liabilities of approximately HK$779 million. As set out in the paragraph headed ''Financial Information'' under the paragraph headed ''Information on TCL Communication'' in the ''Letter from the Board'' contained in the Circular and Appendix IIA to the Circular, the net liabilities position was due to, among others, (i) a loss on translation of approximately HK$985 million resulting from the translation of financial statements presented in foreign currency which is non-cash and unrealised loss in nature and, unless the major assets in China, Mexico, Europe and other countries are disposed of, will not have any material adverse effect on the operation of TCL Communication Group. Loss on translation of financial statements presented in foreign currency reflects the prevailing depreciation of the respective local currency against the Hong Kong dollar, and such loss on translation of financial statements presented in foreign currency may reduce or turn into profit if the respective local currency appreciates against the Hong Kong dollar in the future; and (ii) an amount of approximately HK$993 million was deducted from other reserve of equity of TCL Communication Group as a result of an acquisition of equity interest in a fellow subsidiary (which is principally responsible for the mobile phone sales business in the PRC with net liabilities position prior to acquisition and under the control of the same ultimate parent company) in 2017, which was accounted for using the principles of the pooling of interests method under common control in accordance with relevant accounting standard. The transaction was one-off and TCL Communication Group has made a downsizing adjustment and achieved significant revitalisation of the business. It is expected by the executive Directors to have very limited impact on TCL Communication Group's future operations and no adverse impact on net assets.

As set out in the paragraph headed "Financial resources and gearing ratio" in Appendix IIC to the Circular, the gearing ratio of TCL Communication Group as at 31 December 2019 was 35.59%, calculated by the aggregate of TCL Communication Group's interest-bearing bank and other borrowings, bank advances on factored trade receivables and lease liabilities, divided by total assets. As set out in Appendix I to the Circular, as at 30 April 2020, TCL Communication Group recorded (i) secured bank loans of approximately HK$2.4 billion; (ii) unsecured bank loans of approximately HK$115 million; (iii) secured other loans from a related company of approximately HK$772 million; and (iv) other loans of bank advances on factored trade receivables of approximately HK$10 million. Further details of the financial position of TCL Communication Group are set out in the accountants' report on TCL Communication Group set out in Appendix IIA to the Circular.

(c) Valuation of TCL Communication Group

As set out in the Independent Valuer's valuation report contained in Appendix IIB to the Circular (the "**Acquisition Valuation Report**"), appraised value of 100% equity interest of TCL Communication Group as at 31 December 2019 is approximately RMB1,591 million. In reviewing the Acquisition Valuation Report, we have complied with the requirements under Rule 13.80(2)(b) Note 1(d) of the Listing Rules. In particular, we have discussed with the Independent Valuer its expertise and obtained the credentials of the persons signing the Valuation Report, who each have over 15 years' experience in valuation in the PRC. We also reviewed the Independent Valuer's terms of engagement and discussed with the Independent Valuer its work performed as regards the valuation.

Valuation methodologies

We understand from the Independent Valuer that the valuation report with respect to the equity value of TCL Communication Group has been prepared in accordance with the Independent Valuer's standard practice. We have discussed with the Independent Valuer their valuation methodologies and understand that the income (or discounted cash flow) approach was adopted in the valuation of the shareholders' equity interests in TCL Communication Group. The income approach focuses on the business' future earnings potential and the economic benefits generated by the income producing capability of an enterprise, and discounts these benefits to present value using a discount rate appropriate for the risks associated with realising those benefits. We concur with the Independent Valuer that the income approach is commonly used and is an appropriate method for establishing the value of the shareholders' equity interests in TCL Communication Group.

Review of the Acquisition Valuation Report

We have reviewed and discussed with the Independent Valuer the key bases and assumptions adopted for the valuation. A list of key information reviewed, major assumptions and considerations made by the Independent Valuer are set out in the Acquisition Valuation Report. The financial projections used represent the best estimate of the economic conditions and TCL Communication Group's operations by the Company's management. Opinion letters in relation to the discounted cash flow forecast of TCL Communication Group from the Company's reporting accountants and the Board are set out in Appendix IIE and IIF to the Circular respectively.

(i) Cash flow forecast

We understand from the executive Directors that, the cash flow forecast of TCL Communication Group is prepared based on a number of key assumptions with respect to revenue, expenses, working capital projections and capital expenditure requirements for a period from 2020 to 2024. The underlying key assumptions are summarised below:

(a) Expected benefits on revenue from solid relationships with major carriers and 5G activation

TCL Communication Group has established long-term strategic partnerships with leading global carriers such as Vodafone, AT&T and T-Mobile. In 2020, its products have been awarded tenders as a supplier to various carriers in North America and Europe, which is expected to boost sales in smart phone products. Further, it is expected the development of 5G technology will be one of the key sales growth drivers of TCL Communication Group in its 5G smartphone products, as well as other categories of IoT products.

(b) Enhancement of product mix by focusing on mid-to-high end price segment and TCL brand smart phones; and broadening of product portfolio

It is expected that TCL Communication Group will strengthen its input in mid-to-high end smart phone segment. According to IDC, demand for smart phones in the mid-to-high end price segment is increasing year-on-year. IDC expects that, the proportion of shipment of mid-to-high end smart phones in North America will increase from approximately 13% of total shipments in the region in 2019 to approximately 22% in 2024. In the coming years, it is expected that TCL brand smart phones will be driving sales growth mainly with more models (including 5G smart phones) to be launched in North America market and globally. It is expected that the sales of TCL Communication Group will benefit from the above and will achieve a larger market share in North America, Europe and Latin America regions by 2024. Further, as set out in the paragraph headed "Future plans for business development" in the "Letter from the Board" contained in the Circular, TCL Communication Group has plan to strengthen the traditional tablet business and actively expand the smart education tablet business, and continue to tap into new categories of IoT products, build service platforms, enable interconnectivity among mobile phones, tablets and other TCL branded products, which are expected to contribute to business growth of TCL Communication Group.

(c) Cost and capital expenditure

Costs and capital expenditure requirements are estimated mainly based on, among other things (a) past trend of cost of sales and operating expenses; and (b) changes in various expenses due to estimated increase in sales and research and development activities during the forecast period. Currently it is estimated that there will not be any material capital expenditure for TCL Communication Group throughout the forecast period.

As set out in Appendix IIE to the Circular, the Company's reporting accountants are of the view that so far as the arithmetical accuracy of the calculations of the cash flow forecast of TCL Communication Group is concerned, the cash flow forecast has been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors of the Company. We have discussed with the Company's reporting accountants their scope of work and work undertaken in relation to the cash flow forecast and were advised that no irregularities have been noted during their review.

Independent Shareholders should note that the bases and assumptions adopted by the executive Directors in the cashflow forecast are primarily based on current view with respect to business, financial, economic, market and other conditions, and circumstances may develop or change in the future which may affect these projections underlying the valuation.

(ii) Discount rate

The discount rate (i.e. the Weighted Average Cost of Capital) ("**WACC**") used by the Independent Valuer comprises the weighted cost of equity and the weighted cost of debt (after tax). The cost of equity component is determined based on the Capital Asset Pricing Model ("**CAPM**"), a commonly used model adopted in discounted cash flow valuation. In computing the cost of equity and the discount rate to be applied, the Independent Valuer has made reference to various factors including (i) risk-free rate and expected market return in Hong Kong as at the Valuation Benchmark Date obtained from Bloomberg; (ii) the "beta" which is a measure of the volatility, or systematic risk of selected comparable companies in comparison to the stock market; and (iii) company specific risk adjustment. We have discussed with the Independent Valuer, obtained and reviewed underlying supporting documents, calculations and basis adopted by the Independent Valuer in deriving the discount rates. We also searched public information and/or Bloomberg, where feasible, to verify the basis adopted by the Independent Valuer in its calculations (including (a) the risk-free rate of return of Hong Kong market; (b) the expected market rate of return in Hong Kong; and (c) "beta" of the comparable companies adopted in the valuation and note that the basis adopted by the Independent Valuer is generally in line with the data obtained through our independent search. Based on the above, we concur with the Independent Valuer's view that it is appropriate to adopt the income approach for the valuation of TCL Communication Group and the discount rates adopted throughout the forecast period are reasonable for the purpose of the valuation.

(d) Evaluation of the consideration of the Acquisition

As set out in the paragraph headed ''Basis of the consideration'' under the section headed ''The Acquisition'' of the ''Letter from the Board'' contained in the Circular, the consideration of the Acquisition was determined after negotiations between the parties on an arm's length basis and taking into account various factors, including, among other things, the fair market value of the 100% equity interest in TCL Communication as at 31 December 2019 of RMB1,590,711,300 as assessed by the Independent Valuer using the income approach. We understand from the Independent Valuer that, in determining the appraised value, it has taken into account, among others, the discounted cash flow of TCL Communication, the fair value of its non-operating assets (such as investment properties and investments in joint ventures and associates), and its interest-bearing liabilities as at 31 December 2019. In assessing the fairness of the consideration of the Acquisition, we consider it is appropriate to refer to the above-mentioned independent valuation of the 100% equity interest in TCL Communication. We consider that the methodologies adopted by the Independent Valuer are appropriate.

In addition, we have also performed a price to earnings (''**P/E**'') analysis with respect to TCL Communication. As mentioned in the sub-section headed ''Information on TCL Communication Group'' of this letter, TCL Communication Group is principally engaged in research and development, manufacture and sale of mobile devices and other products and rendering of services. Accordingly, we have conducted a search on Bloomberg for companies (the ''**Acquisition Comparable Companies**'') listed in Hong Kong and the PRC which, based on their latest published annual reports available as at the date immediately prior to the Latest Practicable Date, are principally engaged in the manufacture and sale of mobile phones. The Acquisition Comparable Companies set out below represent an exhaustive list of companies comparable to TCL Communication based on the above criteria.

Acquisition Comparable Companies	**Closing market capitalisation** *(Approximately HK$ million) (Note 1)*	**Historical P/E** *(Approximate times) (Note 1)*
Xiaomi Corporation (stock code: 1810.HK)	302,387	30.4
Wingtech Technology Co., Ltd. (stock code: 600745.SH)	151,616	58.0
Shenzhen Transsion Holdings Co., Ltd. (stock code: 688036.SH)	57,173	29.9
Ningbo Bird Co., Ltd. (stock code: 600130.SH)	3,352	108.8 *(Note 2)*
Coolpad Group Limited (stock code: 2369.HK)	834	6.4
Sprocomm Intelligence Limited (stock code: 1401.HK)	520	8.9
Vital Innovations Holdings Limited (stock code: 6133.HK)	378	N/A *(Note 3)*
Mean		26.7
Median		29.9
Maximum		58.0
Minimum		6.4
TCL Communication		9.2 *(Note 4)*

Notes:

1. Closing market capitalisation and historical P/E of the Acquisition Comparable Companies are sourced from Bloomberg as at the date immediately prior to the Latest Practicable Date.

2. Excluded in the calculation of the mean/median/maximum/minimum historical P/E of the Acquisition Comparable Companies as an outlier.

3. Vital Innovations Holdings Limited recorded a net loss for the year ended 31 December 2019.

4. The implied P/E of TCL Communication is calculated based on the consideration of RMB1.5 billion (equivalent to approximately HK$1.65 billion) and the net profit attributable to owners of the parent of TCL Communication for the year ended 31 December 2019 of approximately HK$178,859,000.

5. Calculations of the implied P/E of TCL Communication is based on the exchange rate of HK$1 to RMB0.91185 (being the exchange rate as quoted by the People's Bank of China on the date immediately prior to the Latest Practicable Date).

As set out above, the implied historical P/E of TCL Communication at the consideration of approximately 9.2 times is below the mean and median of the historical P/Es of the Acquisition Comparable Companies of approximately 26.7 times and 29.9 times respectively. On this basis, and also taking into account that we consider the methodologies adopted by the Independent Valuer for the valuation of 100% equity interest in TCL Communication to be appropriate and the appraised value is slightly higher than the consideration, we consider that the consideration for the Acquisition is fair and reasonable.

III. The Disposal

(a) Principal terms of the Disposal Agreement

Set out below is a summary of the principal terms of the Disposal Agreement. Further details of the principal terms of the Disposal Agreement are set out in the sub-section headed "Disposal Agreement" under the section headed "The Disposal and the Non-Competition Arrangement" of the "Letter from the Board" contained in the Circular.

(i) Subject matter

On 29 June 2020, the Company and TCL Industries entered into the Disposal Agreement, pursuant to which TCL Industries has conditionally agreed to acquire from the Company and the Company has conditionally agreed to transfer its 100% interest in Moka International to TCL Industries. Upon completion of the Disposal, Moka International will cease to be a Subsidiary of the Company.

(ii) Consideration and payment terms

The consideration is RMB2.5 billion (or its equivalent in other currency(ies) at an exchange rate as mutually agreed between the vendor and purchaser) and shall be settled by TCL Industries in cash on or before the Completion Date. The consideration under the Disposal Agreement was determined after negotiations between the parties on an arm's length basis and taking into account various factors, including: (i) the fair market value of the 100% equity interest in Moka International as at 31 December 2019, being the Valuation Benchmark Date, of RMB2,469,621,000 as assessed by the Independent Valuer using the income approach; (ii) the historical operating results of Moka International Group; and (iii) factors such as the outlook of the business in which Moka International Group is engaged.

(iii) Conditions precedent

Completion of the Disposal is conditional upon the satisfaction of the conditions precedent in accordance with the terms of the Disposal Agreement, which include, among other things, (a) approval of the Disposal Agreement and the transactions contemplated thereunder by the Independent Shareholders; (b) the Deed of Termination (2020) and the Deed of Non-Competition (2020) having been approved by the Independent Shareholders; and (c) the Acquisition Agreement having becoming unconditional. Further details of the conditions precedent are set out in the sub-section headed "Disposal Agreement" under the section headed "The Disposal and the Non-Competition Arrangement" in the "Letter from the

Board'' contained in the Circular. As at the Latest Practicable Date, none of the conditions precedent set out in the above-mentioned sub-section in the ''Letter from the Board'' have been satisfied.

(iv) Completion

Completion of the Disposal Agreement and the Acquisition Agreement are inter-conditional (unless such conditions are waived by TCL Industries) and will take place on the fifteenth Business Day (or such other later date as the parties may agree in writing) upon satisfaction or waiver, as the case may be, of all conditions precedent set out in each of the Acquisition Agreement and the Disposal Agreement.

(b) Information on Moka International Group

Moka International Group has been focusing on the TV ODM business and has established three manufacturing bases in Huizhou, Mexico and India (currently under construction and expected to be completed within 2020). It has a ODM product matrix with products covering screen sizes from 19'' to 86'' and capable of providing various tailored mid- to high-end product solutions including curved screen, quantum dot, bezel-less display, Linux and Android compatibility according to clients' needs.

As set out in the paragraph headed ''Information on Moka International'' in the ''Letter from the Board'' contained in the Circular, according to the audited report of Moka International Group prepared in accordance with the PRC Financial Reporting Standards, the total asset value and the net asset value of Moka International Group as at 31 December 2019 were approximately RMB7.3 billion and RMB640.4 million respectively. For the two years ended 31 December 2018 and 2019, Moka International Group recorded (a) revenue of approximately RMB9.4 billion and RMB10.5 billion respectively; and (b) profit after tax of approximately RMB235.7 million and RMB321.0 million respectively. As advised by the executive Directors, the year-on-year increase in revenue was mainly attributable to the increase in sales volume of TV sets in 2019, this together with an increase in investment income has mainly contributed to the increase in profit after tax in 2019 compared to previous year.

(c) Valuation of Moka International Group

As set out in the Independent Valuer's valuation report contained in Appendix IVA to the Circular (the ''**Disposal Valuation Report**''), appraised value of 100% equity interest of Moka International Group is approximately RMB2,469.6 million as at 31 December 2019. In reviewing the Disposal Valuation Report, we have complied with the requirements under Rule 13.80(2)(b) Note 1(d) of the Listing Rules. Details of our work performed regarding the expertise of the Independent Valuer is discussed in the sub-section headed ''Valuation of TCL Communication Group'' of this letter above. We also reviewed the Independent Valuer's terms of engagement and discussed with the Independent Valuer its work performed as regards the valuation.

Valuation methodologies

We understand from the Independent Valuer that the Disposal Valuation Report has been prepared in accordance with the Independent Valuer's standard practice. We have discussed with the Independent Valuer their valuation methodologies and understand that the income (or discounted cash flow) approach was adopted in the valuation of 100% equity interests in Moka International. Further discussions regard the income approach are set out in the sub-section headed ''Valuation of TCL Communication Group'' of this letter above. We concur with the Independent Valuer that the income approach is commonly used and is the appropriate method to be used for the purpose of the valuation.

Review of the Disposal Valuation Report

We have reviewed and discussed with the Independent Valuer the key bases and assumptions adopted for the valuation. A list of key information reviewed, major assumptions and considerations made by the Independent Valuer are set out in the Disposal Valuation Report. The financial projections used represent the best estimate of economic conditions and Moka International Group's operations by the Company's management. Opinion letter/report in relation to the discounted cash flow forecast of Moka International Group from the Company's reporting accountants and the Board are set out in Appendix IVC and IVD to the Circular respectively.

We understand from the executive Directors that, the cash flow forecast of Moka International Group is prepared based on a number of key assumptions with respect to revenue, expenses, working capital projections and expenditure requirements for a period from 2020 to 2024. The underlying key assumptions include (a) Moka International's plans to accelerate the exploration of emerging markets with certain exposures such as Latin America and commencement of production of a new factory in India in 2021 which is expected to contribute to the sales volume of TV sets; (b) slight increase in gross profit is expected in the coming few years; and (c) historical trend of the cost items and changes in various expenses and major capital expenditure as a result of the business plan to be carried out by Moka International.

As set out in Appendix IVC to the Circular, the Company's reporting accountants are of the view that so far as the arithmetical accuracy of the calculations of the cashflow forecast is concerned, the cash flow forecast has been properly compiled in all material respects in accordance with the assumptions adopted by the Directors. We have discussed with the Company's reporting accountants their scope of work and work undertaken in relation to the cash flow forecast and were advised that no irregularities have been noted during their review.

Independent Shareholders should note that the bases and assumptions adopted by the executive Directors in the cash flow forecast are primarily based on current view with respect to business, financial, economic, market and other conditions, and circumstances may develop or change in the future which may affect these projections underlying the valuation.

Discount rate

The Independent Valuer adopted consistent methodologies in determining the discount rates as those adopted in the valuation of TCL Communication Group, further details of which are discussed in the sub-section headed "Valuation of TCL Communication Group" of this letter above, and has taken into account the market risk factors and capital structure of Moka International. We have discussed with the Independent Valuer, obtained and reviewed underlying supporting documents, calculations and basis adopted by the Independent Valuer in deriving the discount rates. We also searched public information and/or Bloomberg, where feasible, to verify the basis adopted by the Independent Valuer in its calculations (including (a) the risk-free rate of return of Hong Kong market; (b) the expected market rate of return in Hong Kong; and (c) "beta" of the comparable companies adopted in the valuation) and note that the basis adopted by the Independent Valuer is generally in line with the data obtained through our independent search. Based on the above, we concur with the Independent Valuer's view that it is appropriate to adopt the income approach for the valuation of Moka International Group and the discount rates adopted throughout the forecast period are reasonable for the purpose of the valuation.

(d) Evaluation of the consideration of the Disposal

As set out in the paragraph headed "Basis of the Consideration" under the section headed "The Disposal and the Non-Competition Arrangement" of the "Letter from the Board" contained in the Circular, the consideration of the Disposal was determined after negotiations between the parties on an arm's length basis and taking into account various factors, including, among other things, the fair market value of the 100% equity interest in Moka International as at 31 December 2019 of RMB2,469,621,000 as assessed by the Independent Valuer using the income approach. In assessing the fairness of the consideration of the Disposal, we consider it is appropriate to refer to the above-mentioned independent valuation of the 100% equity interest in Moka International. We consider that the methodologies adopted by the Independent Valuer are appropriate.

In addition, we have also performed a price to earnings ("**P/E**") analysis with respect to Moka International. As mentioned in the sub-section headed "Information on Moka International Group" of this letter above, Moka International Group has been focusing on the TV ODM business. Accordingly, we have conducted a search on Bloomberg for companies (the "**Disposal Comparable Companies**") listed on the Main Board of the Stock Exchange, which, based on their latest published annual reports available as at the date immediately prior to the Latest Practicable Date, are engaged in and with majority of revenue (being not less than 50%) derived from the manufacturing and sale of televisions. The Disposal Comparable Companies set out below represent an exhaustive list of companies comparable to the Company based on the above criteria.

Disposal Comparable Companies	**Closing market capitalisation**	**Historical P/E**
	(Approximately HK$ million) *(Note 1)*	*(Approximate times)* *(Note 1)*
Skyworth Group Limited (stock code: 751.HK)	7,316	8.7
Jiu Rong Holdings Limited (stock code: 2358.HK)	629	24.0
TCL Electronics Holdings Limited (stock code: 1070.HK)	8,110	3.4
Mean		12.0
Median		8.7
Maximum		24.0
Minimum		3.4
Moka International		7.8 *(Note 2)*

Notes:

1. Closing market capitalisation and historical P/E of the Disposal Comparable Companies are sourced from Bloomberg as at the date immediately prior to the Latest Practicable Date.

2. The implied P/E of Moka International is calculated based on the consideration of RMB2.5 billion and the profit after tax of Moka International Group for the year ended 31 December 2019 of RMB320,987,000.

As set out above, the implied historical P/E of Moka International at the consideration of approximately 7.8 times is within the range of the historical P/E of the Disposal Comparable Companies. On this basis, and also taking into account that we consider the methodologies adopted by the Independent Valuer for the valuation of the 100% equity interest in Moka International to be appropriate and the consideration is slightly higher than the appraised value, we consider that the consideration for the Disposal is fair and reasonable.

(e) Use of proceeds

As set out in the paragraph headed "Use of proceeds" in the "Letter from the Board" contained in the Circular, the net proceeds from the Disposal, net of the consideration of the Acquisition, amounting to approximately RMB1 billion, will be used for (i) increasing investment in research and development to enhance product experience, and accelerating the Group's development in the area of intelligentization and IoT (e.g. development of 5G, interconnectivity, edge computing, sensors, and cloud platform); (ii) increasing market share of TCL brand business including but not limited to strengthening the branding and marketing team, establishing a global network of TCL brand stores and enhancing the recognition and reputation of the TCL brand; (iii) strengthening value-added service capability by further expanding the platform's content resources, focusing on areas including home entertainment, online education, AI fitness and other Internet value-added services; and (iv) focusing on the smart commercial display sector including remote office, smart conferencing, education, scheduling, medical care and eldercare, transportation, and further strengthening its investments in hardware and software platform to build the industry leading smart commercial display platform. Further details regarding the use of proceeds are set out in the abovementioned paragraph of the Circular.

IV. The Non-Competition Arrangement

(a) Background of and reasons for the Non-Competition Arrangement

As set out in the section headed "Background of and reasons for the Deed of Termination (2020) and the Deed of Non-Competition (2020)" in the "Letter from the Board" contained in the Circular, following the completion of business restructuring (transfer of TCL Tech's smart terminal and ancillary businesses to TCL Holdings), TCL Tech ceased to be the ultimate controlling shareholder of the Company and does not, directly or indirectly, hold any interest in the Company. Therefore, on 29 June 2020, TCL Tech, TCL Industries and the Company entered into the Deed of Termination (2020) to terminate the Deed of Non-Competition (1999) and Variation Deeds, further details of which are set out in the above-mentioned section contained in the Circular. In order to, among others, improve the delineation of business between the Group and TCL Industries upon the Business Transformation, and to clarify and rationalize their respective business positioning and relationships, on the same date, TCL Holdings, TCL Industries and the Company entered into the Deed of Non-Competition (2020) in favour of the Company, pursuant to which TCL Holdings and TCL Industries have undertaken not (save for the Exception as defined below) to directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TCL brand TVs and smart phones. Set out below are the principal terms of the Deed of Termination (2020) and the Deed of Non-Competition (2020). Further details are set out in the same section contained in the Circular.

(b) Principal terms

(i) Deed of Termination (2020)

Pursuant to the Deed of Termination (2020), the Deed of Non-Competition (1999) and the Variation Deeds will be terminated unanimously among the parties thereto, subject to and conditional upon the satisfaction of the conditions precedent namely (i) the Deed of Termination (2020) and the Deed of Non-Competition (2020) being approved by the Independent Shareholders at the EGM; and (ii) completion of the Disposal of 100% equity interest in Moka International according to the terms of the Disposal Agreement. If the conditions precedent set out above are not fulfilled on or before 31 December 2020 or such later date as may be agreed by the parties, the Deed of Non-Competition (1999) and the Variation Deeds shall remain in effect.

However, for so long as the Deed of Non-Competition (2020) is in force, TCL Tech shall continue not to, and shall continue to procure its subsidiaries and associates not to (save for the Exception as defined below), directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TV sets bearing TCL brand.

(ii) Deed of Non-Competition (2020)

Key terms of the Deed of Non-Competition (2020) are set out below. Further details of the Deed of Non-Competition (2020) are set out in the paragraph headed "Deed of Non-Competition (2020)" contained in the Circular.

Non-competition undertaking

TCL Holdings and TCL Industries (collectively, the "**Covenantors**") have undertaken that they and their respective associates will not, directly or indirectly, carry on or be engaged or interested in the manufacture and assembly of TCL brand TVs and smart phones. Notwithstanding the undertaking above, there is no restriction on the Covenantors either directly or indirectly holding or being interested in shares or other securities in any company which is engaged or interested in any Restricted Activity (the "**Subject Company**") provided that such shares or securities are listed on a stock exchange and the aggregate number of shares held by the Covenantor or in which they are interested does not amount to more than 15% of the issued shares of the Subject Company (the "**Exception**").

Conditions precedent

The Deed of Non-Competition (2020) is subject to and conditional upon the satisfaction of conditions precedent namely (i) the Deed of Non-Competition (2020) and the Deed of Termination (2020) being approved by the Independent Shareholders at the EGM; and (ii) completion of the Disposal of 100% equity interest in Moka International according to the terms of the Disposal Agreement.

Termination

The Deed of Non-Competition (2020) will terminate immediately and permanently upon the occurrence of, among other things, the aggregate shareholding of the Covenantors in the Company is less than 30% of the entire issued share capital of the Company; or the principal business of the Group ceased to be the Restricted Activity.

Measures to be taken

For good corporate governance practices in relation to compliance with the terms of the Deed of Non-Competition (2020), among other things, each of TCL Holdings and TCL Industries shall make a semi-annual confirmation to the Company regarding their respective compliance with the Deed of Non-Competition (2020) and the independent non-executive Directors of the Company shall review the information provided by TCL Holdings and TCL Industries in respect of their respective compliance and implementation of the Deed of Non-Competition (2020).

Taking into consideration that (i) the entering into of the Deed of Termination (2020) and Deed of Non-Competition (2020) in favour of the Company is to facilitate the completion of the Disposal as part of the Business Transformation; (ii) the reasons for and benefits of the Business Transformation as discussed in this letter above; (iii) the control measures in relation to compliance with the terms of the Deed of Non-Competition (2020) as set out above, we are of the view that the Non-Competition Arrangement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

V. Financial effects of the Business Transformation on the Group

As set out in paragraph headed ''Completion'' under the section headed ''The Acquisition'' and ''The Disposal'' of this letter above, the Acquisition and Disposal are inter-conditional. The unaudited pro forma financial information of the Group upon completion of the Business Transformation is set out in Appendix IIIB to the Circular. Upon completion, TCL Communication will become a wholly-owned Subsidiary of the Company and accordingly, the assets, liabilities and financial results of TCL Communication Group will be consolidated into the financial statements of the Group. On the other hand, upon completion, Moka International will cease to be a Subsidiary of the Company and accordingly, its assets, liabilities and financial results will not be consolidated into the financial statements of the Group.

(i) Revenue and earnings

As discussed in the section headed ''Reasons for and benefits of the Business Transformation'' of this letter above, it is expected that the acquisition of TCL Communication Group would promote diversification in the Group's revenue stream in future by, among other things, expanding its product offerings. The Disposal will enable the Group to focus on the development of the TCL brand business in the future, and the Business Transformation is expected to bring synergies to the Group which would enhance the Group's financial results in the long term. As set out in the section headed ''Reasons for and benefits of the Business Transformation'' of this letter, the Group's overall gross profit margin is expected to increase to nearly 20% upon completion of the Acquisition, up by approximately 2.6 percentage points from that of 2019.

The executive Directors estimated that an unaudited gain of approximately HK$1,978.6 million (calculated as the difference between consideration for the Disposal to be received by the Group and the net book value of Moka International Group as at 31 December 2019 of approximately HK$713.7 million, taking into account the reallocation of exchange reserve of approximately HK$98.2 million to profit and loss as if the Disposal had been completed on 31 December 2019) would be recorded as a result of the Disposal which is non-recurring in nature. The actual gain on the Disposal to be recognised by the Group is subject to, among others, the financial position of Moka International at the time of completion and final audit by auditors, and may be different from the above figure.

(ii) Assets and liabilities

As shown in Appendix IIIB to the Circular, if the Business Transformation has taken place on 31 December 2019, the total assets of the Group would have increased from approximately HK$33.3 billion to HK$46.6 billion and total liabilities would have increased from approximately HK$21.4 billion to HK$32.6 billion, resulting in an overall increase in the consolidated net assets from approximately HK$11.9 billion to HK$14.0 billion respectively. In addition, goodwill of approximately HK$1.2 billion will be recognised as a result of the Acquisition. Further details on recognition of goodwill are set out in Note 2(a) of the unaudited pro forma financial information of the Group upon completion of the Business Transformation contained in Appendix IIIB to the Circular. As further set out in Note 2(f) in the same Appendix, in the preparation of the unaudited pro forma financial information, the Company has performed an impairment assessment of the goodwill in accordance with Hong Kong Accounting Standard 36 Impairment of Assets and the Group's accounting policy. Based on the impairment test, the recoverable amount of the cash-generating unit to which TCL Communication Group is assigned (the "**CGU of TCL Communication Group**") is RMB1,590,711,300 (equivalent to approximately HK$1,775,545,000) (the conversion rate between RMB and HK$ was determined as HK$1:RMB0.8959 based on the middle rate of the exchange rate quoted by the State Administration of Foreign Exchange of the PRC as at 31 December 2019), which is determined based on the valuation conducted by the Independent Valuer. This recoverable amount exceeds the carrying amount of the CGU of TCL Communication Group of HK$1,674,294,000 (comprising goodwill of HK$1,246,620,000 and the fair value of identifiable net assets of TCL Communication Group of HK$427,674,000). Therefore, no pro forma adjustment in respect of goodwill impairment is considered necessary by the Directors in the preparation of the unaudited pro forma financial information. Such goodwill is subject to impairment tests annually at each financial year end under consistent accounting policies of the Group.

(iii) Gearing and working capital

The consideration for the Acquisition will be financed by the proceeds from the Disposal. The Group had cash and bank balances of approximately HK$8.2 billion as at 31 December 2019. As shown in Appendix IIIB to the Circular, the unaudited pro forma cash and bank balances of the Group upon completion of the Business Transformation would be approximately HK$8.7 billion. Also based on the unaudited pro forma financial information as set out in the same Appendix to the Circular, gearing ratio (calculated based on net debt to net assets of the Group) will be nil as cash will exceed debt. As set out in the section headed "Working capital" of Appendix I to the Circular, the Directors, being aware of the net current liabilities and the net liabilities position of TCL Communication Group, after due and careful enquiry, are of the opinion that, after taking into consideration of the expected cash inflow to be generated from operating activities of TCL Communication Group in 2020 and financial resources available to the Group, including internally generated financial resources, the Group after completion of the Acquisition will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this Circular, in the absence of unforeseeable circumstances.

DISCUSSION

The Group stated in its 2019 annual report that it continued to adopt the "AI x IoT" strategy and will focus on developing devices and services for smart home, smart commercial display and mobile scenarios. At the same time, the Group wishes to concentrate on and strengthen its own TCL brand. The Business Transformation, comprising the acquisition of entire equity interest in TCL Communication Group and disposal of the Group's ODM business operated under Moka International Group, is in line with this strategy and is expected to bring the Company the following benefits:

- extending smart scenarios from home and office to mobile and outdoor and forming one of the important initiatives of the "AI x IoT" strategic plan
- further improving the infrastructure for building a smart living ecosystem
- accelerating the development of commercial display business targeting business sector clients
- reinforcing the long-term development of TCL brand
- creating synergies upon the Business Transformation in terms of global footprint, technology and product and financial aspects

Further details are set out in the sub-section headed "Reasons for and benefits of the Business Transformation" of this letter above.

TCL Communication Group recorded profit attributable to owners of the parent of approximately HK$179 million in 2019, compared to a loss of approximately HK$505 million in 2018, attributable to, among others, the business optimisation strategies and gradual increase in gross profit margin, and the development of a more efficient selling and distribution model. Going forward, TCL Communication Group will place more focus on TCL brand 5G smart phone sales in carrier-centered markets, and continue to leverage on its core competency such as display and connectivity technology to enhance profitability in the long term. Further details regarding future plans for the business development of TCL Communication Group are set out in the sub-section headed ''Information on TCL Communication'' in the ''Letter from the Board'' contained in the Circular.

The executive Directors are of the view that divesting the ODM business which supports other companies' brands would allow the Company to concentrate on the future development of the TCL brand. The net proceeds from the Disposal, net of the consideration of the Acquisition, of approximately RMB1 billion will be used for, among others, building the new vision of the Group as a global leading technology company by creating an all-scenario smart lifestyle user experience. Further details on use of proceeds are set out in the sub-section headed ''Use of proceeds'' under the section headed ''The Disposal'' of this letter above.

The amounts of consideration for the Acquisition and Disposal were determined with reference to various factors, including the fair value of 100% equity interest of TCL Communication and Moka International as appraised by the Independent Valuer, using a discounted cash flow approach. We have discussed with the Independent Valuer its work including the principal assumptions adopted in the valuations and are satisfied that the methodologies adopted by the Independent Valuer are appropriate. The reporting accountants and the Board have also issued letters in connection with the discounted cash flow forecast on which the valuations are based, which are set out in Appendix IIE, IIF, IVC and IVD to the Circular.

The consideration for the Acquisition of approximately RMB1.5 billion is slightly lower than the appraised value of 100% equity interest of TCL Communication Group of approximately RMB1.6 billion. The implied historical P/E of TCL Communication at the consideration is below the mean and median of the historical P/E of the Acquisition Comparable Companies. The consideration for the Disposal of approximately RMB2.5 billion is slightly higher than the appraised value of 100% equity interest of Moka International of approximately RMB2.47 billion. The implied historical P/E of Moka International at the consideration is within the range of the historical P/E of the Disposal Comparable Companies. On this basis, we consider that the amounts of the consideration for the Acquisition and Disposal are fair and reasonable.

The Non-Competition Arrangement is to facilitate the completion of the Disposal as part of the Business Transformation, details of which are discussed in the section headed ''The Non-Competition Arrangement'' of this letter above. In view of the reasons for and benefits of the Business Transformation and the control measures in relation to compliance with the terms of the Deed of Non-Competition (2020) as discussed above, we consider the Non-Competition Arrangement is in the interests of the Company and the Shareholders as a whole.

The Acquisition and Disposal are inter-conditional. Upon completion of the Business Transformation, TCL Communication will become a wholly-owned Subsidiary of the Company. Accordingly, the assets, liabilities and financial results of TCL Communication Group will be consolidated into the financial statements of the Group. The Acquisition is expected to promote diversification of the Group's revenue stream and the Business Transformation is expected to bring synergies to the Group which would enhance its financial results in the long term. Net assets of the Group would increase from approximately HK$11.9 billion to HK$14.0 billion. The consideration for the Acquisition will be financed by proceeds from the Disposal and the gearing ratio of the Group will be nil upon completion of the Business Transformation, with considerable cash reserves. The executive Directors estimated that an unaudited gain of approximately HK$1,978.6 million would be recorded as a result of the Disposal (which is non-recurring in nature). Further details of the financial effects of the Business Transformation on the Group are set out in the section headed "Financial effects of the Business Transformation on the Group" of this letter above and in the unaudited pro forma financial information of the Group upon completion of the Business Transformation contained in Appendix IIIB to the Circular.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons including those summarised in the section headed "Discussion" above, we consider that (1) the Acquisition and the Disposal are in the ordinary and usual course of business of the Group, and the terms of the Acquisition Agreement and the Disposal Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (2) although the Deed of Termination (2020) and the Deed of Non-Competition (2020) are not in the ordinary and usual course of business of the Group, the terms of the Deed of Termination (2020) and the Deed of Non-Competition (2020) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (3) the Acquisition, the Disposal, the Deed of Termination (2020) and the Deed of Non-Competition (2020) are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to approve these matters to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Stephanie CHOW
Director

Ms. Stephanie CHOW is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over ten years' experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year of the Group.

The audited consolidated financial statements of the Company for the years ended 31 December 2019, 2018 and 2017 together with the relevant notes to the financial statements of the Company can be found on pages 117–292 of the annual report of the Company for the year ended 31 December 2019, pages 117–281 of the annual report of the Company for the year ended 31 December 2018 and pages 105–223 of the annual report of the Company for the year ended 31 December 2017. Please see below the hyperlinks to the aforesaid documents:

Annual report for the year ended 31 December 2019:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0429/2020042900011.pdf

Annual report for the year ended 31 December 2018:
https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0418/ltn201904181133.pdf

Annual report for the year ended 31 December 2017:
https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0420/ltn201804201616.pdf

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had aggregate outstanding interest-bearing borrowings of approximately HK$2,785,179,000, comprising (a) secured bank loans of approximately HK$1,783,986,000; (b) unsecured bank loans of approximately HK$877,428,000; (c) unsecured trust receipt loans of approximately HK$103,997,000; and (d) other loans of approximately HK$19,768,000.

As at the close of business on 30 April 2020, TCL Communication Group's aggregate outstanding interest-bearing loans amounted to approximately HK$3,330,631,000, comprising (a) secured bank loans of approximately HK$2,432,729,000; (b) unsecured bank loans of approximately HK$115,499,000; (c) secured other loans from a related company of approximately HK$772,035,000; and (d) other loans of bank advances on factored trade receivables of approximately HK$10,368,000.

As at the close of business on 30 April 2020, the Group after completion of the Acquisition had aggregate outstanding interest-bearing borrowings of approximately HK$6,115,810,000.

Lease obligations

The Group has various lease contracts for land, plant and property, vehicles and other equipment. As at 30 April 2020, the Group recognised an aggregate lease liabilities of HK$117,318,000 under HKFRS 16 in respect of non-cancellable operating lease contracts.

TCL Communication Group has various lease contracts for land, plant and property, vehicles and other equipment. As at 30 April 2020, TCL Communication Group recognised an aggregate lease liabilities of HK$109,279,000 under HKFRS 16 in respect of non-cancellable operating lease contracts.

The Group after completion of the Acquisition has various lease contracts for land, plant and property, vehicles and other equipment. As at 30 April 2020, the Group after completion of the Acquisition recognised an aggregate lease liabilities of HK$226,597,000 under HKFRS 16 in respect of non-cancellable operating lease contracts.

Capital commitments and contingent liabilities

As at 30 April 2020, capital commitments and contingent liabilities of the Group after completion of the Acquisition are as follows:

As at 30 April 2020, the Group had capital commitments of approximately HK$127,227,000 and HK$242,438,000 which were contracted but not provided for and authorized but not contracted for, respectively.

As at 30 April 2020, the contingent liabilities of TCL Communication Group were as follows:

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

(b) TCT Mobile – Telefones LTDA (a former subsidiary of TCL Communication, sold in March 2018) is currently a defendant in a lawsuit in Brazil with Brazil tax authority for improper application of tax credits for the period of 2012 and 2013 for a total amount of undue credit BRL15,000,000, with the penalty and interests, the assessment is currently around BRL45,000,000. According to the share purchase agreement between TCL Communication Group and the purchaser, any new provision that was identified within 1 January 2018 to the day of instalment of payment cover contingencies of TCT Mobile-Telefones LTDA for periods before 31 December 2017, the corresponding new provision amount would be deducted from the instalment. In June 2018, TCT Mobile – Telefones LTDA filed ordinary appeal and the court ordered the record remanded for a new trial of the administrative defense at March 2019. Up till to the report date, the lawsuits is still ongoing. TCL Communication Group's directors, based on the response from the independent attorney in charge, expect that the litigation period will last for 3–5 years. TCL Communication Group has not made any provision as the Directors, based on the advice from TCL Communication Group's Legal Counsel, believe that the TCT Mobile – Telefones LTDA has a valid defense against the allegation

Pledge of assets

As at 30 April 2020, the Group had restricted cash balance of HK$4,639,000 pledged as the balance of performance and quality guarantees for the Group.

As at 30 April 2020, TCL Communication Group had pledged other receivables of approximately HK$772,035,000 to secure the loan from a related company and other restricted deposits of HK$138,333,000.

As at 30 April 2020, the Group after completion of the Acquisition had restricted cash balance of HK$4,639,000 pledged as the balance of performance and quality guarantees, restricted other receivables of approximately HK$772,035,000 pledged as the loan from a related company and other restricted deposits of HK$138,333,000.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, the Group after completion of the Acquisition did not have any other outstanding indebtedness in respect of any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30 April 2020, being the latest practicable date for the purpose of this indebtedness statement.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group after completion of the Acquisition since 30 April 2020.

3. WORKING CAPITAL

As to the net current liabilities position of TCL Communication Group, the Directors do not anticipate any settlement issues in the foreseeable future, after considering (i) TCL Communication Group generated HK$1.66 billion and HK$110 million cash inflows from operating activities respectively during the year of 2018 and 2019. It is expected that there will be cash inflows from operating activities in 2020; (ii) TCL Communication Group's financing from banks and TCL Holdings given the credit history of TCL Communication Group;

The net liabilities position of TCL Communication Group was mainly caused by historical reasons, including assets recorded as historical cost, depreciation of various currencies and historical acquisition of equity interests, which were non-cash in nature.

The Directors, being aware of the net current liabilities and the net liabilities position of TCL Communication Group, after due and careful enquiry, are of the opinion that, after taking into consideration of the expected cash inflow to be generated from operating activities of TCL Communication Group in 2020 and financial resources available to the Group, including internally generated financial resources, the Group after completion of the Acquisition will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

4. FINANCIAL AND TRADING PROSPECTS

Adhering to the strategic orientation of "Reform and Make Breakthroughs, Prioritize Quality and Efficiency for Global Leadership", the Group will continue to consolidate its leading position in the global layout, leverage the collaborative advantages in vertical integration of industrial chain, and deepen the implementation of intelligentization and globalization strategic deployment. Meanwhile, the Group will also accelerate the development of global internet business, achieve Internet coverage of "Home + Mobile" dual domain, proactively promote the "AI x IoT" strategy, deepen the implementation of innovative and growth-oriented business deployment, build an all-scenario smart ecosystem, continue to drive for digital transformation, explore more sources for profit growth and create more value for the Shareholders.

(a) Leveraging the Advantages in the Vertical Integration of Industrial Chain to Propel the Continuous Leading Position in Product Technology

The Group adheres to the corporate philosophy of taking technological innovation and product leadership as its core values. The Group is committed to bringing users with even more remarkably realistic product experience. In the future, the Group will make full use of its unique advantages in the synergy of the "TV + mobile phone + panel" vertically integrated industrial chain to vigorously propel the development of 65-inch, 75-inch and even larger-screen TVs with the strong support of CSOT's 11th generation panel production line and continuously develop industry-leading high-end display technologies such as quantum dots, Mini LED and 8K to accelerate the launch of mid-to-high end products. At the same time, the Group will further strengthen the synergies between TV and mobile phones in terms of product technology, industrial chain, brand promotion and international business. With the advantages of its comprehensive global network and sales channel as well as its competitiveness in the overseas markets, the Group is dedicated to building TCL into an international leading brand of consumer electronics.

(b) Realizing Internet Coverage of "Home + Mobile" Dual Domain and Accelerating the Development of Global Internet Business

Adhering to the "double +" strategy of "products + services, intelligence + Internet" and realizing Internet coverage of "home + mobile" dual domain, the Group will comprehensively enrich the content of the Internet business and further enhance the user experience, thus expanding its user base, enhancing user loyalty, strengthening its operational capability and improving the monetization capacity of Internet business. While vigorously improving the operation and profitability of Falcon Network Technology, the Group will further deepen its strategic cooperation with overseas Internet business partners, establish a global Internet business user system and continuously improve the global Internet business operation and profitability by leveraging on its competitive advantages in overseas markets in order to further increase the Group's profits.

(c) Enhancing the Business Competitiveness in the PRC Market, Further Developing High Potential Overseas Markets and Accelerating the Strategic Layout of Globalization

The Group will focus on the branded terminal business, consolidation of the sales channels and marketing of TV and mobile phones, enriching the branded product portfolio while collaborating with partners for expansion into the global market. While the Group will continue to enhance the business competitiveness in the PRC market, it will also promote global operation strategy in a steady and fast manner to grasp the opportunities in the changing global economic landscape. The Group will utilize its first-mover advantage in globalization to strengthen its competitiveness in regions such as North America, Europe and emerging markets, and accelerate exploration of emerging markets such as Russia and India and endeavor to become the leaders of more markets, with a view to further increase the Group's global market share and brand power. Moreover, the Group will simultaneously improve its global supply chain layout to form a global industrial system with greater flexibility and reasonable geographic distribution.

(d) Expand "AI x IoT" All-Scenario Intelligent Services to Become a Global Leading Smart Technology Company

On the basis of consolidating and improving its existing TV business, the Group will further expand into new and growing business fields including smart home and smart commercial display to enhance its overall profitability. As the development of 5G technology continued to accelerate, smart home has entered a phase of rapid growth. The Group, driven by customer demand, will enhance capability of building "AI x IoT", continue to focus on using TV as the smart terminal in the living room, and at the same time, through the "TV + tablet + mobile phone" smart interaction, establish an intelligent ecosphere to provide users with all-scenario intelligent services, integrate hardware, software and IoT into various scenarios, effectively combine users' need, functions of IoT devices and AI capability to create rich scenarios that will grow exponentially, propelling the transformation into a global leading smart technology company.

5. ACQUISITION AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

On 3 June 2020, TCL Netherlands B.V. ("**TCL NL**"), SEMP Amazonas S.A. ("**STA**"), SEMP TCL Indústria e Comércio de Eletroeletrônicos S.A. ("**SEMP TCL**"), Affonso Brandão Hennel ("**ABH**") and TCL Overseas Consumer Electronics Limited ("**OCE**") (each of TCL NL and OCE being an indirect wholly-owned subsidiary of the Company) entered into an share purchase agreement, pursuant to which STA conditionally agreed to sell and TCL NL conditionally agreed to acquire 40% of the entire equity interest of SEMP TCL at a maximum consideration of R$325,407,278.84 (equivalent to approximately HK$484,922,000). SEMP TCL is principally engaged in the business of manufacture and sale of consumer home appliances, whose major products include small home appliances such as TV, air-conditioner, mobile phone and speaker, with the manufacture and sale of TV being its major business. As at the Latest Practicable Date, the transaction has not been closed yet. Upon Closing, SEMP TCL will be owned 80% by the Group (via TCL NL), hence SEMP TCL will become an indirect subsidiary of the Company and the results, assets and liabilities of SEMP TCL will be consolidated into the accounts of the Group. For details of the transaction, please refer to the announcement of the Company dated 3 June 2020.

There is no variation in the aggregate of the remuneration payable to and benefits in kind receivable by the directors of SEMP TCL in consequence of the aforesaid acquisition.

Save as disclosed above, the Group has not made any acquisition after the date of the latest published audited accounts required to be disclosed in this circular pursuant to the Listing Rules.

EY 安永

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The Board of Directors

TCL Electronics Holdings Limited

Dear Sirs,

We report on the historical financial information of TCL Communication Technology Holdings Limited (''TCL Communication'') and its subsidiaries (together, ''TCL Communication Group'') set out on pages IIA-4 to IIA-111, which comprises the consolidated statements of financial position as at 31 December 2017, 2018 and 2019, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows of TCL Communication Group for each of the three years ended 31 December 2017, 2018 and 2019 (the ''Track Record Period'') and the statements of financial position of TCL Communication as at 31 December 2017, 2018 and 2019 and a summary of significant accounting policies and other explanatory information (together, the ''Historical Financial Information''). The Historical Financial Information set out on pages IIA-4 to IIA-111 forms an integral part of this report, which has been prepared for inclusion in circular of TCL Electronics Holdings Limited (the ''Company'') dated 30 June 2020 (the ''Circular'') in connection with proposed acquisition of the entire shares in TCL Communication.

Directors of TCL Communication's responsibility for the Historical Financial Information

The directors of TCL Communication (''TCL Communication's Directors'') are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by TCL Communication's Directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of TCL Communication Group and TCL Communication's financial position as at 31 December 2017, 2018 and 2019, and of TCL Communication Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page IIA-3 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about the dividends paid by TCL Communication in respect of the Track Record Period.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

30 June 2020

HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of TCL Communication Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017, 2018, 2019

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
REVENUE	7	12,216,404	14,835,003	17,168,345
Cost of sales		(9,573,211)	(11,766,034)	(14,542,726)
Gross profit		2,643,193	3,068,969	2,625,619
Other income and gains	7	541,488	521,895	696,710
Research and development costs		(811,764)	(922,265)	(1,865,581)
Selling and distribution expenses		(810,805)	(1,148,827)	(1,843,121)
Administrative expenses		(1,151,296)	(1,499,692)	(1,624,896)
Impairment on financial assets, net		5,529	(27,144)	–
Other expenses		(71,906)	(250,884)	(106,489)
Finance costs	9	(143,955)	(124,111)	(117,300)
Share of losses of associates	18	(11,332)	(9,617)	(19,101)
Share of profits/(losses) of joint ventures	19	867	2,887	(41)
PROFIT/(LOSS) BEFORE TAX	8	190,019	(388,789)	(2,254,200)
Income tax expense	11	(11,160)	(116,679)	(93,746)
PROFIT/(LOSS) FOR THE YEAR		178,859	(505,468)	(2,347,946)
Attributable to:				
Owners of the parent		178,859	(505,468)	(2,354,059)
Non-controlling interests		–	–	6,113
		178,859	(505,468)	(2,347,946)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017, 2018, 2019

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
PROFIT/(LOSS) FOR THE YEAR		178,859	(505,468)	(2,347,946)
OTHER COMPREHENSIVE (LOSS)/INCOME				
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:				
Share of other comprehensive loss of associates	18	–	–	(378)
Available-for-sale investments:				
Changes in fair value		–	–	(39,782)
Reclassification adjustments for gains included in the consolidated statement of profit or loss				
– gains on disposal	20	–	–	(56,510)
		–	–	(96,292)
Cash flow hedges:				
Effective portion of changes in fair value of hedging instruments arising during the year	30	4,363	(31,914)	(153,075)
Reclassification adjustments for (gains)/losses included in the consolidated statement of profit or loss	30	(6,505)	36,288	152,676
Income tax effect	30	1,114	883	(6,517)
		(1,028)	5,257	(6,916)
Exchange differences:				
Exchange differences on translation of foreign operations		(164,950)	(417,900)	777,429
Reclassification adjustments for foreign operations disposed of during the year		(5,005)	7,158	2,088
		(169,955)	(410,742)	779,517
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		(170,983)	(405,485)	675,931

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
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	8,365	(30,628)	–
Income tax effect	(1,907)	1,955	–
	6,458	(28,673)	–
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	6,458	(28,673)	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	(164,525)	(434,158)	675,931
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	14,334	(939,626)	(1,672,015)
Attributable to:			
Owners of the parent	14,334	(939,626)	(1,678,128)
Non-controlling interests	–	–	6,113
	14,334	(939,626)	(1,672,015)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2017, 2018, 2019

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS				
Property, plant and equipment	13	704,250	782,765	1,365,187
Investment properties	14	81,688	160,683	120,782
Prepaid land lease payments	15(a)	–	77,246	85,534
Other intangible assets	16	557,834	578,469	784,854
Right-of-use assets	15(b)	151,336	–	–
Goodwill	17	213,883	213,883	253,883
Investments in associates	18	111,830	147,035	75,808
Investments in joint ventures	19	29,106	28,239	25,352
Available-for-sale investments	20	–	–	310,042
Equity investments designated at fair value through other comprehensive income	20	151,891	146,638	–
Deferred tax assets	34	164,782	176,745	240,142
Other non-current assets		48,192	52,255	46,713
Total non-current assets		2,214,792	2,363,958	3,308,297
CURRENT ASSETS				
Inventories	21	1,275,048	1,411,731	1,958,421
Trade receivables	22	1,184,354	2,224,116	3,502,467
Factored trade receivables	23	34,782	53,734	55,574
Notes receivable		8,037	8,558	6,222
Prepayments, other receivables and other assets	24	5,223,396	1,599,567	1,208,949
Tax recoverable		15,256	15,094	19,462
A financial asset at fair value through profit or loss	25	–	53,492	–
Derivative financial instruments	30	62,664	128,687	63,218
Pledged deposits	26	389,822	5,852	220,896
Cash and cash equivalents	26	198,383	452,722	492,823
Total current assets		8,391,742	5,953,553	7,528,032
CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	27	3,644,007	2,179,817	3,274,892
Trade and notes payables	28	2,122,590	2,975,799	2,714,279
Bank advances on factored trade receivables	23	34,782	53,734	55,574
Other payables and accruals	29	5,066,399	3,205,708	3,960,163
Lease liabilities	15(c)	28,631	–	–
Derivative financial instruments	30	48,006	61,384	57,974
Provision for warranties	31	244,327	255,976	305,867
Tax payable		12,153	38,404	18,969
Total current liabilities		11,200,895	8,770,822	10,387,718
NET CURRENT LIABILITIES		(2,809,153)	(2,817,269)	(2,859,686)
TOTAL ASSETS LESS CURRENT LIABILITIES		(594,361)	(453,311)	448,611

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		(594,361)	(453,311)	448,611
NON-CURRENT LIABILITIES				
Retirement indemnities	32	3,469	4,868	4,431
Long service medals	33	1,324	1,727	1,694
Interest-bearing bank and other borrowings	27	–	164,464	234,543
Lease liabilities	15(c)	67,172	–	–
Deferred tax liabilities	34	19,058	37,105	22,370
Other non-current liabilities		93,435	109,318	120,001
Total non-current liabilities		184,458	317,482	383,039
Net (liabilities)/assets		(778,819)	(770,793)	65,572
(CAPITAL DEFICIENCY)/EQUITY				
Equity attributable to owners of the parent				
Share capital	35	1,278,984	1,278,984	1,278,984
Reserves	36	(2,057,803)	(2,049,777)	(1,220,072)
		(778,819)	(770,793)	58,912
Non-controlling interests		–	–	6,660
Total (deficit)/equity		(778,819)	(770,793)	65,572

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017, 2018, 2019

	Attributable to owners of the parent												
	Share capital HK$'000 (note 35)	Share premium account HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000 (note 36)	Statutory reserve HK$'000 (note 36)	Available-for-sale investment revaluation reserve HK$'000	Share of other comprehensive income/(loss) HK$'000	Other reserve HK$'000 (note 36)	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	1,278,984	435,633	5,811	232,555	385,324	173,358	6,931	(129,988)	(1,184,283)	1,518,994	2,723,319	50,105	2,773,424
Loss for the year	–	–	–	–	–	–	–	–	–	(2,354,059)	(2,354,059)	6,113	(2,347,946)
Other comprehensive (loss)/ income for the year:													
Share of other comprehensive loss of associates	–	–	–	–	–	–	(378)	–	–	–	(378)	–	(378)
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	(96,292)	–	–	–	–	(96,292)	–	(96,292)
Cash flow hedges, net of tax	–	–	(6,916)	–	–	–	–	–	–	–	(6,916)	–	(6,916)
Exchange differences, net	–	–	–	–	–	–	–	–	779,517	–	779,517	–	779,517
Total comprehensive loss for the year	–	–	(6,916)	–	–	(96,292)	(378)	–	779,517	(2,354,059)	(1,678,128)	6,113	(1,672,015)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	901	–	–	901	(4,916)	(4,015)
Cease of share award scheme due to privatisation	–	5,483	–	–	–	–	–	–	–	–	5,483	–	5,483
Acquisition of subsidiaries	–	–	–	–	–	–	–	(992,663)	–	–	(992,663)	–	(992,663)
Disposal of investments in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(44,642)	(44,642)
Transfer from retained profits	–	–	–	–	672	–	–	–	–	(672)	–	–	–
At 31 December 2017	1,278,984	441,116*	(1,105)*	232,555*	385,996*	77,066*	6,553*	(1,121,750)*	(404,766)*	(835,737)*	58,912	6,660	65,572

	Attributable to owners of the parent														
	Share capital HK$'000 (note 35)	Share premium account HK$'000	Awarded shares reserve HK$'000 (note 37)	Hedging reserve HK$'000 (note 30)	Contributed surplus HK$'000 (note 36)	Statutory reserve HK$'000 (note 36)	Available-for-sale investment revaluation reserve HK$'000	Share of other comprehensive income/(loss) HK$'000	Other reserve HK$'000 (note 36)	Fair value reserve HK$'000 (note 3)	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total (deficit)/equity HK$'000
At 31 December 2017	1,278,984	441,116	–	(1,105)	232,555	385,996	77,066	6,553	(1,121,750)	–	(404,766)	(835,737)	58,912	6,660	65,572
Effect of adoption of HKFRS 9	–	–	–	–	–	–	(77,066)	–	–	9,477	–	164,302	96,713	–	96,713
At 1 January 2018 (restated)	1,278,984	441,116	–	(1,105)	232,555	385,996	–	6,553	(1,121,750)	9,477	(404,766)	(671,435)	155,625	6,660	162,285
Loss for the year	–	–	–	–	–	–	–	–	–	–	–	(505,468)	(505,468)	–	(505,468)
Other comprehensive (loss)/income for the year:															
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	–	–	–	(28,673)	–	–	(28,673)	–	(28,673)
Cash flow hedges, net of tax	–	–	–	5,257	–	–	–	–	–	–	–	–	5,257	–	5,257
Exchange differences, net	–	–	–	–	–	–	–	–	–	–	(410,742)	–	(410,742)	–	(410,742)
Total comprehensive loss for the year	–	–	–	5,257	–	–	–	–	–	(28,673)	(410,742)	(505,468)	(939,626)	–	(939,626)
Share Award Scheme arrangement	–	–	13,101	–	–	–	–	–	–	–	–	–	13,101	–	13,101
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	6,660	–	–	–	6,660	(6,660)	–
Disposal of investment in an associate	–	–	–	–	–	–	–	(6,553)	–	–	–	–	(6,553)	–	(6,553)
Transfer from retained profits	–	–	–	–	–	9,737	–	–	–	–	–	(9,737)	–	–	–
At 31 December 2018	1,278,984	441,116*	13,101*	4,152*	232,555*	395,733*	–*	–*	(1,115,090)*	(19,196)*	(815,508)*	(1,186,640)*	(770,793)	–	(770,793)

	Attributable to owners of the parent										
	Share capital HK$'000 (note 35)	Share premium account HK$'000	Awarded shares reserve HK$'000 (note 37)	Hedging reserve HK$'000 (note 30)	Contributed surplus HK$'000 (note 36)	Statutory reserve HK$'000 (note 36)	Other reserve HK$'000 (note 36)	Fair value reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total deficit HK$'000
At 31 December 2018	1,278,984	441,116	13,101	4,152	232,555	395,733	(1,115,090)	(19,196)	(815,508)	(1,186,640)	(770,793)
Effect of adoption of HKFRS 16	–	–	–	–	–	–	–	–	–	(9,259)	(9,259)
At 1 January 2019 (restated)	1,278,984	441,116	13,101	4,152	232,555	395,733	(1,115,090)	(19,196)	(815,508)	(1,195,899)	(780,052)
Profit for the year	–	–	–	–	–	–	–	–	–	178,859	178,859
Other comprehensive (loss)/income for the year:											
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	–	6,458	–	–	6,458
Cash flow hedges, net of tax	–	–	–	(1,028)	–	–	–	–	–	–	(1,028)
Exchange differences, net	–	–	–	–	–	–	–	–	(169,955)	–	(169,955)
Total comprehensive income for the year	–	–	–	(1,028)	–	–	–	6,458	(169,955)	178,859	14,334
Share Award Scheme arrangement	–	–	(13,101)	–	–	–	–	–	–	–	(13,101)
Transfer from retained profits	–	–	–	–	–	57,636	–	–	–	(57,636)	–
At 31 December 2019	1,278,984	441,116*	–*	3,124*	232,555*	453,369*	(1,115,090)*	(12,738)*	(985,463)*	(1,074,676)*	(778,819)

* These reserve accounts comprise the consolidated reserves with deficit amount of HK$2,057,803,000, HK$2,049,777,000 and HK$1,220,072,000 as at 31 December 2019, 2018 and 2017 respectively in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2017, 2018, 2019

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax		190,019	(388,789)	(2,254,200)
Adjustments for:				
Share of (profits)/losses of joint ventures	19	(867)	(2,887)	41
Share of losses of associates	18	11,332	9,617	19,101
Foreign exchange difference, net		(162,087)	–	–
Interest income	7	(86,409)	(21,088)	(22,472)
Dividend income from an equity investment designated at fair value through other comprehensive income (2017: dividend income from an available-for-sale investment)		(9,449)	(4,442)	(1,317)
Net gain on disposal of items of property, plant and equipment, prepaid land lease payments and affiliated buildings, investment properties and other intangible assets	8	(7,227)	(7,415)	(1,340)
Depreciation of property, plant and equipment	8	143,313	189,022	191,273
Depreciation of right-of-use assets/recognition of prepaid land lease payments	8	25,740	1,404	1,769
Depreciation of investment properties	8	4,851	6,755	6,875
Amortisation of computer software, intellectual property and ALCATEL brand license	8	61,487	63,751	58,590
Amortisation of deferred development costs	8	372,633	579,383	1,593,568
Gain on disposal of associates and a joint venture	7	(8,173)	(83,541)	–
Equity-settled share award scheme expense	8	(13,101)	13,101	–
Impairment of goodwill	8	–	40,000	–
Impairment of unlisted available-for-sale investments	8	–	–	17,618
Impairment of an associate	8	–	–	1,408
Finance costs	9	143,955	124,111	117,300
Gain on disposal of financial assets at fair value through profit or loss (2017: gain on disposal of an available-for-sale investment)	7	(27,032)	(4,689)	(44,582)
(Gain)/loss on disposal of subsidiaries	8	(5,248)	113,363	(135,675)
		633,737	627,656	(452,043)

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
Decrease in inventories		119,122	257,256	1,127,264
Decrease in trade receivables		1,043,218	1,068,922	623,938
Decrease in factored trade receivables		19,085	1,840	41,501
Decrease/(increase) in notes receivable		341	(2,336)	10,407
(Increase)/decrease in prepayments, other receivables and other assets		(2,376,310)	106,122	236,390
Decrease/(increase) in derivative financial instruments, net		49,427	(57,685)	(14,049)
Decrease in financial assets at fair value through profit or loss		80,524	240,094	–
Increase in pledged deposit		(383,594)	–	–
Increase in other non-current assets		–	–	(34)
(Decrease)/increase in trade and notes payables		(828,848)	413,110	(1,567,868)
Increase/(decrease) in other payables and accruals		1,936,893	(788,831)	10,334
Decrease in provision for warranties		(9,395)	(39,880)	(26,821)
(Decrease)/increase in retirement indemnities	32	(967)	303	192
(Decrease)/increase in long service medals		(360)	103	(119)
Increase/(decrease) in other non-current liabilities		741	(4,677)	(4,891)
Cash generated from operations		283,614	1,821,997	(15,799)
Tax paid		(43,031)	(38,515)	(104,023)
Interest paid		(153,974)	(121,703)	(112,451)
Interest portion of lease payments		(5,987)	–	–
Interest received		27,353	–	–
Net cash flows from/(used in) operating activities		107,975	1,661,779	(232,273)

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(26,123)	(89,163)	(194,040)
Additions to other intangible assets		(422,280)	(420,539)	(1,087,593)
Proceeds from disposal of items of property, plant and equipment, prepaid land lease payments and affiliated buildings, investment properties and other intangible assets		4,848	361,631	14,043
Acquisition of subsidiaries under common control		–	–	33,740
Purchase of an equity investment designated at fair value through other comprehensive income (2017: purchase of available-for-sale investments)		–	(7,849)	(15,523)
Disposal of subsidiaries	40	136,628	203,537	17,328
Disposal of associates and a joint venture		54,072	447	–
Disposal of an equity investment designated at fair value through other comprehensive income (2017: disposal of an available-for-sale investment, net of tax)		1,737	–	41,874
Investment in an associate		–	(39,259)	(2,327)
Increase in deposits from prepayments, other receivables and other assets		(622,934)	(428,622)	–
Dividend received from an equity investment designated at fair value through other comprehensive income (2017: dividend received from an available-for-sale investment)		9,449	4,442	1,317
Interest received		25,419	13,203	12,820
Net cash flows used in investing activities		(839,184)	(402,172)	(1,178,361)

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Acquisition of non-controlling interests		–	–	(2,769)
(Increase)/decrease in pledged deposits		(376)	220,896	118,382
Increase in financing amounts from prepayments, other receivables and other assets		(784,689)	–	–
Decrease in bank advances on factored trade receivables		(19,085)	(1,840)	(41,501)
New bank loans		8,419,590	9,412,502	16,765,826
Repayments of bank loans		(7,899,491)	(10,586,937)	(16,691,759)
New loans from related companies		1,431,633	151,475	56,414
Repayments of loans from related companies		(646,944)	(151,475)	(56,414)
Received dividend withdrawn from awarded shares		–	–	5,483
Principal portion of lease payments	38(c)	(19,982)	–	–
Net cash flows from/(used in) financing activities		480,656	(955,379)	153,662
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(250,553)	304,228	(1,256,972)
Cash and cash equivalents at beginning of year		452,722	492,823	1,028,695
Effect of foreign exchange rate changes, net		(3,786)	(344,329)	721,100
CASH AND CASH EQUIVALENTS AT END OF YEAR		198,383	452,722	492,823
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and cash equivalents as stated in the consolidated statement of financial position	26	198,383	452,722	492,823

NOTES TO FINANCIAL STATEMENTS

31 December 2017, 2018, 2019

1. CORPORATE AND GROUP INFORMATION

TCL Communication was incorporated as an exempted company with limited liability in the Cayman Islands on 26 February 2004 under the Companies Law, CAP. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal office of TCL Communication is located at 5th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

During the Track Record Period, TCL Communication Group were principally engaged in the research and development, manufacture and sale of mobile devices and other products and rendering of services.

In the opinion of TCL Communication's Directors, as at 31 December 2018 and 2017, the immediate holding company and the ultimate holding company of TCL Communication are T.C.L. Industries Holdings (H.K.) Limited ("TCL Industries"), a company incorporated in Hong Kong, and TCL Technology Group Corporation ("TCL Tech", formerly known as TCL Corporation), a limited liability company registered in the People's Republic of China (the "PRC") and listed on the Shenzhen Stock Exchange, respectively.

As at 31 December 2019, the immediate holding company has changed to Zhengjia Investment Limited (the "Immediate Holding Company"). In the first quarter of 2019, a restructuring occurred whereby TCL Tech spun off, among others, all its equity interest in TCL Industries transferred to TCL Industries Holdings Co., Ltd. ("TCL Holdings"), a limited liability company registered in the PRC (the "Restructuring"). Accordingly, the ultimate holding company of TCL Communication has changed to TCL Holdings (the "Ultimate Holding Company") following completion of the Restructuring.

Information about subsidiaries

Particulars of TCL Communication's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to TCL Communication		Principal activities
			Direct	Indirect	
TCL Mobile Communication (HK) Company Limited 王牌通訊(香港)有限公司 *(notes (iii) & (vi))*	Hong Kong	HK$773,281,000	–	100%	Distribution of mobile devices and components
Huizhou TCL Mobile Communication Co., Ltd. 惠州TCL移動通信有限公司 *(notes (i) & (vi))*	The PRC/ Mainland China	US$199,600,000	–	100%	Manufacture and distribution of mobile devices and rendering of services
TCT Mobile Europe SAS *(notes (v) & (vi))*	France	EUR23,031,072	–	100%	Development and distribution of mobile devices
TCT Mobile, S.A. DE C.V. *(notes (iii) & (v) & (vi))*	Mexico	MXP2,066,980,498	–	100%	Distribution of mobile devices

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to TCL Communication Direct	Indirect	Principal activities
TCT Mobile International Limited *(note (vi))*	Hong Kong	HK$5,000,000	–	100%	Development and distribution of mobile devices and other products and rendering of services
JRD Communication (Shenzhen) Ltd 捷開通訊(深圳)有限公司 *(notes (i) & (vi))*	The PRC/ Mainland China	US$10,000,000	–	100%	Software development for mobile devices
Общество с ограниченной ответственностью "ТиЭмСи Рус" (Translation for reference only: "TMC Rus" Limited Liability Company) *(notes (v) & (vi))*	Russia	RUB10,000	–	100%	Distribution of mobile devices
捷開通訊科技(上海)有限公司 (Translation for reference only: JRD Communication Technology (Shanghai) Limited) *(notes (i) & (v) & (vi))*	The PRC/ Mainland China	US$10,000,000	–	100%	Software development for mobile devices
TCL通訊科技(成都)有限公司 (Translation for reference only: TCL Communication Technology (Chengdu) Limited) *(notes (i) & (vi))*	The PRC/ Mainland China	US$12,000,000	–	100%	Software development for mobile devices
TCL通訊(寧波)有限公司 (Translation for reference only: TCL Communication (Ningbo) Limited) *(notes (i) & (vi))*	The PRC/ Mainland China	US$3,000,000	–	100%	Hardware development for mobile devices
TCT Mobile (US) Inc. *(note (v))*	United States	US$1	–	100%	Distribution of mobile devices
惠州TCL通訊電子有限公司 (Translation for reference only: Huizhou TCL Communication Electronic Limited) *(notes (iii) & (vi))*	The PRC/ Mainland China	RMB116,800,000	–	100%	Development, manufacture and distribution of fixed line telephone products
TCT Mobile Overseas Limited *(note (vi))*	Hong Kong	HK$1	–	100%	Development and distribution of mobile devices

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to TCL Communication		Principal activities
			Direct	Indirect	
TCL移動通信科技(寧波)有限公司 (Translation for reference only: TCL Mobile Communication Technology (Ningbo) Limited) *(notes (i) & (vi))*	The PRC/ Mainland China	US$5,000,000	–	100%	Software development for mobile devices
Shenzhen TCL Creative Cloud Technology Co., LTD 深圳市TCL雲創科技有限公司 *(note (vi))*	The PRC/ Mainland China	RMB60,000,000	–	100%	Software development for mobile devices
惠州TCL雲創科技有限公司 (Translation for reference only: Huizhou TCL Cloud Technology Co., Ltd) *(note (vi))*	The PRC/ Mainland China	RMB40,000,000	–	100%	Software development for mobile devices
TCT Mobile Italy S.R.L. *(notes (v) & (vi))*	Italy	EUR560,000	–	100%	Distribution of mobile devices
TCL Communication Limited *(note (vi))*	Hong Kong	HK$1	–	100%	Distribution of mobile devices
TCL Communication (Shenzhen) Limited TCL通訊(深圳)有限公司 *(notes (ii) & (iii) & (vi))*	The PRC/ Mainland China	RMB727,000,000	–	100%	Distribution of mobile devices
TCT Mobile (Australasia) Pty Ltd *(note (v))*	Australia	AUD1	–	100%	Distribution of mobile devices
TCT Mobile – Telefones LTDA *(notes (iv) & (vi))*	Brazil	BRL611,727,800	–	100%	Distribution of mobile devices

Note:

(i) During the Track Record Period, these are wholly-foreign-owned enterprises under the PRC law.

(ii) During the year ended 31 December 2018 and 2017, TCL Communication (Shenzhen) Limited is a wholly-foreign-owned enterprise under the PRC law.

(iii) On 31 December 2018 and 2017, the registered share capital of TCL Mobile Communication (HK) Company Limited, TCT Mobile, S.A. DE C.V., Huizhou TCL Communication Electronic Limited and TCL Communication (Shenzhen) Limited is HK$5,000,000, MXP1,299,103,498, RMB30,000,000 and RMB120,000,000 respectively.

(iv) On 31 March 2018, TCL Communication Group disposed its 100% equity interest *(note 40).*

(v) No audited financial statements have been prepared for these entities for the certain years ended 31 December 2019, 2018 and 2017.

(vi) During the Track Record Period, the statutory financial statements of these entities were audited by the following certified public accountants:

Auditors	**Financial year ended**
Ernst & Young Hua Ming*	31 December 2019, 2018 and 2017
Ernst & Young, Brazil **	31 December 2017
Ernst & Young, France/Mexico/Italy **	31 December 2018 and 2017
Finauditservice LLC**	31 December 2018 and 2017
Ernst & Young, Hong Kong***	31 December 2019, 2018 and 2017
深圳興業會計師事務所(普通合夥)*	31 December 2019, 2018 and 2017
惠州市東方會計師事務所有限公司*	31 December 2018 and 2017
惠州君和會計師事務所*	31 December 2019 and 2018
上海歐柯盟會計師事務所*	31 December 2018 and 2017
四川華誠會計師事務所有限公司*	31 December 2019, 2018 and 2017
寧波容達會計師事務所有限公司*	31 December 2018 and 2017
中會華(寧波)會計師事務所*	31 December 2019
中聯會計師事務所有限公司深圳分所*	31 December 2017
深圳天大聯合會計師事務所(普通合夥)*	31 December 2019 and 2018

* The statutory financial statements were prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP").

** The statutory financial statements were prepared under local financial reporting standards.

*** The statutory financial statements were prepared under HKFRSs.

The above table lists the subsidiaries of TCL Communication which, in the opinion of TCL Communication's Directors, principally affected the results for the Track Record Period or formed a substantial portion of the net assets of TCL Communication Group. To give details of other subsidiaries would, in the opinion of TCL Communication's Directors, result in particulars of excessive length.

2. BASIS OF PREPARATION

These Historical Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs are applied beginning in the year in which they are in effect and the accounting policies have been set out in Note 4 to the Historical Financial Information. These Historical Financial Information have been prepared under the historical cost convention, except for forward currency contracts, interest rate swaps, and certain financial assets which have been measured at fair value.

Going concern

For the year ended 31 December 2019, 2018 and 2017, TCL Communication Group's current liabilities exceeded its current assets by approximately HK$2,809,153,000, HK$2,817,269,000 and HK$2,859,686,000, respectively. TCL Communication's Directors have considered the following factors:

- TCL Communication Group's expected cash inflows from operating activities in the foreseeable future;
- TCL Communication's Directors are also confident that bank loans, which will expire during the next 12 months, could be renewed upon expiration based on TCL Communication Group's past experience and credit standing; and
- Other available sources of financing from banks and the ultimate holding company of TCL Communication given TCL Communication Group's credit history.

TCL Communication's Directors believe that TCL Communication has adequate resources to continue operation for the foreseeable future. TCL Communication's Directors therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the Historical Financial Information.

Basis of consolidation

The consolidated financial statements include the financial statements of TCL Communication Group for the year ended 31 December 2017, 2018 and 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by TCL Communication. Control is achieved when TCL Communication Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give TCL Communication Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

(c) TCL Communication Group's voting rights and potential voting rights.

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

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

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

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

3. NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS

3.1 Changes In Accounting Policies And Disclosures

TCL Communication Group has adopted the following new and revised HKFRSs for the first time for the Track Record Period's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
HKFRS 16	*Leases*[2]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on 1 January 2018

2 Effective for annual periods beginning on 1 January 2019

Except for the amendments to HKFRS 2, amendments to HKFRS 4, amendments to HKAS 40, HK (IFRIC) – Int 22 and Annual improvements 2014–2016 Cycle, amendments to HKFRS 9 and HKAS 28 and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which have no significant impact on TCL Communication Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for the classification and measurement of financial assets and financial liabilities; impairment for financial assets; and general hedge accounting.

TCL Communication Group has applied the classification and measurement requirements (including impairment) of HKFRS 9 retrospectively as at 1 January 2018 (date of initial application) to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between the carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 is recognised in the opening retained profits and other components of equity as at 1 January 2018, without restating comparative information.

Changes to classification and measurement

On 1 January 2018, TCL Communication Group's management has assessed which business models apply to the financial assets held by TCL Communication Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

	At 31 December 2017	Reclassified from available-for-sale investments/debt instruments to equity investments/financial assets at fair value through other comprehensive income *(note (i))*	Reclassified from available-for-sale investments/debt instruments to financial assets at fair value through profit or loss *(note (ii))*	Fair value adjustment	Expected credit loss	At 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments						
– Listed equity investments, at fair value	99,660	(18,467)	(81,193)	–	–	–
– Unlisted equity investments, at cost	210,382	(136,087)	(74,295)	–	–	–
Financial assets at fair value through profit or loss						
– Listed equity investments	–	–	81,193	–	–	81,193
– Unlisted equity investments	–	–	74,295	82,335	–	156,630
– Trade receivables	–	–	2,424,458	–	–	2,424,458
– Factored trade receivables	–	–	55,574	–	–	55,574
– Other receivables	–	–	127,212	–	–	127,212
– Derivative financial instruments	63,218	–	–	–	–	63,218
Equity investments/financial assets at fair value through other comprehensive income						
– Listed equity investments	–	18,467	–	–	–	18,467
– Unlisted equity investments	–	136,087	–	23,158	–	159,245
– Notes receivable	–	6,222	–	–	–	6,222
Financial assets at amortised cost						
– Pledged deposits	220,896	–	–	–	–	220,896
– Cash and cash equivalents	492,823	–	–	–	–	492,823
– Notes receivable	6,222	(6,222)	–	–	–	–
– Trade receivables	3,502,467	–	(2,424,458)	–	(2,412)	1,075,597
– Factored trade receivables	55,574	–	(55,574)	–	–	–
– Other receivables	1,208,949	–	(127,212)	–	(3,452)	1,078,285
	5,860,191	–	–	105,493	(5,864)	5,959,820

	Available-for-sale investment revaluation reserve *HK$'000*	Fair value reserve *HK$'000*	Accumulated losses *HK$'000*
Balance at 31 December 2017	77,066	–	(835,737)
– Reclassified from available-for-sale investments/ debt instruments to equity investments/financial assets at fair value through other comprehensive income *(note (i))*	44	12,393	10,721
– Reclassified from available-for-sale investments/ debt instruments to financial assets at fair value through profit or loss *(note (ii))*	(77,110)	–	159,445
– Expected credit loss	–	–	(5,864)
– Tax effect	–	(2,916)	–
Balance at 1 January 2018 (as restated)	–	9,477	(671,435)

Notes:

(i) *Reclassification from available-for-sale investments/debt instruments to equity investments/financial assets at fair value through other comprehensive income – certain listed/unlisted equity investments/ notes receivable*

TCL Communication Group elected to designate certain equity investments previously classified as available-for-sale investments to equity investments designated at fair value through other comprehensive income as these are long-term and strategic investments that are not expected to be sold in the short to medium term. As at 1 January 2018, certain listed equity investments measured at fair value and certain unlisted equity investments measured at cost less impairment amounting to HK$18,467,000 and HK$136,087,000, respectively, were reclassified from available-for-sale investments to equity investments designated at fair value through other comprehensive income. As at 1 January 2018, the fair value of unlisted equity investments through other comprehensive income were revalued to HK$159,245,000. Accordingly, the related cumulative fair value loss of HK$44,000 and impairment loss previously recognised of HK$10,721,000 were reclassified from available-for-sale investment revaluation reserve and retained profits, respectively, to the fair value reserve on 1 January 2018.

TCL Communication Group has classified its notes receivable previously classified as loans and receivables as financial assets measured at fair value through other comprehensive income as these notes receivable pass the contractual cash flow characteristics test and are held within a business model with the objective of both holding to collect contractual cash flows and selling in HKFRS 9.

(ii) *Reclassification from available-for-sale investments/debt instruments to financial assets at fair value through profit or loss – certain listed/unlisted equity investments/certain trade receivables/factored trade receivables/certain other receivables*

Certain listed and unlisted equity investments, certain trade receivables, factored trade receivables and certain other receivables of TCL Communication Group with a fair value of HK$2,845,067,000 at 1 January 2018 were reclassified from available-for-sale investments, trade receivables, factored trade receivables and other receivables to financial assets at fair value through profit or loss as such items' business model is holding to selling. Related cumulative fair value gains of HK$77,110,000 were transferred from the available-for-sale investment revaluation reserve to retained profits on 1 January 2018.

There has been no impact on TCL Communication Group's accounting for financial liabilities as the new requirements under HKFRS 9 only affect the accounting for financial liabilities that are designated at fair value through profit or loss and TCL Communication Group does not have any such liabilities.

Changes to the impairment model

(i) Trade receivables

TCL Communication Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for certain trade receivables. To measure the expected credit losses, certain receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group of receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information. Management has closely monitored the credit qualities and the collectability of the trade receivables. Trade receivables in dispute are assessed individually for impairment to determine whether specific loss allowance provisions are required. The adoption of the simplified expected credit loss approach under HKFRS 9 has resulted in the increase of HK$2,412,000 for impairment of trade receivables as at 1 January 2018.

(ii) Other financial assets carried at amortised cost

For other financial assets carried at amortised cost, including pledged deposits, financial assets included in prepayments, other receivables and other assets, the expected credit loss is based on the 12-month expected credit loss. This represents the portion of lifetime expected credit loss that results from default events on the financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of other financial assets at amortised cost. The adoption of the expected credit loss approach under HKFRS 9 has resulted in the increase of HK$3,452,000 for impairment loss of other financial assets as at 1 January 2018.

Hedge accounting

TCL Communication Group has applied hedge accounting under HKFRS 9 prospectively. At the date of initial application of HKFRS 9, all of TCL Communication Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of HKFRS 9, TCL Communication Group designated the change in fair value of the entire forward currency contracts and interest rate swap contracts in its cash flow hedge relationships. Upon adoption of HKFRS 9, TCL Communication Group continues to designate the entire forward currency contracts and interest rate swap contracts in the cash flow hedge relationships. The adoption of the hedge accounting requirements of HKFRS 9 has had no impact on TCL Communication Group's financial statements.

As a result of the application of HKFRS 9, TCL Communication Group has changed its accounting policies with respect to financial instruments, as further explained in note 4 to the financial statements.

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 5, 7 and 29 to the financial statements. As a result of the application of HKFRS 15, TCL Communication Group has changed the accounting policy with respect to revenue recognition in note 4 to the financial statements.

TCL Communication Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. TCL Communication Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

Although the application of HKFRS 15 has impacted on the classification of certain items in the financial statements, it has had no impact on the financial performance of TCL Communication Group. Hence, no cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. The comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

TCL Communication Group mainly engages in the businesses of sale of mobile devices and other products and rendering of services. The effects of the adoption of HKFRS 15 are further explained as follows:

(i) Accounting for sale of goods (including mobile devices and other products)

TCL Communication Group's contracts with customers for the sale of goods generally include one performance obligation. TCL Communication Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The warranties provided by TCL Communication Group are assurance-type warranties which are not a separate performance obligation from the manufacture and sale of products. Therefore, the adoption of HKFRS 15 did not have a material impact on the timing and amount of revenue recognition.

(ii) Accounting for rendering of processing service and technical service

Revenue from rendering of processing service and technical service income are recognised at the point in time upon the transfer of service outcome to customers.

Before the adoption of HKFRS 15, TCL Communication Group recognised consideration received from customers in advance as advances from customers in other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, TCL Communication Group reclassified HK$117,954,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

(c) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int 15 *Operating Leases – Incentives and* HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where TCL Communication Group is the lessor.

TCL Communication Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. TCL Communication Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

TCL Communication Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, TCL Communication Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to TCL Communication Group. Under HKFRS 16, TCL Communication Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets and leases with a lease term of 12 months or less ("short-term leases") (elected on a lease-by-lease basis). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, TCL Communication Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets amounting to HK$176,251,000 were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where TCL Communication Group applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. TCL Communication Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured and stated at cost less accumulated depreciation and any impairment losses, TCL Communication Group has continued to include them as investment properties at 1 January 2019. They continue to be measured and stated at cost less accumulated depreciation and any impairment losses applying HKAS 40.

TCL Communication Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend the lease

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *HK$'000*
Assets	
Increase in right-of-use assets	176,251
Decrease in prepaid land lease payments	(77,246)
Decrease in prepayments, other receivables and other assets	(1,766)
Increase in deferred tax assets	2,949
Increase in total assets	100,188
Liabilities	
Increase in lease liabilities	109,447
Increase in total liabilities	109,447
Increase in accumulated losses	(9,259)

The weighted average incremental borrowing rate applied to the lease liabilities recognised at 1 January 2019 is 5.78%.

There is no significant difference between the amount of the operating lease commitments at 31 December 2018 disclosed applying the previous accounting standards (see note 42), discounted using the incremental borrowing rate at 1 January 2019 and the amount of lease liabilities recognised in the statement of financial position at 1 January 2019.

(d) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, TCL Communication Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on TCL Communication Group's tax compliance and transfer pricing study, TCL Communication Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of TCL Communication Group.

3.2 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

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

1 Effective for annual periods beginning on or after 1 January 2020

2 No mandatory effective date yet determined but available for adoption

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which TCL Communication Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

TCL Communication Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at TCL Communication Group's share of net assets under the equity method of accounting, less any impairment losses.

TCL Communication Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, TCL Communication Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between TCL Communication Group and its associates or joint ventures are eliminated to the extent of TCL Communication Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of TCL Communication Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, TCL Communication Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations (other than business combinations of entities under common control) and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by TCL Communication Group, liabilities assumed by TCL Communication Group to the former owners of the acquiree and the equity interest issued by TCL Communication Group in exchange for control of the acquiree. For each business combination, TCL Communication Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When TCL Communication Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of TCL Communication Group's previously held equity interest in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. TCL Communication Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of TCL Communication Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of TCL Communication Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations of entities under common control

Business combinations of entities under common control are accounted for using the pooling of interests method with no restatement of financial information in the consolidated financial statements for periods prior to the completion of the combination under common control. Under the pooling of interests method, the assets and liabilities of the combining entities are reflected at their existing carrying values at the date of combination. No amount is recognised in respect of goodwill. The excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, which, instead, is recorded as part of equity.

Fair value measurement

TCL Communication Group measures derivative financial instruments, certain financial assets at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by TCL Communication Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

TCL Communication Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, TCL Communication Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, other non-current assets and a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to TCL Communication Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over TCL Communication Group;

(ii) has significant influence over TCL Communication Group; or

(iii) is a member of the key management personnel of TCL Communication Group or of a parent of TCL Communication Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and TCL Communication Group are members of the same group;

(ii) one entity is an associate or a joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and TCL Communication Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either TCL Communication Group or an entity related to TCL Communication Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to TCL Communication Group or to the parent of TCL Communication Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, TCL Communication Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.0% to 10.0%
Plant and machinery	5.7% to 33.3%
Furniture, fixtures, office equipment and research and development equipment	10.0% to 50.0%
Motor vehicles	15.0% to 33.3%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018 and 2017: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured and stated at cost, including transaction costs, less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life. The principal annual rates used for this purpose are as mainly follows:

Buildings	2.4% to 9.0%
Prepaid land lease payments	1.4% to 2.0%

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when TCL Communication Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised on a systematic basis with reference to projected sales volume, upon future sales volume of related products.

Computer software

Purchased computer software is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful lives of 1–10 years.

Intellectual property

Purchased intellectual property with finite useful life is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful lives of 5–40 years.

Purchased intellectual property with indefinite useful life is stated at cost, less any identified impairment losses.

Golf club membership

Golf club membership has an indefinite useful life and is stated at cost, less any identified impairment losses.

ALCATEL brand license

ALCATEL brand license is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its contracted useful life of 13.5 years.

Leases (applicable from 1 January 2019)

TCL Communication Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

TCL Communication Group as a lessee

TCL Communication Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. TCL Communication Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the remaining lease terms and the estimated useful lives of the assets as follows:

Leasehold land	43 to 63 years
Office premises	1 (non-inclusive) to 7 years
Plant and machinery	1 (non-inclusive) to 2 years
Motor vehicles	2 to 5 years

When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at cost less accumulated depreciation and any impairment losses, in accordance with TCL Communication Group's policy for ''investment properties''.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

In calculating the present value of lease payments, TCL Communication Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

TCL Communication Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

TCL Communication Group as a lessor

When TCL Communication Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which TCL Communication Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Contingent rents are recognised as other income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where TCL Communication Group is the lessor, assets leased by TCL Communication Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where TCL Communication Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and TCL Communication Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, TCL Communication Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

TCL Communication Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that TCL Communication Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, TCL Communication Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to TCL Communication Group and the amount of the dividend can be measured reliably, except when TCL Communication Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes factored trade receivables, derivative instruments, certain trade receivables, certain other receivables, and certain equity investments which TCL Communication Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to TCL Communication Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that TCL Communication Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in administrative expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income and gains or other expenses, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in administrative expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for ''Revenue recognition (applicable before 1 January 2018)'' below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

TCL Communication Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, TCL Communication Group is unable to trade these financial assets due to inactive markets, TCL Communication Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from TCL Communication Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- TCL Communication Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ''pass-through'' arrangement; and either (a) TCL Communication Group has transferred substantially all the risks and rewards of the asset, or (b) TCL Communication Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When TCL Communication Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, TCL Communication Group continues to recognise the transferred asset to the extent of TCL Communication Group's continuing involvement. In that case, TCL Communication Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that TCL Communication Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that TCL Communication Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

TCL Communication Group recognises an allowance for expected credit losses (''ECLs'') for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that TCL Communication Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, TCL Communication Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, TCL Communication Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

TCL Communication Group considers a financial asset in default when contractual payments are over one year past due unless TCL Communication Group has reasonable and supportable information to demonstrate that a more appropriate criterion should be applied. In certain cases, TCL Communication Group may also consider a financial asset to be in default when internal or external information indicates that TCL Communication Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by TCL Communication Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt instruments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component, TCL Communication Group applies the simplified approach in calculating ECLs. Under the simplified approach, TCL Communication Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. TCL Communication Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

TCL Communication Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, TCL Communication Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If TCL Communication Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to TCL Communication Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, TCL Communication Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. ''Significant'' is evaluated against the original cost of the investment and ''prolonged'' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is ''significant'' or ''prolonged'' requires judgement. In making this judgement, TCL Communication Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

TCL Communication Group's financial liabilities include trade and notes payables, bank advances on factored trade receivables, derivative financial instruments, lease liabilities, loan from a related company, interest-bearing bank borrowings and financial liabilities included in other payables and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss(policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by TCL Communication Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from TCL Communication Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

TCL Communication Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, TCL Communication Group formally designates and documents the hedge relationship to which TCL Communication Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how TCL Communication Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that TCL Communication Group actually hedges and the quantity of the hedging instrument that TCL Communication Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average or standard costing basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of TCL Communication Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

TCL Communication Group provides for warranties in relation to the sale of certain products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by TCL Communication Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which TCL Communication Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if TCL Communication Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item except research and development costs item, it is deducted from the related expense on systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset except research and development asset item, the fair value is deducted in arriving at the carrying amount of the relevant asset and is released to profit or loss over the expected useful life of the depreciated asset by way of a reduced depreciation charge.

Where the grant relates to research and development asset or costs item, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset or on systematic basis

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which TCL Communication Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which TCL Communication Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(a) Sale of mobile devices and other products

Revenue from the sale of mobile devices and other products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the mobile devices and other products.

Some contracts for the sale of mobile devices and other products provide customers with rebates. The rebates give rise to variable consideration.

(i) Rebates

Retrospective rebates may be provided to certain customers when the contract terms are met or the quantity of products purchased during the period exceeds a threshold. To estimate the variable consideration for the expected future rebates, the most likely amount method is used.

(b) Processing and technical service income

Revenue from rendering of processing service and technical service income are recognised at the point in time upon the transfer of service outcome to customers.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to TCL Communication Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to TCL Communication Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that TCL Communication Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, upon provision of the relevant services;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Contract liabilities (applicable from 1 January 2018)

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before TCL Communication Group transfers the related goods or services. Contract liabilities are recognised as revenue when TCL Communication Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Share-based payments

TCL Tech operated an equity-settled, share-based compensation plan for the purpose of providing incentives and rewards to eligible participants including certain employees (including directors) of TCL Communication in 2018.

Where awarded shares are awarded to employees, the fair value of the awarded shares at the date of grant is charged to the statement of profit or loss over the vesting period, with a corresponding increase in equity as a contribution.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised.

Central pension scheme

Subsidiaries operating in Mainland China have participated in the central pension scheme (the "CPS") operated by the PRC government for all of their employees. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of TCL Communication Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the statement of profit or loss as they become payable in accordance with the rules of the CPS.

Mandatory Provident Fund

TCL Communication's subsidiaries, incorporated in Hong Kong, operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of TCL Communication Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the MPF Scheme except for the employer voluntary contributions, which are refunded to the subsidiaries when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Retirement indemnities

TCT Mobile Europe SAS, a subsidiary of TCL Communication incorporated in France, operates a defined contribution plan and a defined benefit pension plan (the "Pension Plan"). For the defined contribution plan, TCT Mobile Europe SAS is not liable for any legal or constructive obligations under the contribution plan beyond the contributions paid, and no provision as such is made. For the pension plan, corresponding to retirement indemnities relating to TCT Mobile Europe SAS's employees, liabilities and prepaid expenses are determined as follows:

- Using the projected unit credit method, with the projected final salary, which takes into consideration each period of service giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Actuarial assumptions comprise mortality, rates of employee turnover and projection of future salary levels; and

- Actuarial gains and losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains and losses for the pension plan at the end of the previous period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining service periods of the employees participating in the pension plan.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

TCL Communication's memorandum and articles of association grant the directors the authority to declare interim dividend, such dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is TCL Communication's functional currency. Each entity in TCL Communication Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in TCL Communication Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which TCL Communication Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, TCL Communication Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of TCL Communication Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying TCL Communication Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Property lease classification – TCL Communication Group as lessor

TCL Communication Group has entered into commercial property leases on its investment property portfolio. TCL Communication Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Significant judgement in determining the lease term of contracts with renewal options

TCL Communication Group has several lease contracts that include extension and termination options. TCL Communication Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, TCL Communication Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

TCL Communication Group includes the renewal period as part of the lease term for leases of office premises due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available. In addition, the renewal options for leases of plant and machinery with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised.

Classification between investment properties and owner-occupied properties

TCL Communication Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, TCL Communication Group considers whether a property generates cash flows largely independently of the other assets held by TCL Communication Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, TCL Communication Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Revenue from contracts with customers

TCL Communication Group applied the following judgments that affect the determination of the amount of revenue from contracts with customers:

Determining the method to estimate variable consideration for the sale of mobile device and other products

The sale of mobile devices and other products include rebates that give rise to variable consideration. In estimating the variable consideration, TCL Communication Group chooses to use the most likely amount method to predict the amount of consideration. TCL Communication Group determined that using the most likely amount method is appropriate.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Variable consideration for rebates

TCL Communication Group estimates variable consideration to be included in the transaction price for the sale of mobile devices and other products with rebates.

TCL Communication Group used the historical claims data including the historical experiences with the same customer to estimate expected claims. Any significant changes in experience as compared to historical claims pattern will impact the expected claims amount estimated by TCL Communication Group.

TCL Communication Group updates its assessment of rebates on a regular basis and the refund liabilities are adjusted accordingly. Estimates of rebates are sensitive to changes in circumstances and TCL Communication Group's past experience regarding rebate entitlements may not be representative of customers' actual rebate entitlements in the future.

Impairment of non-financial assets (other than goodwill)

TCL Communication Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Warranty provisions

TCL Communication Group generally offers warranties for its products for 12 to 24 months. Management estimates the related provisions for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

As TCL Communication Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years. As at 31 December 2019, 2018 and 2017 the carrying amount of warranty provisions was HK$244,327,000, HK$255,976,000 and HK$305,867,000, respectively. Further details are included in note 31 to the financial statements.

Impairment of goodwill

TCL Communication Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires TCL Communication Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019, 2018 and 2017 was HK$213,883,00, HK$213,883,00 and HK$253,883,000, respectively. Further details are given in note 17 to the financial statements.

Provision against obsolete and slow-moving inventories

TCL Communication Group reviews the condition of its inventories and makes provisions against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. TCL Communication Group carries out an inventory review when an indication of impairment exists and makes provisions against obsolete and slow-moving items.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Changes in estimates will impact on the carrying value of inventories and the write-down of inventories recognised. The carrying amount of inventories at 31 December 2019, 2018 and 2017 was HK$1,275,048,000, HK$1,411,731,000 and HK$1,958,421,000, respectively. Further details are given in note 21 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the unused tax losses and other deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 December 2019, 2018 and 2017 was HK$164,782,000, HK$176,745,000 and HK$240,142,000, respectively. The amount of unrecognised tax losses at 31 December 2019, 2018 and 2017 was HK$5,478,246,000, HK$5,844,353,000 and HK$6,321,570,000, respectively. Further details are included in note 34 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2019, 2018 and 2017, the best estimate of the carrying amount of deferred development costs was HK$204,935,000, HK$171,377,000 and HK$355,832,000, respectively. Further details are included in note 16 to the financial statements.

Impairment of available-for-sale investments

Before 1 January 2018 TCL Communication Group classified certain assets as available for sale and made recognised movements of their fair values in equity. When the fair value declined, management made assumptions about the decline in value to determine whether there was an impairment that should be recognised in the statement of profit or loss. At 31 December 2017, impairment losses of HK$17,618,000 had been recognised for available-for-sales assets. The carrying amount of available-for-sale investments as at 31 December 2017 was HK$310,042,000.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 45 to the financial statements. The valuation requires TCL Communication Group to determine the comparable public companies (peers) and select the price multiple. In addition, TCL Communication Group makes estimates about the discount for illiquidity and size differences. TCL Communication Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 and 2018 was HK$142,026,000 and HK$132,613,000, respectively. Further details are included in note 20 to the financial statements.

Leases – Estimating the incremental borrowing rate

TCL Communication Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (''IBR'') to measure lease liabilities. The IBR is the rate of interest that TCL Communication Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what TCL Communication Group ''would have to pay'', which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. TCL Communication Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

Provision for expected credit losses on trade receivables, notes receivable, financial assets included in prepayments, other receivables and other assets

TCL Communication Group uses a provision matrix to calculate ECLs for trade receivables, notes receivable, financial assets included in prepayments, other receivables and other assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on TCL Communication Group's historical observed default rates. TCL Communication Group calibrated the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. TCL Communication Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on TCL Communication Group's trade receivables, financial assets included in prepayments, other receivables and other assets is disclosed in note 22 and note 24 to the financial statements, respectively.

6. OPERATING SEGMENT INFORMATION

For management purposes, the management of TCL Communication Group considers that there is only one segment which is research and development, manufacture and sale of mobile phones and other products and rendering of services. All of TCL Communication Group's products are of a similar nature and subject to similar risks and returns. Accordingly, no segmental analysis is presented.

Geographical information

a. Revenue from external customers

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Core Regions*	6,471,988	6,548,184	5,178,437
Transforming Regions**	5,744,416	8,286,819	11,989,908
	12,216,404	14,835,003	17,168,345

b. Non-current assets

Because the majority of TCL Communication Group's non-current assets and capital expenditure were located/incurred in Mainland China, accordingly, no related geographical information of non-current assets is presented.

Information about major customers

For the year ended 31 December 2019, revenue of HK$2,434,087,000 and HK$1,709,384,000 were derived from two external customers in North America, which accounted for more than 10% of the total revenue of TCL Communication Group, respectively.

For the year ended 31 December 2018, revenue of HK$1,888,420,000 and HK$1,653,434,000 were derived from two external customers in North America, which accounted for more than 10% of the total revenue of TCL Communication Group, respectively.

For the year ended 31 December 2017, no revenue from a single external customer accounted for 10% or more of the total revenue of TCL Communication Group.

* Core Regions are the regions majority revenue of TCL Communication Group lies in, including North America, etc.

** Transforming Regions are the regions that TCL Communication Group makes reform on or before, including Latin America, the Middle East and Africa, Europe and Asia, etc.

7. REVENUE, OTHER INCOME AND GAINS

Revenue is analysed as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Revenue from contracts with customers	12,216,404	14,835,003	–
Sale of mobile devices and other products and rendering of services	–	–	17,168,345
	12,216,404	14,835,003	17,168,345

(a) The following table shows the amounts of revenue recognised in the current reporting period that was included in contract liabilities at the beginning of the reporting period.

	2019	2018
	HK$'000	*HK$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of mobile devices and other products	192,177	117,954

(b) **Performance obligations**

Information about TCL Communication's performance obligations is summarised below:

Sale of mobile devices and other products

The performance obligation is satisfied upon delivery of mobile devices and other products and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required. Rebate gives rise to variable consideration.

Processing and technical service income

These performance obligation are satisfied at a point in time upon the transfer of service outcome to customers.

An analysis of other income and gains is as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Other income and gains			
Interest income *(note 8)*	86,409	21,088	22,472
Gross rental income *(note 15)*	14,652	21,142	18,078
Subsidy income*	148,980	211,475	292,677
Exchange gain, net *(note 8)*	120,231	109,933	111,629
Gain on disposal of subsidiaries	5,248	–	135,675
Gain on disposal of associates and a joint venture *(note 8)*	8,173	83,541	–
Gross gain on disposal of items of property, plant and equipment, prepaid land lease payments and affiliated buildings, investment properties and other intangible assets	10,955	9,119	7,203
Dividend income from an equity investment designated at fair value through other comprehensive income and a financial asset at fair value through profit or loss (2017: dividend income from an available-for-sale investment) *(note 8)*	9,626	4,442	1,317
Gain on disposal of financial assets at fair value through profit or loss (2017: gain on disposal of an available-for-sale investment)	27,032	4,689	44,582
Scrap sales income	11,989	8,825	5,411
Brand management fee income	7,834	3,048	4,764
Others	90,359	44,593	52,902
	541,488	521,895	696,710

* Including various government grants which related to research and development cost and value-added tax refunds.

8. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
Cost of inventories sold		9,573,211	11,766,034	14,542,726
Depreciation of property, plant and equipment	13	143,313	189,022	191,273
Depreciation of right-of-use assets (2018 and 2017: recognition of prepaid land lease payments)	15(a),15(b)	25,740	1,404	1,769
Depreciation of investment properties	14	4,851	6,755	6,875
Amortisation of computer software, intellectual property and ALCATEL brand license	16	61,487	63,751	58,590
Research and development costs:				
Deferred expenditure amortised	16	372,633	579,383	1,593,568
Current year expenditure		439,131	342,882	272,013
		811,764	922,265	1,865,581
Minimum lease payments under operating leases		–	53,496	93,970
Lease payments not included in the measurement of lease liabilities		32,899	–	–
Auditor's remuneration		6,970	7,864	8,976
Employee benefit expense*				
Salaries and wages		1,274,569	1,408,136	2,013,576
Equity-settled share award scheme expenses		(13,101)	13,101	–
Pension scheme contributions (including the Pension Plan in note 32)		118,225	129,422	155,837
		1,379,693	1,550,659	2,169,413

	Notes	2019 HK$'000	2018 HK$'000	2017 HK$'000
Change in fair value in interest rate swap – non cash flow hedging	30	(1,258)	393	2,276
Change in fair value in financial assets at fair value through profit or loss		49,409	27,701	–
Investment income realised by financial assets at fair value through profit or loss		(76,441)	(4,689)	–
Exchange gain, net	7	(120,231)	(109,933)	(111,629)
Including: Exchange (gain)/loss on non-hedging derivative financial instruments	30	(3,096)	100,787	(475,356)
Ineffectiveness of cash flow hedges		(10,859)	(3,904)	39,468
Finance costs of loans hedged by interest rate swap	30	9,187	986	4,459
Impairment of trade receivables, net	22	(3,282)	28,595	35,870
Impairment of other receivables, net	24	(2,247)	(1,451)	40,053
Impairment of unlisted available-for-sale investments		–	–	17,618
Impairment of goodwill**	17	–	40,000	–
Impairment of an associate		–	–	1,408
Product warranty provisions	31	212,263	336,304	353,361
Net gain on disposal of items of property, plant and equipment, prepaid land lease payments and affiliated buildings, investment properties and other intangible assets		(7,227)	(7,415)	(1,340)
Gain on disposal of associates and a joint venture	7	(8,173)	(83,541)	–
(Gain)/loss on disposal of subsidiaries***		(5,248)	113,363	(135,675)
Gain on disposal of an available-for-sale investment		–	–	(44,582)
Dividend income from an equity investment at fair value through other comprehensive income and a financial asset at fair value through profit or loss (2017: dividend income from an available-for-sale investment)	7	(9,626)	(4,442)	(1,317)
Interest income	7	(86,409)	(21,088)	(22,472)
Write-down of inventories to net realisable value		42,663	83,193	134,838

* Including employee benefit expense charged to direct labour costs, overhead expenses and research and development costs.

** Impairment of goodwill is included in "administrative expense" in the consolidated statement of profit or loss.

*** Loss on disposal of subsidiaries are included in "other expense" in the consolidated statement of profit or loss.

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Interest on loans	93,903	88,006	89,057
Interest on discounted notes and factored trade receivables	44,065	36,105	28,243
Interest on lease liabilities *(note 15(c))*	5,987	–	–
	143,955	124,111	117,300

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year is as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	1,245	1,334	7,518
Discretionary performance related bonuses*	859	–	69
Pension scheme contributions	18	18	160
	2,122	1,352	7,747
Termination benefits	–	–	450
	2,122	1,352	8,197

* The bonuses are the amounts paid to directors during the year ended 31 December 2019, 2018 and 2017.

11. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided for the year ended 31 December 2019, 2018 and 2017 since no assessable profit arose in Hong Kong during the Track Record Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which TCL Communication Group operates.

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Current – PRC			
Charge for the year:	20,133	38,831	33,002
Overprovision in prior years	(28,038)	(13,991)	(4,357)
Current – Elsewhere			
Charge for the year:	13,812	13,503	25,413
(Overprovision)/underprovision in prior years	10,710	5,313	(3,710)
Deferred *(note 34)*	(5,457)	73,023	43,398
Total tax charged for the year	11,160	116,679	93,746

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which TCL Communication and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2019		2018		2017	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	190,019		(388,789)		(2,254,200)	
Tax at the statutory tax rates	21,164	11.1	(69,441)	17.9	(459,413)	20.3
Lower tax rates for specific provinces or enacted by local authorities	(18,854)	(9.9)	(40,018)	10.3	(28,969)	1.3
Adjustments in respect of current tax of previous periods	(17,328)	(9.1)	(8,678)	2.2	(8,067)	0.4
Income not subject to tax	(50,371)	(26.5)	(64,300)	16.5	(63,180)	2.8
Expenses not deductible for tax	116,651	61.4	154,212	(39.7)	169,279	(7.5)
Tax effect of expenses that are entitled to additional deduction	(45,388)	(23.9)	(35,776)	9.2	(34,335)	1.5
Tax losses utilised from previous periods	(151,142)	(79.5)	(9,623)	2.5	(29,371)	1.3
Tax losses not recognised	99,227	52.2	187,429	(48.2)	519,519	(23.0)
Others*	57,201	30.1	2,874	(0.7)	28,283	(1.3)
Tax charge at TCL Communication Group's effective rates	11,160	5.9	116,679	(30.0)	93,746	(4.2)

* Representing changes of deferred tax assets recognised from unused tax losses arising from a subsidiary in France to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

12. DIVIDENDS

No dividend was proposed for ordinary shareholders of TCL Communication during the Track Record Period.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2019						
At 1 January 2019:						
Cost	550,925	1,112,968	232,993	4,609	116	1,901,611
Accumulated depreciation and impairment	(117,725)	(811,437)	(186,149)	(3,535)	–	(1,118,846)
Net carrying amount	433,200	301,531	46,844	1,074	116	782,765
At 1 January 2019, net of accumulated depreciation and impairment	433,200	301,531	46,844	1,074	116	782,765
Additions	156	15,301	6,127	–	797	22,381
Offsetting with government subsidies	–	(2,213)	(1)	–	–	(2,214)
Disposals	–	(14,662)	(1,357)	–	–	(16,019)
Depreciation provided during the year *(note 8)*	(26,449)	(94,523)	(21,815)	(526)	–	(143,313)
Transfers	76,320	(882)	882	–	–	76,320
Exchange realignment	(10,367)	(4,661)	(622)	(3)	(17)	(15,670)
At 31 December 2019, net of accumulated depreciation and impairment	472,860	199,891	30,058	545	896	704,250
At 31 December 2019:						
Cost	627,769	1,012,186	227,709	4,480	896	1,873,040
Accumulated depreciation and impairment	(154,909)	(812,295)	(197,651)	(3,935)	–	(1,168,790)
Net carrying amount	472,860	199,891	30,058	545	896	704,250

	Buildings *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2018						
At 1 January 2018:						
Cost	968,524	1,107,857	400,148	6,292	1,104	2,483,925
Accumulated depreciation and impairment	(112,910)	(700,932)	(299,442)	(5,454)	–	(1,118,738)
Net carrying amount	855,614	406,925	100,706	838	1,104	1,365,187
At 1 January 2018, net of accumulated depreciation and impairment	855,614	406,925	100,706	838	1,104	1,365,187
Additions	–	62,161	6,787	764	314	70,026
Offsetting with government subsidies	–	(1,952)	–	–	–	(1,952)
Disposals	(301,900)	(34,025)	(3,669)	–	–	(339,594)
Disposal of subsidiaries	–	(11,583)	(3,645)	–	–	(15,228)
Depreciation provided during the year *(note 8)*	(29,968)	(121,699)	(36,851)	(504)	–	(189,022)
Transfers	(67,018)	15,757	(14,471)	–	(1,286)	(67,018)
Exchange realignment	(23,528)	(14,053)	(2,013)	(24)	(16)	(39,634)
At 31 December 2018, net of accumulated depreciation and impairment	433,200	301,531	46,844	1,074	116	782,765
At 31 December 2018:						
Cost	550,925	1,112,968	232,993	4,609	116	1,901,611
Accumulated depreciation and impairment	(117,725)	(811,437)	(186,149)	(3,535)	–	(1,118,846)
Net carrying amount	433,200	301,531	46,844	1,074	116	782,765

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017						
At 1 January 2017:						
Cost	748,623	1,078,479	483,405	13,600	87,732	2,411,839
Accumulated depreciation and impairment	(73,401)	(563,598)	(310,373)	(11,732)	–	(959,104)
Net carrying amount	675,222	514,881	173,032	1,868	87,732	1,452,735
At 1 January 2017, net of accumulated depreciation and impairment	675,222	514,881	173,032	1,868	87,732	1,452,735
Additions	11,356	26,963	17,519	–	85,679	141,517
Offsetting with government subsidies	–	(61,441)	(605)	–	–	(62,046)
Disposals	(2,881)	(5,378)	(2,161)	(432)	–	(10,852)
Disposal of subsidiaries	(17,806)	–	(292)	–	–	(18,098)
Depreciation provided during the year *(note 8)*	(30,505)	(105,945)	(54,133)	(690)	–	(191,273)
Transfers	172,419	7,311	(39,956)	–	(175,365)	(35,591)
Exchange realignment	47,809	30,534	7,302	92	3,058	88,795
At 31 December 2017, net of accumulated depreciation and impairment	855,614	406,925	100,706	838	1,104	1,365,187
At 31 December 2017:						
Cost	968,524	1,107,857	400,148	6,292	1,104	2,483,925
Accumulated depreciation and impairment	(112,910)	(700,932)	(299,442)	(5,454)	–	(1,118,738)
Net carrying amount	855,614	406,925	100,706	838	1,104	1,365,187

Certificates of ownership in respect of certain buildings of TCL Communication Group located in Mainland China with a net carrying amount of HK$6,041,000, HK$6,339,000, HK$320,161,000 have not yet been issued by the relevant PRC authorities as at 31 December 2019, 2018 and 2017 respectively.

14. INVESTMENT PROPERTIES

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
At 1 January:			
Cost	184,281	138,867	119,378
Accumulated depreciation	(23,598)	(18,085)	(21,195)
Net carrying amount	160,683	120,782	98,183
At 1 January, net of accumulated depreciation	160,683	120,782	98,183
Disposals	–	(14,261)	(8,539)
Disposal of subsidiaries	–	–	(24,310)
Transfers	(72,038)	70,102	49,110
Depreciation provided during the year *(note 8)*	(4,851)	(6,755)	(6,875)
Exchange realignment	(2,106)	(9,185)	13,213
At 31 December, net of accumulated depreciation	81,688	160,683	120,782
At 31 December:			
Cost	99,361	184,281	138,867
Accumulated depreciation	(17,673)	(23,598)	(18,085)
Net carrying amount	81,688	160,683	120,782

TCL Communication Group's investment properties consist of land and buildings situated in Mainland China.

The investment properties are leased to third parties and certain related companies of TCL Communication Group under operating leases, further summary details of which are included in note 15 and 43(a) to the financial statements.

According to the valuation results provided by independent third parties, the fair values of the investment properties approximate to HK$237,515,000 at 31 December 2019.

15. LEASES

TCL Communication Group as a lessee

TCL Communication Group has lease contracts for various items of office premises, plant and machinery and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 43 to 63 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises generally have lease terms between 1 (non-inclusive) and 7 years, while plant and machinery have lease terms between 1 (non-inclusive) and 2 years and motor vehicles generally have lease terms between 2 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

(a) Prepaid land lease payments (before 1 January 2019)

	2018	**2017**
	HK$'000	*HK$'000*
Carrying amount at 1 January	85,534	100,263
Additions	–	5,729
Disposals	–	(1,410)
Disposal of subsidiaries	–	(10,964)
Transfers	(3,084)	(13,519)
Recognised in profit or loss during the year *(note 8)*	(1,404)	(1,769)
Exchange realignment	(3,800)	7,204
Carrying amount at 31 December	77,246	85,534

(b) Right-of-use assets

The carrying amounts of TCL Communication Group's right-of-use assets and the movements during the year ended 31 December 2019 are as follows:

	Prepaid land lease payments	**Office premises**	**Motor vehicles**	**Plant and machinery**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2019	77,246	97,794	779	432	176,251
Additions	–	8,971	314	–	9,285
Transfers	(4,282)	–	–	–	(4,282)
Depreciation charge *(note 8)*	(1,320)	(23,716)	(343)	(361)	(25,740)
Exchange realignment	(1,584)	(2,580)	(10)	(4)	(4,178)
As at 31 December 2019	70,060	80,469	740	67	151,336

(c) ***Lease liabilities***

The carrying amount of lease liabilities and the movements during the year ended 31 December 2019 are as follows:

	2019
	HK$'000
Carrying amount at 1 January	109,447
New leases	9,285
Accretion of interest recognised during the year *(note 9)*	5,987
Payments	(25,969)
Exchange realignment	(2,947)
Carrying amount at 31 December	95,803
Analysed into:	
Current portion	
Related companies	9,577
Non-related companies	19,054
Non-current portion	
Related companies	24,926
Non-related companies	42,246

Under these rental contracts with related companies, the minimum lease payment during the year ended 31 December 2019 was HK$8,357,000.

As at 31 December 2019, TCL Communication Group's right-of-use assets relating to these rental contracts with related companies amounted to HK$29,577,000.

The maturity analysis of lease liabilities is disclosed as follows:

	2019
	HK$'000
Within one year	28,631
In the second year	19,450
In the third to fifth years, inclusion	47,557
Beyond five years	165
Carrying amount at 31 December 2019	95,803

(d) ***The amounts recognised in profit or loss in relation to leases are as follows:***

	2019
	HK$'000
Interest on lease liabilities	5,987
Depreciation charge of right-of-use assets	25,740
Expense relating to short-term leases and leases of low-value assets	32,899
Deferred tax expense	(32)
Exchange realignment	(313)
Total amount recognised in profit or loss	64,281

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 38(c) and 42, respectively, to the financial statements.

TCL Communication Group as a lessor

TCL Communication Group leases its investment properties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by TCL Communication Group for the year ended 31 December 2019, 2018 and 2017 was HK$14,652,000, HK$21,142,000 and HK$18,078,000, respectively, details of which are included in note 7 to the financial statements.

At 31 December 2019, 2018 and 2017, the undiscounted lease payments receivable by TCL Communication Group in future periods as agreed under non-cancellable operating leases with its tenants are as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Within one year	7,360	7,854	9,661
In the second to fifth years, inclusive	4,927	1,905	3,386
	12,287	9,759	13,047

16. OTHER INTANGIBLE ASSETS

	Deferred development costs HK$'000	Intellectual property HK$'000	ALCATEL brand license HK$'000	Computer software and others HK$'000	Total HK$'000
31 December 2019					
Cost at 1 January 2019 net of accumulated amortisation	171,377	154,938	136,948	115,206	578,469
Additions	410,623	11,185	–	5,052	426,860
Disposals	–	(5,772)	–	(1,220)	(6,992)
Amortisation provided during the year *(note 8)*	(372,633)	(16,275)*	(23,232)*	(21,980)*	(434,120)
Exchange realignment	(4,432)	(631)	–	(1,320)	(6,383)
At 31 December 2019	204,935	143,445	113,716	95,738	557,834
At 31 December 2019:					
Cost	362,457	243,973	311,824	194,860	1,113,114
Accumulated amortisation	(157,522)	(100,528)	(198,108)	(99,122)	(555,280)
Net carrying amount	204,935	143,445	113,716	95,738	557,834

	Deferred development costs HK$'000	Intellectual property HK$'000	ALCATEL brand license HK$'000	Computer software and others HK$'000	Total HK$'000
31 December 2018					
Cost at 1 January 2018, net of accumulated amortisation	355,832	165,139	160,425	103,458	784,854
Additions	405,177	8,226	–	55,110	468,513
Disposals	–	–	–	(593)	(593)
Disposal of subsidiaries	–	–	–	(16,460)	(16,460)
Amortisation provided during the year *(note 8)*	(579,383)	(17,860)*	(23,477)*	(22,414)*	(643,134)
Exchange realignment	(10,249)	(567)	–	(3,895)	(14,711)
At 31 December 2018	171,377	154,938	136,948	115,206	578,469
At 31 December 2018:					
Cost	251,804	246,993	311,824	193,338	1,003,959
Accumulated amortisation	(80,427)	(92,055)	(174,876)	(78,132)	(425,490)
Net carrying amount	171,377	154,938	136,948	115,206	578,469

	Deferred development costs HK$'000	Intellectual property HK$'000	ALCATEL brand license HK$'000	Computer software and others HK$'000	Total HK$'000
31 December 2017					
Cost at 1 January 2017, net of accumulated amortisation	896,473	165,438	183,902	64,479	1,310,292
Additions	994,832	14,371	–	56,637	1,065,840
Retirements and disposals	–	–	–	(2,750)	(2,750)
Amortisation provided during the year *(note 8)*	(1,593,568)	(16,168)*	(23,477)*	(18,945)*	(1,652,158)
Exchange realignment	58,095	1,498	–	4,037	63,630
At 31 December 2017	355,832	165,139	160,425	103,458	784,854
At 31 December 2017:					
Cost	2,571,446	239,523	311,824	172,792	3,295,585
Accumulated amortisation	(2,215,614)	(74,384)	(151,399)	(69,334)	(2,510,731)
Net carrying amount	355,832	165,139	160,425	103,458	784,854

* Being the amortisation of computer software, intellectual property and ALCATEL brand license charged to the consolidated statement of profit or loss of HK$61,487,000, HK$63,751,000 and HK$58,590,000 (note 8) during the year ended 31 December 2019, 2018 and 2017 respectively.

17. GOODWILL

	2019 HK$'000	2018 HK$'000	2017 HK$'000
Cost at 1 January, net of accumulated impairment	213,883	253,883	253,883
Impairment during the year	–	(40,000)	–
Net carrying amount at 31 December	213,883	213,883	253,883
At 31 December			
Cost	253,883	253,883	253,883
Accumulated impairment	(40,000)	(40,000)	–
Net carrying amount	213,883	213,883	253,883

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Research and development of mobile devices cash-generating unit;
- Research and development, manufacture and sale of mobile devices and other products cash-generating unit.

Research and development of mobile devices cash-generating unit

The recoverable amount of the research and development of mobile devices cash-generating unit has been determined based on a value in use calculation using cash flow based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 21% at 31 December 2019, 2018 and 2017 and cash flows are extrapolated using growth rates of sales volume of 3%-5% from 2020 to 2024 at 31 December 2019, 3%-10% from 2019 to 2023 at 31 December 2018 and 0%-5% from 2018 to 2022 at 31 December 2017.

Research and development, manufacture and sale of mobile devices and other products cash-generating unit

On 31 December 2019 and 2018, the recoverable amount of the research and development, manufacture and sales of mobile devices and other products cash-generating unit has been determined based on a value in use calculation using cash flow based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 21% at 31 December 2019 and 2018 and cash flows are extrapolated using growth rates of sales volume of 3%-5% from 2020 to 2024 at 31 December 2019 and 3%-10% from 2019 to 2023 at 31 December 2018.

On 31 December 2017, the recoverable amount of the research and development, manufacture and sales of mobile devices and other products cash-generating unit has been determined based on fair value less cost of disposal ("FVLCD"). The fair value of the cash-generating unit derived from the equity transaction of TCL Communication between its immediate holding company and three independent strategic investors on 9 October 2017 with a valuation model based on multipliers.

The carrying amount of goodwill allocated to each of the cash-generating unit is as follows:

	Research and development of mobile devices			**Research and development, manufacture and sale of mobile devices and other products**		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount of goodwill	146,927	146,927	146,927	66,956	66,956	106,956

Assumptions were used in the value in use calculation of the research and development of mobile devices cash-generating unit for the year ended 31 December 2019, 2018 and 2017 and in the calculation of the research and development, manufacture and sale of mobile devices and other products cash-generating unit for the year ended 31 December 2019 and 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – At 31 December 2019 and 2018, the basis used to determine the value assigned to the budgeted gross margins are the average gross margins achieved in the past years and the expectation for market development. At 31 December 2017, the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and the expectation for market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The value assigned to the key assumptions on market development and discount rates are consistent with external information sources.

The impairment of goodwill of HK$40,000,000 for the year ended 31 December 2018 related to cash-generating unit of the research and development, manufacture and sales of mobile devices and other products cash-generating unit. The impairment was made with reference to the estimated recoverable amount which was determined based on value in use calculation using cash flow projection approved by senior management. Management was of the view that such impairment was mainly caused by tough economic environment.

18. INVESTMENTS IN ASSOCIATES

	2019 *HK$'000*	2018 *HK$'000*	2017 *HK$'000*
Share of net assets	35,823	71,154	75,808
Goodwill on acquisition	77,211	77,211	3,221
	113,034	148,365	79,029
Provision for impairment	(1,204)	(1,330)	(3,221)
	111,830	147,035	75,808

TCL Communication Group's outstanding balances with the associates are disclosed in note 22, note 24, note 28 and note 29 to the financial statements.

The following table illustrates the aggregate financial information of TCL Communication Group's associates that are not individually material:

	2019 *HK$'000*	2018 *HK$'000*	2017 *HK$'000*
Share of the associates' losses for the year	(11,332)	(9,617)	(19,101)
Share of the associates' other comprehensive loss	–	–	(378)
Share of the associates' total comprehensive losses	(11,332)	(9,617)	(19,479)
Aggregate carrying amount of TCL Communication Group's investments in the associates	111,830	147,035	75,808

During the year ended 31 December 2018, TCL Communication Group increased the investment in an associate, Palm Ventures Group, Inc., which TCL Communication Group has significant influence, the particular of the associate is as follows:

Name	Place of incorporation	Percentage of shares directly held by TCL Communication Group	Principal activities
Palm Ventures Group, Inc.	United States	38.86%	Distribution of mobile devices and other products

19. INVESTMENTS IN JOINT VENTURES

	2019 *HK$'000*	2018 *HK$'000*	2017 *HK$'000*
Share of net assets	15,836	14,969	12,082
Goodwill on acquisition	13,270	13,270	13,270
	29,106	28,239	25,352

TCL Communication Group's outstanding balances with the joint ventures are disclosed in note 22, note 24, note 28 and note 29 to the financial statements.

The following table illustrates the aggregate financial information of TCL Communication Group's joint ventures that is not individually material:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Share of the joint ventures' profits/(losses) for the year	867	2,887	(41)
Share of the joint ventures' total comprehensive income/(losses)	867	2,887	(41)
Aggregate carrying amount of TCL Communication Group's investment in the joint ventures	29,106	28,239	25,352

20. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE INVESTMENTS

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Equity investments designated at fair value through other comprehensive income			
Listed equity investments, at fair value	9,865	14,025	–
Unlisted equity investments, at fair value	142,026	132,613	–
	151,891	146,638	–
Available-for-sale investments			
Listed equity investments, at fair value	–	–	99,660
Unlisted equity investments, at cost	–	–	210,382
	–	–	310,042

The above equity investments were equity investments irrevocably designated at fair value through other comprehensive income as TCL Communication Group considers these investments to be strategic in nature.

During the year ended 31 December 2019, 2018 and 2017, TCL Communication Group received dividends in the amount of HK$9,449,000, HK$4,442,000 and HK$1,317,000 from TCL Finance Co., Ltd., respectively.

During the year ended 31 December 2017, the gross gain in respect of TCL Communication Group's listed equity investment of HK$56,510,000 was reclassified from other comprehensive income to the consolidated statement of profit or loss for the year due to disposal of an available-for-sale investment.

As at 31 December 2017, the unlisted equity investments with a carrying amount of HK$210,382,000 were stated at cost less impairment because the range of reasonable fair value estimates is so significant that TCL Communication's Directors are of the opinion that their fair value cannot be measured reliably. TCL Communication Group does not intend to dispose of them in the near future.

21. INVENTORIES

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	433,077	651,057	857,024
Work in progress	22,435	8,679	19,403
Finished goods	819,536	751,995	1,081,994
	1,275,048	1,411,731	1,958,421

22. TRADE RECEIVABLES

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Stated at amortised cost			
Due from third parties	982,687	1,386,885	3,518,280
Due from related parties:			
Fellow subsidiaries*	2,183	14,647	4,513
Joint ventures*	28,705	56,069	18,868
Associates*	–	22,341	17,215
Other related companies*	2,320	72,214	9,164
Impairment	(33,019)	(39,008)	(65,573)
	982,876	1,513,148	3,502,467
Stated at fair value through profit or loss**	201,478	710,968	–
	1,184,354	2,224,116	3,502,467

* As at 31 December 2019, 2018 and 2017, the balances were unsecured, interest-free and have no fixed terms of repayment.

** TCL Communication Group has classified certain accounts receivables of customers as financial assets measured at fair value through profit or loss as these accounts receivables' business model is "hold to sell".

TCL Communication Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. TCL Communication Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that TCL Communication Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. TCL Communication Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The ageing analysis of the trade receivables as at 31 December 2019, 2018 and 2017, based on the invoice date, are as follows:

	2019	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Within 3 months	1,083,643	2,004,873	2,590,233
4 to 12 months	74,680	185,989	796,352
Over 12 months	59,050	72,262	181,455
	1,217,373	2,263,124	3,568,040
Impairment	(33,019)	(39,008)	(65,573)
	1,184,354	2,224,116	3,502,467

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

	2019	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
At the end of last year	39,008	65,573	38,501
Effect of adoption of HKFRS 9	–	2,412	–
At the beginning of current year	39,008	67,985	38,501
Impairment losses, net *(note 8)*	(3,282)	28,595	35,870
Amount written off as uncollectible	(2,706)	(57,870)	(8,680)
Exchange realignment	(1)	298	(118)
At the end of current year	33,019	39,008	65,573

There are no significant changes in the loss allowance.

Impairment of trade receivables under HKFRS 9 for the year ended 31 December 2019 and 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The loss allowance as at 31 December 2019 and 2018 is determined as follows:

As at 31 December 2019

		Past due				
	Current	**Due 1–30 days**	**Due >30 Days**	**Intervention**	**Significant risk**	**Total**
Range of expected credit loss rate	0.01% – 0.36%	0.01% – 0.72%	0.01% – 1.08%	4.67% – 36.59%	100.00%	0.01% – 100.00%
Gross carrying amount *(HK$'000)*	750,065	157,547	44,327	34,546	29,410	1,015,895
Expected credit loss *(HK$'000)*	144	91	30	3,344	29,410	33,019

As at 31 December 2018

		Past due				
	Current	**Due 1–30 days**	**Due >30 Days**	**Intervention**	**Significant risk**	**Total**
Range of expected credit loss rate	0.00% – 0.36%	0.00% – 0.72%	0.00% – 1.08%	15.00% – 30.00%	100.00%	0.00% – 100.00%
Gross carrying amount *(HK$'000)*	1,248,030	153,862	80,479	39,929	29,856	1,552,156
Expected credit loss *(HK$'000)*	610	140	76	8,326	29,856	39,008

Impairment of trade receivables under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of HK$65,573,000 with a carrying amount before provision of HK$148,384,000.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017
	HK$'000
Neither past due nor impaired	2,304,459
Less than 1 month past due	703,364
1 to 3 months past due	351,127
4 to 12 months past due	50,887
Over 12 months past due	9,819
	3,419,656

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with TCL Communication Group. Based on past experience, TCL Communication's Directors were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

23. FACTORED TRADE RECEIVABLES AND BANK ADVANCES ON FACTORED TRADE RECEIVABLES

During the Track Record Period, TCL Communication Group factored trade receivables to various banks for cash. For the factored trade receivables that TCL Communication Group retained substantially all risks and rewards or TCL Communication Group neither retained nor transferred substantially all of the risks and rewards due to the retention of slow payment risk (the risk that the receivables pay later than the due date), TCL Communication Group continued to recognise the full factored trade receivables or to the extent of its continuing involvement according to HKFRS 9 (HKAS 39 applicable before 1 January 2018). The balance of factored trade receivables is analysed as follows:

	2019	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Classification under HKAS 39			
Stated at amortised cost	–	–	55,574
Classification under HKFRS 9			
Stated at fair value through profit or loss	34,782	53,734	–

As at 31 December 2019, 2018 and 2017, the assets and the associated liabilities representing the extent of TCL Communication Group's continuing involvement in the factored trade receivables of which TCL Communication Group neither retained nor transferred substantially all of the risks and rewards, amounted to HK$21,772,000, HK$40,326,000 and HK$21,616,000 respectively.

As at 31 December 2019, 2018 and 2017, the factored trade receivables of which TCL Communication Group retained substantially all risks and rewards, and the associated liabilities which were the bank advances from the factored trade receivables, amounted to HK$13,010,000, HK$13,408,000 and HK$33,958,000 respectively. Together with the continuing involvement as mentioned above, the balance of factored trade receivables and bank advances on factored trade receivables amounted to HK$34,782,000, HK$53,734,000 and HK$55,574,000 as at 31 December 2019, 2018 and 2017.

Under HKAS 39 for the year ended 31 December 2017, no impairment was made on the factored trade receivables. The ageing analysis of the factored trade receivables that were not individually nor collectively considered to be impaired was as follows:

	2017
	HK$'000
Neither past due nor impaired	55,264
Less than 3 months past due	310
	55,574

The details of the transferred financial assets that are not derecognised in their entirety are included in note 44(i) and 44(ii) to the financial statements.

24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Stated at amortised cost			
Prepayments	93,384	97,215	164,251
Other receivables and other assets	415,074	569,562	929,703
Due from the ultimate holding company*	848,413	138,145	999
Due from fellow subsidiaries*	3,603,189	351,902	37,431
Due from joint ventures*	–	7	11,591
Due from associates*	116,312	130,767	109,101
Due from other related companies*	114,543	285,970	–
	5,190,915	1,573,568	1,253,076
Impairment	(21,774)	(26,702)	(44,127)
	5,169,141	1,546,866	1,208,949
Stated at fair value through profit or loss**	54,255	52,701	–
	5,223,396	1,599,567	1,208,949

* As at 31 December 2019, 2018 and 2017, the balances were mainly unsecured, interest-free and have no fixed terms of repayment expect for balance in financial settlement center which have been disclosed in note 43(b).

** TCL Communication Group has classified certain other receivables of customers as financial assets measured at fair value through profit or loss as these items are held for trading.

As at 31 December 2019, a subsidiary has pledged other receivables of approximately HK$784,689,000 to secure the loan from a related company (note 27).

The movements in the loss allowance for impairment of prepayments, other receivables and other assets are as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
At the end of last year	26,702	44,127	3,748
Effect of adoption of HKFRS 9	–	3,452	–
At the beginning of current year	26,702	47,579	3,748
Impairment losses, net *(note 8)*	(2,247)	(1,451)	40,053
Amount written off as uncollectible	(2,611)	(19,255)	–
Exchange realignment	(70)	(171)	326
At the end of current year	21,774	26,702	44,127

Impairment of financial assets included in prepayments, other receivables and other assets under HKFRS 9 for the year ended 31 December 2019 and 2018

Expected credit losses are estimated for other receivables, deposits and other assets by applying a loss rate approach with reference to the historical loss records of TCL Communication Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful". Set out below is the information about the credit risk exposure on TCL Communication Group's financial assets included in prepayments, other receivables and other assets:

As at 31 December 2019

	Normal	**Doubtful**	**Total**
Expected credit loss rate	0.00%-0.10%	99.34%	0.45%
Gross carrying amount *(HK$'000)*	4,811,053	18,979	4,830,032
Expected credit loss *(HK$'000)*	2,920	18,854	21,774

As at 31 December 2018

	Normal	**Doubtful**	**Total**
Expected credit loss rate	0.00%-2.86%	99.39%	2.06%
Gross carrying amount *(HK$'000)*	1,272,882	23,429	1,296,311
Expected credit loss *(HK$'000)*	3,462	23,240	26,702

Impairment of financial assets included in prepayments, other receivables and other assets under HKAS 39 for the year ended 31 December 2017

Under HKAS 39 for the year ended 31 December 2017, the individually impaired other receivables relate to debtors that were in financial difficulties and only a portion of the receivables is expected to be recovered. TCL Communication Group does not hold any collateral or other credit enhancements over the balances.

The ageing analysis of prepayments, other receivables and other assets that were not individually nor collectively considered to be impaired was as follows:

	2017
	HK$'000
Neither past due nor impaired	1,208,949

25. A FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Listed equity investment, at fair value	–	53,492	–

The above equity investment at 31 December 2018 was classified as financial assets at fair value through profit or loss as it was held for trading.

In April 2019, Jolly World Holdings Limited (a wholly-owned subsidiary of TCL Communication) sold 2,099,590 shares of Thunder Software Technology Co., Ltd.. The consideration for the transfer was RMB70,392,000 (equivalent to approximately HK$82,063,000).

26. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Cash and bank balances	198,383	452,722	492,823
Pledged deposits	389,822	5,852	220,896
	588,205	458,574	713,719
Less: Pledged deposits:			
– for factored trade receivables	283,565	5,852	–
– for banking facilities and other financial instruments	3,880	–	220,896
– others*	102,377	–	–
Cash and cash equivalents	198,383	452,722	492,823

* At 31 December 2019, the pledged deposits amounted to HK$32,705,000 are for bank guarantee issued for United Kingdom's customs deferment application and HK$69,672,000 are the disposal fund of a financial asset at fair value through profit or loss, which are temporarily restricted due to foreign exchange control.

As at 31 December 2019, 2018 and 2017, the cash and bank balances and pledged deposits of TCL Communication Group denominated in Renminbi ("RMB") amounted to HK$79,678,000, HK$265,131,000 and HK$416,560,000 respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, TCL Communication Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in TCL Communication Group's cash and bank balances and pledged deposits are deposits of nil, HK$57,332,000 and HK$33,639,000 at 31 December 2019, 2018 and 2017 respectively placed with TCL Finance Co., Ltd., a related company of TCL Communication Group, which is a financial institution approved by the People's Bank of China. In 2018 and 2017, the effective interest rate for these deposits was 0.01%-0.42% and 0.05%-1.62% per annum, being the savings rate offered by the People's Bank of China.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019		31 December 2018		31 December 2017	
	Maturity *(Year)*	*HK$'000*	Maturity *(Year)*	*HK$'000*	Maturity *(Year)*	*HK$'000*
Current						
Bank borrowings – unsecured	2020	385,757	2019	415,187	2018	917,999
Bank borrowings – secured*	2020	2,473,561	2019	1,764,630	2018	2,356,893
		2,859,318		2,179,817		3,274,892
Loan from a related company – secured**	2020	784,689		–		–
Non-current						
Bank borrowings – secured*		–	2020	164,464	2019	234,543
		3,644,007		2,344,281		3,509,435

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Analysed into:			
Within one year or on demand	3,644,007	2,179,817	3,274,892
In the second year	–	164,464	70,363
In the third to fifth years, inclusive	–	–	164,180
	3,644,007	2,344,281	3,509,435

* TCL Communication Group's secured interest-bearing bank borrowings of HK$2,473,561,000, HK$1,929,094,000 and HK$2,591,436,000 at 31 December 2019, 2018 and 2017 are bank advances, of which the total amount of HK$1,962,894,000, nil and nil are jointly guaranteed by the Ultimate Holding Company and TCL Tech and the total amount of HK$510,667,000, HK$1,929,094,000 and HK$2,591,436,000 are guaranteed by TCL Tech (note 43(b)).

** TCL Communication Group's loan from a related company of HK$784,689,000 in 2019 is from TCL Finance (Hong Kong) Co., Limited which is secured by the other receivables of TCL Communication Group amounting to HK$784,689,00 (note 24). The effective contractual interest rate is 3.00%.

The effects of interest rate swaps in TCL Communication Group's secured interest-bearing bank borrowings are further detailed in note 30 to the financial statements.

The effective contractual interest rates for the bank borrowings and other borrowings ranged from 2.38%-3.30%, 2.73%-3.85% and 2.16%-3.30% per annum in 2019, 2018 and 2017.

TCL Communication Group's interest bearing bank borrowings of HK$2,859,318,000, HK$2,344,281,000 and HK$3,509,435,000 in 2019, 2018 and 2017 are denominated in United States dollar and the loan from a related company of HK$784,689,000 in 2019 is denominated in RMB.

28. TRADE AND NOTES PAYABLES

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Due to third parties*	1,924,946	2,814,357	2,540,596
Due to related parties:			
The ultimate holding company**	–	–	745
Fellow subsidiaries**	28,919	137,399	172,725
Joint ventures**	659	–	–
Associates**	198	13	19
Other related companies**	167,868	24,030	194
	197,644	161,442	173,683
	2,122,590	2,975,799	2,714,279

* The trade payables are non-interest-bearing and have an average term of 90 days.

** As at 31 December 2019, 2018 and 2017, the balances were unsecured, interest-free and have no fixed terms of repayment.

The ageing analysis of the trade and notes payables as at 31 December 2019, 2018 and 2017, based on the invoice date, is as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Within 6 months	2,078,755	2,921,715	2,679,883
7 to 12 months	10,576	10,554	18,887
Over 12 months	33,259	43,530	15,509
	2,122,590	2,975,799	2,714,279

29. OTHER PAYABLES AND ACCRUALS

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Contract liabilities	46,188	192,177	–
Advanced from customers	–	–	117,954
Payroll and employee benefits payable	352,695	430,664	278,040
Other payables and accruals	2,042,921	2,515,081	3,541,712
Due to the ultimate holding company*	1,173,618	–	8,956
Due to fellow subsidiaries*	1,392,056	5,232	2,837
Due to joint ventures*	431	217	216
Due to associates*	47,982	62,337	10,448
Due to other related companies*	10,508	–	–
	5,066,399	3,205,708	3,960,163

* As at 31 December 2019, 2018 and 2017, the balances were mainly unsecured, interest-free and have no fixed terms of repayment except for balance in financial settlement center which have been disclosed in note 43(b).

Notes:

Details of contract liabilities as at 31 December 2019, 31 December 2018 and 1 January 2018 are as follows:

	31 December 2019 *HK$'000*	31 December 2018 *HK$'000*	1 January 2018 *HK$'000*
Short-term advances received from customers:			
Sale of mobile devices and other products	46,188	192,177	117,954

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2019				2018				2017	
	Assets *HK$'000*		Liabilities *HK$'000*		Assets *HK$'000*		Liabilities *HK$'000*		Assets *HK$'000*	Liabilities *HK$'000*
	Hedging	Non-hedging	Hedging	Non-hedging	Hedging	Non-hedging	Hedging	Non-hedging		
Forward currency contracts	5,829	55,577	1,371	46,635	12,078	110,615	404	60,980	62,543	57,974
Interest rate swaps	–	1,258	–	–	5,994	–	–	–	675	–
	5,829	56,835	1,371	46,635	18,072	110,615	404	60,980	63,218	57,974

Some forward currency contracts are designated as hedging instruments in cash flow hedges of forecast sales in EUR/GBP/MXN/CAD/KRW/RUB/RMB. These forecast transactions are highly probable, and they comprise up to 100% of TCL Communication Group's total expected sales in EUR/GBP/MXN/CAD/KRW/RUB/RMB. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

Some interest rate swaps contracts are designated as hedging instruments in cash flow hedges of the secured bank loan for working capital purpose. The interest rate swaps contract balances vary with the levels of the secured bank loan and changes in floating interest rates.

Cash flow hedge under HKFRS 9

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward and swap contracts match the terms of the expected highly probable forecast transactions and the secured bank loan (such as notional amount and expected payment date). TCL Communication Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the foreign exchange forward and swap contracts are identical to the hedged risk components, and will review the hedge ratio on a monthly basis to confirm if any rebalancing is required. Rebalancing the hedge ratio can be achieved by increasing or decreasing the volume of the hedged item/increasing or decreasing the volume of the hedging instrument. To measure the hedge effectiveness, TCL Communication Group uses the compares of the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the forecasted sales and the cash flows of the hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount	**Carrying amount**	**Line item in the statement of financial position**	**Change in fair value used for measuring hedge effectiveness for the year**
	HK$'000	*HK$'000*		*HK$'000*
As at 31 December 2019				
Foreign currency forward contracts	283,372	(1,371)	Derivative financial instruments (liabilities)	4,630
Foreign currency forward contracts	676,023	5,829	Derivative financial instruments (assets)	8,956
Interest rate swaps	–	–	Derivative financial instruments (assets)	(9,223)

	Notional amount *HK$'000*	Carrying amount *HK$'000*	Line item in the statement of financial position	Change in fair value used for measuring hedge effectiveness for the year *HK$'000*
As at 31 December 2018				
Foreign currency forward contracts	47,524	(404)	Derivative financial instruments (liabilities)	(69,866)
Foreign currency forward contracts	1,080,172	12,078	Derivative financial instruments (assets)	38,996
Interest rate swaps	469,896	5,994	Derivative financial instruments (assets)	(1,044)

The impacts of the hedged items on the statement of financial position are as follows:

	Change in fair value used for measuring hedge effectiveness for the year *HK$'000*	Cash flow hedge reserve *HK$'000*
As at 31 December 2019		
Highly probable forecast sales	13,586	3,124
Secured bank loan	(9,223)	–
	4,363	3,124
As at 31 December 2018		
Highly probable forecast sales	(30,870)	4,116
Secured bank loan	(1,044)	36
	(31,914)	4,152

The effects of the cash flow hedge on the statement of profit or loss and the statement of comprehensive income are as follows:

	Total hedging gains/(losses) recognised in other comprehensive income			Amount reclassified from other comprehensive income to profit or loss			Line item (gross amount) in the statement of profit or loss
	Gross amount	Tax effect	Total	Gross amount	Tax effect	Total	
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*	
Year ended 31 December 2019							
Highly probable forecast sales	13,586	(1,194)	12,392	(15,692)	2,308	(13,384)	Revenue/other income and gains
Secured bank loan	(9,223)	–	(9,223)	9,187	–	9,187	Finance costs

	Total hedging gains/(losses) recognised in other comprehensive income			Amount reclassified from other comprehensive income to profit or loss			Line item (gross amount) in the statement of profit or loss
	Gross amount	Tax effect	Total	Gross amount	Tax effect	Total	
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*	
Year ended 31 December 2018							
Highly probable forecast sales	(30,870)	15,419	(15,451)	35,302	(14,536)	20,766	Revenue/other income and gains
Secured bank loan	(1,044)	–	(1,044)	986	–	986	Finance costs

Cash flow hedge under HKAS 39

Forward currency contracts – cash flow hedges

The terms of the forward currency contracts match the terms of the commitments. The cash flow hedges relating to expected future monthly sales from January to December of 2018 were assessed to be highly effective and net losses of HK\$7,010,000 were included in the hedging reserve as follows:

	2017
	HK\$'000
Total fair value losses included in the hedging reserve*	(148,710)
Deferred tax on changes in fair value**	(11,516)
Reclassification from other comprehensive loss and recognised in the consolidated statement of profit or loss***	148,217
Deferred tax on reclassification to profit or loss**	4,999
Net losses on cash flow hedges	(7,010)

Interest rate swaps – cash flow hedges

	2017
	HK\$'000
Total fair value losses included in the hedging reserve*	(4,365)
Reclassification from other comprehensive loss and recognised in the consolidated statement of profit or loss *(note 8)****	4,459
Net gains on cash flow hedges	94

* The net effective portion of changes in fair value of hedging instruments arising during the year ended 31 December 2017 amounted to a debit of HK\$153,075,000.

** The net deferred tax on changes in fair value amounted to a debit of HK$6,517,000 during the year ended 31 December 2017 (note 34).

*** The total net losses on cash flow hedges reclassified from other comprehensive loss amounted to HK$152,676,000 during the year of 2017.

During the year ended 31 December 2017, the ineffective portion of the net losses on the forward currency contracts of HK$39,468,000 (note 8) were recognised in the consolidated statements of profit or loss.

For non-hedging currency derivatives

TCL Communication Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The net realised gains and net unrealised loss on changes in the fair value of non-hedging currency derivatives amounted to HK$42,845,000 (2018: Net loss of HK$155,475,000, 2017: Net gains of HK$457,471,000) and HK$39,748,000 (2018: Net gains of HK$54,688,000, 2017: HK$17,885,000) respectively, resulting in net gains of HK$3,096,000 (2018: Net loss of HK$100,787,000, 2017: Net gains of HK$475,356,000) (note 8) recognised in the consolidated statement of profit or loss during the year ended 31 December 2019. The maturity dates of derivative financial instruments are within one year.

Interest rate swap – non cash flow hedges

TCL Communication Group has entered into several interest rate swap contracts to manage its floating rate debts. These interest rate swap contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Gains on changes in the fair value of non-hedging interest rate swap amounting to HK$1,258,000 (2018: Loss of HK$393,000, 2017: Loss of HK$2,276,000) (note 8) was recognised in the statement of profit or loss during the year ended 31 December 2019. The maturity dates of the interest rate swap contracts are within one year.

31. PROVISION FOR WARRANTIES

The movements in the provision for warranties are summarised as follows:

	2019	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	255,976	305,867	317,435
Additional provision *(note 8)*	212,263	336,304	353,361
Amounts utilised during the year	(221,658)	(376,184)	(380,182)
Disposal of subsidiaries	–	(5,361)	–
Exchange realignment	(2,254)	(4,650)	15,253
At 31 December	244,327	255,976	305,867

TCL Communication Group generally provides warranties of 12 to 24 months to its customers on products, under which faulty products are repaired or replaced. The amount of the provision for warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the Track Record Period, the provision for warranties was not discounted, as the effect of discounting was not material.

32. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the pension plan are as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Retirement indemnities:			
Present value of fund obligation	3,469	4,868	4,431

Movements in retirement indemnities are as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	4,868	4,431	3,704
(Reversed)/recognised during the year	(967)	303	192
Exchange realignment	(432)	134	535
At 31 December	3,469	4,868	4,431

TCL Communication Group does not have any unfunded obligations.

The main assumptions used in the retirement indemnity computation for the pension plan are as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Discount rate	0.62%	1.57%	1.30%
Future salary increase rate per annum	1.00%	1.00%	1.00%

33. LONG SERVICE MEDALS

A subsidiary of TCL Communication incorporated in France, provides for the probable future long service medals expected to be made to employees. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the subsidiary to the end of the reporting period.

34. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Tax losses	Accruals and other provisions	Unrealised profit	Operating lease	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018	63,420	75,441	37,884	–	176,745
Effect of adoption of HKFRS 16	–	–	–	2,949	2,949
At 1 January 2019 (restated)	63,420	75,441	37,884	2,949	179,694
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year *(note 11)*	(57,028)	(9,655)	53,578	32	(13,073)*
Exchange realignment	(1,389)	(450)	–	–	(1,839)
Deferred tax assets at 31 December 2019	5,003	65,336	91,462	2,981	164,782

	Tax losses	Accruals and other provisions	Unrealised profit	Impairment of non-current assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2018	74,271	118,217	46,990	664	240,142
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year *(note 11)*	(8,017)	(40,035)	(9,106)	(657)	(57,815)*
Exchange realignment	(2,834)	(2,741)	–	(7)	(5,582)
Deferred tax assets at 31 December 2018	63,420	75,441	37,884	–	176,745

	Tax losses	Accruals and other provisions	Unrealised profit	Impairment of non-current assets	Cash flow hedges	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	88,709	127,702	42,386	621	2,444	261,862
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year *(note 11)*	(25,474)	(18,252)	4,604	–	–	(39,122)*
Deferred tax charged to the consolidated statement of comprehensive income during the year	–	—	–	–	(3,196)	(3,196)**
Exchange realignment	11,036	8,767	–	43	752	20,598
Gross deferred tax assets at 31 December 2017	74,271	118,217	46,990	664	–	240,142

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. TCL Communication Group had unrecognised tax losses of HK$1,331,572,000, HK$1,228,864,000 and HK$1,477,732,000 as at 31 December 2019, 2018 and 2017 respectively, expiring in five to ten years after occurrence, which were related to the subsidiaries in Mainland China and HK$4,146,674,000, HK$4,615,489,000 and HK$4,843,838,000 in 2019, 2018 and 2017 with infinite availability, which were related to overseas subsidiaries as at year end carried forward for offsetting against future taxable profits of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax loss can be utilised.

Deferred tax liabilities

	Cash flow hedges	Depreciation allowance in excess of related depreciation	Change in fair value	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2019	2,553	5,190	21,317	8,045	37,105
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 11)*	–	(4,026)	(10,991)	(3,513)	(18,530)*
Deferred tax (credited)/ charged to the consolidated statement of comprehensive income during the year	(1,114)	–	1,907	–	793**
Exchange realignment	(27)	(4)	(279)	–	(310)
Deferred tax liabilities at 31 December 2019	1,412	1,160	11,954	4,532	19,058

	Cash flow hedges *HK$'000*	Depreciation allowance in excess of related depreciation *HK$'000*	Change in fair value *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 31 December 2017	3,436	9,810	–	9,124	22,370
Effect of adoption of HKFRS 9	–	–	2,916	–	2,916
At 1 January 2018 (restated)	3,436	9,810	2,916	9,124	25,286
Deferred tax (credited)/charged to the consolidated statement of profit or loss during the year *(note 11)*	–	(4,640)	20,927	(1,079)	15,208*
Deferred tax credited to the consolidated statement of comprehensive income during the year	(883)	–	(1,955)	–	(2,838)**
Exchange realignment	–	20	(571)	–	(551)
Deferred tax liabilities at 31 December 2018	2,553	5,190	21,317	8,045	37,105

	Cash flow hedges *HK$'000*	Depreciation allowance in excess of related depreciation *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 1 January 2017	–	11,569	3,844	15,413
Deferred tax (credited)/charged to the consolidated statement of profit or loss during the year *(note 11)*	–	(1,847)	6,123	4,276*
Deferred tax charged to the consolidated statement of comprehensive income during the year	3,321	–	–	3,321**
Exchange realignment	115	88	(843)	(640)
Gross deferred tax liabilities at 31 December 2017	3,436	9,810	9,124	22,370

* Being the net deferred tax credit of HK$5,457,000, debit of HK$73,023,000 and debit of HK$43,398,000 *(note 11)* to the consolidated statement of profit or loss during the year ended 31 December 2019, 2018 and 2017 respectively.

** Being the total net deferred tax debit of HK$793,000, credit of HK$2,838,000 and debit of HK$6,517,000 to the consolidated statement of comprehensive income during the year ended 31 December 2019, 2018 and 2017 respectively.

At 31 December 2019, 2018 and 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of TCL Communication Group's subsidiaries established in Mainland China. In the opinion of TCL Communication's Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$6,348,369,000, HK$6,276,266,000 and HK$6,308,618,000 respectively.

35. SHARE CAPITAL

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Shares			
Issued and fully paid:			
1,278,984,117 ordinary shares	1,278,984	1,278,984	1,278,984

	Number of shares in issue	**Number of shares in issue**	**Number of shares in issue**
At 1 January 2017, 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,278,984,117	1,278,984,117	1,278,984,117

36. RESERVES

The amounts of TCL Communication Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages IIA-9 to IIA-11 of the financial statement.

TCL Communication Group's contributed surplus represents the excess of the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to TCL Communication Group's reorganisation prior to the listing of TCL Communication's shares, over the nominal value of TCL Communication's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations in the PRC and some overseas countries, certain portion of the profits of TCL Communication Group's subsidiaries established in the PRC and some overseas countries should be transferred to the statutory reserve which is restricted as to use.

At 31 December 2019, 2018 and 2017, TCL Communication Group's other reserve includes the excess of the consideration over the carrying amount of net assets acquired in business combinations under common control of HK$1,122,895,000, HK$1,122,895,000 and HK$1,122,895,000 respectively, the gain of changes in ownership of a subsidiary without loss of control of HK$244,000, HK$244,000 and HK$244,000 respectively, the gain of the acquisition of non-controlling interests in subsidiaries of HK$7,561,000, HK$7,561,000 and HK$901,000 respectively.

37. SHARE AWARD SCHEME

TCL Tech operates a restricted share award scheme ''TCL Corporation's Global Innovation Plan'' (the ''Share Award Scheme'') for the purpose to provide incentives to employees and to retain and encourage employees for the continual operation and development of TCL Communication Group. Eligible participants of the schemes include the employees of TCL Communication Group.

12,884,915 restricted shares were granted by TCL Tech on 21 March 2018, and the grant registration completed on 16 May 2018. 50% of the shares were released 12 months after the registration of grant, and the remaining 50% will be released 24 months after the registration of grant. The fair value of the restricted shares granted on 21 March 2018 was HK$2.09 per share. During the year ended 31 December 2018, 737,684 restricted shares were lapsed.

Awarded share reserve represented the deemed contribution from TCL Tech with respect to awarded shares granted by TCL Tech. During the year ended 31 December 2019, TCL Holdings becomes the ultimate holding company of TCL Communication. In the meanwhile, all the remaining awarded shares under Share Award Scheme were forfeited and unexercisable as the grantees no longer serve TCL Tech (the former ultimate holding company of TCL Communication), which led to the failure of meeting the vesting condition of the awarded shares.

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2019, TCL Communication Group had non-cash additions to right-of-use assets and lease liabilities of HK$9,285,000 and HK$9,285,000 respectively, in respect of lease arrangements for office premises and motor vehicles.

During the year ended 31 December 2018 and 2017, TCL Communication Group did not enter into major non-cash transactions.

(b) Reconciliation of liabilities arising from financing activities

2019

	Interest-bearing bank and other borrowings *HK$'000*	Bank advances on factored trade receivables *HK$'000*	Lease liabilities *HK$'000*
At 31 December 2018	2,344,281	53,734	–
Effect of adoption of HKFRS 16	–	–	109,447
At 1 January 2019 (restated)	2,344,281	53,734	109,447
Changes from financing cash flows during the year	1,304,788	(19,085)	(19,982)
New leases	–	–	9,285
Foreign exchange movement	(5,062)	133	(2,947)
Interest expense	–	–	5,987
Interest paid classified as operating cash flows	–	–	(5,987)
At 31 December 2019	3,644,007	34,782	95,803

2018

	Interest-bearing bank and other borrowings	Bank advances on factored trade receivables
	HK$'000	*HK$'000*
At 1 January 2018	3,509,435	55,574
Changes from financing cash flows during the year	(1,174,435)	(1,840)
Foreign exchange movement	9,281	–
At 31 December 2018	2,344,281	53,734

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019
	HK$'000
Within operating activities	38,886
Within financing activities	19,982
	58,868

39. BUSINESS COMBINATION

Acquisition of a new business under common control

On 25 August 2017, TCL Communication Group acquired 40.0% and 40.01% interests of Eastern Ray Investments Limited from Ultimate Rosy Limited (a fellow subsidiary of TCL Communication) and Power Plan Ventures Limited (a third-party) respectively. The purchase consideration for the acquisition was in the form of cash of US$1 respectively (equivalent to approximately HK$15) and fully paid on 29 September 2017.

Since TCL Communication and Eastern Ray Investments Limited are under common control of TCL Tech, TCL Communication Group adopted pooling of interests method to account for this transaction. No restatement of financial information in the consolidated financial statements for the periods prior to the combination under common control was made in applying the pooling of interests method.

The carrying amount of the identifiable assets and liabilities of Eastern Ray Investments Limited and its owned subsidiaries as at the date of combination were as follows:

	Carrying amount recognised on acquisition
	HK$'000
Total identifiable non-current assets at carrying amount	600
Total identifiable current assets at carrying amount (except for cash and cash equivalents)	134,338
Cash and cash equivalents	33,740
Total identifiable current liabilities at carrying amount	(1,155,388)
Total identifiable net liabilities at carrying amount	(986,710)
Other reserve *(note 36)*	992,663
Satisfied by:	
Cash	–
Available-for-sale investment	5,953

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

	HK$'000
Cash consideration	–
Cash and bank balances acquired	33,740
Net inflow of cash and cash equivalents included in cash flows from investing activities	33,740

Since its combination, the distribution telephone business contributed turnover of HK$36,303,000 and incurred losses of HK$25,169,000 for year ended 31 December 2017. Had the combination taken place at the beginning of 2017, the revenue of TCL Communication Group and the loss of TCL Communication Group for the year ended 31 December 2017 would have been HK$17,194,342,000 and HK$2,388,843,000 respectively.

40. DISPOSAL OF SUBSIDIARIES

Disposal of TCT Mobile – Telefones LTDA

On 31 March 2018, TCL Communication Group entered into a share purchase agreement with SEMP TCL INDÚSTRIA E COMÉRCIO DE ELETROELETRÔNICOS S.A., an associate of the Company, to dispose its 100% equity interest in TCT Mobile – Telefones LTDA at a consideration of USD60,583,000 (equivalent to approximately HK$475,525,000).

During the year ended 31 December 2019, TCL Communication Group also received USD17,290,000 (equivalent to approximately HK$135,628,000) from the disposal of TCT Mobile – Telefones LTDA in year 2018.

The carrying amounts of net assets disposed of as at the date of disposal were as follows:

	2018
	HK$'000
Total non-current assets at carrying amount	31,688
Total current assets at carrying amount (except for cash and cash equivalents)	482,079
Cash and bank balances	48,457
Total current liabilities at carrying amount	(38,151)
	524,073
Exchange fluctuation reserve	5,831
Loss on disposal of subsidiaries	(113,164)
Consideration	475,525
Accrual	(58,785)
Satisfied by:	
Cash	171,567
Other receivables	303,958
Accrual	(58,785)
	416,740

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	2019	2018
	HK$'000	*HK$'000*
Cash received from the disposal	135,628	171,567
Cash and bank balances disposed of	–	(48,457)
Net inflow of cash and cash equivalents included in cash flows from investing activities	135,628	123,110

Disposal of Huizhou Chuangjie Communication Technology Co., Ltd.* (惠州創捷通訊科技有限公司)

On 1 December 2017, TCL Communication Group entered into a share purchase agreement with Shenzhen Feima Kunlun Investment Co., Ltd* (深圳飛馬昆侖投資有限公司), an independent third party to TCL Communication Group, to dispose its 100% equity interests in Huizhou Chuangjie Communication Technology Co., Ltd.* (惠州創捷通訊科技有限公司) at a consideration of RMB143,353,000 (equivalent to approximately HK$165,802,000).

During the year ended 31 December 2018, TCL Communication Group also received RMB70,243,000 (equivalent to approximately HK$80,427,000) from the disposal of Huizhou Chuangjie Communication Technology Co., Ltd.* (惠州創捷通訊科技有限公司) in year 2017.

* *For identification purpose only*

The carrying amounts of net assets disposed of as at the date of disposal were as follows:

	2017
	HK$'000
Total non-current assets at carrying amount	53,080
Total current assets at carrying amount (except for cash and cash equivalents)	14,282
Cash and bank balances	1,450
Total current liabilities at carrying amount	(17,284)
	51,528
Exchange fluctuation reserve	(3,233)
Gain on disposal of a subsidiary	117,507
Consideration	165,802
Satisfied by:	
Cash	84,559
Other receivables	81,243
	165,802

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	2018	2017
	HK$'000	*HK$'000*
Cash received from the disposal	80,427	84,559
Cash and bank balances disposed of	–	(1,450)
Net inflow of cash and cash equivalents included in cash flows from investing activities	80,427	83,109

Disposal of other subsidiaries

During the year ended 31 December 2019, TCL Communication Group did not have any material disposal of subsidiaries. TCL Communication Group received HK$1,000,000 from the disposal of New Expert (Macao Commercial Offshore) Limited in year 2019.

During the year ended 31 December 2018, TCL Communication Group cancelled the registration of the subsidiaries of TCT Mobile (Singapore) Pte. Ltd., Berry Force Wireless Technology (Shenzhen) Co., Ltd.* (莓力無線科技(深圳)有限公司), and Topaid Investments Limited, which brought disposal gain of HK$199,000.

During the year 2017, TCL Communication Group disposed Huizhou Cellutel Communication Co., Ltd.* (惠州市賽洛特通訊有限責任公司) and Solar International Limited with the total consideration of HK$26,674,000, which brought cash outflow of HK$65,781,000 and disposal gain of HK$18,168,000.

* *For identification purpose only*

41. CONTINGENT LIABILITIES

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

(b) TCT Mobile – Telefones LTDA (a former subsidiary of TCL Communication, sold in March 2018) is currently a defendant in a lawsuit in Brazil with Brazil tax authority for improper application of tax credits for the period of 2012 and 2013 for a total amount of undue credit BRL 15,000,000, with the penalty and interests, the assessment is currently around BRL 45,000,000. According to the share purchase agreement between TCL Communication Group and the purchaser, any new provision that was identified within 1 January 2018 to the day of instalment of payment cover contingencies of TCT Mobile – Telefones LTDA for periods before 31 December 2017, the corresponding new provision amount would be deducted from the instalment. In June 2018, TCT Mobile – Telefones LTDA filed ordinary appeal and the court ordered the record remanded for a new trial of the administrative defense at March 2019. Up till to the report date, the lawsuits is still ongoing. TCL Communication Group's Directors, based on the response from the independent attorney in charge, expect that the litigation period will last for 3–5 years. TCL Communication Group has not make any provision as the directors, based on the advice from TCL Communication Group's Legal Counsel, believe that the TCT Mobile – Telefones LTDA has a valid defense against the allegation.

42. LEASE COMMITMENTS

(a) Operating lease commitments as at 31 December 2018 and 2017

TCL Communication Group leased certain of its office premises, warehouses and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to ten years.

At 31 December 2018 and 2017, TCL Communication Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	**2017**
	HK$'000	*HK$'000*
Within one year	43,017	35,501
In the second to fifth years, inclusive	62,539	92,296
Over five years	6,974	22,104
	112,530	149,901

(b) TCL Communication Group has a series of lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are HK$1,904,000 due within one year, and HK$1,492,000 due in the second to fifth years.

43. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, TCL Communication Group had the following transactions with related parties during the year ended 31 December 2019, 2018 and 2017:

	2019	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Transactions with the ultimate holding company:			
Interest expenses	885	22	–
Interest income	5,417	10	94
Fees and commission	5,196	1,027	6,892
Research and development costs	11,912	35,419	37,609
Services expenses and others	1,528	7,134	3,643
Transactions with fellow subsidiaries:			
Purchases of products and raw materials	154,573	878,361	1,095,050
Interest income	62,504	3,570	6,121
Rental charges	17,989	9,269	5,810
Rental income	7,667	13,484	12,126
Sales of products and materials	27,752	44,446	74,957
Sales of fixed assets, investment properties, buildings and affiliated office equipments	–	360,187	2,987
Purchases of fixed assets and intangible assets	2,854	208	5,358
Service expenses	8,762	1,639	268
Interest expenses	15,548	–	4
Service income	16,601	18,992	23,608
Depreciation of right-of-use assets	1,954	–	–
Interest on lease liabilities	649	–	–
Research and development costs and others	3,134	–	192
Transactions with joint ventures:			
Service income	10,612	6,921	4,576
Sales of products and raw materials	125,006	114,834	102,820
Rental income and others	1,431	1,650	3,903

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
Transactions with associates:			
Service income	9,194	–	–
Interest income	1,055	2,767	–
Sales of products and raw materials	8,894	75,552	–
Purchases of products and raw materials	6,593	6,547	19,360
Rental income and others	234	224	7,724
Transactions with other related companies*:			
Sales of products and raw materials	450,137	110,171	1,720
Purchases of products and raw materials	784,466	52,501	214
Research and development costs	28,121	–	–
Depreciation of right-of-use assets	5,861	–	–
Interest on lease liabilities	1,847	–	–
Service income and others	4,357	1,064	–

* TCL Tech and its subsidiaries are other related companies of TCL Communication Group after Restructuring.

(b) Other transactions with related parties

i. As at 31 December 2019, 2018 and 2017, TCL Tech has severally guaranteed certain bank loans made to TCL Communication Group up to HK$510,667,000, HK$1,929,094,000 and HK$2,591,436,000 respectively, and TCL Holdings and TCL Tech have jointly guaranteed certain bank loans made to TCL Communication Group up to HK$1,962,894,000, nil and nil respectively (note 27).

ii. In January 2019, Shenzhen Quanhuifeng Technology Limited* (深圳全滙豐科技有限公司) (a wholly-owned subsidiary of TCL Communication) entered into an agreement with TCL Tech to sell 33% of Huizhou Cellutel Communication Co., Ltd.* (惠州市賽洛特通訊有限責任公司)'s equity interest. The consideration for the transfer was RMB27,500,000 (equivalent to approximately HK$32,186,000).

iii. During the year 2019, TCL Communication (Shenzhen) Limited (a wholly-owned subsidiary of TCL Communication) set up a financial settlement center for deposit taking and loan granting within the group of TCL Holdings. During the year 2019, the financial settlement center took deposit from fellow subsidiaries of TCL Communication and the Ultimate Holding Company of RMB1,447,946,000 (equivalent to approximately HK$1,616,197,000) at the end of year 2019, and lent to fellow subsidiaries of TCL Communication of RMB2,299,585,000 (equivalent to approximately HK$2,566,796,000) at the end of year 2019.

iv. In February 2018, Most Success Holdings Limited (a wholly-owned subsidiary of TCL Communication) entered into an agreement with a fellow subsidiary of TCL Communication to sell 2.31% of Mango International Group Limited's equity interests. The consideration for the transfer was USD15,482,000 (equivalent to approximately HK$121,210,000).

v. In May 2018, TCL Communication had sold 15.63% of Reachfull Investment Limited's equity interest to TCL Industries. The consideration for the transfer was USD10,000,000 (equivalent to approximately HK$78,484,000).

vi. In September 2018, Huizhou TCL Mobile Communication Co., Ltd. (a wholly-owned subsidiary of TCL Communication) entered into an agreement with a fellow subsidiary of TCL Communication to sell 25.6% of Shanghai Naturedao Information Science and Technology Limited* (上海自然道信息科技有限公司)'s equity interest. The consideration for the transfer was RMB18,900,000 (equivalent to approximately HK$21,476,000).

* *For identification purpose only*

(c) Commitments with related parties

During the Track Record Period, subsidiaries of TCL Communication Group have entered into several leasehold contracts with related parties, to lease certain premises for TCL Communication Group's operation which have been disclosed in note 15(c) and note 42.

(d) Outstanding balances with related parties

i. As at 31 December 2019, TCL Communication Group have current interest-bearing borrowings from a related company which have been disclosed in note 27.

ii. As at 31 December 2019, 2018 and 2017, TCL Communication Group have certain deposits placed with TCL Finance Co., Ltd which have been disclosed in note 26.

iii. As at 31 December 2019, 2018 and 2017, details of TCL Communication Group's outstanding balances due from related parties are included in note 22 and note 24 to the financial statements.

iv. As at 31 December 2019, 2018 and 2017, details of TCL Communication Group's outstanding balances due to related parties are included in note 28 and note 29 to the financial statements.

(e) Compensation of key management personnel of TCL Communication Group

	2019	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Short-term employee benefits	17,832	14,089	16,834
Pension scheme contributions	657	322	501
Total compensation paid to key management personnel	18,489	14,411	17,335

(f) Loan to directors of TCL Communication

	At 31 December 2019	**Maximum amount outstanding during the year**	**At 31 December 2018 and 1 January 2019**	**Maximum amount outstanding during the year**	**At 31 December 2017 and 1 January 2018**	**Maximum amount outstanding during the prior year**	**At 1 January 2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Director	–	–	–	–	3,909	3,909	3,909

44. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

i. As part of its normal business, TCL Communication Group factored certain trade receivables to banks on a recourse basis for cash. In the opinion of the directors, as TCL Communication Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKFRS 9 from 1 January 2018 (HKAS 39 applicable before 1 January 2018) have not been fulfilled. TCL Communication Group continued to recognise the full carrying amounts of the factored trade receivables, and accordingly, bank advances from the factoring of TCL Communication Group's trade receivables have been accounted for as liabilities in the consolidated statement of financial position. The aggregate carrying amount of trade receivables factored as at 31 December 2019, 2018 and 2017 amounted to HK$17,622,000, HK$14,420,000 and HK$37,519,000 respectively and the carrying amount of bank advances on factored trade receivables as at 31 December 2019, 2018 and 2017 was HK$13,010,000, HK$13,408,000 and HK$33,958,000 respectively.

ii. During the year ended 31 December 2019, 2018 and 2017, TCL Communication Group entered into some trade receivable factoring arrangements and transferred certain trade receivables to banks. Under the arrangements, TCL Communication Group was required to pay interests to banks during the payment term of trade receivables or a certain period, using the less. TCL Communication Group is not exposed to default risks of the trade receivables after the transfer. Subsequent to the transfer, TCL Communication Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the arrangement that have not been settled as at 31 December 2019, 2018 and 2017 amounted to HK$942,525,000, HK$1,737,074,000 and HK$1,250,546,000 respectively. The carrying amount of the assets that TCL Communication Group continued to recognise and that of the associated liabilities as at 31 December 2019, 2018 and 2017 amounted to HK$21,772,000, HK$40,326,000 and HK$21,616,000 respectively.

Transferred financial assets that are derecognised in their entirety

As part of its normal business, TCL Communication Group factored certain trade receivables to some banks on a non-recourse basis for cash. In the opinion of the directors, as TCL Communication Group has transferred substantially all risks and rewards associated with the factored trade receivables, the financial asset derecognition conditions as stipulated in HKFRS 9 from 1 January 2018 (HKAS 39 applicable before 1 January 2018) have been fulfilled. Accordingly, TCL Communication Group has derecognised the full carrying amounts of the trade receivables. The aggregate carrying amount of trade receivables transferred as at 31 December 2019, 2018 and 2017 amounted to HK$214,182,000, HK$593,503,000 and HK$939,132,000 respectively.

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of TCL Communication Group's financial instruments as at 31 December 2019, 2018 and 2017:

Financial assets measured at fair value

31 December 2019	**Fair value measurement categorised into**			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments/financial assets at fair value through other comprehensive income				
Unlisted equity investments	–	–	142,026	142,026
Listed equity investments	9,258	–	607	9,865
Notes receivables	–	8,037	–	8,037
Derivative financial instruments	–	5,829	–	5,829
Financial assets at fair value through profit or loss				
Trade receivable	–	201,478	–	201,478
Other receivables	–	54,255	–	54,255
Factored account receivable	–	34,782	–	34,782
Derivative financial instruments	–	56,835	–	56,835

31 December 2018	Fair value measurement categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments/financial assets at fair value through other comprehensive income				
Unlisted equity investments	–	–	132,613	132,613
Listed equity investments	10,969	–	3,056	14,025
Notes receivables	–	8,558	–	8,558
Derivative financial instruments	–	18,072	–	18,072
Financial assets at fair value through profit or loss				
Listed equity investments	53,492	–	–	53,492
Trade receivable	–	710,968	–	710,968
Other receivables	–	52,701	–	52,701
Factored account receivable	–	53,734	–	53,734
Derivative financial instruments	–	110,615	–	110,615

31 December 2017	Fair value measurement categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments				
Listed equity investments	99,660	–	–	99,660
Derivative financial instruments	–	63,218	–	63,218

Financial liabilities measured at fair value

31 December 2019	Fair value measurement categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities at fair value through other comprehensive income				
Derivative financial instruments	–	1,371	–	1,371
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	–	46,635	–	46,635

31 December 2018	Fair value measurement categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities at fair value through other comprehensive income				
Derivative financial instruments	–	404	–	404
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	–	60,980	–	60,980

31 December 2017	Fair value measurement categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Derivative financial instruments	–	57,974	–	57,974

There have been no transfers between Level 1 and Level 2 during the year ended 31 December 2019, 2018 and 2017. The movements in fair value measurements within Level 3 during the year ended 31 December 2019, 2018 and 2017 are as follows:

	2019	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Equity investments designated at fair value through other comprehensive income – Level 3:			
At 1 January	135,669	–	–
Effect of adoption of HKFRS 9	–	321,618	–
At 1 January (restated)	135,669	321,618	–
Total gains/(losses) recognised in other comprehensive income	6,964	(35,356)	–
Purchase	–	7,849	–
Disposals	–	(158,442)	–
At the end of the year	142,633	135,669	–

The fair values of listed equity investments are derived from quoted prices.

At 31 December 2017, the unlisted available-for-sale investments of HK$210,382,000 (note 20) were stated at cost less any impairment losses as the fair value cannot be reliably measured because the probabilities of the various estimates within the range of reasonable fair value estimates cannot be reasonably assessed and used in estimating fair value.

For the year ended 31 December 2019 and 2018, the fair value of the unlisted equity investments has been estimated using EV/Sales, EV/EBIT and P/B models. The valuation requires management to make certain assumptions about the model inputs, including forecast enterprise value, forecast profit before tax. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimates of the fair value. As at 31 December 2019 and 2018, management has performed quantitative sensitivity analysis based on changes in the key unobservable inputs including average EV/Sales multiple of peers, average EV/EBIT multiple of peers, average P/B multiple of peers, a reasonably possible change 10% increase/decrease in the significant unobservable input would not result in material impact on fair value.

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

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, notes receivable, factored trade receivables, trade and notes payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, current portion of interest-bearing bank borrowings and other borrowings and bank advances on factored trade receivables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

TCL Communication Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the management. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the management.

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

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. TCL Communication Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2018 and 2017 was assessed to be insignificant.

TCL Communication Group enters into various forward currency contracts and interest rate swap transactions with international banks with A and B credit rating with Moody's and the biggest banks in Mainland China. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of these international banks, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

As at 31 December 2019, 2018 and 2017, the market to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

TCL Communication Group's exposure to market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk arises in the normal course of its business. These risks are managed by TCL Communication Group's financial management policies and practices described below:

Interest rate risk

TCL Communication Group's exposure to the risk of changes in market interest rates relates primarily to TCL Communication Group's long-term debt obligations with a floating interest rate. TCL Communication Group also held interest rate swap contracts designated as hedges in respect of expected interest payments for floating rate debts incurred by TCL Communication Group.

The following table demonstrates the sensitivity to a reasonably possible change in the United States dollar interest rate of TCL Communication Group's bank loans and interest rate swaps, with all other variables held constant, of TCL Communication Group's profit before tax and TCL Communication Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
		HK$'000	*HK$'000*
2018			
United States dollar	25	(1,147)	(3)
United States dollar	(25)	1,147	3

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		HK$'000	*HK$'000*
2017			
United States dollar	25	(2,221)	–
United States dollar	(25)	2,221	–

* *Excluding retained profits.*

There was no long term debt obligation and thus no significant interest rate risk in 2019.

Foreign currency risk

TCL Communication Group has transactional foreign currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. TCL Communication Group uses foreign currency forward contracts to reduce the foreign currency exposures.

It is TCL Communication Group's policy to negotiate the terms of the hedging instruments to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in exchange rates, with all other variables held constant, of TCL Communication Group's profit before tax (due to changes in the fair values of monetary assets and liabilities and non-hedging forward currency contracts) and TCL Communication Group's equity (due to changes in the fair value of hedging forward currency contracts).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		HK$'000	*HK$'000*
2019			
If EUR strengthens against Hong Kong dollar	5%	(7,165)	(8,802)
If EUR weakens against Hong Kong dollar	(5%)	7,164	8,802
If United States dollar strengthens against RMB	5%	3,081	(32,848)
If United States dollar weakens against RMB	(5%)	(3,081)	32,848
2018			
If EUR strengthens against Hong Kong dollar	5%	(57,579)	(7,643)
If EUR weakens against Hong Kong dollar	(5%)	57,806	7,643
If United States dollar strengthens against RMB	5%	42,716	(46,195)
If United States dollar weakens against RMB	(5%)	(42,716)	46,195
2017			
If EUR strengthens against Hong Kong dollar	5%	(26,731)	(24,894)
If EUR weakens against Hong Kong dollar	(5%)	26,731	24,894
If United States dollar strengthens against RMB	5%	14,698	(52,825)
If United States dollar weakens against RMB	(5%)	(14,698)	52,825

* *Excluding retained profits.*

Credit risk

All TCL Communication Group's cash and cash equivalents are deposited in major financial institutions, which management considers are of high credit quality. TCL Communication Group has relevant policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers.

Maximum exposure and year-end staging as at 31 December 2019 and 2018

The table below shows the credit quality and the maximum exposure to credit risk based on TCL Communication Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019 and 2018. The amounts presented are gross carrying amounts for financial assets.

31 December 2019

	12-month Expected credit losses	Lifetime Expected credit losses			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
Trade receivables*	–	–	–	1,015,895	1,015,895
Financial assets included in other receivables	4,811,053	–	18,979	–	4,830,032
Pledged deposits	389,822	–	–	–	389,822
Cash and cash equivalents	198,383	–	–	–	198,383
Notes receivable	8,037	–	–	–	8,037
Total	5,407,295	–	18,979	1,015,895	6,442,169

31 December 2018

	12-month Expected credit losses	Lifetime Expected credit losses			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
Trade receivables*	–	–	–	1,552,156	1,552,156
Financial assets included in other receivables	1,272,882	–	23,429	–	1,296,311
Pledged deposits	5,852	–	–	–	5,852
Cash and cash equivalents	452,722	–	–	–	452,722
Notes receivable	8,558	–	–	–	8,558
Total	1,740,014	–	23,429	1,552,156	3,315,599

* For trade receivables to which TCL Communication Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

Maximum exposure as at 31 December 2017

The credit risk of TCL Communication Group's financial assets, which comprise cash and cash equivalents, pledged deposit, other receivables, notes receivable, factored trade receivables, and trade receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. In order to minimise the credit risk, the management of TCL Communication Group has delegated a team responsible for determination of credit limits, credit approval and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, TCL Communication Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Besides, TCL Communication Group also utilises factoring facilities and credit insurance to minimise credit risk. In this regard, TCL Communication's Directors consider that TCL Communication Group's credit risk is minimal.

Further quantitative data in respect of TCL Communication Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in note 22 and note 24 to the financial statements respectively.

Liquidity risk

TCL Communication Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

TCL Communication Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. The maturity profiles of TCL Communication Group's interest-bearing bank borrowings and derivative financial instruments are disclosed in note 27 and note 30 to the financial statements respectively.

As at 31 December 2019, 2018 and 2017, other financial liabilities excluding interest-bearing bank borrowings, lease liabilities and derivative financial instruments of HK$43,011,000, HK$53,414,000 and HK$34,382,000 respectively. HK$5,348,346,000, HK$4,549,265,000 and HK$4,640,876,000 would be repayable on demand and mature within one year, as at 31 December 2019, 2018 and 2017 respectively.

Capital management

The primary objectives of TCL Communication Group's capital management are to safeguard TCL Communication Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain optimal capital structure to reduce the cost of capital.

TCL Communication Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, TCL Communication Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019, 2018 and 2017.

TCL Communication Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. TCL Communication Group's policy is to maintain the gearing ratio at an appropriate level. Net debt includes interest-bearing bank borrowings, lease liabilities, trade and notes payables, bank advances on factored trade receivables, other payables and accruals, loan from a related company and other non-current liabilities, less cash and cash equivalents and pledged deposits. Adjusted capital includes equity attributable to owners of the parent less hedging reserve. The gearing ratios as at the end of the reporting periods were as follows:

	2019	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Total interest-bearing bank and other borrowings	3,644,007	2,344,281	3,509,435
Lease liabilities	95,803	–	–
Trade and notes payables	2,122,590	2,975,799	2,714,279
Bank advances on factored trade receivables	34,782	53,734	55,574
Other payables and accruals	5,066,399	3,205,708	3,960,163
Other non-current liabilities	93,435	109,318	120,001
Less: Cash and cash equivalents	198,383	452,722	492,823
Pledged deposits	389,822	5,852	220,896
Net debt	10,468,811	8,230,266	9,645,733
Equity attributable to owners of the parent	(778,819)	(770,793)	58,912
Less: Hedging reserve	3,124	4,152	(1,105)
Adjusted capital	(781,943)	(774,945)	60,017
Adjusted capital and net debt	9,686,868	7,455,321	9,705,750
Gearing ratio	108%	110%	99%

47. STATEMENT OF FINANCIAL POSITION OF TCL COMMUNICATION

Information about the statement of financial position of TCL Communication at the end of the reporting period is as follows:

	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Other intangible assets	19,802	167,592	198,028
Property, plant and equipment	–	1,418	3,545
Right-of-use assets	8,674	–	–
Investments in subsidiaries	1,301,867	1,301,891	1,302,478
Total non-current assets	1,330,343	1,470,901	1,504,051
CURRENT ASSETS			
Due from related parties	2,114,392	2,117,162	2,159,564
Prepayments, other receivables and other assets	16,525	20,370	20,979
Cash and cash equivalents	133	2,024	1,693
Total current assets	2,131,050	2,139,556	2,182,236
CURRENT LIABILITIES			
Interest-bearing bank borrowings	163,519	70,484	93,817
Lease liabilities	3,833	–	–
Due to related parties	1,725,518	1,796,918	1,701,280
Other payables and accruals	9,571	10,182	11,108
Total current liabilities	1,902,441	1,877,584	1,806,205
NET CURRENT ASSETS	228,609	261,972	376,031
TOTAL ASSETS LESS CURRENT LIABILITIES	1,558,952	1,732,873	1,880,082
NON-CURRENT LIABILITIES			
Lease liabilities	5,668	–	–
Interest-bearing bank borrowings	–	164,464	234,543
Total non-current liabilities	5,668	164,464	234,543
Net assets	1,553,284	1,568,409	1,645,539
EQUITY			
Share capital	1,278,984	1,278,984	1,278,984
Reserves *(note a)*	274,300	289,425	366,555
Total equity	1,553,284	1,568,409	1,645,539

Note a:

A summary of TCL Communication's reserves is as follows:

	Contributed surplus *HK$'000*	**Share premium account** *HK$'000*	**Awarded share reserve** *HK$'000*	**Accumulated loss** *HK$'000*	**Total** *HK$'000*
At 1 January 2017	669,907	429,442	–	(698,332)	401,017
Total comprehensive loss for the year	–	–	–	(39,945)	(39,945)
Cease of share award scheme due to privatisation	–	5,483	–	–	5,483
At 31 December 2017 and 1 January 2018	669,907	434,925	–	(738,277)	366,555
Total comprehensive loss for the year	–	–	–	(90,231)	(90,231)
Share Award Scheme arrangement	–	–	13,101	–	13,101
At 31 December 2018	669,907	434,925	13,101	(828,508)	289,425
Effect of adoption of HKFRS 16	–	–	–	(51)	(51)
At 1 January 2019 (restated)	669,907	434,925	13,101	(828,559)	289,374
Total comprehensive loss for the year	–	–	–	(1,973)	(1,973)
Share Award Scheme arrangement	–	–	(13,101)	–	(13,101)
At 31 December 2019	669,907	434,925	–	(830,532)	274,300

TCL Communication's contributed surplus represents the excess of the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to TCL Communication Group reorganisation prior to the listing of TCL Communication's shares, over the nominal value of TCL Communication's shares issued in exchange therefore.

48. EVENTS AFTER THE TRACK RECORD PERIOD

(a) In August 2019, JRD Communication (Shenzhen) Ltd, a subsidiary of TCL Communication entered into the agreement (the "Agreement") for the sale of shares in TCL Finance Co., Ltd. with Shenzhen China Star Optoelectronics Technology Co., Ltd (the "Purchaser"), a subsidiary of TCL Tech. JRD Communication (Shenzhen) Ltd will sell all of its shares, being 4% of the entire equity interest of TCL Finance Co., Ltd., to the Purchaser. The matter is approved by China Banking and Insurance Regulatory Commission Guangdong Office on 25 February 2020 and the relevant agreement will take effect in the year of 2020. The Purchaser agreed to buy the shares on the terms and conditions set out in the Agreement and pay for around RMB72,877,000 (equivalent to approximately HK$81,346,000) to JRD Communication (Shenzhen) Ltd.

(b) The overall global market has been undergoing great uncertainty since the coronavirus disease 2019 (COVID-19) outbreak in the early 2020. The COVID-19 has certain impact on the business operations of TCL Communication Group. TCL Communication Group has been paying close attention to the development of pandemic and will adjust its strategy of marketing and supply chain promptly in order to minimise the potential impact on the financial position and operating results of TCL Communication Group.

49. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by TCL Communication, TCL Communication Group or any of the companies now comprises TCL Communication Group in respect of any period subsequent to 31 December 2019.

ASSET VALUATION REPORT ON THE 100% EQUITY INTEREST OF TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED PROPOSED TO BE ACQUIRED BY TCL ELECTRONICS HOLDINGS LIMITED

To TCL Electronics Holdings Limited,

China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司) ("China United") was appointed by the Company to evaluate the market value of the entire shareholders' equity of TCL Communication Technology Holdings Limited as at 31 December 2019, which is proposed to be acquired by TCL Electronics Holdings Limited. By complying with the laws, administrative regulations and asset valuation standards and upholding the principles of independence, objectivity and impartiality, we adopted the income approach and market approach and followed the necessary valuation procedures in conducting the valuation. The details of asset valuation are hereby reported as follows:

I. APPOINTER, EQUITY RIGHTS OWNERS, SUBJECT OF VALUATION AND OTHER USERS OF THE VALUATION REPORT

The appointer of this valuation is TCL Electronics Holdings Limited (the "Appointer"), the equity holder is Zhengjia Investment Limited (the "Equity Holder") and the subject of valuation is TCL Communication Technology Holdings Limited (the "Subject of Valuation"). Information in relation to the Appointer, the Equity Holder and the Subject of Valuation is provided as follows:

(1) APPOINTER

Company name:	TCL Electronics Holdings Limited (hereinafter referred to as "TCL Electronics")
Registered address:	P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Office address:	7/F, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong
Chairman of the board of directors:	LI Dongsheng
Certificate of Incorporation No.:	89238
Authorized share capital:	HK$3,000,000,000 (as of 31 December 2019)
Date of incorporation:	23 April 1999
Place of listing:	The Stock Exchange of Hong Kong Limited (hereinafter referred to as "Stock Exchange")
Stock code:	01070.HK

(2) Profile of the Equity Rights Owner

Company name:	Zhengjia Investment Limited
Company address:	OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands
Certificate of Incorporation No.:	1984405
Authorized capital:	HK$50,000.00
Issued capital:	HK$1.00
Company type:	Limited liability company
Date of incorporation:	3 July 2018
Term of operation:	Commencing from 3 July 2018 with no fixed term
Business scope:	Investment holding

(3) Profile of the Subject of Valuation

Company name:	TCL Communication Technology Holdings Limited ("TCL Communication")
Registered address:	Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands
Office address:	5th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.
Directors:	LI Dongsheng, GUO Aiping, WANG Cheng
Certificate of Incorporation No.:	133149
Authorized capital:	HK$2,000,000,000.00 (As at 31 December 2019)
Issued capital:	HK$1,278,984,117.00 (As at 31 December 2019)
Company type:	Private company limited by shares
Date of incorporation:	26 February 2004
Term of operation:	Commencing from 26 February 2004 with no fixed term

1. History of TCL Communication

TCL Communication was incorporated in the Cayman Islands on 26 February 2004, registered in Hong Kong on 19 April 2004. TCL Communication was listed on the Main Board of the Stock Exchange from 27 September 2004 to 30 September 2016 (former Stock Code: 2618). In October 2016, T.C.L. Industries Holdings (H.K.) Limited completed the acquisition of all the shares then in issue of TCL Communication other than the shares held by T.C.L. Industries Holdings (H.K.) Limited (including scheme shares, outstanding share options and unallotted awarded shares) by way of a scheme of arrangement for a consideration of approximately HK$3.51 billion and the privatized TCL Communication then became a wholly-owned subsidiary of T.C.L. Industries Holdings (H.K.) Limited. The total costs and expense involved in the privatization of TCL Communication by T.C.L. Industries Holdings (H.K.) Limited amounted to approximately HK$3.53 billion. On 19 October 2017, T.C.L. Industries Holdings (H.K.) Limited disposed of its 18%, 18% and 13% shareholding in TCL Communication to Unisplendour Technology Venture Capital Ltd., Oriente Grande Investment Fund L.P. and Vivid Victory Developments Limited for considerations of HK$180,000,000, HK$180,000,000 and HK$130,000,000 respectively; T.C.L. Industries Holdings (H.K.) Limited held 51% of TCL Communication upon the said changes in shareholding.

On 14 June 2019, each of Oriente Grande Investment Fund L.P. and Unisplendour Technology Venture Capital Ltd. disposed of their aggregate 36% shareholding in TCL Communication to T.C.L. Industries Holdings (H.K.) Limited for considerations of approximately HK$215,300,000 and approximately HK$215,270,000 respectively; T.C.L. Industries Holdings (H.K.) Limited held 87% of TCL Communication whereas Vivid Victory Developments Limited held 13% of TCL Communication upon the said changes in shareholding.

On 19 July 2019, T.C.L. Industries Holdings (H.K.) Limited disposed of its aggregate 87% shareholding in TCL Communication to Zhengjia Investment Limited for a consideration of approximately HK$4,076,440,000; Zhengjia Investment Limited held 87% of TCL Communication whereas Vivid Victory Developments Limited held 13% of TCL Communication upon the said change in shareholding.

On 31 December 2019, Vivid Victory Developments Limited disposed of its aggregate 13% shareholding in TCL Communication to Zhengjia Investment Limited for a consideration of approximately HK$172,530,000; Zhengjia Investment Limited holds 100% of TCL Communication upon the said change in shareholding.

As at the valuation benchmark date, the shareholding structure of TCL Communication was as follows:

Unit: HK$

No.	Name of shareholder	Amount of contribution	Percentage of contribution
1	Zhengjia Investment Limited	1,278,984,117.00	100.00%
	Total	**1,278,984,117.00**	**100.00%**

2. Company profile of TCL Communication

TCL Communication is solely a holding company which is principally engaged in investment, and its day-to-day management activities are mainly capital operations management and financial management, and is not engaged in specific production operations. Currently, the principal subsidiaries controlled by TCL Communication include JRD Communication (Shenzhen) Ltd, TCL Mobile Communication (HK) Company Limited, Huizhou TCL Mobile Communication Co., Ltd. and TCT Mobile (US) Inc., etc. and they are the representative subsidiaries of TCL Communication in the fields of research and development, procurement, production and sales. The particulars of the respective subsidiaries are as follows:

JRD Communication (Shenzhen) Ltd (hereinafter referred to as "JRD SZ"): As one of TCL Communication's four major research and development centers in China, JRD SZ focuses on providing research and development and design solutions for software and hardware of smartphones, tablets and wearable devices. The technology reserve of JRD SZ has a leading position in the domestic market and is regarded as one of the best in international market, and is one of the very few companies in the world that also holds patents for core technologies from 2G to 5G; is capable of delivering multi-language (Android, Firefox and Windows) system products for various platforms (Qualcomm, Spreadtrum, MTK); and has technical solutions such as GSM, GPRS, EDGE, CDMA, WCDMA, TD-SCDMA and LTE. JRD SZ is committed to providing software and hardware product research and development and design solutions for TCL Communication's TCL and Alcatel brands, mainly targeting its overseas markets in Europe, the United States and Latin America. It has maintained strong and long-term relationships with world-class mobile carriers such as Vodafone, T-Mobile, AT&T, Spring, Orange, Telefonica, Telcel and Digicel.

TCL Mobile Communication (HK) Company Limited: Incorporated in April 1999, it became a wholly-owned subsidiary of Huizhou TCL Mobile Communication Co., Ltd. since November 2011. It is currently a wholly-owned subsidiary of TCL Communication in Hong Kong engaged in supply chain activities, responsible for the development and introduction of key material suppliers to TCL Communication, electronic materials and equipment procurement, strategic inventory management; the main suppliers are Qualcomm, MTK, BYD, Samsung, etc.

Huizhou TCL Mobile Communication Co., Ltd. (hereinafter referred to as ''TMC''): As the global manufacturing and quality assurance center of TCL Communication, TMC has the world's leading SMT production lines and MMI fully automated testing system, and is the mobile device production base in China that possesses the largest single unit plant capacity. TMC has established a sound management system in line with international standards, and has obtained a series of management system certifications from TÜV Rheinland, including ISO 9001 Quality Management System Certification, ISO 14001 Environmental Management System Certification, QC 080000 Hazardous Substances in Electrical and Electronic Equipment Certification, OHSAS 18001 Occupational Health and Safety Management System Certification, SA 8000 Social Responsibility Management System Certification, TL 9000 Quality Management System for Telecommunications Certification as well as Global Security Verification/Anti-Terrorism System GSV. TMC is committed to continuously optimizing its operational management, improving product quality and continuously enhancing customer satisfaction, providing global consumers with various mobile communication device products under two brands, namely TCL and Alcatel, which are distributed to more than 150 countries and regions around the world, with established global operations.

TCL Communication (Shenzhen) Limited: Incorporated in December 2014 and is a wholly-owned subsidiary of TCL Communication in the PRC, responsible for TCL Communication's sporadic sales of smart devices such as mobile phones and tablets in the PRC. Apart from the above, in 2019, TCL Communication (Shenzhen) Limited established a clearing center committed to providing capital clearing and financing services to TCL Industries' subsidiaries.

TCT Mobile (US) Inc.: Incorporated in December 2011, TCT Mobile (US) Inc. is a wholly-owned subsidiary of TCL Communication in the United States. It operates two major brands, namely TCL and Alcatel, in the United States and is dedicated to providing innovative and reliable mobile device products and services to communication product consumers in the United States. The company has established a customer-centered sales system in the United States, with two offices in California and Seattle and approximately 100 employees, providing reliable sales support, technical support, after-sales maintenance and other services to major carriers and consumers in the United States.

3. ***Business scope:*** research and development, manufacture and sale of mobile devices and other products and rendering of services

4. ***Assets and financial conditions***

As at 31 December 2019, in the audited consolidated financial statements of TCL Communication, the carrying amount of total assets, liabilities, net assets and net assets attributable to the parent company was HK$10,606,534,000, HK$11,385,353,000, HK$-778,819,000 and HK$-778,819,000 respectively. In 2019, TCL Communication recorded an operating revenue of HK$12,216,404,000, a net profit of HK$178,859,000 and a net profit attributable to owners of the parent company of HK$178,859,000. The assets, liabilities and operating conditions of TCL Communication for 2017, 2018 and 2019 on a consolidated basis are shown in the table below.

Assets, liabilities and financial conditions of TCL Communication for 2017–2019 (consolidated)

Unit: HK$'0000

Item	31 December 2017	31 December 2018	31 December 2019
Total assets	1,083,632.90	831,751.10	1,060,653.40
Liabilities	1,077,075.70	908,830.40	1,138,535.30
Net assets	6,557.20	-77,079.30	-77,881.90
Net assets attributable to owners of the parent company	5,891.20	-77,079.30	-77,881.90
Item	**2017**	**2018**	**2019**
Operating revenue	1,716,834.50	1,483,500.30	1,221,640.40
Total profit before tax	-225,420.00	-38,878.90	19,001.90
Net profit after taxation	-234,794.60	-50,546.80	17,885.90
Net profit after taxation attributable to owners of the parent company	-235,405.90	-50,546.80	17,885.90
Auditors		Ernst & Young	

(4) OTHER VALUATION REPORT USERS SPECIFIED BY THE APPOINTER AND ASSET VALUATION ENGAGEMENT CONTRACT

This valuation report is used by the Appointer, TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司), relevant administrative and competent authorities, relevant regulatory authorities, and apart from the above-mentioned there are no other users of this asset valuation report.

Unless otherwise provided by the laws and regulations of China, no organization or individual shall become a user of this valuation report upon obtaining this valuation report without the consent of the valuer and the Appointer.

(5) THE RELATIONSHIP BETWEEN THE APPOINTER AND THE SUBJECT OF VALUATION

Both the Appointer and the Subject of Valuation are companies indirectly controlled by TCL Industries Holdings Co., Ltd..

II. PURPOSE OF VALUATION

In view of the proposed acquisition of 100% equity interest in TCL Communication by TCL Electronics, it is required to conduct a valuation on the market value of the entire shareholders' equity of TCL Communication involved in the above transaction as at the valuation benchmark date.

This valuation aims to reflect the market value of the entire shareholders' equity of TCL Communication as at the valuation benchmark date, so as to provide a value reference for the above economic activity of TCL Electronics.

III. SUBJECT AND SCOPE OF VALUATION

The Subject of Valuation is the entire equity attributable to owners of the parent company in the consolidated financial statements of TCL Communication. The scope of valuation covers all the assets and liabilities of TCL Communication as at the valuation benchmark date. The carrying amount of total assets, liabilities and net assets was HK$10,606,534,000, HK$11,385,353,000 and HK$-778,819,000 respectively. Specifically, current assets of HK$8,391,742,000; non-current assets of HK$2,214,792,000, among which property, plant and equipment of HK$704,250,000, investment properties of HK$81,688,000, goodwill of HK$213,883,000, other intangible assets of HK$557,834,000, right-of-use assets of HK$151,336,000, investments in joint ventures of HK$29,106,000, investments in associates of HK$111,830,000, equity instruments at fair value through other comprehensive income of HK$151,891,000, deferred tax assets of HK$164,782,000, other non-current assets of HK$48,192,000; current liabilities of HK$11,200,895,000; non-current liabilities of HK$184,458,000.

The above carrying amounts of assets and liabilities are extracted from the auditor's report issued by Ernst & Young, and the valuation is conducted on the basis of that an audit has been performed on the company.

The Appointer and the Subject of Valuation confirm that the scope of the valuation engagement is consistent with the purpose of this valuation and that the subject and scope of valuation is consistent with the subject and scope of the valuation involved in the economic activity.

(1) MAJOR PHYSICAL ASSETS VALUED

The book value of the physical assets included in the scope of valuation is HK$2,060,986,000, representing 19.43% of the total assets included in the scope of valuation. The physical assets are mainly inventories, housing and buildings, investment properties, machinery and equipment, transportation, office and electronic equipment, etc. These assets have the following characteristics:

1. The physical assets are mainly located in the area of Zhong Kai Hi-Tech Development District, Huizhou, Guangdong Province, in which TMC, a subsidiary of TCL Communication, is located, and Irvine, California, USA, in which TCT Mobile (US) Inc., a subsidiary of TCL Communication, is based.

2. Inventories include raw materials, finished goods and work in progress. Among which, there are more varieties of raw materials of larger amounts, mainly memory chips, baseband chips, LCD touch screens, resistors, ceramic capacitors, etc.; finished goods are mainly various models of mobile phones, tablets, wireless routers, Swap PCBA, handset, etc.; work in progress are products in different stages of production, mainly various clamps, test boxes, etc.

3. The housing and buildings are mainly office buildings, factories and dormitories with a total GFA of 242,322.11 square meters, of which 42,812.50 square meters are transferred from owner-occupied to investment properties. Located in the Zhong Kai Hi-Tech Development District, Huizhou, Guangdong Province and TCL High-Tech Industrial Park, Liu Xian Dong, Xili, Nanshan District, Shenzhen, the housing and buildings are currently in normal use.

4. Investment properties are mainly factories, dormitories and a small number of shops, all of which are transferred in from owner-occupied, with a total leased area of 42,812.50 square meters, which are currently leased.

5. Machinery and equipment are production equipment, mainly include surface mount machines, various protocol test systems, audio testers, power supply, industrial control machines, screw machines, etc.; vehicles are company vehicles, mainly include Buick sedan, Mercedes-Benz sedan, etc.; electronic equipment are office equipment, include computers, servers, copiers, printers, etc. Currently, all types of equipment are maintained and in normal use.

(2) INTANGIBLE ASSETS UNDER VALUATION THAT HAVE BEEN ACCOUNTED OR NOT ACCOUNTED FOR

As at 31 December 2019, the valuation benchmark date, the intangible assets under valuation of TCL Communication and its subsidiaries that have been accounted for included land use rights, trademark rights, domain name, software copyrights, patents and proprietary technologies as well as purchased software, etc., all are currently in normal use.

1. A total of 2 land use rights have been included in the scope of this valuation. The land use rights were obtained by way of grant and the ''Real Estate Ownership Certificates'' have been obtained with TMC stated as the owner therein. Particulars of the land use rights are set out below:

Table 3-1 Particulars of Land Use Rights

No.	Immovable Property Certificate No.	Name of land parcel	Location of land parcel	Land use	Area of land use right (m^2)	Term of use	Term of land use right
1	Yue (2016) Huizhou Immovable Property Certificate No. 5007888–7991 (粵(2016)惠州市不動產權第5007888–7991號)	Land parcel no. 37	No. 86, Hechang 7th West Road, Zhong Kai High-Tech District, Huizhou	Industrial land	120,502.13	50 years	2011/12/8 to 2061/9/8
2	Yue (2018) Huizhou Immovable Property Certificate No. 5024221 (粵(2018)惠州市不動產權第5024221號)	Land parcel no. 38	No. 38 District, Zhong Kai High-Tech District, Huizhou	Urban residential	43,078.40	70 years	2012/2/4 to 2081/11/21

2. As confirmed by TCL Communication, other intangible assets that are in the scope of this valuation include purchased software, software copyrights, trademark rights, domain name, patents and proprietary technologies and customer relationships.

(1) Purchased software

The purchased software are mainly software for production, management and office use, mainly include enterprise information monitoring software, SAP financial software, after-sales management software, E-Sourcing system software, WMS software, EIP system software, SYMC antivirus software, IE image analysis software, integrated tester upgrade software, wireless router control software, etc.

(2) Software copyrights

As at the valuation benchmark date, TCL Communication and its subsidiaries reported 127 software copyrights, among which 63 software copyrights are owned by JRD SZ, 19 software copyrights are owned by Shenzhen TCL Creative Cloud Technology Co., LTD (hereinafter referred to as "Shenzhen Cloud"), 23 software copyrights are owned by TCL Communication Technology (Chengdu) Limited* (TCL通訊科技(成都)有限公司) (hereinafter referred to as "Communication (Chengdu)") and 22 software copyrights are owned by TCL Mobile Communication Technology (Ningbo) Limited* (TCL移動通信科技(寧波)有限公司) (hereinafter referred to as "Mobile (Ningbo)").

None of the 127 software copyrights are recorded as intangible assets in the books.

(3) Trademark rights

As at the valuation benchmark date, a total of 1,417 trademark rights that have been acquired by TCL Communication and its subsidiaries are within the scope of this valuation, with a majority of which are trademark rights of Palm and license of trademark rights of Alcatel and TCL computers. For the global distribution of registered trademark rights, please refer to Table 3–2.

Table 3-2 Distribution of Trademark Rights of TCL Communication and its subsidiaries

Region	China	United States	Europe	Other Regions	Total
Quantity	180	67	162	1,008	1,417
Percentage	12.70%	4.73%	11.43%	71.14%	100.00%

Of the 1,417 trademark rights, a total of 726 trademark rights were not recorded on the books.

(4) Domain name

As at the valuation benchmark date, TCL Communication and its subsidiaries obtained and reported a total of one domain name for valuation that was not recorded under assets in the books, with particulars set out in Table 3–3.

Table 3–3 Domain Name of TCL Communication and its subsidiaries

No.	Name of website	URL	Domain name	No. of website filing/license	Date of approval
1	TCL Communication (Shenzhen) Limited	www.palm-china.com	palm-china.com	粤ICP備 20003030號-1	2019/09/09

(5) Patents and proprietary technologies

As at the valuation benchmark date, a total of 4,943 patents and proprietary technologies have been obtained by TCL Communication and its subsidiaries and are within the scope of this valuation, of which 2,555 have been granted (2,483 are invention patents, 27 are utility model patents and 45 are design patents) and 2,388 patent applications are still pending (applications for 2,369 invention patents and 19 design patents). The major owners of the patents and proprietary technologies are TCL Communication, JRD SZ, TMC, TCL Communication Limited etc. The number of patents held by TCL Communication and its subsidiaries is shown in Table 3–4. Based on the scope of research and development and application direction, TCL Communication and its subsidiaries has divided its patents and proprietary technologies into eight patent project groups, which cover all the patents and proprietary technologies, either granted or applied for grant, of TCL Communication and its subsidiaries obtained by its in-house research and development efforts. The technical features and application areas of each patent technology group are detailed in Table 3–5.

Table 3-4 The Number of Patents of TCL Communication and its subsidiaries

	No. of invention patents	No. of utility model patents	No. of design patents	Total
Granted	2,483	27	45	2,555
Pending	2,369	0	19	2,388
Total	4,852	27	64	4,943

Table 3-5 Key Technical Features and Application Areas of TCL Communication and its Subsidiaries' Patents and Proprietary Technologies Group

No.	Name of Patent Project Group		Status of Major Technology	Status of Technology Application in Product	Characteristics of Technology and its Product
1	Wireless	4G/5G	Includes 4G/5G communication technology, configuring channel codec equalization to effectively improve code rate and fault tolerance; design enhancements to AAC, EVS, AMR-WB and other voice codec solutions to improve sound quality and audio of communication in complex RF environments; and targeted optimization of PowerControl at the communication protocol layer and Up&DownLink command.	The patented technology of this group can be applied to TCL Communication's products with wireless communication function.	With the application of this wireless communication technology, products can meet the mobile communication needs of cellular networks or local area networks.
		D2D	In end-to-end communication, based on short-range Bluetooth wifi and other wireless communications, an optimization scheme for wireless devices in search, pairing, encryption, etc. is proposed, and auxiliary variables such as Location Information and Environmental Information are introduced to help improve the success rate of pairing. Technical solutions for point-to-point connectivity and related LAN networking are prepared and D2D communication between any two or more devices over a short distance can be set up efficiently and flexibly. For NFC ultra-short-range communication, Middleware and Driver solutions are deployed for enhanced transfer rates and more robust support for upper-level mobile payments.		

No.	Name of Patent Project Group	Status of Major Technology	Status of Technology Application in Product	Characteristics of Technology and its Product
	IOT	Smart home, such as the interaction between smart end products and home appliances, portable devices. A technology solution based on Miracast and DLNA for multiple screen capture, content discovery, and performance sharing is developed to optimize the response time and latency rate of interoperability between different types of terminals by wired USB, HDMI and wirelessly connected Bluetooth. IP heterogeneous technologies have been developed for IOT devices in different network environments to ensure interconnectivity.		
2	OS	At the operating system level, designed a user-oriented metric model, and set up a unified user account configuration system, Account One, which can effectively simulate user behavior and manage multi-user accounts, designed a system resource control and scheduling architecture, enhance thread management, Thread Control, and memory optimization, Memory Optimization, and system anomaly monitoring and self-repair can be fully enabled, in the event of hardware and software abnormalities, such as errors in running software or hardware failure, the technology solution can be effectively activated to ensure stable and smooth operation of the entire system.	TCL Communication's intelligent terminal category products require the installation of OS operating system.	The technical support of the operating system coordinates the underlying hardware with the application system in the upper layer.

No.	Name of Patent Project Group	Status of Major Technology	Status of Technology Application in Product	Characteristics of Technology and its Product
3	APP	Targeting specific applications, application adaptation and optimization solutions for display and communication has been designed for popular mobile Internet applications. Based on the mainstream cloud application, Cloud, development platform and tools, a proprietary APP optimization engine for cloud applications such as operating environment and communication behavior is provided. For commercial applications customized for carriers, the protocol parameter adaptation system, Parameter Adaptation, has been designed for flexible and convenient customization of terminal parameters in multiple regions and under multiple operating networks worldwide, and over-the-air upgrade of all device software versions via OTA system is enabled.	All of TCL Communication's terminal products can be installed with System APP or third party APP.	The application of these APPs effectively enhances the end-user experience and enriches the terminal functions.
4	Safety	Includes mobile phone locking and unlocking, data security technology, smart privacy isolation and protection solutions have been designed and effectively satisfied the requirements of legal protection of personal privacy information in different regions worldwide (GDPR), SIM card locking and binding solutions have been designed for the requirements of carriers, SIMLock mechanism was introduced in the system Reboot module, user critical data and multimedia data encryption and decryption solutions have been designed based on the national secret algorithm SM3/SM4/SSF33 and special encryption chip ASIC to ensure information security in mobile payment and mobile social and other application scenarios.	According to the regional market requirements, TCL Communication applies security technology in products with high information security requirements.	Security technology can better protect information security and user privacy.

No.	Name of Patent Project Group		Status of Major Technology	Status of Technology Application in Product	Characteristics of Technology and its Product
5	Energy		Includes charging circuits, methods (including fast charge), and low-power technologies, battery performance degradation and anti- degradation solutions have been designed, the charging and discharging curves of the battery under normal and extreme environments have been fully optimized, fast charging and secure protection mechanism and hardware and software integrated extremely low power monitoring have been designed based on the Fast Charge design, it ensures the stable operation of the entire power system at relatively high charge current.	Charging and energy saving technologies are applied to end products with high power consumption requirements.	The technology ensures the efficiency and stability of terminal charging on the one hand, and contributes to a green future on the other hand.
6	PD	ME	Structure design, in addition to technical optimization in traditional structure areas such as microphone structure layout, it focuses on hyperboloid structure Hyperboloid, non-porous design Nonporous, multi-axis folding design, Multiaxis folding, and other new structures to achieve a comprehensive technical layout.	Structural and circuit design technologies are applied to products that require new molds and circuit diagrams.	Structural design is mainly the planning of the outer shell and internal structure, while circuit design is the planning and wiring of the circuit board.
		EE	Circuit design, in respect of hardware circuit design principles, various hardware circuit optimization solutions have been designed for main control modules, storage modules, display modules, charging & USB modules. Wiring optimization solutions have been designed for multi-layer circuit boards, Multilayer, in particular, for the layout that is significantly associated with electromagnetic compatibility EMC and electromagnetic radiation SAR.		

No.	Name of Patent Project Group		Status of Major Technology	Status of Technology Application in Product	Characteristics of Technology and its Product
7	ID	Design	Systematic design and optimization of the form and shape of the entire machine and color scheme.	ID technology is applied to products that require a new interface.	The technology can present users with a more diverse interface and interactive experience.
		UI	A solution in respect of user interface and main interaction modes that is different from traditional user interface is made. The new desktop interface and background wallpaper system, OneTouch, are designed to optimize the UI effects and control specifications of the small window widgets, Widget, in warehouse drag and drop, window size, interface presentation, widget customization, etc.		
8	M&T	Manufacture Method	Manufacture methods and tools, customizable and scalable production process for pilot production and mass production stages have been designed for different types of terminal products, focus has been put on the full optimization of Chip Yield and manual assembly manufacturing stations, the introduction of automatic screw locking and other production automation solutions. Intelligent Manufacturing, an intelligent manufacturing system in a 5G network environment, has been designed.	Manufacturing and testing technologies have been applied to mass-produced products.	The product quality standard is met by effectively guaranteeing the quality rate of the products manufactured in high-volume.

No.	Name of Patent Project Group	Status of Major Technology	Status of Technology Application in Product	Characteristics of Technology and its Product
	Test Method	Test methods and tools, RF synthesis testing and assembly line test system is designed for complex frequency band configuration, focuses have been put on optimizing the production RF calibration and parameter writing schemes for cellular networks and other wireless network functions, fully automated MMI basic function testing and spot check solutions based on the AI Manipulator, an artificial intelligence robotic arm, have been designed, key test methods such as whole machine weighing and appearance consistency testing have been designed.		

Of the 4,943 patents and proprietary technologies, a total of 4,743 patents and proprietary technologies are not recorded on the books.

(6) Customer Relationships

As at the valuation benchmark date, TCL Communication reported a total of 10 customer relationships, mainly represent customer relationships with major carrier clients from North America and Europe. Such customer relationships mainly cover cooperation in respect of smartphones, feature phones, tablets, smart connectivity, etc. TCL Communication has established long-term strategic partnerships with the 10 carrier clients.

TCL Communication confirmed that none of the 10 customer relationships above were recorded in the book under assets.

(4) Particulars of Principal subsidiaries

(1) As at the valuation benchmark date, there are 18 tier-one subsidiaries under TCL Communication, the main particulars of which are as follows:

List of TCL Communication's tier-one subsidiaries

No.	Company name	Date of incorporation	Certificate of incorporation no.	Registered address	Issued capital	Percentage of shareholding
1	JRD Communication Inc.	2005–09–08	675612	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	HK$24,000,000	100%
2	TCL Communication (BVI) Limited	2004–02–27	583605	Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, British Virgin Islands	US$1	100%
3	TCL Mobile Communication Holdings Limited	2003–02–12	533497	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$1	100%
4	Alpha Alliance Enterprises Limited	2003–12–12	571942	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$232	100%
5	Novel State Limited	2013–09–09	1790031	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$1	100%
6	TCT Mobile Worldwide Limited	2004–05–17	901599	5th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong	HK$1	100%
7	Superb Strength Global Limited	2013–12–19	1803655	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$1	100%

No.	Company name	Date of incorporation	Certificate of incorporation no.	Registered address	Issued capital	Percentage of shareholding
8	TCL Mobile HK Limited	2014–01–22	2029935	5th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong	HK$1	100%
9	Super Concept Global Limited	2016–10–17	1926090	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$1	100%
10	TCT Mobile Limited	2004–05–17	901669	5th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong	HK$10,000,000	100%
11	Excellence Success Limited	2013–09–24	1791987	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$1	100%
12	TCT Mobile (Australasia) Pty Ltd	2016–11–29	616 168 346	SWP Advisory Pty Ltd., Level 33, 264 George Street Australia Square, Sydney NSW 2000	A$1	100%
13	TCT Mobile Distribution Limited Liability Company	2015–11–04	01–09–272807	1123 Budapest, Nagyenyed utca 8–14	EUR450,000	100%
14	TCT Mobile MEA DMCC	2015–09–14	DMCC40374	Unit No. 404, Platinum Tower, Plot No: JLT-PH1-I2, Jumeirah Lakes Towers, Dubai – UAE	UAE Dirham 50,000	100%
15	Fast Rich Global Limited	2014–04–01	1818316	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$1	100%
16	Prime Union Investments Limited	2011–10–03	1673890	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$1	100%
17	Most Success Holdings Limited	2010–04–13	1580436	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$1	100%
18	Eastern Ally Investments Limited	2014–01–28	1809989	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US$1	100%

(2) As at the valuation benchmark date, the principal subsidiaries of TCL Communication include TMC, TCL Mobile Communication (HK) Company Limited, TCT Mobile International Limited, JRD SZ, Communication (Chengdu), Shenzhen Cloud, Huizhou TCL Cloud Technology Co., Ltd and TCL Communication (Shenzhen) Limited, etc. Particulars of the principal subsidiaries are as follows:

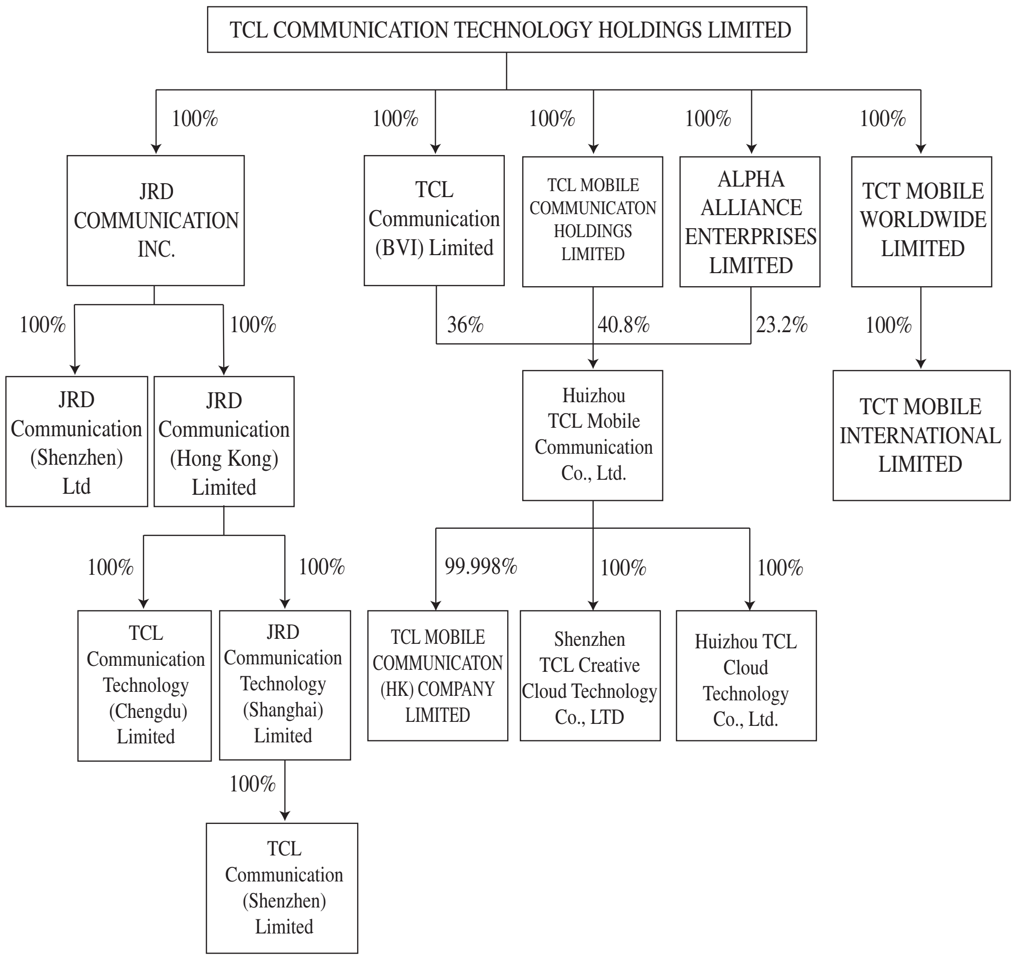
List of TCL Communication's principal subsidiaries

Unit: HK$'0000

No.	Name of subsidiary	Date of investment	Percentage of investment	Cost of investment	Book value
1	Huizhou TCL Mobile Communication Co., Ltd.	2011–12–01	100%	145,952.60	145,952.60
2	TCL Mobile Communication (HK) Company Limited	2019–11–13	100%	77,328.10	77,328.10
3	TCT Mobile International Limited	2008–02–19	100%	500.00	500.00
4	JRD Communication (Shenzhen) Ltd	2006–11–23	100%	7,775.39	7,775.39
5	TCL Communication Technology (Chengdu) Limited	2013–10–25	100%	9,319.25	9,319.25
6	Shenzhen TCL Creative Cloud Technology Co., LTD	2015–05–18	100%	6,697.20	6,697.20
7	Huizhou TCL Cloud Technology Co., Ltd	2015–01–21	100%	4,464.80	4,464.80
8	TCL Communication (Shenzhen) Limited	2019–12–19	100%	78,286.08	78,286.08

Note: The date of investment is the date of transfer of the last investment.

The shareholding structure of TCL Communication's principal subsidiaries



Particulars of TCL Communication's principal subsidiaries are as follows:

1. Huizhou TCL Mobile Communication Co., Ltd. (hereinafter referred to as "TMC")

Name	Huizhou TCL Mobile Communication Co., Ltd.
Place of registration	Huizhou, Guangdong Province, the PRC
Address	No. 86, Hechang 7th West Road, Zhong Kai Hi-Tech Development District, Huizhou
Legal representative	LYU Xiaobin
Registered capital	US$199,600,000
Company type	Limited liability company (foreign joint venture)

Date of incorporation	29 March 1999
Unified social credit code	91441300707771634N
Business scope	Development, manufacture and sale of mobile digital terminal equipment, electronic computers, tablets, home gateways, set-top boxes, modems, telephone equipment and other products and accessories related to the said products and other related products, and provision of related services; development and sale of software products and provision of related services; engaged in the wholesale, import and export, commission agency (other than auction) and related business of similar products produced by the company (no stores and not involved in commodities subject to state-owned trade management, applications in accordance with the relevant state regulations to be made in relation to commodities subject to quota and licence management).

TMC is a 100% owned and controlled subsidiary of TCL Communication and is a core asset of TCL Communication with production data, plant, production equipment, etc.

As at the valuation benchmark date, the shareholding structure of TMC was as follows:

Name of shareholders	**Amount of contribution**	**Percentage of contribution** *(%)*
TCL Communication (BVI) Limited	US$199,600,000	36
TCL Mobile Communication Holdings Limited		40.8
Alpha Alliance Enterprises Limited		23.2
Total	**US$199,600,000**	**100**

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of TMC was HK$10,609,662,400, HK$7,873,888,900 and HK$2,735,773,500 respectively. Among which current assets was HK$8,595,914,700; non-current assets was HK$2,013,747,700; current liabilities was HK$7,771,988,200 and non-current liabilities was HK$101,900,700. For January to December 2019, the operating revenue was HK$11,156,461,200 whereas the net profit was HK$275,006,300.

2. TCL Mobile Communication (HK) Company Limited (hereinafter referred to as "TMK")

Name	TCL Mobile Communication (HK) Company Limited
Place of incorporation	Hong Kong, the PRC
Registered address	5th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong
Issued capital	HK$773,281,000
Company type	Private limited company incorporated in Hong Kong
Date of incorporation	21 April 1999
Certificate of Incorporation No.	672845
Business scope	Distribution of mobile devices and components

TMK is a 100% owned and controlled subsidiary of TCL Communication and acts as the procurement platform of overseas materials for TCL Communication.

As at the valuation benchmark date, the shareholding structure of TMK was as follows:

Name of shareholders	Amount of contribution	Percentage of contribution (%)
Huizhou TCL Mobile Communication Co., Ltd.	HK$773,280,999	99.998
LI Dongsheng	HK$1	0.002
Total	**HK$773,281,000**	**100**

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of TMK was HK$4,165,755,900, HK$4,536,878,500 and HK$-371,122,600 respectively. Among which current assets was HK$4,155,130,300; non-current assets was HK$10,625,600; current liabilities was HK$4,536,878,500 and non-current liabilities was nil. For January to December 2019, the operating revenue was HK$5,885,925,600 whereas the net profit was HK$25,050,500.

3. TCT Mobile International Limited (hereinafter referred to as "HK10")

Name	TCT Mobile International Limited
Place of registration	Hong Kong, the PRC
Registered address	5th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong
Issued capital	HK$5,000,000
Company type	Private limited company incorporated in Hong Kong
Date of incorporation	11 May 2005
Certificate of Incorporation No.	969687
Business scope	Development and distribution of mobile devices and other products and rendering of services

HK10 is a 100% owned and controlled subsidiary of TCL Communication and is the largest sales platform of TCL Communication.

As at the valuation benchmark date, the shareholding structure of HK10 was as follows:

Name of shareholder	Amount of contribution	Percentage of contribution *(%)*
TCT Mobile Worldwide Limited	HK$5,000,000	100
Total	**HK$5,000,000**	**100**

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of HK10 was HK$3,865,188,700, HK$4,155,212,000 and HK$-290,023,300 respectively. Among which current assets was HK$3,712,972,500; non-current assets was HK$152,216,200; current liabilities was HK$4,003,219,300 and non-current liabilities was HK$151,992,700. For January to December 2019, the operating revenue was HK$11,144,202,800 whereas the net profit was HK$726,509,000.

4. JRD Communication (Shenzhen) Ltd (hereinafter referred to as "JRD SZ")

Name	JRD Communication (Shenzhen) Ltd
Place of registration	Shenzhen, Guangdong Province, the PRC
Address	8th Floor, TCL Communication Technology Building, Building F4, Phase 3, TCL International E City, No. 1001, Zhongshan Yuan Road, Xili Street, Nanshan District, Shenzhen
Legal representative	SUN Xiaofei
Registered capital	US$10,000,000
Company type	Limited liability company (wholly foreign-owned enterprise)
Date of incorporation	14 February 2006
Unified social credit code	914403007827865531
Business scope	Research and development of hardware and software for computers and mobile phones, sale of self-developed products, system integration and provision of related technical and consulting services.

JRD SZ is a 100% owned and controlled subsidiary of TCL Communication and is primarily responsible for software development for mobile devices.

As at the valuation benchmark date, the shareholding structure of JRD SZ was as follows:

Name of shareholder	Amount of contribution	Percentage of shareholding (%)
JRD COMMUNICATION INC.	US$10,000,000	100
Total	**US$10,000,000**	**100**

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of JRD SZ was HK$1,447,342,200, HK$121,449,200 and HK$1,325,893,000 respectively. Among which current assets was HK$1,307,702,400; non-current assets was HK$139,639,800; current liabilities was HK$117,392,900 and non-current liabilities was HK$4,056,300. For January to December 2019, the operating revenue was HK$651,741,900 whereas the net profit was HK$49,783,800.

5. TCL Communication Technology (Chengdu) Limited (hereinafter referred to as "Communication (Chengdu)")

Name	TCL Communication Technology (Chengdu) Limited
Place of registration	Chengdu, Sichuan Province, the PRC
Address	10th Floor, Block 11, Zone C, Tianfu Software Park, No. 219, Tianhua 2nd Road, Chengdu Hi-Tech District, Pilot Free Trade Zone (Sichuan), the PRC
Legal representative	HUANG Wanquan
Registered capital	US$12,000,000
Company type	Limited liability company (solely invested by corporation in Taiwan, Hong Kong or Macau)
Date of incorporation	21 January 2011
Unified social credit code	9151010056718498XH
Business scope	Research and development of software and hardware for computers and mobile phones, sale of self-developed products, system integration and provision of related technical and consulting services. (Approvals by relevant authorities must be obtained for projects that require approval in accordance with laws before operation)

Communication (Chengdu) is a 100% owned and controlled subsidiary of TCL Communication and is primarily responsible for software development for mobile devices.

As at the valuation benchmark date, the shareholding structure of Communication (Chengdu) was as follows:

Name of shareholder	Amount of contribution	Percentage of shareholding *(%)*
JRD Communication (Hong Kong) Limited	US$12,000,000	100
Total	**US$12,000,000**	**100**

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of Communication (Chengdu) was HK$1,342,382,300, HK$52,896,200 and HK$1,289,486,100 respectively. Among which current assets was HK$1,339,510,100; non-current assets was HK$2,872,200; current liabilities was HK$52,896,200 and non-current liabilities was nil. For January to December 2019, the operating revenue was HK$398,097,700 whereas the net profit was HK$37,628,300.

6. Shenzhen TCL Creative Cloud Technology Co., LTD (hereinafter referred to as "Shenzhen Cloud")

Name	Shenzhen TCL Creative Cloud Technology Co., LTD
Place of registration	Shenzhen, Guangdong Province, the PRC
Address	7th Floor, TCL Communication Technology Building, Building F4, Phase 3, TCL International E City, No. 1001, Zhongshan Yuan Road, Xili Street, Nanshan District, Shenzhen
Legal representative	SUN Xiaofei
Registered capital	RMB60,000,000
Company type	Limited liability company (wholly-owned by a legal person)
Date of incorporation	3 December 2014
Unified social credit code	91440300319528499C
Business scope	Technical development, technical consultation and sale of computers, cloud computing systems and mobile phone software and hardware; housing rental.

Shenzhen Cloud is a 100% owned and controlled subsidiary of TCL Communication and is primarily responsible for software development for mobile devices.

As at the valuation benchmark date, the shareholding structure of Shenzhen Cloud was as follows:

Name of shareholder	Amount of contribution	Percentage of contribution *(%)*
Huizhou TCL Mobile Communication Co., Ltd.	RMB60,000,000	100
Total	**RMB60,000,000**	**100**

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of Shenzhen Cloud was HK$461,534,300, HK$31,596,200 and HK$429,938,100 respectively. Among which current assets was HK$460,440,200; non-current assets was HK$1,094,100; current liabilities was HK$31,596,200 and non-current liabilities was nil. For January to December 2019, the operating revenue was HK$254,098,200 whereas the net profit was HK$52,524,800.

7. Huizhou TCL Cloud Technology Co., Ltd* (惠州TCL雲創科技有限公司) (hereinafter referred to as "Huizhou Cloud")

Name	Huizhou TCL Cloud Technology Co., Ltd
Place of registration	Huizhou, Guangdong Province, the PRC
Address	Floors 5–6 and 11–14, TCL Technology Building, No. 17, Huifeng 3rd Road, Zhong Kai High-Tech Development District, Huizhou
Legal representative	YAO Baoli
Registered capital	RMB40,000,000
Company type	Limited liability company (wholly-owned by a legal person)
Date of incorporation	12 December 2014
Unified social credit code	914413003247815956
Business scope	Technical development and sale of software and hardware for computers and mobile phones, system integration and provision of related technical and consulting services; import and export of goods and technologies, technical services, technology transfer. (Approvals by relevant authorities must be obtained for projects that require approval in accordance with laws before operation)

Huizhou Cloud is a 100% owned and controlled subsidiary of TCL Communication and is primarily responsible for software development for mobile devices.

As at the valuation benchmark date, the shareholding structure of Huizhou Cloud was as follows:

Name of shareholder	Amount of contribution	Percentage of contribution *(%)*
Huizhou TCL Mobile Communication Co., Ltd.	RMB40,000,000	100
Total	**RMB40,000,000**	**100**

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of Huizhou Cloud was HK$526,918,500, HK$36,258,400 and HK$490,660,100 respectively. Among which current assets was HK$521,073,200; non-current assets was HK$5,845,300; current liabilities was HK$35,414,100 and non-current liabilities was HK$844,300. For January to December 2019, the operating revenue was HK$198,451,100 whereas the net profit was HK$14,413,700.

8. TCL Communication (Shenzhen) Limited (hereinafter referred to as "Communication (Shenzhen)")

Name	TCL Communication (Shenzhen) Limited
Place of registration	Shenzhen, Guangdong Province, the PRC
Address	6th Floor, TCL Communication Technology Building, Building F4, Phase 3, TCL International E City, No. 1001, Zhongshan Yuan Road, Xili Street, Nanshan District, Shenzhen
Legal representative	HUANG Wanquan
Registered capital	RMB727,000,000
Company type	Limited liability company (wholly-owned by a legal person)
Date of incorporation	29 December 2014
Unified social credit code	91440300321715234K
Business scope	Research and development and production of mobile phones and tablets (production operations only conducted by branch companies); research and development, wholesale, import and export of mobile phones, tablets, communication products, computers, mobile Internet devices, intelligent terminal devices and accessories related to the said products and other related products, and related ancillary businesses (not involved in commodities subject to state-owned trade management, applications in accordance with the relevant state regulations to be made in relation to commodities subject to quota and licence management), as well as provision of technical services for the above products; development of software products.

Communication (Shenzhen) is a 100%-owned controlling subsidiary of TCL Communication and is primarily responsible for the distribution of mobile devices.

As at the valuation benchmark date, the shareholding structure of Communication (Shenzhen) was as follows:

Name of shareholder	Amount of contribution	Percentage of contribution (%)
JRD Communication Technology (Shanghai) Limited* (捷開通訊科技(上海)有限公司)	RMB727,000,000	100
Total	**RMB727,000,000**	**100**

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of Communication (Shenzhen) was HK$3,443,160,300, HK$3,573,224,600 and HK$-130,064,300 respectively. Among which current assets was HK$3,443,159,900; non-current assets was HK$400; current liabilities was HK$3,568,045,000 and non-current liabilities was HK$5,179,600. For January to December 2019, the operating revenue was HK$96,921,400 whereas the net profit was HK$45,188,900.

(5) CLASS AND QUANTITY OF OFF-BALANCE SHEET ASSETS APPLIED FOR VALUATION

As confirmed by the Appointer and the Subject of Valuation, as at the valuation benchmark date, i.e. 31 December 2019, all the assets applied for valuation have been accounted for, and no off-balance sheet assets are applied for valuation, other than those 127 software copyrights, 726 trademark rights, 1 domain name, 4,743 patents and proprietary technologies and 10 customer relationships as mentioned in the preceding paragraphs that have not been accounted for.

(6) THE CLASS, QUANTITY AND CARRYING AMOUNT OF THE ASSETS AS REFERRED TO IN THE CONCLUSIONS OF CITED REPORTS ISSUED BY OTHER ORGANIZATIONS

The carry amounts of the consolidated assets and liabilities as at the valuation benchmark date in this valuation report is based on the audit conducted by Ernst & Young. Apart from that, this valuation report does not cite any contents of reports issued by other organizations.

IV. VALUE TYPE AND DEFINITION

Based on the purpose of the valuation, the type of value to be valued is determined to be the market value.

Market value refers to the estimated value of an arm's length transaction made by the Subject of Valuation in the ordinary course of business on the valuation benchmark date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date for this valuation is 31 December 2019.

The valuation benchmark date is determined by the Appointer for the specific purposes of this valuation.

VI. BASIS OF VALUATION

The asset valuation mainly follows such valuation basis as basis of economic activity, basis of laws and regulations, basis of valuation standards, basis of asset ownership, and the basis of pricing in value estimation as well as other references, details of which are as follows:

(1) BASIS OF ECONOMIC BEHAVIOUR

Minutes of meeting of the strategy committee of TCL Electronics on the Proposed Acquisition of TCL Communication Group and Disposal of Moka International Group dated 2 April 2020.

(2) BASIS OF LAWS AND REGULATIONS

1. The Company Law of the People's Republic of China (Revised at the 6th Session of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 28 December 2013);

2. The Asset Valuation Law of the People's Republic of China (Adopted by the Standing Committee of the National People's Congress of the People's Republic of China on 2 July 2016);

3. The Land Administration Law of the People's Republic of China (Revised at the 11th Session of the Standing Committee of the 10th National People's Congress of the People's Republic of China on 28 August 2004);

4. The Urban Real Estate Administration Law of the People's Republic of China (Revised at the 10th Session of the Standing Committee of the 11th National People's Congress of the People's Republic of China on 27 August 2009);

5. The Property Law of the People's Republic of China (Order of the President of the People's Republic of China (No. 62) and adopted at the 5th Session of the National People's Congress of the People's Republic of China on 16 March 2007).

(3) BASIS OF VALUATION STANDARDS

1. Asset Evaluation Standards – Basic Standards (Cai Zi〔2017〕No. 43);

2. Code of Ethics for Assets Assessment (CAS〔2017〕No. 30);

3. Asset Evaluation Practicing Standards – Asset Evaluation Procedures (CAS〔2018〕No. 36);

4. Asset Evaluation Practicing Standards – Asset Appraisal Report (CAS〔2018〕No. 35);

5. Asset Evaluation Practicing Standards -Asset Appraisal Approaches (CAS〔2019〕No. 35);

6. Asset Evaluation Practicing Standards – Contract on Asset Evaluation Entrustment (CAS〔2017〕No. 33);

7. Asset Evaluation Practicing Standards – Asset Evaluation Files (CAS〔2018〕No. 37);

8. Asset Evaluation Practicing Standards – References to Experts and Related Reports (CAS〔2017〕No. 35);

9. Asset Evaluation Practicing Standards – Enterprise Value (CAS〔2018〕No. 38);

10. Asset Evaluation Practicing Standards – Real Property (CAS〔2017〕No. 38);

11. Guidelines for Business Quality Control of Asset Evaluation Agencies (CAS〔2017〕No. 46);

12. Guidance on Value Type for Asset Evaluation (CAS〔2017〕No. 47);

13. Guidance on Legal Ownership of Asset Evaluation Subject (CAS〔2017〕No. 48).

(4) BASIS OF ASSET OWNERSHIP

1. Land and house ownership certificates;

2. Registration Certificates of Computer Software Copyrights;

3. Registration Certificates of Trademarks;

4. Patent Certificates;

5. Purchase contracts or certificates for material assets.

(5) BASIS OF PRICING

1. Enterprise Income Tax Law of the People's Republic of China (as approved at the 26th meeting of the Standing Committee of the 12th session of National People's Congress of the PRC on 24 February 2017);

2. Regulations for the Implementation of Enterprise Income Tax Law of the People's Republic of China (as approved at the 197th executive meeting of the State Council on 28 November 2007);

3. The Provisional Regulations on Value Added Tax of the People's Republic of China (The State Council Decree of the PRC No. 691 in 2017);

4. Circular on Policies in relation to Deepening Value-Added Tax Reform (Circular of the Ministry of Finance, General Administration of Taxation and General Administration of Customs, No. 39 in 2019);

5. Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses (Notice of the Ministry of Finance, General Administration of Taxation, Ministry of Science and Technology and General Administration of Customs, No. 99 in 2018)

6. Future revenue forecast data provided by the Appointer and the Subject of Valuation;

7. The valuers' inquiry records through the open market, etc.;

8. The auditor's report on TCL Communication for 2017 to 2019 issued by Ernst & Young;

9. The prevailing tax rules and regulations currently implemented by TCL Communication and tax incentive documents provided by TCL Communication;

10. The exchange rate prevailing on the valuation benchmark date.

(6) MAIN REFERENCES

1. Hong Kong Financial Reporting Standards (issued by the Hong Kong Institute of Certified Public Accountants);

2. Code for Real Estate Appraisal (GB/T50291–2015);

3. Manual for Commonly-used Methods and Inputs for Asset Evaluation (China Machine Press, 2011 version);

4. Wind financial information terminal;

5. Bloomberg financial information terminal;

6. Investment Valuation ((US) written by Damodaran, and (Canada) translated by Lin Qian, Tsinghua University Press);

7. Valuation: Measuring and Managing the Value of Companies (3rd Edition) ((US) written by Copeland, T. and etc., and translated by Hao Shaolun and Xie Guanping, Electronic Industry Press);

8. Other references.

VII. VALUATION APPROACH

(1) SELECTION OF VALUATION APPROACH

In accordance with asset valuation standards, an appraisal of enterprise value may be conducted using the following three methods – income approach, market method and assets-based method. Income approach is the quantification and discounting of the expected profit of the total assets of a company, emphasizing the overall expected profitability of such company. Market method, characterized by valuation data being originated from market and valuation results being compelling, is the appraisal of the current fair market value of the Subject of Valuation by comparing with objects of reference in the market. Asset-based method is determining the value of the Subject of Valuation based on reasonable valuation of the assets and liabilities of an enterprise.

There are two methods used in the market approach, namely comparison with listed companies and comparison with transaction cases. Comparison with listed companies is a method that determines the value of the subject of valuation by analyzing available information on the operations and finance of comparable listed companies, determining applicable value ratio and making comparisons with the subject of valuation. As the transaction is conducted in Hong Kong and there is a relatively large number of comparable listed companies engaged in similar industry as the Subject of Valuation, market approach is considered to be appropriate for the valuation.

The production and operation conditions of the Subject of Valuation have matured and a series of consecutive historical financial data is available and can be used as a basis for the income method projection and for the purpose of future income forecast when combined with the company's business plan, therefore the income method is considered to be an option for this valuation.

The purpose of this evaluation is to provide a value reference for TCL Electronics' acquisition of equity interest in TCL Communication. In accordance with the Asset Valuation Practice Standards, the value of a single asset or group of assets as a component of a company's assets is generally affected by the extent of its contribution to the company when assessing the value of the company under going concern. The asset-based approach reflects the value of a company from the perspective of the purchase and establishment of the company and does not take into account the actual performance and operational efficiency of the company, nor does it reasonably reflect the future profitability of the company. Therefore, the asset-based approach is not considered to be appropriate for this valuation.

The valuation on TCL Communication is conducted by income approach and market approach and taken into account the characteristics of this project, conclusion based on income approach has been adopted as the basis of reference for the value of the entire shareholders' equity of TCL Communication.

(2) INTRODUCTION TO THE INCOME APPROACH

1. Overview

According to relevant requirements of the State Administration authorities, Practice Guidelines for Asset Appraisal – Enterprise Value as well as valuation practices for similar transactions internationally and domestically, the capital value of equity interests in TCL Communication has been valued by adopting the Discounted Cash Flow ("DCF") method based on income sources in this valuation.

Discounted Cash Flow is a method of appraising asset value by discounting the expected net cash flow of the enterprise in future, that is, the appraisal value is reached by appraising the expected net cash flow of the asset in future and then discounting it into the present value with applicable discount rates. The basic conditions for the application of this method include the followings: (i) the enterprise possesses all bases and conditions to operate its business as a going concern; (ii) there is a positive correlation between operation and income; and (iii) future income and risks are predictable and quantitative. The difficulties of using DCF lie in the prediction of future expected cash flow as well as the objectivity and reliability of data collection and processing. The valuation is considered to be objective if and when the prediction on future expected cash flow can be relatively objective and fair, and the discount rate adopted is relatively reasonable.

2. General principles of valuation

Based on the results of due diligence for this valuation, the assets composition and characteristics of the main businesses of the Subject of Valuation, the main businesses of the legal entities within the consolidated financial statements of TCL Communication were production, research and development and sale of products such as mobile phones, tablets, smart connections which should be regarded as the same profit subject. Therefore this valuation exercise was conducted by estimating the equity value of the Subject of Valuation based on TCL Communication's audited consolidated financial statements. To begin with, the value of the operating assets were valued using discounted cash flow method (DCF) based on income sources, plus the value of other non-operating or surplus assets as at the reference date, to derive the enterprise value of the Subject of Valuation. Then, the interest-bearing debts were deducted from the corporate value to arrive at the value of the total equity value of the Subject of Valuation.

Basic principles of this valuation:

(1) In respect of the assets and main businesses included in the scope of the consolidated financial statements, the expected income (net cash flow) was estimated based on the trend of historical operating conditions in recent years and the types of businesses, and discounted to obtain the value of the operating assets;

(2) Cash assets (liabilities) as at the reference date which were included in the scope of the consolidated financial statements but were not taken into account in the expected income (net cash flow) during the valuation, were defined as surplus or non-operating assets (liabilities) existed as at the reference date, and their values were valued separately;

(3) The value of the entire shareholders' equity of the Subject of Valuation was arrived at by adding the value of the operating assets and of the surplus or non-operating assets derived as mentioned above, and deducting the interest-bearing debts due from the entity.

3. *Valuation model*

(1) Basic model

The basic model for this valuation is as follows:

$$P = E - M \qquad (1)$$

Where:

P: Appraised value of equity interest attributable to owners of the parent company;

E: Appraised value of owners' equity;

M: Appraised value of minority equity interest;

Where:

$$E = B - D \tag{2}$$

B: Enterprise value of the Subject of Valuation;

$$B = P + \sum C_i \tag{3}$$

P: Value of operating assets of the Subject of Valuation;

$$P = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{R_n}{r(1+r)^n} \tag{4}$$

Where:

R_i: The expected income (free cash flow) of the Subject of Valuation in the ith year in the future on consolidated statements basis;

R_n: The expected income (free cash flow) of the Subject of Valuation in a sustainable period on consolidated statements basis;

r: Discount rate;

n: The future operating term of the Subject of Valuation.

ΣC_i: The value of non-operating and surplus assets that exist as at the reference date.

$$C_i = C_1 + C_2 + C_3 + C_4 \tag{5}$$

Where:

C_1: Value of wholly-owned, controlling or non-controlling investments that do not reflect investment income in the expected income (free cash flow);

C_2: Value of cash or equivalent assets (liabilities) as at the reference date;

C_3: Value of construction in progress that was not taken into account when calculating the income in the expected income (free cash flow);

C_4: Value of assets including bad or idle equipment and properties as at the reference date;

D: Value of interest-bearing debts of the Subject of Valuation.

(2) Income metrics

In this valuation, the Company's free cash flow was used as an income indicator of its operating assets, as defined below:

R = net profit + depreciation and amortization + post tax interest on interest-bearing debt – additional capital (6)

Where:

Net profit = turnover + other income and gains – cost of sales – selling and distribution expenses – administrative expenses – research and development costs – other operating expenses – financing costs – income taxes (7)

Depreciation and amortization = depreciation and amortization in cost of sales and expenses for the period (selling and distribution expenses, administrative expenses and research and development costs)

Interest on interest-bearing debts net of tax = total interests on long-term and short-term interest-bearing debt × (1 – income tax rate)

Additional capital = investment in assets renewal + additional investment in long-term assets + incremental working capital (8)

Where:

Investment in assets renewal = renewal of buildings + replacement of machines and equipment + replacement of other equipment (electronics, transportation and etc.) + renewal of intangible assets (9)

Additional investments in long term assets = additional investments in fixed assets + additions to intangible or other long term assets (10)

Incremental working capital = current working capital – previous working capital (11)

Where:

Working capital = cash reserves + inventories + receivables – payables + funds lent – funds borrowed (12)

This valuation was based on the specific circumstances of the enterprise, assuming that the minimum amount of cash required to maintain the normal operation of the enterprise was the costs and expenses paid in cash for the year for a period of 14 days.

Costs paid in cash for the year = total cost of sales + total expenses during the period + income tax expenses – total costs not paid in cash (12–1)

Inventory turnover rate = costs paid in cash for the year/inventory at end of period (12–2)

Receivables turnover rate = operating revenue/receivables at the end of the period (12–3)

Payables turnover rate = costs paid in cash for the year/payables at the end of the period (12–4)

Receivables = notes receivables + accounts receivable – advances received + other receivables (net of non-operating other receivables) (12–5)

Payables = notes payable + accounts payable – prepayments + other payables (net of non-operating other payables) (12–6)

The expected future free cash flow of an enterprise is calculated according to its operating history and future market development, assuming that it would continue to operate as a going concern for a longer sustainable period after the forecast period, and the expected income of the Subject of Valuation in the sustainable period would be equal to the free cash flow for the final year of the forecast period. The value of the operating assets of the enterprise was calculated by discounting and adding the free cash flow which would be generated in the future operating term.

(3) Discount rate

This valuation adopted the weighted average cost of capital model (WACC) to determine the discount rate r

$$r = r_d \times w_d + r_e \times w_e \tag{13}$$

Where:

W_d: Debt ratio of the Subject of Valuation;

$$w_d = \frac{D}{(E+D)} \tag{14}$$

W_e: Equity to capital ratio of the Subject of Valuation;

$$w_e = \frac{E}{(E+D)} \tag{15}$$

r_e: Cost of equity capital, as determined based on the Capital Asset Pricing Model (CAPM);

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon \tag{16}$$

Where:

r_f: Risk-free rate of return;

r_m: Market expected return rate;

ε: Specific risk-adjusted factor of the Subject of Valuation;

β_e: Expected market risk factor of equity capital of the Subject of Valuation;

$$\beta_e = \beta_u \times (1 + (1-t) \times \frac{D}{E}) \tag{17}$$

β_u: Expected unleveraged market risk factor for comparable companies;

$$\beta_u = \frac{\beta_t}{1 + (1-t)\frac{D_i}{E_i}} \tag{18}$$

β_t: The expected market average risk factor for the shares (assets) of comparable companies;

$$\beta_t = 34\%K + 66\%\beta_x \tag{19}$$

Di, Ei: Interest-bearing debt and equity capital of comparable companies respectively.

(4) Determination of forecast period

The entity had been operating normally with relatively stable business conditions, thus the forecast period is set at 5 years, i.e. from 2020 to 2024, the revenue would remain stable starting from 2025 onwards.

(5) Determination of yielding period

In the course of the valuation process, we are not aware of any circumstances that would indicate the entity could not operate on a going concern basis for the foreseeable future, and as the entity would be able to operate as a going concern in the long run through normal renewal of long-term assets including fixed assets, the yielding period was determined on a perpetual basis.

(3) Introduction to Market Approach

1. Overview

The market approach is an option for valuation of enterprise value as required in the Asset Appraisal Practice Standards – Enterprise Value. The market approach in valuation of enterprise value refers to the method of determining the value of the subject of valuation by comparing the subject of valuation with comparable listed companies or comparable transaction cases. Two specific methods commonly used in market approach are the listed companies comparison method and the transaction cases comparison method.

The listed companies comparison method refers to the method of arriving at the value of the subject of valuation on the basis of the comparison analysis with the subject of valuation by analyzing the operating and financial data of listed companies in the capital market that are in the same or similar industry as the subject of valuation and calculating appropriate value ratios or economic indicators; and the transaction cases comparison method refers to the method of arriving at the value of the subject of valuation by analyzing the sale and purchase, acquisition and merger cases of companies in the same or similar industry as the subject of valuation, obtaining and analyzing the data of these transaction cases, as well as calculating appropriate value ratios or economic indicators.

This transaction is the acquisition of TCL Communication by a company listed in Hong Kong and is conducted in Hong Kong, there are quite a number of listed companies on the Stock Exchange that are alike or similar to that of the subject of valuation are more listed companies. The personnel of the valuer are able to access more comprehensive information and financial data disclosed by listed companies in the public media, and in view of the purpose of this valuation, the valuation is conducted by adopted the listed companies comparison method.

2. Principles of valuation

This valuation adopts the listed companies comparison method, which determine the market value of the entire shareholders' equity of the Subject of Valuation as at the valuation benchmark date by selecting comparable listed companies in the same industry or similar industries, and analyse with adjustment on the differences between the Subject of Valuation and each of the comparable companies in respects of profitability, development capability, operation capability, solvency, after taking into account the liquidity discount.

3. *Valuation Method*

1 Identify comparable listed companies. Select a sufficient number of comparable companies in the same industry or similar industries to understand the status of the principal business and select the appropriate comparable companies on the basis of comparability. A total of 9 comparable listed companies were selected for this valuation, including ZTE Corporation(0763.HK), Xiaomi Corporation-W(1810.HK), Putian Communication Group Limited (1720.HK), Coolpad Group Limited (2369.HK), Trigiant Group Limited (1300.HK), Comba Telecom Systems Holdings Limited (2342.HK), Yangtze Optical Fibre and Cable Joint Stock Limited Company (6869.HK), BYD Electronic (International) Company Limited (0285.HK), and O-Net Technologies (Group) Limited (0877.HK).

2 Select appropriate value ratios. Determine the appropriate value ratios based on the characteristics of the industry in which the subject company is in, after taken into account the applicability of the various value ratios.

3 Adjust the value ratios. Select appropriate adjustment factors to conduct quantitative scoring of indicators between the Subject of Valuation and comparable transaction cases; compare the score of the subject company with that of comparable transaction cases to obtain adjustment coefficient for each comparable case, then multiply by the respective value ratios to arrive at the adjusted value ratios of each comparable case; select appropriate statistical methods to determine the value ratios of the subject company.

4 Conduct calculations on the value ratios of the subject company with reference to corresponding economic indicators and take into account the discount for lack of liquidity so as to arrive at the value of the equity of the subject company.

VIII. PARTICULARS OF THE VALUATION PROCESS

The entire valuation work was carried out in four stages:

(1) PREPARATION STAGE OF THE VALUATION

1. The Appointer and the appraisal institution agreed on issues such as the purpose, the valuation benchmark date and the scope of the valuation, and a work plan for this asset valuation was prepared.

2. Collaborate with the entity to conduct asset inventory and complete the asset valuation declaration forms, etc. Members of the valuation team obtained a detailed understanding of the valued assets, arranged the assets valuation tasks, offered assistance to the enterprise in carrying out the reporting of the valuation assignment, and collected documents required for asset valuation were completed.

(2) ON-SITE ENGAGEMENT STAGE OF THE VALUATION

The main tasks of the on-site engagement stage were as follows:

1. Interviews were conducted with the Appointer, the Subject of Valuation and relevant stakeholders. The Appointer and relevant parties of the Subject of Valuation introduced the overall situation of the enterprise and the historical and current conditions of the valuated assets, and explained the financial system, operation situation, fixed assets and technological conditions of the enterprise.

2. Detailed reports on the asset inventory provided by the enterprise were verified, identified and checked against the corresponding financial data of the enterprise, and coordinated efforts were made in correcting any problems if identified.

3. The income forecast (predictive financial information) provided by the Subject of Valuation were inspected.

4. A verification of fixed assets by way of random check was carried out according to the detailed list of asset inventory and verified and random stock-taking have been carried out on the physical inventory assets within the current assets.

5. The technical information, completion and acceptance information of major facilities were inspected and the facility management system reviewed; pricing information of general facilities was collected through market research and inquiries of relevant data; the relevant information in relation to the management systems, maintenance, alteration and expansion of buildings and constructions was collected.

6. Title documents of the valuated assets were collected and reviewed, and the ownership information provided by the enterprise was verified.

7. A preliminary assessment of the assets and liabilities within the scope of the valuation was performed on the basis of verified information.

(3) VALUATION CONSOLIDATION STAGE

The preliminary results of the valuation on various types of assets and liabilities were analysed and consolidated, and necessary adjustments, amendments and improvements were made to the valuation results.

(4) REPORT SUBMISSION STAGE

On the basis of the above processes, an asset valuation report was drafted and preliminarily reviewed, and ideas were exchanged with the Appointer in respect of the valuation results. After independent analysis of relevant opinions had been carried out, corrections and adjustments were made according to the internal audit system for asset valuation report and procedures of the valuation institution and the final asset valuation report was produced.

IX. VALUATION ASSUMPTIONS

In this valuation, the valuer followed the valuation assumptions as below:

(1) GENERAL ASSUMPTIONS

1. Transactional assumption

Under the transactional assumption, it is assumed that all assets being valued are in the process of being transacted, and the valuer carries out the valuation based on the transactional conditions of the valuated assets in a simulated market. Transactional assumption is the most fundamental precedent assumption under which the asset valuation can proceed.

2. Open market assumption

Under the open market assumption, it is assumed that the two parties of the assets being transacted, or proposed to be transacted in the market, have equal status with ample opportunities and time in obtaining sufficient market information, such that rational judgements can be made in respect of the functions, usages and transactional prices of the assets. Open market assumption is based on assets being able to be publicly traded in the market.

3. Assumption of continuous use of assets

The assumption of continuous use of assets means that when the valuation is conducted, it is assumed that the valuated assets will be used continuously according to their current uses and methods of usage, as well as their scales, frequencies and environment. In the case of altered usage, the corresponding valuation method, parameters and references should be determined.

(2) SPECIAL ASSUMPTIONS

1. The valuated entity would continue to operate as a going concern after the valuation benchmark date;

2. There would be no significant change in the political, economic and social conditions of the countries and regions where the valuated entity locates after the valuation benchmark date;

3. There would be no significant change, other than those as known to the public, in the macroeconomic, industrial and regional development policies of the countries and regions where the valuated entity is located after the valuation benchmark date;

4. There would be no significant change, other than those as known to the public, in the basis and rates of taxation and policy levies in relation to the valuated entity after the valuation benchmark date;

5. As at the valuation benchmark date, the valuated entity and its subsidiaries did not have any litigations and contingencies that might affect their subsequent operations or valuation results, except for those as disclosed herein;

6. The management of the valuated entity would be responsible, stable, and competent after the valuation benchmark date; and the products of the entity could maintain a leading position in terms of technologies employed, with necessary investment in research and development;

7. The valuated entity would comply with relevant laws and regulations, and there would be no material non-compliance matters that might affect the Company's development and realization of income;

8. The accounting policies adopted by the valuated entity after the valuation benchmark date would be consistent with those used in the preparation of the valuation report in all material aspects;

9. The basic information and financial information provided by the Appointer and the valuated entity were true, accurate and complete;

10. There would be no significant change in the business scope and business model of the valuated entity after the valuation benchmark date, other than those as disclosed in the valuation report, on the basis of the existing management method and level;

11. The asset composition, the structure of main business, the revenue and cost structure, marketing strategy and cost control of the Subject of Valuation during the future forecast period would remain consistent with those before and after the reference date, and would change in accordance with the scale of its business;

12. During the future operation periods, the expense structure for respective periods of the Subject of Valuation would not be materially different from the existing one, and would change in accordance to its business scale. The financial expenses as referred to by this valuation represent the finance cost incurred by the entity to fund its normal operation or construction during its production and operation. In view of frequent or significant changes in the monetary funds or bank deposits of an entity during its production and operation, the interest income from deposits was not taken into account in the valuation, and neither were contingent profit or loss other than interest-bearing liabilities;

13. The valuation only covered the items as shown in the valuation application form provided by the Appointer and the valuated entity, and does not include contingent assets and contingent liabilities that might exist other than those as contained in the list provided by the Appointer and the valuated entity;

14. No force majeure that would have a material adverse effect on the valuated entity after the valuation benchmark date.

    If there should be any change of the above conditions, the valuation results would generally cease to be effective.

X. CONCLUSION OF VALUATION

Based on the judgement of the equity rights owners and the management of the enterprise on the future development trend and the implementation of business plans, and in accordance with relevant laws and regulations and asset valuation standards, the income approach and market approach have been adopted. In accordance with the necessary valuation procedures, assessment of the market value of the entire shareholders' equity of TCL Communication as at the valuation benchmark date of 31 December 2019 was carried out.

(1) Valuation conclusion by income approach

By adopting the income approach in conducting the valuation, the book value of the entire shareholders' equity in the consolidated financial statements of TCL Communication as at the valuation benchmark date of 31 December 2019 is HK$-778,819,000 (RMB-697,744,300) and the valuation of which is HK$1,775,545,600 (RMB1,590,711,300), representing an appreciation in valuation of HK$2,554,364,600 (RMB2,288,455,200).

(2) Valuation conclusion by market approach

By adopting the market approach in conducting the valuation, the book value of the entire shareholders' equity in the consolidated financial statements of TCL Communication as at the valuation benchmark date of 31 December 2019 is HK$-778,819,000 (RMB-697,744,300) and the valuation of which is HK$1,994,371,500 (RMB1,786,757,500), representing an appreciation in valuation of HK$2,773,190,500 (RMB2,484,501,400).

The conversion rate between RMB and HK$ was determined as HK$1:RMB0.8959 based on the middle rate of the exchange rate quoted by the State Administration of Foreign Exchange of the PRC as at 31 December 2019.

(3) Analysis of the differences between the valuation conclusions and selection of the final conclusion

1. Analysis of the differences between the valuation conclusions

The entire shareholders' equity of TCL Communication is valued at HK$1,775,545,600 by adopting the income approach in conducting the valuation, which is HK$218,825,900 lower than the value of the entire shareholders' equity of HK$1,994,371,500 arrived at by adopting the market approach. The main reasons for the differences between the two valuation approaches are as follows:

1. The market approach determines the value of an entity in terms of its business performance and overall market performance;

2. The income approach predicts the value of an entity value based on its profitability;

Generally, the market approach determines the value of an entity in terms of its business performance and overall market performance, while the income approach predicts the value of an entity value based on its profitability, and these two complement each other. The results from the market approach are the market performance of the results from the income approach whereas the results from the income approach are a solid foundation for the results from the market approach.

The main reason for the difference between the results of the market approach and the income approach is that the market approach reflects the external market price of an entity at a certain point in time, the result of which may fluctuate violently due to the influence of a number of factors such as the environment of market investment, the degree of speculations, and the confidence of investors; whereas the income approach is based on the professional analysis of the historical operation of an enterprise, the result of which is obtained by making a reasonable prediction of future incomes of the enterprise, and thus the fluctuation is relatively smaller as compared with the market approach.

2. Selection of valuation conclusions

TCL Communication is principally engaged in manufacture of mobile phones, tablets, mobile connected devices, wearable devices and accessories. It has established a global marketing network and long-term and solid strategic partnerships with major global carriers and retail giants.

Business operations are more influenced by the global macroeconomic situation, the economies of various countries, the market environment and the competitive situation in the market. The income approach is the judgment of the value of the valuated entity after a comprehensive analysis of its internal business operation and external market environment, combined with the valuated entity's historical profit condition, the forecast of future business development and many other factors. The valuation results can better reflect the value of shareholders' equity interest in the enterprise. With the market approach, valuation is indirectly determined by referring to the equity transactions of peers and the valuation results are affected more by the volatility of the stock market.

The income approach is the judgment of the value of the valuated entity after a comprehensive analysis of its internal business operation and external market environment, combined with the valuated entity's historical profit condition, the forecast of future business development and many other factors. The valuation results can better reflect the value of shareholders' equity interest in the enterprise.

(4) Difference between the valuation conclusion as compared to book value and reasons

The difference between the valuation conclusion of the valuation of all assets and liabilities of TCL Communication as at the valuation benchmark date of 31 December 2019 by adopting the income approach as compared to the respective book value are as follows:

The book value of the entire shareholders' equity in the consolidated financial statements of TCL Communication as at the valuation benchmark date of 31 December 2019 is HK$-778,819,000 (RMB-697,744,300) and the valuation of which is HK$1,775,545,600 (RMB1,590,711,300), representing an appreciation in valuation of HK$2,554,364,600 (RMB2,288,455,200).

The reason for appreciation is that the valuation by income approach is based on the expected return on the asset as a measure of value, reflecting the size of the asset's viability (profitability), which will usually be affected by various conditions such as macroeconomic environment, policy influences and the effective use of the asset. Intangible assets that are not recorded in the books, such as software copyrights, registered trademark rights, patents and proprietary technologies, customer relationships, etc., as well as the value of TCL Communication's sales channels and market resource advantages that cannot be accounted for or valued in book value are reasonably reflected in future operating projections by adopting the income approach in this valuation and hence resulted in an appreciation in valuation.

XI. SPECIAL NOTES

(1) KEY INFORMATION SUCH AS OWNERSHIP RIGHTS MAY BE INCOMPLETE OR FLAWED

1. As at the valuation benchmark date, there were 15 buildings and constructions within the scope of TCL Communication's reporting which were not registered with the relevant property rights. Details of these buildings are listed in the following table:

Details of TCL Communication's Buildings Not Registered with Property Rights

No.	Name of Buildings	No. of Property Ownership Certificate	Structure	Year and Month of Completion	Gross Floor Area	Carrying Amount
					(m^2)	*(HK$'0000)*
1	B6–2D, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.24	604.07
2	B6–3A, TCL International E City	Not yet registered	Reinforced concrete	2010/12	70.96	
3	B6–4B, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.24	
4	B6–4D, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.24	
5	B6–4H, TCL International E City	Not yet registered	Reinforced concrete	2010/12	70.96	
6	B6–6E, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.24	
7	B6–9G, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.24	
8	B6–10E, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.24	
9	B6–10G, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.24	
10	B6–13B, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.24	
11	B6–13E, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.24	
12	B7–12E, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.03	
13	B7–12G, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.03	
14	B7–14B, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.03	
15	B7–14E, TCL International E City	Not yet registered	Reinforced concrete	2010/12	52.03	
	Total				820.20	604.07

The above building area of properties without property ownership certificate was provided by JRD SZ, a subsidiary of TCL Communication. According to the explanation by TCL Communication and JRD SZ, its subsidiary, the right to use the properties in TCL International E City has been acquired by JRD SZ. It is unable to complete the transfer of property rights due to land issues and it is undertaken that the above real estate is the company's properties used in its operations, the properties are not held for sale, and the defects of title to the properties do not affect the normal use of the properties, therefore the overall valuation of TCL Communication is not affected by the incomplete title. The valuer and its relevant personnel engaged in this valuation shall not be responsible for any disputes which may arise from such property ownerships.

Therefore, the valuation has taken into account the impact of the above defects in title on the valuation results. The valuation is carried out based on the areas reported by the enterprise. Corresponding adjustments shall be made if there is any variance in the future property rights registrations. Users of this report are reminded to pay special attention.

Save for the above, no other ownership issues have been noticed in this report.

(2) UNCERTAINTIES INCLUDING UNRESOLVED MATTERS AND LEGAL DISPUTES

As at the valuation benchmark date, major unresolved matters and legal disputes in relation to TCL Communication as reported by the enterprise were listed as follows:

Description of proceedings involving TCL Communication

Item	Name of plaintiff	Nature of the case	Time of the case	Brief description of the case	Amount involved	Latest update of the case
1	State of São Paulo	Tax disputes	2017/1/4	The Brazilian tax authorities is of the view that there were improper utilization of tax credits during 2012 and 2013 of approximately BRL15,000,000 by TCL Communication's subsidiary in Brazil, currently the amount together with penalties and interest involved amounted to approximately BRL45,000,000.	US$11,183,800	Pending for a new trial

TCL Communication and certain subsidiaries are currently defendants in lawsuits in various countries brought by a leading provider of information and communication technology alleging that certain products sold by TCL Communication infringed the patents owned by this provider. Information regarding the litigation is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigations. The directors, based on the advice from TCL Communication's Legal Counsel, believe that TCL Communication and certain subsidiaries have a valid defense against the allegation.

TCL Communication has not provided for the expected liabilities arising from the above matters involving litigations. As the cases are still pending, TCL Communication is unable to provide the specific amount of impact arising from the outstanding legal disputes on the value as at the valuation date. Moreover, the management of TCL Communication has determined that the above legal disputes and the amount involved will not have a material impact on the future operations of the company. Therefore, the impact of the above pending litigation issues on the value has not been considered in this valuation results and has been disclosed in accordance with the requirements of the valuation criteria. Users of the report are reminded to pay attention to the above pending litigation issues.

According to the letter of undertaking issued by TCL Electronics, the Appointer, and the Subject of Valuation, as at the valuation benchmark date, there are no other significant issues that involved litigations and contingencies affecting the Subject of Valuation's future operations after the valuation benchmark date or the valuation results, other than the above-mentioned issues. The valuer and its personnel involved in the valuation shall not be held accountable for any circumstances subsequently arose from any legal dispute that has occurred before the valuation benchmark date or any pending issue that affect the operation of the company, or that require payment of or is entitled to any compensation.

Users of this report are reminded to pay special attention.

(3) SIGNIFICANT USE OF EXPERT WORKS AND RELEVANT REPORTS

The carrying amounts of consolidated assets and liabilities as at the valuation benchmark date in this valuation report are based on the audited results by Ernst & Young. Apart from that, this valuation did not refer to the contents of reports issued by other institutions.

(4) MAJOR EVENTS AFTER THE PERIOD

1. In August 2019, JRD SZ, a subsidiary of TCL Communication entered into the agreement (the "Agreement") for the sale of shares in TCL Finance Co., Ltd. with Shenzhen China Star Optoelectronics Technology Co., Ltd (the "Purchaser"), pursuant to which JRD SZ will sell all of its shares, being 4% of the entire equity interests of TCL Finance Co., Ltd., to the Purchaser in an one-off transaction. The matter is approved by China Banking and Insurance Regulatory Commission Guangdong Office on 25 February 2020 and the relevant agreement takes effect in the year of 2020. The Purchaser agreed to buy the shares on the terms and conditions set out in the Agreement and pay for around RMB72,877,000 (equivalent to approximately HK$81,346,000) to JRD SZ.

   This valuation establishes the valuation of the 4% equity interest in TCL Finance Co., Ltd. held by TCL Communication at the price agreed upon. This valuation has taken into account the impact of such subsequent equity transfer on the valuation results based on the substance of the relevant agreement. Users of this report are reminded to pay special attention.

2. Since the outbreak of the novel coronavirus pandemic in early 2020, the global market has been facing tremendous uncertainty. TCL Communication's business operations have been affected by novel coronavirus to a certain extent. In the course of preparing earnings forecast, TCL Communication's management has adjusted its earnings expectations for 2020 with reference to actual sales revenue and sales of TCL Communication from January to April 2020. TCL Communication's management is committed to close monitoring of the novel coronavirus epidemic and will swiftly adjust its marketing and supply chain strategy to minimize the potential impact of the novel coronavirus epidemic on the financial condition and results of operations of TCL Communication in the future.

   As the novel coronavirus epidemic was still not effectively under control globally as at the date of this valuation report, the impact of the global pandemic of novel coronavirus on valuation results has been duly considered in this valuation. The valuation conclusion will become invalid if the impact on the company's operations from the subsequent and continued development of the outbreak significantly exceeds the expectations of the management of the company and the management is unable to adjust its business strategies in a timely manner and compensate for the shortfall effectively. Users of this report are reminded to pay special attention.

(5) OTHER MATTERS REQUIRED TO BE EXPLAINED

1. In view of the book value of the entire shareholders' equity in the consolidated financial statements of TCL Communication as at the valuation benchmark date is HK$-778,819,000, TCL Communication has given the relevant undertakings and the directors of the company believe that, based on the following factors, sufficient resources are available to TCL Communication for its ability to continue as going concern in the foreseeable future:

   (1) TCL Communication's expected cash inflow from operating activities in the foreseeable future;

   (2) The majority of TCL Communication's liabilities are accounts payable to suppliers, which are directly related to its purchase, manufacture and sales activities. There is no issue regarding business continuity. TCL Communication does not rely heavily on bank loans.

   (3) The directors of TCL Communication are also confident that, based on the experience and creditworthiness of TCL Communication, bank loans which are due within the next 12 months would be renewed upon maturity; and given the credit history of TCL Communication, other financing resources would be available to TCL Communication from its bankers and the Ultimate Holding Company. As at the end of 2019, the total consolidated assets, total consolidated liabilities and consolidated bank loans of TCL Communication are amounted to HK$10,607,000,000, HK$11,385,000,000 and HK$2,859,000,000 respectively with consolidated bank loans as a percentage of total consolidated assets is 27%.

   Based on the above reasons, it is assumed that the subject of valuation would continue as going concern after the valuation date. The attention of the users of the report is drawn to the above.

2. As the customers and production plants of TCL Communication and its long-term equity investment units are located in different countries and regions of the world, the business transactions involve different currencies. There are uncertainties in the changes of different countries' exchange rates, and the fluctuation of different currencies may present foreign exchange risks to its future operations. Users of this report are reminded to pay special attention.

3. The legal liability of the valuer and the appraisal institution was to exercise professional judgement on determining the value of assets within the scope of the valuation purpose as indicated in the report. It did not involve the making of judgement by the valuer and the appraisal institution on the economic activities corresponding to such valuation purpose. To a large extent, the valuation depends on the relevant information provided by the Appointer and the Subject of Valuation. Therefore, the valuation work was based on the authenticity and legality of the documents related to relevant economic activity, title documents of ownership rights, certificates, accounting documents and legal documents provided by the Appointer and Subject of Valuation.

4. During the valuation process, for inspections of the equipment, due to the restraints of the testing methods and the fact that some equipment were in operation, this task was mainly done by exterior observation by the valuers and results of the latest checks provided by the Subject of Valuation as well as the enquiries to the operators in order to judge the conditions of the equipment.

5. The scope of this valuation and the data, financial statements and relevant information used in this valuation are provided by the Subject of Valuation. The Appointer and the Subject of Valuation are responsible for the authenticity and completeness of the information provided.

6. The relevant title documents of ownership rights and related information are provided by the Subject of Valuation. The Appointer and the Subject of Valuation are responsible for the authenticity and legality of the information provided.

7. If, for an effective period after the valuation benchmark date, there is a change in the quantity of assets or standard of valuation, it should be dealt with in accordance with the following principles:

   (1) when there is a change in the quantity of assets, the valuated amount of the assets should be adjusted according to the original valuation method;

   (2) When there is a change in the standard of valuation which has a significant impact on the asset valuation results, the Appointer should promptly engage a qualified appraisal institution to re-determine the value of the assets;

   (3) In the event of any change in the quantity of assets or the standard of valuation after the valuation benchmark date, the Appointer should give full consideration to the actual value of the assets and make corresponding adjustments.

8. The profit forecast of the valuated enterprise obtained by the appraisal institution is the basis of the income approach used in this valuation report. The valuer has carried out the necessary investigation, analysis and judgement on the profit forecast of the valuated enterprise. After a number of discussions with the management of the valuated enterprise and its shareholders and the subsequent revision and improvement by the valuated enterprise, the valuation institution adopted the relevant data of the profit forecast provided by the valuated enterprise. Using the profit forecast of the valuated enterprise by the valuated institution does not guarantee the future profitability of the enterprise.

9. The conclusion of this valuation is based on the accurate judgement of the equity holders and management of the Subject of Valuation on the future development trend and the implementation of related planning. If the actual operating conditions of the enterprise deviate from its business plan in the future and the existing management fails to take effective measures to address the deviation the valuation conclusion will become invalid.

XII. LIMITATIONS ON THE USE OF THIS VALUATION REPORT

(1) Scope of use

1. This valuation report may only be used by the users of valuation report as specified in this valuation report. The right to use the information of this valuation report belongs to the Appointer. Without the permission of the Appointer, the valuation institution will not disclose such information freely to any other parties;

2. This valuation report can only be used for the purpose of valuation as stated in this report;

3. According to the laws and regulations related to asset valuation, asset valuation reports involving valuation of business for legal compliance shall only be used upon the Appointer has performed the supervisory and management procedures regarding asset valuation as required by law and regulations. The valuation results are effective from 31 December 2019 to 30 December 2020 for a term of one year. Re-valuation is required upon expiration of the one year period.

(2) The valuation institution and the asset valuer shall not be held responsible if the Appointer or any other user of the asset valuation report fails to use the asset valuation report in accordance with the provisions of laws and administrative regulations, or within the scope as specified in the asset valuation report;

(3) This asset valuation report may not be used by institutions or individuals other than the Appointer, other users of the asset valuation report as agreed in the asset valuation engagement agreement and the users of the asset valuation report as prescribed by laws and administrative regulations;

(4) The user of the asset valuation report should correctly understand and use the conclusion of the valuation, that the valuation conclusion does not reflect the realizable price of the Subject of Valuation and should not be regarded as the guarantee of the realizable price of the Subject of Valuation.

XIII. VALUATION REPORT DATE

The valuation report was dated 29 June 2020.

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China United Assets Appraisal Group Co., Ltd.

Asset valuer: YU Yanfei

Asset valuer: LI Aijian

29 June 2020

The discussion of the business results of TCL Communication Group below should be read in conjunction with the Historical Financial Information for the three financial years ended 31 December 2019 included in the accountants' report, the full text of which is set out in the Appendix IIA to this circular.

OVERVIEW

The activities of TCL Communication Group mainly include research and development, manufacture and sale of mobile devices and other products and rendering of services. For the three financial years ended 31 December 2019, the revenue of TCL Communication Group was approximately HK$17,168 million, HK$14,835 million and HK$12,216 million respectively. For each of the three financial years ended 31 December 2019, the gross profit of TCL Communication Group was approximately HK$2,626 million, HK$3,069 million and HK$2,643 million respectively. For the two financial years ended 31 December 2018, TCL Communication Group recorded a loss after tax of approximately HK$2,348 million and HK$505 million respectively, representing a significant reduction in loss, and TCL Communication Group recorded a net profit after tax of approximately HK$179 million for the financial year ended 31 December 2019, representing a turnaround from loss to profit.

FINANCIAL OVERVIEW

The following is an overview of the major revenue and expenses contributing to the results of TCL Communication Group.

Revenue

TCL Communication Group derives its revenue from the research and development, manufacture and sale of mobile devices and other products and rendering of services in the PRC and overseas markets. Revenue is recognized when products are delivered or services are provided.

Cost of sales

TCL Communication Group's cost of sales mainly includes direct raw material costs, direct labor costs, other manufacturing costs, royalty of technology, software license fees, after-sales service fees and transportation costs.

Other income and gains

Other income and gains mainly includes interest income, VAT refunds, exchange gains, subsidy income, investment income, etc.

Research and development costs

Research and development costs mainly include salaries and benefits of research and development personnel, travel expenses, depreciation of research and development equipment, etc.

Selling and distribution expenses

Selling and distribution expenses mainly include salaries and benefits of sales and marketing personnel, advertising and promotional expenses, promotional fees, entertainment expenses, travelling expenses, etc.

Administrative expenses

Administrative expenses mainly include salaries and benefits of employees in the relevant departments, depreciation, lease payments, maintenance costs, litigation costs, etc.

Income tax

TCL Communication Group had no profits assessable arising from Hong Kong for each of the three financial years ended 31 December 2019. Taxation on profits assessable elsewhere, other than Hong Kong, have been calculated at the rates of taxation applicable in the jurisdictions in which TCL Communication Group operates.

REVIEW ON THE PAST PERFORMANCE

Comparison of the three financial years ended 31 December 2019

Revenue

The revenue of TCL Communication Group for the three financial years ended 31 December 2019 amounted to approximately HK$17,168 million, HK$14,835 million and HK$12,216 million respectively. The business restructuring of TCL Communication Group in various overseas sales regions and the selective exit of unprofitable businesses in the past three years have led to a decline in revenue in the short to medium term. Over the past three years, on the one hand, TCL Communication Group has implemented large-scale business transformation in its global operations to turnaround from its loss position and focused its business on core and key markets, such as striving for a bigger and stronger North America operation and adjusted its business model in countries with high-risk exposure such as Brazil and Argentina, and its scale of sales in the short to medium term has been affected accordingly, TCL Communication Group has taken the initiative to gradually reduce its investment in the relevant ultra-budget and low-end smartphone market sector and invest resources in the mid-end smartphone market sector to enhance the Group's sustainable growth both in scale and gross profit level in the future.

Cost of sales

The cost of sales of TCL Communication Group for the three financial years ended 31 December 2019 was approximately HK$14,543 million, HK$11,766 million and HK$9,573 million respectively. The cost of sales in financial year 2019 was approximately 18.64% lower than that of financial year 2018 whereas the cost of sales in financial year 2018 was approximately 19.10% lower than that of financial year 2017. The main reasons for the continuous decline in cost of sales is that TCL Communication Group has vigorously implemented cost reduction measures throughout its value chain in recent years and gained cost advantages through various cost reduction measures, including: cost reduction through product design optimization (e.g., improving design standardization); cost reduction through supply chain optimization (e.g., reasonable increase in strategic inventory reserves and centralized negotiations on the integration of supply and demand for customized devices); cost reduction through manufacturing process optimization (e.g., improving the application of automation equipment); cost reduction through changes in operating models (e.g., changes in North American after-sales service model and changes in Latin American after-sales service providers to expand domestic direct distribution business and reduce local operating processes and costs overseas).

Gross profit

The gross profit of TCL Communication Group for the three financial years ended 31 December 2019 was approximately HK$2,626 million, HK$3,069 million and HK$2,643 million respectively. The gross profit in financial year 2019 was approximately 13.88% lower than that of financial year 2018 whereas the gross profit in financial year 2018 was approximately 16.87% higher than that of financial year 2017. Gross margin were approximately 15.30%, 20.69% and 21.64% for the three financial years ended 31 December 2019 respectively. The gradual increase in gross margin was driven by the improvement in product mix, with the business targeting regions with high gross margin such as North America; strategic reduction of business in some countries such as China and Mexico; continued implementation of cost reduction measures throughout the value chain; enhanced PSI management and channel inventory risk control to reduce subsidies for price reduction and losses arising from price reduction.

Other income and gains

Other income and gains of TCL Communication Group for the three financial years ended 31 December 2019 was approximately HK$697 million, HK$522 million and HK$541 million respectively. Other income and gains include interest income, VAT refunds, net foreign exchange gains, subsidy income etc. Other income and gains in financial year 2019 increased by approximately 3.64% over financial year 2018 whereas other income and gains in financial year 2018 decreased by approximately 25.11% over financial year 2017. The decrease was mainly due to the one-off income from disposal of subsidiary of approximately HK$136 million in 2017.

Research and development costs

The research and development costs of TCL Communication Group for the three financial years ended 31 December 2019 was approximately HK$1,866 million, HK$922 million and HK$812 million respectively. Research and development costs as a percentage of total revenue for the three financial years ended 31 December 2019 was approximately 10.87%, 6.22% and 6.65% respectively. In recent years, TCL Communication Group has been focusing on the future, and while raising the input/output ratio of research and development expenditure, it has also been actively investing in the development of new technologies and new product categories, and has continuously increased its investment in 5G, display and camera technologies to proactively apply high-end display/camera devices in related products. TCL Communication Group's 5G smartphone model has been handpicked by major carriers in North America, Europe and South Korea, etc. Meanwhile, in the area of software, the company has adopted a mobile device-centered approach and is focusing on satisfying the business-targeted business demand in the carriers' market, while proactively developing an ecology for users based on the customer-targeted business, integrating intelligent AI technology to realize the interconnection of all things, and bringing users the ultimate remarkable experience.

Selling and distribution expenses

The selling and distribution expenses of TCL Communication Group for the three financial years ended 31 December 2019 were approximately HK$1,843 million, HK$1,149 million and HK$811 million respectively. The selling and distribution expenses in financial year 2019 decreased by approximately 29.42% when compared to that of financial year 2018 whereas the selling and distribution expenses in financial year 2018 decreased by approximately 37.66% when compared to that of financial year 2017. Selling and distribution expenses as a percentage of total revenue for the three financial years ended 31 December 2019 were approximately 10.74%, 7.74% and 6.64% respectively. The significant decrease in sales and distribution expenses was mainly due to TCL Communication Group's sales transformation in a number of overseas sales regions, the implementation of business restructuring, the establishment of a customer-focused sales organization and the streamlining of manpower by nearly half.

Administrative expenses

The administrative expenses of TCL Communication Group for the three financial years ended 31 December 2019 were approximately HK$1,625 million, HK$1,500 million and HK$1,151 million respectively. The administrative expenses in financial year 2019 decreased by approximately 23.27% when compared to that of financial year 2018 whereas the administrative expenses in financial year 2018 decreased by approximately 7.69% when compared to that of financial year 2017. Administrative expenses as a percentage of total revenue for the three financial years ended 31 December 2019 were approximately 9.47%, 10.11% and 9.42% respectively. The decline in administrative expenses was mainly due to the streamlining and rationalization of headquarter and improved organizational efficiency, with a reduction in the number of Tier 1 departments from 17 to 13, further reinforcing its customer-oriented approach.

Income tax

The income tax of TCL Communication Group for the three financial years ended 31 December 2019 was approximately HK$94 million, HK$117 million and HK$11 million respectively. The income tax in financial year 2019 decreased by approximately 90.60% when compared to that of financial year 2018 whereas the income tax in financial year 2018 increased by approximately 24.47% when compared to that of financial year 2017. The effective income tax rate for the three financial years ended 31 December 2019 was approximately -4.2%, -30% and 5.9% respectively. The decrease in income tax in financial year 2019 when compared to that of financial year 2018 was primarily due to the effective utilization of related tax losses in 2019 and higher deferred income tax expense in 2018.

Profit for the year

TCL Communication Group improved from a net loss of approximately HK$2,348 million for the year ended 31 December 2017 to a net loss of approximately HK$505 million for the year ended 31 December 2018, a decrease of approximately 78.49%, representing a significant reduction in loss. Net profit for the year ended 31 December 2019 was approximately HK$179 million, representing an increase of approximately 135.45% from a reversal of loss of approximately HK$505 million for the year ended 31 December 2018. The net loss ratio for 2017 was approximately 13.68%, the net loss ratio for 2018 was approximately 3.40% and the net profit ratio for 2019 was approximately 1.47%. The significant loss reduction and turnaround from loss to profit in the past three years has been driven by the above-mentioned strategic overhaul and transformation, proactive market selection and a strong commitment to cost reduction across the value chain.

LIQUIDITY AND CAPITAL RESOURCES

TCL Communication Group primarily financed its working capital requirements and capital expenditures by cash flows from operating and financing activities. The following table summarizes the cash flows of TCL Communication Group for the years indicated:

	For the financial year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Net cash (used in)/from operating activities	(232,273)	1,661,779	107,975
Net cash used in investing activities	(1,178,361)	(402,172)	(839,184)
Net cash from/(used in) financing activities	153,662	(955,379)	480,656
Net (decrease)/increase in cash and cash equivalents	(1,256,972)	304,228	(250,553)
Effect of foreign exchange rate changes	721,100	(344,329)	(3,786)
Cash and cash equivalents at beginning of year	1,028,695	492,823	452,722
Cash and cash equivalents at end of year	492,823	452,722	198,383

Operating activities

The net cash flow from operating activities of TCL Communication Group increased from a net outflow of approximately HK$232 million for the financial year ended 31 December 2017 to a net inflow of approximately HK$108 million for the financial year ended 31 December 2019, with the improvement in operating cash flow for each of the three financial years ended 31 December 2019 mainly attributable to the improved turnover of operating assets.

Investing activities

TCL Communication Group's investing activities mainly include investments in and disposals of intangible assets (such as deferred development expenditure and acquired patents), fixed assets, associates and joint ventures, and deposits for investments in related companies. Net cash used in investing activities amounted to approximately HK$1,178 million, HK$402 million and HK$839 million for each of the three financial years ended 31 December 2019 respectively. Net cash used in investing activities for the financial year ended 31 December 2018 recorded a decrease of 65.87% when compared to the financial year ended 31 December 2017, which is mainly attributable due to a decrease in deferred development expenditures for 2018. Net cash used in investing activities for the financial year ended 31 December 2019 increased by 108.71% over the financial year ended 31 December 2018, mainly due to the increase in investment deposits receivable from related companies as at the end of 2019 when compared to that of the end of 2018 and the proceeds of HK$347 million from disposal of property, plant and equipment in 2018 while no such income is recorded at the end of 2019.

Financing activities

Net cash used in financing activities for the financial year ended 31 December 2018 was approximately HK$955 million while net cash from financing activities for the financial year ended 31 December 2019 was approximately HK$481 million. Cash from financing activities for the financial year 2019 was primarily due to new borrowings raised.

Net current assets

As at 31 December 2019, TCL Communication Group had net current liabilities of approximately HK$2,809 million. Total current assets of approximately HK$8,392 million mainly comprised cash and cash equivalents of approximately HK$198 million, trade receivables of approximately HK$1,184 million, inventories of approximately HK$1,275 million as well as prepayments, other receivables and other assets of approximately HK$5,223 million. Total current liabilities of approximately HK$11,201 million mainly comprised interest-bearing bank and other borrowings of approximately HK$3,644 million, trade and notes payables of approximately HK$2,123 million as well as other payables and accruals of approximately HK$5,066 million.

As at 31 December 2017, 31 December 2018 and 31 December 2019, TCL Communication Group had borrowings and interest bearing liabilities with gearing ratios of 32.90%, 28.83% and 35.59% respectively. Gearing ratio is calculated by the aggregate of TCL Communication Group's interest-bearing bank and other borrowings, bank advances on factored trade receivables and lease liabilities, divided by total assets.

CERTAIN ITEMS OF BALANCE SHEET

Trade receivables turnover days

The credit period for trade receivables is 30–180 days in general. The average trade receivables (only included those with non-related parties) turnover days for each of the three financial years ended 31 December 2019 was 73 days, 54 days and 39 days respectively. TCL Communication Group has proactively taken various effective measures to accelerate its accounts receivable turnover, such as close monitoring and demand of receivables, promoting further factoring arrangements with banks, insurance companies and customers, and introducing a customer rating system. Over the past three years, the average accounts receivable turnover has improved significantly and the turnover days have been shortened by 34 days.

Trade and notes payables turnover days

The credit period for trade and notes payables is approximately 90 days in general. The average trade and notes payables (only included those with non-related parties) turnover days for each of the three financial years ended 31 December 2019 were 77 days, 78 days and 81 days respectively.

Inventory turnover days

The inventory balances of TCL Communication Group amounted to approximately HK$1,958 million, HK$1,412 million and HK$1,275 million as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively, and the cost of goods sold was approximately HK$14,543 million, HK$11,766 million and HK$9,573 million for the financial years respectively. The average inventory turnover days for each of the three financial years ended 31 December 2019 was 72 days, 56 days and 62 days respectively. Over the past three years, TCL Communication Group has proactively adopted various effective measures to speed up inventory turnover, such as the implementation of an incentive program to clear inventory across regions, improving the accuracy of forecasting demand planning for more effective stock control, and accelerate inventory turnover by air freight forwarding. The average inventory turnover days have been shortened by 10 days.

CAPITAL MANAGEMENT

TCL Communication Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations. TCL Communication Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

Financial resources and gearing ratio

TCL Communication Group generally finances its operations with cash flows from its operating activities internally and bank borrowings.

The gearing ratio of TCL Communication Group as at 31 December 2019 was 35.59%, calculated by the aggregate of TCL Communication Group's interest-bearing bank and other borrowings, bank advances on factored trade receivables and lease liabilities, divided by total assets.

Foreign currencies

Due to its international presence and operations, TCL Communication Group is facing foreign exchange exposure including transaction exposure and translation exposure. For the three financial years ended 31 December 2019, TCL Communication Group minimized its foreign exchange exposure by forward currency contracts.

As at 31 December 2019, 32.16% of TCL Communication Group's cash and cash equivalents were held in Russian ruble, 20.44% in US dollars, 10.05% in Euro, 5.07% in RMB, 5% in HK$ and the remaining 27.28% in other currencies such as Canadian dollar/Australian dollar/Mexican peso/British pound/Korean won.

Financial instrument for hedging purpose

For the three financial years ended 31 December 2019, TCL Communication Group used forward currency contracts and interest rate swaps to hedge foreign exchange risk and interest rate risk respectively.

Significant investment held and their performance during the financial year

In February 2017, TCL Communication Group invested US$3 million (approximately HK$23 million) in Palm Ventures Group, Inc., a company engaged in the distribution of mobile devices and other products. In August 2018, TCL Communication Group further invested US$10 million (approximately HK$78 million) in Palm Ventures Group, Inc. and Palm Ventures Group, Inc. became an associate of TCL Communication Group accordingly.

In June 2016, TCL Communication Group made an investment for the founding of Kai OS Technologies Inc., a company engaged in the development of lightweight operating systems, which became an associate of TCL Communication Group. As at 31 December 2019, the premium ratio over the original investment cost of the equity interest held by TCL Communication Group in the associate was 16,117%. Kai OS Technologies Inc. has received investments from various technology giants, including Google, Reliance Jio and Orange.

As at 31 December 2019, TCL Communication Group has properties with an aggregate gross floor area of 241,501.91 square meters and land use rights of 163,580.53 square meters in Huizhou City, Guangdong Province, the PRC, the book value of which is stated at the historical cost of approximately HK$620 million and the fair value of which under this valuation is HK$1,270 million.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

On 25 August 2017, TCL Communication Group acquired 40.0% and 40.01% interests in Eastern Ray Investments Limited from Ultimate Rosy Limited, a fellow subsidiary of TCL Communication, and Power Plan Ventures Limited which is a third party, respectively. Eastern Ray Investments Limited has become a wholly-owned subsidiary of TCL Communication upon completion of the acquisition.

On 1 December 2017, TCL Communication Group entered into an equity interest agreement with Shenzhen Feima Kunlun Investment Co., Ltd.* (深圳飛馬昆侖投資有限公司), a third party, for the transfer of 100% interest in Huizhou Chuangjie Communication Technology Co., Ltd.* (惠州創捷通訊科技有限公司) for a consideration of RMB143 million (approximately HK$166 million).

On 31 March 2018, TCL Communication Group entered into an equity agreement with SEMP TCL INDÚSTRIA E COMÉRCIO DE ELETROELETRÔNICOS S.A., a related company, for the transfer 100% equity interest in TCT Mobile – Telefones LTDA for a consideration of approximately US$60 million (approximately HK$476 million).

Apart from the above transactions, there were no other material acquisitions or disposals of subsidiaries, associates and joint ventures by TCL Communication Group during the three financial years ended 31 December 2019.

* *For identification purpose only*

Contingent Liabilities

As at 31 December 2019, the contingent liabilities of TCL Communication Group were as follows:

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

(b) TCT Mobile – Telefones LTDA (a former subsidiary of TCL Communication, sold in March 2018) is currently a defendant in a lawsuit in Brazil with Brazil tax authority for improper application of tax credits for the period of 2012 and 2013 for a total amount of undue credit BRL 15,000,000, with the penalty and interests, the assessment is currently around BRL 45,000,000. According to the share purchase agreement between TCL Communication Group and the purchaser, any new provision that was identified within 1 January 2018 to the day of instalment of payment cover contingencies of TCT Mobile – Telefones LTDA for periods before 31 December 2017, the corresponding new provision amount would be deducted from the instalment. In June 2018, TCT Mobile – Telefones LTDA filed ordinary appeal and the court ordered the record remanded for a new trial of the administrative defense at March 2019. Up till to the Latest Practicable Date, the lawsuits is still ongoing. TCL Communication Group's directors, based on the response from the independent attorney in charge, expect that the litigation period will last for 3–5 years. TCL Communication Group has not made any provision as the Directors, based on the advice from TCL Communication Group's Legal Counsel, believe that the TCT Mobile – Telefones LTDA has a valid defense against the allegation.

MISCELLANEOUS ISSUES AFFECTING THE FINANCIAL POSITION

Prepayments, other receivables and other assets

In regard to the amounts due from fellow subsidiaries, around HK$984,285,000 was receivables repayable on demand, around HK$2,601,884,000 had a repayment term within one year and around HK$17,020,000 had no fixed terms of repayment as at 31 December 2019. All of the amounts due from fellow subsidiaries will be received in cash except for prepayment to fellow subsidiaries.

Expected credit losses are estimated for amounts due from fellow subsidiaries by applying a loss rate approach with reference to the historical loss records of TCL Communication Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The credit quality of the financial assets included in amounts due from fellow subsidiaries is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful". As the amounts due from fellow subsidiaries relate to fellow subsidiaries that have a solid financial position and a good trading track record with TCL Communication Group, the credit quality of these amounts are considered to be "normal". 0%-0.1% is used as the loss rate to calculated the expected credit loss of these amounts due from fellow subsidiaries as at 31 December 2019.

It is expected that substantially most of the amounts due from fellow subsidiaries will be settled prior to the completion of the Acquisition.

Other payables and accruals

The non-related other payables and accruals of HK$2,042,921,000 as at 31 December 2019 include accruals of HK$1,453,355,000 for customer rebate, technical royalty, marketing expense, freight and other services expense etc, other tax payables of HK$72,131,000 for value added tax, personal income tax and stamp tax etc, interest payables of HK$7,643,000 and other payables of HK$509,792,000. Prior to the completion of the Acquisition, most of the amounts due to related parties will be settled with the recovery of amounts due from fellow subsidiaries.

The Company does not anticipate any settlement issues with TCL Communication Group in the foreseeable future, after considering (i) TCL Communication Group's expected cash inflows from operating activities in 2020; (ii) TCL Communication Group's financing from banks and TCL Holdings given the credit history of TCL Communication Group; and (iii) TCL Communication Group's refund of other receivables.

FUTURE PLANS AND PROSPECTS

In 2019, TCL Communication Group redefined its "3074 Strategy" for the next four years, with the goal of boosting its customer-targeted capability while furthering its development in the carrier market and laying a solid foundation to become a leading global mobile devices provider. Meanwhile, TCL Communication intends to maximize its scale with a sound and prudent operating approach and become one of the Top 7 players in the global market by 2023. For details of the future plans and prospectus of TCL Communication Group, please see the section headed "Information on TCL Communication – (B) Business Information – Future Business and Development Plans" in the Letter from the Board.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, 2018 and 2019, TCL Communication Group had 8,289, 10,090 and 6,724 employees respectively. Total staff costs for the three financial years ended 31 December 2019 were approximately HK$2,169 million, HK$1,551 million and HK$1,380 million respectively. TCL Communication Group has regularly reviewed its remuneration policy with reference to current legislation, prevailing market conditions and individual and group performance.

FOREIGN EXCHANGE AND EXCHANGE RATE RISK

TCL Communication Group is exposed to currency risk from trading activities. This risk arises from business units traded in currencies other than its functional currency. TCL Communication Group tends to accept terms to eliminate or diversify foreign currency translation risk when entering into purchase and sales contracts. TCL Communication Group also minimizes its exchange rate risk by forward currency contracts. In addition, TCL Communication Group is committed to a sound financial management strategy and therefore does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

NO MATERIAL CHANGE

The Directors are not aware of any material change to the financial or trading conditions or prospects of TCL Communication Group since 31 December 2019, being the date on which the latest audited consolidated financial statements of TCL Communication Group were made up.

The fair market value of 100% equity interests in TCL Communication of RMB1,590,711,300 as at 31 December 2019 (being the Valuation Benchmark Date) was appraised by the Independent Valuer, which represents the valuation by using discounted cash flow method (income approach) as guideline.

Since the discounted cash flow method has taken into account the discounted cash flow projections of TCL Communication Group (the "**TCL Communication Group Profit Forecast**" or "**TCL Communication Group Discounted Cash Flows**"), TCL Communication Group Profit Forecast constitutes a profit forecast under Rule 14.61 of the Listing Rules.

Set out below is the information in relation to TCL Communication Group Profit Forecast:

Bases and Assumptions

(1) GENERAL ASSUMPTIONS

1. Transactional assumption

Under the transactional assumption, it is assumed that all assets being valued are in the process of being transacted, and the independent valuer carries out the valuation based on the transactional conditions of the valuated assets in a simulated market. Transactional assumption is the most fundamental precedent assumption under which the asset valuation can proceed.

2. Open market assumption

Under the open market assumption, it is assumed that the two parties of the assets being transacted, or proposed to be transacted in the market, have equal status with ample opportunities and time in obtaining sufficient market information, such that rational judgements can be made in respect of the functions, usages and transactional prices of the assets. Open market assumption is based on assets being able to be publicly traded in the market.

3. Assumption of continuous use of assets

The assumption of continuous use of assets means that when the valuation is conducted, it is assumed that the valuated assets will be used continuously according to their current uses and methods of usage, as well as their scales, frequencies and environment. In the case of altered usage, the corresponding valuation method, parameters and references should be determined.

(2) SPECIAL ASSUMPTIONS

1. The valuated entity would continue to operate as a going concern after the valuation benchmark date;

2. There would be no significant change in the political, economic and social conditions of the countries and regions where the valuated entity locates after the valuation benchmark date;

3. There would be no significant change, other than those as known to the public, in the macroeconomic, industrial and regional development policies of the countries and regions where the valuated entity is located after the valuation benchmark date;

4. There would be no significant change, other than those as known to the public, in the basis and rates of taxation and policy levies in relation to the valuated entity after the valuation benchmark date;

5. As at the valuation benchmark date, the valuated entity and its subsidiaries did not have any litigations and contingencies that might affect their subsequent operations or valuation results, except for those as disclosed in the valuation report;

6. The management of the valuated entity would be responsible, stable, and competent after the valuation benchmark date; and the products of the entity could maintain a leading position in terms of technologies employed, with necessary investment in research and development;

7. The valuated entity would comply with relevant laws and regulations, and there would be no material non-compliance matters that might affect the Company's development and realization of revenue;

8. The accounting policies adopted by the valuated entity after the valuation benchmark date would be consistent with those used in the preparation of the valuation report in all material aspects;

9. The basic information and financial information provided by the Appointer and the valuated entity were true, accurate and complete;

10. There would be no significant change in the business scope and business model of the valuated entity after the valuation benchmark date, other than those as disclosed in the valuation report, on the basis of the existing management method and level;

11. The asset composition, the structure of main business, the revenue and cost structure, marketing strategy and cost control of the Subject of Valuation during the future forecast period would remain consistent with those before and after the reference date, and would change in accordance with the scale of its business;

12. During the future operation periods, the expense structure for respective periods of the Subject of Valuation would not be materially different from the existing one, and would change in accordance to its business scale. The financial expenses as referred to by this valuation represent the finance cost incurred by the entity to fund its normal operation or construction during its production and operation. In view of frequent or significant changes in the monetary funds or bank deposits of an entity during its production and operation, the interest income from deposits was not taken into account in the valuation, and neither were contingent profit or loss other than interest-bearing liabilities;

13. The valuation only covered the items as shown in the valuation application form provided by the Appointer and the valuated entity, and does not include contingent assets and contingent liabilities that might exist other than those as contained in the list provided by the Appointer and the valuated entity;

14. No force majeure that would have a material adverse effect on the valuated entity after the valuation benchmark date.

Ernst & Young ("**EY**"), the Company's auditor, has examined the calculations of the discounted future estimated cash flows, which do not involve the adoption of accounting policies, on which the Valuation prepared by the Valuer was based.

EY has reported to the Directors that, so far as the calculations of the discounted future estimated cash flows on which the Valuation was based are concerned, the discounted future estimated cash flow has been properly compiled in all material respects in accordance with the Assumptions. The work performed by EY have not reviewed, considered or conducted any work on the appropriateness and validity of the bases and assumptions and expresses no opinion on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows, and thus the Valuation, are based.

The Directors have reviewed the bases and assumptions based upon which the Valuation was prepared by the Independent Valuer. The Directors have also considered the letter from EY. On the basis of the foregoing, the Directors have confirmed that they are satisfied that the Valuation prepared by the Independent Valuer in the Valuation Report has been made after due and careful enquiry.

A letter from EY dated 29 June 2020 in compliance with Rule 14.62(2) of the Listing Rules and a letter from the Directors dated 29 June 2020 in compliance with Rule 14.62(3) of the Listing Rules have been submitted to the Stock Exchange, the texts of which are included in Appendix IIE and Appendix IIF to this circular, respectively.

EY 安永

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29 June 2020

The Directors
TCL Electronics Holdings Limited
7th Floor, Building 22E,
22 Science Park East Avenue,
Hong Kong Science Park,
Shatin, New Territories, Hong Kong

Dear Sirs,

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED AND ITS SUBSIDIARIES (HEREINAFTER COLLECTIVELY REFERRED TO AS "TCL COMMUNICATION GROUP")

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the ''Forecast'') on which the valuation dated 29 June 2020 prepared by China United Assets Appraisal Group Co., Ltd. in respect of TCL Communication Group as at 31 December 2019 is based. The valuation is set out in the announcement of TCL Electronics Holdings Limited (the ''Company'') in connection with the acquisition of TCL Communication Group. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules'').

Directors' responsibilities

The directors of the Company (the ''Directors'') are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the ''Assumptions''), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in Appendix I ''Bases and Assumptions'' of the announcement of the Company dated 29 June 2020.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors of the Company. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the directors of TCL Communication. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of TCL Communication Group. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors of the Company.

Yours faithfully,

Ernst & Young

Certified Public Accountants
Hong Kong

TCL ELECTRONICS HOLDINGS LIMITED
TCL電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

29 June 2020

To the Shareholders

Dear Sir or Madam,

Re: Major and Connected Transaction – Acquisition of 100% Equity Interest in TCL Communication

Reference is made to the determination of market value of TCL Communication Technology Holdings Limited ("**TCL Communication**") dated 29 June 2020 (the "**Valuation Report**") prepared by China United Assets Appraisal Group Co., Ltd. (the "**China United**") in relation to the valuation of TCL Communication as at 31 December 2019 (the "**Valuation**"). The Valuation was performed based on the income approach which taken into account the discounted cash flow projections of TCL Communication Group, (the "**TCL Communication Group Forecast**"), and therefore constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have reviewed and considered the TCL Communication Group Forecast including the bases and assumptions upon which the TCL Communication Group Forecast was based and reviewed and considered the Valuation for which China United is responsible. We have also considered the letter dated 29 June 2020 from Ernst & Young, so far as the calculations are concerned, whether the TCL Communication Group Forecast have been properly complied in all material respects in accordance with the bases and assumptions adopted by the China United as set out in the Valuation. We have noted that the TCL Communication Group Forecast in the Valuation is mathematically accurate.

On the basis of the foregoing, we are of the opinion that the Valuation Report prepared by the China United has been made after due and careful enquiry.

Yours faithfully,
On behalf of the Board
LI Dongsheng
Chairman

Introduction

This unaudited pro forma consolidated statement of financial position (the ''Unaudited Pro Forma Financial Information'') has been prepared for the purpose of providing Shareholders with information about the impact of the Acquisition by illustrating how the Acquisition might have affected the financial position of the Group as at 31 December 2019, had completion of the Acquisition taken place on 31 December 2019.

The Unaudited Pro Forma Financial Information has been prepared based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Group after completion of the Acquisition that would have been attained had the Acquisition been completed on 31 December 2019. Neither does the Unaudited Pro Forma Financial Information purports to predict the future financial position of the Group after completion of the Acquisition.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position after the completion of the Acquisition.

	The Group as at 31 December 2019 *HK$'000*	**TCL Communication Group as at 31 December 2019** *HK$'000*	**Pro forma adjustments** *HK$'000*	*Notes*	**Pro forma the Group after completion of the Acquisition** *HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	1,531,460	704,250	64,254	2(a)	2,299,964
Right-of-use assets	285,569	151,336	431,925	2(a)	868,830
Investment properties	127,908	81,688	155,827	2(a)	365,423
Goodwill	1,867,990	213,883	1,032,737	2(a)	3,114,610
Other intangible assets	156,166	557,834	364,479	2(a)	1,078,479
Investments in joint ventures	31,323	29,106	7,031	2(a)	67,460
Investments in associates	1,398,627	111,830	620,035	2(a)	2,130,492
Equity investments designated at fair value through other comprehensive income	143,920	151,891			295,811
Deferred tax assets	85,584	164,782			250,366
Other deferred assets	44,430	–			44,430
Other non-current assets	–	48,192			48,192
Restricted cash	3,396	–			3,396
Total non-current assets	5,676,373	2,214,792			10,567,453
CURRENT ASSETS					
Inventories	5,401,416	1,275,048			6,676,464
Trade receivables	5,993,843	1,184,354	(7,445)	2(b)	7,170,752
Bills receivable	4,167,798	8,037			4,175,835
Factored trade receivables	–	34,782			34,782
Prepayments, other receivables and other assets	2,743,731	5,223,396	(13,167)	2(b)	7,953,960
Tax recoverable	41,180	15,256			56,436
Financial assets at fair value through profit or loss	961,576	–			961,576
Derivative financial instruments	139,480	62,664			202,144
Restricted cash	2,431	389,822			392,253
Cash and cash equivalents	8,194,743	198,383	(1,674,294)	2(a)	6,718,832
			(8,528)	2(d)	(8,528)
Total current assets	27,646,198	8,391,742			34,334,506

	The Group as at 31 December 2019 *HK$'000*	TCL Communication Group as at 31 December 2019 *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma the Group after completion of the Acquisition *HK$'000*
CURRENT LIABILITIES					
Trade payables	9,396,398	2,122,590	(16,549)	2(b)	11,502,439
Bills payable	2,683,814	–			2,683,814
Other payables and accruals	6,477,884	5,066,399	(4,063)	2(b)	11,540,220
Bank advances on factored trade receivables	–	34,782			34,782
Interest-bearing bank and other borrowings	1,648,612	3,644,007			5,292,619
Lease liabilities	80,808	28,631			109,439
Tax payable	134,708	12,153			146,861
Derivative financial instruments	44,086	48,006			92,092
Provisions	689,597	244,327			933,924
Total current liabilities	21,155,907	11,200,895			32,336,190
NET CURRENT ASSETS/ (LIABILITIES)	6,490,291	(2,809,153)			1,998,316
TOTAL ASSETS LESS CURRENT LIABILITIES	12,166,664	(594,361)			12,565,769
NON-CURRENT LIABILITIES					
Retirement indemnities	–	3,469			3,469
Long service medals	–	1,324			1,324
Interest-bearing bank and other borrowings	89,286	–			89,286
Lease liabilities	59,621	67,172			126,793
Deferred tax liabilities	46,840	19,058	223,175	2(a)	289,073
Other long-term payables	27,252	–			27,252
Other non-current liabilities	–	93,435			93,435
Derivative financial instruments	6,899	–			6,899
Total non-current liabilities	229,898	184,458			637,531
Net assets/(liabilities)	11,936,766	(778,819)			11,928,238
EQUITY					
Equity attributable to owners of the parent					
Issued capital	2,363,225	1,278,984	(1,278,984)	2(c)	2,363,225
Reserves	9,216,765	(2,057,803)	2,057,803	2(c)	9,216,765
			(8,528)	2(d)	(8,528)
	11,579,990	(778,819)			11,571,462
Non-controlling interests	356,776	–			356,776
Total equity	11,936,766	(778,819)			11,928,238

Notes:

1. Basis of preparation

This Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules and based upon: (i) the consolidated statement of financial position of the Group as of 31 December 2019, which has been extracted from the published annual report of the Company for the year ended 31 December 2019; and (ii) the audited consolidated statement of financial position of TCL Communication Group as of 31 December 2019, which has been extracted from the accountants' report of TCL Communication Group as set out in Appendix IIA to this circular; and adjusted in accordance with the pro forma adjustments described in note 2 below, as if the Acquisition had been completed on 31 December 2019.

This Unaudited Pro Forma Financial Information has been prepared in a manner consistent with both the format and accounting policies adopted by the Company in its financial statements for the year ended 31 December 2019.

2. Notes to the pro forma adjustments

(a) According to the Group's accounting policy, the Group had chosen acquisition method in accordance with Hong Kong Financial Reporting Standard 3 Business Combinations ("HKFRS 3") to account for business combinations under common control having substance. This Unaudited Pro Forma Financial Information has been prepared by applying the acquisition method to account for the Acquisition, given management considers that the Acquisition has substance from the perspective of the Group, which is consistent with the Group's accounting policy.

In accordance with the Acquisition Agreements dated 29 June 2020, the Company conditionally agreed to purchase from Zhengjia Investment Limited 100% of its equity interests in TCL Communication Group, and the Total Consideration for the Acquisition amounted to RMB1,500,000,000 (equivalent to approximately HK$1,674,294,000) is to be satisfied by cash to the Vendor. For the purpose of this Unaudited Pro Forma Financial Information, the fair value surplus of the identifiable assets and liabilities of TCL Communication Group are amounting to HK$1,643,551,000, which is based on the valuation prepared by China United Assets Appraisal Group Co., Ltd. Accordingly, these adjustments reflects the effect of the completion of the Acquisition. The fair value adjustments of the identifiable assets and liabilities of TCL Communication Group, as assessed by the Directors, the total Consideration and the goodwill so arising from the completion of the Acquisition are as follows:

	Notes	*HK$'000*
Cash consideration		1,674,294
Net liabilities value of TCL Communication Group as at 31 December 2019		(778,819)
Fair value adjustments on property, plant and equipment	(i)	64,254
Fair value adjustments on right-of-use assets	(i)	431,925
Fair value adjustments on investment properties	(i)	155,827
Fair value adjustments on goodwill	(i)	(213,883)
Fair value adjustments on other intangible assets	(i)	364,479
Fair value adjustments on investments in joint ventures	(i)	7,031
Fair value adjustments on investments in associates	(i)	620,035
Deferred tax liabilities arising from fair value adjustments	(ii)	(223,175)
Fair value of TCL Communication Group's identifiable net assets as at 31 December 2019		427,674
Goodwill on acquisition		1,246,620

Notes

(i) The fair value adjustments of HK$1,429,668,000 represents the difference between the fair value of the identifiable assets and liabilities of TCL Communication Group as at 31 December 2019 which is HK$650,849,000 and the carrying amount of net liabilities of HK$778,819,000 as at 31 December 2019, mainly due to the fair value surplus of TCL Communication Group arising from property, plant and equipment, right-of-use assets, investment properties, other intangible assets, investments in joint ventures and investments in associates according to the independent valuation prepared by China United Assets Appraisal Group Co., Ltd..

(ii) Deferred tax liabilities of HK$223,175,000 is the deferred corporate income tax, which is calculated at applicable income tax rates of the different tax jurisdictions ranging from 15% to 30% on the valuation surplus.

The actual fair value of the assets and the liabilities will be determined as of the date of Acquisition and may differ materially from the amounts disclosed in the unaudited pro forma financial information because of changes in fair value of the assets and liabilities as further analysis is completed. Consequently, the actual allocation of the purchase price will likely result in different amounts than those in the unaudited pro forma financial information.

(b) This adjustment represents the elimination of balances between the Group and TCL Communication Group.

(c) This adjustment represents the elimination of the share capital and pre-acquisition reserves of TCL Communication Group.

(d) For the purpose of this Unaudited Pro Forma Financial Information, the transaction costs such as professional service fees and stamp duty, that are directly attribute to the Acquisition are estimated to be HK$8,528,000. It is assumed that the fees have been settled by cash.

(e) Excluding the property, plant and equipment, right-of-use assets, investment properties, other intangible assets, investments in joint ventures and investments in associates, the equity investments designated at fair value through other comprehensive income, goodwill and derivative financial instruments which had been stated at fair value, TCL Communication Group's identifiable assets comprised deferred tax assets, other non-current assets, inventories, trade receivables, bills receivable, factored trade receivables, repayments, other receivables and other assets, tax recoverable, restricted cash, cash and cash equivalents. In the opinion of the Directors, the fair value the above assets are approximate to their book value with reference to the Director's industry knowledge and the Director's intention to continually manage the normal operation of the assets thereon the completion date of the acquisition.

(f) In the preparation of the Unaudited Pro Forma Financial Information, the Company has performed an impairment assessment of the goodwill in accordance with Hong Kong Accounting Standard 36 Impairment of Assets (''HKAS 36'') and the Group's accounting policy. Based on the impairment test, the recoverable amount of the cash-generating unit to which TCL Communication Group is assigned (the ''CGU of TCL Communication Group'') is RMB1,590,711,300 (equivalent to approximately HK$1,775,545,000), which is determined based on the valuation conducted by China United Assets Appraisal Group Co., Ltd, an independent valuer, whose valuation report is included in Appendix IIB to this circular. This recoverable amount exceeds the carrying amount of the CGU of TCL Communication Group of HK$1,674,294,000, which comprises goodwill of HK$1,246,620,000 and the fair value of identifiable net assets of TCL Communication Group of HK$427,674,000. Therefore, no pro forma adjustment in respect of goodwill impairment is considered necessary by the Directors in the preparation of the Unaudited Forma Financial Information.

In addition, the Directors will assess the impairment of the goodwill annually at each financial year end under consistent accounting policies.

(g) No other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and TCL Communication Group entered into subsequent to 31 December 2019.

(h) No other potential taxes, except for deferred tax liabilities of the Acquisition and stamp duty of the Acquisition, has been considered to the Unaudited Pro Forma Financial Information.

EY 安永

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The Directors
TCL Electronics Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of TCL Electronics Holdings Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group'') by the directors of the Company (the ''Directors'') for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Group as at 31 December 2019 and the related notes set out in Appendix III A of the Circular dated 30 June 2020 issued by the Company (the ''Circular'') (the ''Unaudited Pro Forma Financial Information'') in connected with the acquisition of the entire equity interest in TCL Communication Technology Holdings Limited and its subsidiaries (hereinafter collectively referred to as ''TCL Communication Group'') (the ''Acquisition'', together with the Group hereafter collectively referred to as the ''Group after completion of the Acquisition''). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in notes (1) to (2) to Appendix IIIA to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors illustrating the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had taken place at 31 December 2019. As part of this process, the consolidated statement of financial information of the Group as at 31 December 2019 has been extracted by the Directors from the published annual report of the Company for the year ended 31 December 2019, the audited financial information of TCL Communication Group as at 31 December 2019 has been extracted by the Directors from the accountants' report of TCL Communication Group as set out in Appendix IIA to the Circular.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules'') and with reference to Accounting Guideline (''AG'') 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the ''HKICPA'').

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements*, and *Other Assuran*ce and *Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrative the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had taken place at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
30 June 2020

Introduction

This unaudited pro forma consolidated statement of financial position (the ''Unaudited Pro Forma Financial Information'') has been prepared for the purpose of providing Shareholders with information about the impact of the Business Transformation by illustrating how the Business Transformation might have affected the financial position of the Group as at 31 December 2019, had completion of the Business Transformation taken place on 31 December 2019.

The Unaudited Pro Forma Financial Information has been prepared based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Group upon Completion of Business Transformation that would have been attained had the Business Transformation been completed on 31 December 2019. Neither does the Unaudited Pro Forma Financial Information purports to predict the future financial position of the Group upon Completion of Business Transformation.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position after the completion of the Business Transformation.

	The Group as at 31 December 2019	TCL Communication Group as at 31 December 2019	Pro forma adjustments				Pro forma the Group upon Completion of Business Transformation
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			Note 2(a)	*Note 2(b)*	*Note 2(c)*	*Note 2(d)*	
NON-CURRENT ASSETS							
Property, plant and equipment	1,531,460	704,250	64,254	(138,807)			2,161,157
Right-of-use assets	285,569	151,336	431,925	(1,602)			867,228
Investment properties	127,908	81,688	155,827				365,423
Goodwill	1,867,990	213,883	1,032,737				3,114,610
Other intangible assets	156,166	557,834	364,479	(548)			1,077,931
Investments in joint ventures	31,323	29,106	7,031				67,460
Investments in associates	1,398,627	111,830	620,035				2,130,492
Equity investments designated at fair value through other comprehensive income	143,920	151,891		–			295,811
Deferred tax assets	85,584	164,782		(15,807)			234,559
Other deferred assets	44,430	–		(590)			43,840
Other non-current assets	–	48,192					48,192
Restricted cash	3,396	–					3,396
Total non-current assets	5,676,373	2,214,792					10,410,099
CURRENT ASSETS							
Inventories	5,401,416	1,275,048		(1,163,827)			5,512,637
Trade receivables	5,993,843	1,184,354		(2,492,305)	2,991,901		7,677,793
Bills receivable	4,167,798	8,037		(1,339,028)			2,836,807
Factored receivables	–	34,782					34,782
Prepayments, other receivables and other assets	2,743,731	5,223,396		(2,137,328)	4,008,723		9,838,522
Tax recoverable	41,180	15,256					56,436
Financial assets at fair value through profit or loss	961,576	–					961,576
Derivative financial instruments	139,480	62,664		(25,825)			176,319
Restricted cash	2,431	389,822					392,253
Cash and bank balances	8,194,743	198,383	(1,674,294)	1,965,712		(11,318)	8,673,226
Total current assets	27,646,198	8,391,742					36,160,351
CURRENT LIABILITIES							
Trade payables	9,396,398	2,122,590		(4,250,468)	2,960,659		10,229,179
Bills payable	2,683,814	–		(709,664)			1,974,150
Other payables and accruals	6,477,884	5,066,399		(2,199,669)	4,039,965		13,384,579
Bank advances on factored trade receivables	–	34,782					34,782
Interest-bearing bank and other borrowings	1,648,612	3,644,007					5,292,619
Lease liabilities	80,808	28,631		(1,821)			107,618
Tax payable	134,708	12,153		(56,323)			90,538
Derivative financial instruments	44,086	48,006		(24,191)			67,901
Provisions	689,597	244,327		(175,188)			758,736
Total current liabilities	21,155,907	11,200,895					31,940,102

	The Group as at 31 December 2019	TCL Communication Group as at 31 December 2019	Pro forma adjustments				Pro forma the Group upon Completion of Business Transformation
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			Note 2(a)	*Note 2(b)*	*Note 2(c)*	*Note 2(d)*	
NET CURRENT ASSETS/ (LIABILITIES)	6,490,291	(2,809,153)					4,220,249
TOTAL ASSETS LESS CURRENT LIABILITIES	12,166,664	(594,361)					14,630,348
NON-CURRENT LIABILITIES							
Retirement indemnities	–	3,469					3,469
Long service medals	–	1,324					1,324
Interest-bearing bank and other borrowings	89,286	–					89,286
Lease liabilities	59,621	67,172					126,793
Deferred tax liabilities	46,840	19,058	223,175	(5,119)			283,954
Other long-term payables	27,252	–		(4,267)			22,985
Other non-current liabilities	–	93,435					93,435
Derivative financial instruments	6,899	–					6,899
Total non-current liabilities	229,898	184,458					628,145
Net assets/(liabilities)	11,936,766	(778,819)					14,002,203
EQUITY							
Equity attributable to owners of the parent							
Issued capital	2,363,225	1,278,984	(1,278,984)				2,363,225
Reserves	9,216,765	(2,057,803)	2,057,803	2,076,755		(11,318)	11,282,202
	11,579,990	(778,819)					13,645,427
Non-controlling interests	356,776	–					356,776
Total equity	11,936,766	(778,819)					14,002,203

Notes:

1. Basis of preparation

This Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules and based upon: (i) the consolidated statement of financial position of the Group as of 31 December 2019, which has been extracted from the published annual report of the Company for the year ended 31 December 2019; and (ii) the audited consolidated statement of financial position of TCL Communication Group as of 31 December 2019, which has been extracted from the accountants' report of TCL Communication Group as set out in Appendix IIA to this circular; and adjusted in accordance with the pro forma adjustments described in note 2 below, as if the Business Transformation had been completed on 31 December 2019.

This Unaudited Pro Forma Financial Information has been prepared in a manner consistent with both the format and accounting policies adopted by the Company in its financial statements for the year ended 31 December 2019.

2. Notes to the pro forma adjustments

(a) According to the Group's accounting policy, the Group had chosen acquisition method in accordance with Hong Kong Financial Reporting Standard 3 Business Combinations ("HKFRS 3") to account for business combinations under common control having substance. This Unaudited Pro Forma Financial Information has been prepared by applying the acquisition method to account for the Acquisition, given management considers that the Acquisition has substance from the perspective of the Group, which is consistent with the Group's accounting policy.

In accordance with the Acquisition Agreements dated 29 June 2020, the Company conditionally agreed to purchase from Zhengjia Investment Limited 100% of its equity interests in TCL Communication Group, and the Total Consideration for the Acquisition amounted to RMB1,500,000,000 (equivalent to approximately HK$1,674,294,000) is to be satisfied by cash to the Vendor. For the purpose of this Unaudited Pro Forma Financial Information, the fair value surplus of the identifiable assets and liabilities of TCL Communication Group is amounting to HK$1,643,551,000, which is based on the valuation prepared by China United Assets Appraisal Group Co., Ltd.. Accordingly, these adjustments reflects the effect of the completion of the Acquisition. The fair value adjustments of the identifiable assets and liabilities of TCL Communication Group, as assessed by the Directors, the total Consideration and the goodwill so arising from the Acquisition Completion are as follows:

	Notes	*HK$'000*
Cash consideration		1,674,294
Net liabilities value of TCL Communication Group as at 31 December 2019		(778,819)
Fair value adjustments on property, plant and equipment	(i)	64,254
Fair value adjustments on right-of-use assets	(i)	431,925
Fair value adjustments on investment properties	(i)	155,827
Fair value adjustments on goodwill	(i)	(213,883)
Fair value adjustments on other intangible assets	(i)	364,479
Fair value adjustments on investments in joint ventures	(i)	7,031
Fair value adjustments on investments in associates	(i)	620,035
Deferred tax liabilities arising from fair value adjustments	(ii)	(223,175)
Fair value of TCL Communication Group's identifiable net assets as at 31 December 2019		427,674
Goodwill on acquisition		1,246,620

Notes:

(i) The fair value adjustments of HK$1,429,668,000 represents the difference between the fair value of the identifiable assets and liabilities of TCL Communication Group as at 31 December 2019 which is HK$650,849,000 and the carrying amount of net liabilities of HK$778,819,000 as at 31 December 2019, mainly due to the fair value surplus of TCL Communication Group arising from property, plant and equipment, right-of-use assets, investment properties, other intangible assets, investments in joint ventures and investments in associates according to the independent valuation prepared by China United Assets Appraisal Group Co., Ltd..

(ii) Deferred tax liabilities of HK$223,175,000 is the deferred corporate income tax, which is calculated at applicable income tax rates of the different tax jurisdictions ranging from 15% to 30% on the valuation surplus.

The actual fair values of the assets and the liabilities will be determined as of the date of Acquisition and may differ materially from the amounts disclosed in the unaudited pro forma financial information because of changes in fair values of the assets and liabilities as further analysis is completed. Consequently, the actual allocation of the purchase price will likely result in different amounts than those in the unaudited pro forma financial information.

(b) Pursuant to the Acquisition and Disposal Agreement, the completion of the Acquisition and the completion of the Disposal are inter-conditional.

In according with the Disposal Agreement dated 29 June 2020, the Company conditionally agreed to dispose 100% equity interests of Moka International Group to T.C.L. Industries Holdings (H.K.) Limited at the consideration of RMB2,500,000,000 (equivalent to approximately HK$2,790,490,000). For the purpose of this Unaudited Pro Forma Financial Information, it is assumed that the proposed Disposal has been taken place and all the consideration has been collected by cash on 31 December 2019. Accordingly, this adjustment reflects the effect of the completion of the Disposal and details are summarised as follows:

	Notes	*HK$'000*
Net assets disposed of:		
Property, plant and equipment		138,807
Right-of-use assets		1,602
Other intangible assets		548
Deferred tax assets		15,807
Other deferred assets		590
Inventories		1,163,827
Trade receivables		2,492,305
Bills receivable		1,339,028
Prepayments, other receivables and other assets		2,137,328
Derivative financial instruments		25,825
Cash and bank balances		824,778
Trade payables		(4,250,468)
Bills payable		(709,664)
Other payables and accruals		(2,199,669)
Lease liabilities		(1,821)
Tax payable		(56,323)
Derivative financial instruments		(24,191)
Provisions		(175,188)
Deferred tax liabilities		(5,119)
Other long-term payables		(4,267)
		713,735
Reallocation of exchange reserve of Moka International Group	(i)	(98,166)
Gain on the Disposal as if the Disposal had been completed on 31 December 2019		1,978,589
Satisfied by Cash	(ii)	2,790,490

Notes:

(i) The amount represents exchange reserve of Moka International Group to be reallocated to profit or loss as if the Disposal had been completed on 31 December 2019.

(ii) In accordance with the Disposal Agreements, the Total Consideration for the Disposal amounting to RMB2,500,000,000 (equivalent to approximately HK$2,790,490,000) is to be satisfied by cash from the Purchaser.

Actual gain on disposal arising from the Disposal depends on actual proceeds from the Disposal, actual amount of net assets of Moka International Group, and actual amount of exchange reserve of Moka International Group to be reallocated to profit or loss on the completion date. Therefore, the actual gain on disposal shall be different from the amount calculated in the above table.

(c) This adjustment represents the elimination of balances between the Group, Moka International Group and TCL Communication Group.

(d) For the purpose of this Unaudited Pro Forma Financial Information, the transaction costs such as professional service fees and stamp duty, that are directly attribute to the Business Transformation are estimated to be HK$11,318,000. It is assumed that the fees have been settled by cash.

(e) Excluding the property, plant and equipment, right-of-use assets, investment properties, other intangible assets, investments in joint ventures and investments in associates, the equity investments designated at fair value through other comprehensive income, goodwill and derivative financial instruments which had been stated at fair value, TCL Communication Group's identifiable assets comprised deferred tax assets, other non-current assets, inventories, trade receivables, bills receivable, factored trade receivables, repayments, other receivables and other assets, tax recoverable, restricted cash, cash and cash equivalents. In the opinion of the Directors, the fair value the above assets are approximate to their book value with reference to the Director's industry knowledge and the Director's intention to continually manage the normal operation of the assets thereon the completion date of the acquisition.

(f) In the preparation of the Unaudited Pro Forma Financial Information, the Company has performed an impairment assessment of the goodwill in accordance with Hong Kong Accounting Standard 36 Impairment of Assets (''HKAS 36'') and the Group's accounting policy. Based on the impairment test, the recoverable amount of the cash-generating unit to which TCL Communication Group is assigned (the ''CGU of TCL Communication Group'') is RMB1,590,711,300 (equivalent to approximately HK$1,775,545,000), which is determined based on the valuation conducted by China United Assets Appraisal Group Co., Ltd, an independent valuer, whose valuation report is included in Appendix IIB to this circular. This recoverable amount exceeds the carrying amount of the CGU of TCL Communication Group of HK$1,674,294,000, which comprises goodwill of HK$1,246,620,000 and the fair value of identifiable net assets of TCL Communication Group of HK$427,674,000. Therefore, no pro forma adjustment in respect of goodwill impairment is considered necessary by the Directors in the preparation of the Unaudited Forma Financial Information.

In addition, the Directors will assess the impairment of the goodwill annually at each financial year end under consistent accounting policies.

(g) No other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group, TCL Communication Group and Moka International Group entered into subsequent to 31 December 2019.

(h) No other potential taxes, except for deferred tax liabilities of the Acquisition and stamp duty of the Business Transformation, has been considered to the Unaudited Pro Forma Financial Information.

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The Directors
TCL Electronics Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of TCL Electronics Holdings Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group'') by the directors of the Company (the ''Directors'') for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Group as at 31 December 2019 and the related notes set out in Appendix III B of the Circular dated 30 June 2020 issued by the Company (the ''Circular'') (the ''Unaudited Pro Forma Financial Information'') in connected with the acquisition of the entire equity interest in TCL Communication Technology Holdings Limited and its subsidiaries (hereinafter collectively referred to as ''TCL Communication Group'') (the ''Acquisition'') and the disposal of the entire equity interest of Moka International Limited and its subsidiaries (hereinafter collectively referred to as ''Moka International Group'') (the ''Disposal'') (the ''Business Transformation''). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in notes (1) to (2) to Appendix IIIB of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors, illustrating the impact of the Business Transformation on unadjusted financial information of the Group as if the Business Transformation had taken place at 31 December 2019. As part of this process, the consolidated statement of financial information of the Group as at 31 December 2019 has been extracted by the Directors from the published annual report of the Company for the year ended 31 December 2019, the audited financial information of TCL Communication Group as at 31 December 2019 has been extracted by the Directors from the accountants' report of TCL Communication Group as set out in Appendix IIA to the Circular.

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Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements*, and *Other Assuran*ce and *Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrative the impact of the Business Transformation on unadjusted financial information of the Group as if the Business Transformation had taken place at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Business Transformation would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Business Transformation, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Business Transformation in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
30 June 2020

ASSET VALUATION REPORT ON THE 100% EQUITY INTEREST OF MOKA INTERNATIONAL LIMITED PROPOSED TO BE DISPOSED OF BY TCL ELECTRONICS HOLDINGS LIMITED

To: TCL Electronics Holdings Limited

China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司) ("China United") was appointed by the Company to evaluate the market value of the entire shareholders' equity of Moka International Limited which is proposed to be disposed of by TCL Electronics Holdings Limited as at 31 December 2019. By complying with the laws, administrative regulations and asset valuation standards and upholding the principles of independence, objectivity and impartiality, we adopted the income approach and market approach and followed the necessary valuation procedures in conducting the valuation. The details of asset valuation are hereby reported as follows:

I. APPOINTER, EQUITY RIGHTS OWNER, SUBJECT OF VALUATION AND OTHER USERS OF THE VALUATION REPORT

TCL Electronics Holdings Limited is the appointer of this valuation (the "Appointer") and also the equity rights owner (the "Equity Holder") whereas the subject of valuation is Moka International Limited (the "Subject of Valuation"). Information in relation to the Appointer, the Equity Holder and the Subject of Valuation is provided as follows:

(1) PROFILES OF APPOINTER AND EQUITY RIGHTS OWNERS

Company name:	TCL Electronics Holdings Limited (hereinafter referred to as "TCL Electronics")
Registered address:	P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Office address:	7/F, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong
Chairman of the board of directors:	LI Dongsheng
Certificate of Incorporation No.:	89238
Authorized share capital:	HK$3,000,000,000 (as of 31 December 2019)
Date of incorporation:	23 April 1999
Place of listing:	The Stock Exchange of Hong Kong Limited (hereinafter referred to as "Stock Exchange")
Stock code:	01070.HK

(2) PROFILE OF THE SUBJECT OF VALUATION

Company name:	Moka International Limited ("Moka International")
Company address:	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands
Directors:	LIANG Tiemin, WANG Yi, LIU Meihua
Certificate of Incorporation No.:	1759129
Registered capital:	US$1 (as at 31 December 2019)
Paid-up capital:	US$1 (as at 31 December 2019)
Company type:	Limited liability company
Date of incorporation:	5 February 2013
Term of operation:	Commencing from 5 February 2013 with no fixed term

1. History of Moka International

Moka International was established in February 2013 in the British Virgin Islands with an initial registered capital of US$1 financed by TCL Electronics. The share capital and shareholding structure of Moka International upon its establishment are as follows:

		Contribution committed		Contribution paid-up	
No.	**Name of shareholder**	**Amount** *(US$)*	**Proportion** *(%)*	**Amount** *(US$)*	**Proportion** *(%)*
1	TCL Electronics	1.00	100.00	1.00	100.00
	Total	1.00	100.00	1.00	100.00

As at the valuation benchmark date, there has been no changes in the share capital and shareholding structure of Moka International.

2. *Company profile of Moka International*

Moka International Group has been focusing on the TV ODM business, with remarkable research and development capability, industrial capability and product delivery capability as well as well-established quality control system. Its ODM clients include first-tier clients in the domestic and international markets. Moka International Group's shipments in 2019 amounted to 11.36 million units and its production and operation are in good condition.

Moka International Group has established manufacturing bases in Huizhou, Mexico and India. The intelligent manufacturing base in Tonghu, Huizhou has formally commenced operation since April 2020. The manufacturing base in India is currently under construction and the construction is expected to be completed within this year.

Currently, Moka International has a workforce of approximately 5,500 employees. The focus of its main technological directions is the research and development of products related to its ODM business. At present, Moka International Group has a comprehensive ODM product matrix with products covering all sizes from 19'' to 86'' and capable of providing various tailored mid- to high-end product solutions such as curved screen, quantum dot, bezel-less display as well as Linux and Android compatibility according to clients' needs.

Moka International has eight subsidiaries which are engaged in the research and development, procurement, production and sales of TV and related products. Among those subsidiaries, TCL Overseas Electronics (Huizhou) Limited is the major operating entity of Moka International and represents the integration of research and development, supply, production and marketing. Its Tonghu plant has an annual production capacity of about 15 million units and its products are distributed to the PRC as well as major countries and markets overseas.

3. ***Business scope:*** research and development, procurement, production and sales of TV and related products

4. ***Assets and financial conditions***

As at 31 December 2019, in the audited consolidated financial statements of Moka International, the carrying amount of total assets, total liabilities, net assets and net assets attributable to the parent company was RMB7,339,682,300, RMB6,699,304,600, RMB640,377,800 and RMB640,377,800 respectively. In 2019, Moka International recorded an operating revenue of RMB10,496,215,500, a net profit of RMB320,986,600 and a net profit attributable to the parent company of RMB320,986,600. The assets, liabilities and operating conditions of Moka International for 2017, 2018 and 2019 on a consolidated basis are shown in the table below.

Assets, liabilities and financial conditions of Moka International for 2017–2019 (consolidated)

Unit: RMB'0000

Item	31 December 2017	31 December 2018	31 December 2019
Total assets	684,345.41	574,033.36	733,968.23
Liabilities	662,996.49	531,111.54	669,930.46
Net assets	21,348.93	42,921.83	64,037.78
Net assets attributable to the parent company	21,348.93	42,921.83	64,037.78
Item	**2017**	**2018**	**2019**
Operating revenue	971,484.64	943,399.86	1,049,621.55
Total profit	14,176.25	27,069.59	38,287.38
Net profit	12,072.96	23,570.13	32,098.66
Net profit attributable to shareholders	12,072.96	23,570.13	32,098.66
Auditors	Unaudited	**Ernst & Young Hua Ming LLP, Shenzhen Branch (安永華明會計師事務所（特殊普通合夥）深圳分所).**	

(4) OTHER VALUATION REPORT USERS SPECIFIED BY THE APPOINTER AND ASSET VALUATION ENGAGEMENT CONTRACT

This valuation report is used by the Appointer, TCL Industries Holdings Co., Ltd., relevant administrative and competent authorities, relevant regulatory authorities, and apart from the above-mentioned there are no other users of this asset valuation report.

Unless otherwise provided by the laws and regulations of China, no organization or individual shall become a user of this valuation report upon obtaining this valuation report without the consent of the valuer and the Appointer.

(5) THE RELATIONSHIP BETWEEN THE APPOINTER AND THE SUBJECT OF VALUATION

The Subject of Valuation is wholly-owned by the Appointer and they are related parties to each other.

II. PURPOSE OF VALUATION

In view of the proposed disposal of 100% equity interest in Moka International Limited by TCL Electronics Holdings Limited, it is required to conduct a valuation on the market value of the entire shareholders' equity of Moka International Limited involved in the above transaction as at the valuation benchmark date.

This valuation aims to reflect the market value of the entire shareholders' equity of Moka International Limited as at the valuation benchmark date, so as to provide a value reference for the above economic activity of TCL Electronics Holdings Limited.

III. SUBJECT AND SCOPE OF VALUATION

The Subject of Valuation is the entire shareholders' equity of Moka International. The scope of valuation covers all the assets and liabilities in the consolidated financial statements of Moka International as at the valuation benchmark date. The carrying amount of total assets, liabilities, net assets and net assets attributable to shareholders was RMB7,339,682,300, RMB6,699,304,600, RMB640,377,800 and RMB640,377,800 respectively. Specifically, current assets of RMB7,152,183,300; non-current assets of RMB187,499,000, among which financial assets available for sale of RMB47,961,200, fixed assets of RMB117,628,500, construction in progress of RMB6,728,000, intangible assets of RMB491,100, long-term deferred expenses of RMB528,200, deferred income tax assets of RMB14,162,000; current liabilities of RMB6,485,984,300; non-current liabilities of RMB213,320,300.

The above carrying amounts of assets and liabilities are extracted from the "Audited Financial Statements of Moka International Limited (2018 and 2019)" issued by Ernst & Young Hua Ming LLP, Shenzhen Branch, and the valuation is conducted on the basis of that an audit has been performed on the company.

The Appointer and the Subject of Valuation confirm that the scope of the valuation engagement is consistent with the purpose of this valuation and that the subject and scope of valuation is consistent with the subject and scope of the valuation involved in the economic activity.

(1) MAJOR ASSETS VALUED

The principal assets included in the valuation are cash and cash equivalents, derivative financial assets, bills receivable and accounts receivable, prepayments, interest receivable, other receivables, deposits, non-current assets due within one year, other current assets, long-term equity investments, fixed assets, construction in progress, intangible assets, long-term deferred expenses, deferred income tax assets and other non-current assets. The book value of the physical assets included in the scope of valuation is RMB1,167,205,300, representing 15.90% of the total assets included in the scope of valuation. The physical assets are mainly inventories, buildings, machinery and equipment, vehicles and electronic equipment, etc. These assets have the following characteristics:

1. The physical assets are mainly located in factories in Tonghu, Huizhou, Guangdong and Mexico.

2. Inventories mainly include raw materials, finished goods and work in progress. Among which, there are more varieties of raw materials of larger amounts, mainly screens of various size, resistors, capacitors, crystal oscillators, horns, back shells, etc.; finished goods are mainly various models of TV; work in progress are products in different stages of production, mainly various models of TV, etc.

3. The buildings are mainly office and factories with a total GFA of 585,368.00 square feet, which are located in the Mexico factory site. The housing and buildings are currently in normal use.

4. Construction in progress mainly refers to the engineering equipment and production line project in Mexico, improvement of TCL smart display terminal production lines in Tonghu, etc. Currently, the constructions in progress are in normal progress.

5. Machinery and equipment are production equipment, mainly including module and integrated TV lines, injection molding machines, screw machines, intelligent storage for finished product, industrial chillers, etc.; vehicles are company vehicles, mainly include Ford van, Honda sedan, etc.; electronic equipment are office equipment, include computers, servers, network analyzers, video analyzers, printers, etc. Currently, all types of equipment are maintained and in normal use.

(3) INTANGIBLE ASSETS UNDER VALUATION THAT HAVE BEEN ACCOUNTED OR NOT ACCOUNTED FOR

The intangible assets that are recorded on book and within the scope of valuation as reported by the Company include land use rights and purchased software, all of which are currently in normal use.

A total of 2 land use rights have been included in the scope of this valuation, particulars of which are set out below:

Table 3-1 Particulars of Land Use Rights

No.	No. of land parcel	Owner of land use rights	Location of land parcel	Date of obtaining the land use rights	Land use	Date of Termination	Area (m^2)
1	ESCRITURA 34578	TCL Moka, S. de R.L. de C.V.	Calle Cuarta No. 55, Ciudad Industrial, Tijuana, B.C., Mexico	2014/5/1	Industrial	Freehold	79,131.79
2	ESCRITURA 35890	TCL Moka, S. de R.L. de C.V.	Calle Cuarta No. 55, Ciudad Industrial, Tijuana, B.C., Mexico	2015/4/1	Industrial	Freehold	5,950.24

As confirmed by the Subject of Valuation, as at the valuation benchmark date of 31 December 2019, there are 49 software copyrights as well as 110 patents and proprietary technologies of the subject of valuation and its subsidiaries are within the scope of this valuation and are off-balance sheet assets and not accounted for in the book value of assets. The major owners of the software copyrights as well as patents and proprietary technologies are Shenzhen Qianhai Moka Software Technology Company Limited (hereinafter referred to as "Qianhai Moka") and TCL Overseas Electronics (Huizhou) Limited (hereinafter referred to as "Overseas Electronics"). Details of software copyrights as well as patents and proprietary technologies are set out in Table 3-2 and Table 3-3 respectively.

Table 3-2 Software Copyrights Status of Moka International and its Subsidiaries

No.	Copyright owner	Registration No.	Name of software	Date of initial publication	Date of completing development
1	Qianhai Moka	2015SR099546	Moka RT2995 Super Smart Audio-visual Application V1.0 (Moka RT2995超級智能視聽應用軟件V1.0)	2015/5/25	2015/5/23
2	Qianhai Moka	2015SR099623	Moka MS918 Super Smart Audio-visual Application V1.0 (Moka MS918超級智能視聽應用軟件V1.0)	2015/5/11	2015/5/8
3	Qianhai Moka	2015SR099620	Moka RT2982 Super Smart Audio-visual Application V1.0 (Moka RT2982超級智能視聽應用軟件V1.0)	2015/5/21	2015/5/18
4	Qianhai Moka	2015SR099624	Moka MS82 Audio-visual Application V1.0 (Moka MS82視聽應用軟件V1.0)	2015/5/20	2015/5/12
5	Qianhai Moka	2015SR099555	Moka MSU69 Smart Audio-visual Application V1.0 (Moka MSU69智能視聽應用軟件V1.0)	2015/4/24	2015/4/20
6	Qianhai Moka	2015SR099539	Moka MS3393 Audio-visual Application V1.0 (Moka MS3393視聽應用軟件V1.0)	2015/5/11	2015/4/28
7	Qianhai Moka	2015SR101411	Moka MS880 Audio-visual Application V1.0 (Moka MS880視聽應用軟件V1.0)	2015/5/4	2015/4/30
8	Qianhai Moka	2015SR101420	Moka SIS512 Audio-visual Application V1.0 (Moka SIS512視聽應用軟件V1.0)	2015/5/22	2015/5/18
9	Qianhai Moka	2015SR102721	Moka RT2984 Super Smart Audio-visual Application V1.0 (Moka RT2984超級智能視聽應用軟件V1.0)	2015/5/19	2015/5/15
10	Qianhai Moka	2015SR102720	Moka MT5531 Smart Audio-visual Application V1.0 (Moka MT5531智能視聽應用軟件V1.0)	2015/5/13	2015/5/6

No.	Copyright owner	Registration No.	Name of software	Date of initial publication	Date of completing development
11	Qianhai Moka	2016SR066430	Moka MS6306 Audio-visual Application V1.0 (Moka MS6306 視聽應用軟件V1.0)	2016/3/7	2016/2/16
12	Qianhai Moka	2016SR066427	Moka SIS506 Audio-visual Application V1.0 (Moka SIS506 視聽應用軟件V1.0)	2016/2/9	2016/1/20
13	Qianhai Moka	2016SR066426	Moka MS1306 Audio-visual Application V1.0 (Moka MS1306 視聽應用軟件V1.0)	2016/3/11	2016/3/2
14	Qianhai Moka	2016SR066425	Moka MS6308 Audio-visual Application V1.0 (Moka MS6308 視聽應用軟件V1.0)	2016/3/9	2016/2/6
15	Qianhai Moka	2016SR066432	Moka MS6486 Audio-visual Application V1.0 (Moka MS6486 視聽應用軟件V1.0)	2016/2/24	2016/2/16
16	Qianhai Moka	2016SR066428	Moka MS6488 Audio-visual Application V1.0 (Moka MS6488 視聽應用軟件V1.0)	2016/3/15	2016/3/10
17	Qianhai Moka	2016SR066433	Moka MT5655 Audio-visual Application V1.0 (Moka MT5655 視聽應用軟件V1.0)	2016/3/4	2016/2/29
18	Qianhai Moka	2016SR066431	Moka MS3463 Audio-visual Application V1.0 (Moka MS3463 視聽應用軟件V1.0)	2016/3/11	2016/3/7
19	Qianhai Moka	2016SR066423	Moka UX38 Audio-visual Application V1.0 (Moka UX38 視聽應用軟件V1.0)	2016/2/22	2016/1/8
20	Qianhai Moka	2016SR066424	Moka SX7 Audio-visual Application V1.0 (Moka SX7視聽應用軟件 V1.0)	2016/2/29	2016/2/20
21	Qianhai Moka	2016SR066429	Moka MSG6 Audio-visual Application V1.0 (Moka MSG6視聽應用軟件 V1.0)	2016/2/4	2015/12/20

No.	Copyright owner	Registration No.	Name of software	Date of initial publication	Date of completing development
22	Qianhai Moka	2016SR090009	Moka V59 Audio-visual Application V1.0 (Moka V59視聽應用軟件V1.0)	2016/3/14	2016/3/1
23	Qianhai Moka	2016SR104813	Moka MT5655 Android Smart Audio-visual Application V1.0 (Moka MT5655安卓版智能視聽應用軟件V1.0)	2016/4/5	2016/3/1
24	Qianhai Moka	2016SR104571	Moka MS638 Super Smart Audio-visual Application V1.0 (Moka MS638超級智能視聽應用軟件V1.0)	2016/4/25	2016/4/21
25	Qianhai Moka	2016SR104579	Moka MT5507 Smart Audio-visual Application V1.0 (Moka MT5507智能視聽應用軟件V1.0)	2016/4/11	2016/3/1
26	Qianhai Moka	2017SR251224	Moka MS3553 Audio-visual Application V1.0 (Moka MS3553視聽應用軟件V1.0)	2017/1/23	2017/1/13
27	Qianhai Moka	2017SR250783	Moka V56 Audio-visual Application V1.0 (Moka V56視聽應用軟件V1.0)	2017/4/10	2017/3/29
28	Qianhai Moka	2017SR250798	Moka MS3663 Audio-visual Application V1.0 (Moka MS3663視聽應用軟件V1.0)	2017/4/26	2017/4/19
29	Qianhai Moka	2017SR250778	Moka NT67 Audio-visual Application V1.0 (Moka NT67視聽應用軟件V1.0)	2017/3/20	2017/3/1
30	Qianhai Moka	2017SR250771	Moka MS3563 Audio-visual Application V1.0 (Moka MS3563視聽應用軟件V1.0)	2017/1/9	2016/11/15
31	Qianhai Moka	2017SR251174	Moka MT14 Audio-visual Application V1.0 (Moka MT14視聽應用軟件V1.0)	2017/3/6	2017/2/10
32	Qianhai Moka	2017SR251183	Moka T968 Super Smart Audio-visual Application V1.0 (Moka T968超級智能視聽應用軟件V1.0)	2017/3/30	2017/3/21

No.	Copyright owner	Registration No.	Name of software	Date of initial publication	Date of completing development
33	Qianhai Moka	2017SR345154	Moka MS338 Smart Audio-visual Application V1.0 (Moka MS338 智能視聽應用軟件V1.0)	2017/1/19	2017/1/12
34	Qianhai Moka	2017SR251179	Moka MS828 Super Smart Audio-visual Application V1.0 (Moka MS828超級智能視聽應用軟件V1.0)	2017/1/23	2016/12/14
35	Qianhai Moka	2017SR251187	Moka MT5658 Super Smart Audio-visual Application V1.0 (Moka MT5658超級智能視聽應用軟件V1.0)	2017/4/25	2017/4/3
36	Qianhai Moka	2017SR251288	Moka RTD2969 Smart Audio-visual Application V1.0 (Moka RTD2969 智能視聽應用軟件V1.0)	2017/4/17	2017/4/10
37	Qianhai Moka	2017SR251176	Moka Swift Screen Project Software V1.0 (Moka 極速投屏軟件V1.0)	2016/11/1	2016/10/4
42	Qianhai Moka	2019SR1008760	Moka MS3683 Audio-visual Software V1.0 (Moka MS3683影音軟件V1.0)	2019/6/11	2019/6/3
43	Qianhai Moka	2019SR1103077	Moka MS586 Audio-visual Software V1.0 (Moka MS586影音視聽軟件V1.0)	2019/5/11	2019/5/3
45	Qianhai Moka	2019SR1156826	Moka MS48 Audio-visual Software V1.0 (Moka MS48影音視聽軟件V1.0)	2019/10/16	2019/10/3
46	Qianhai Moka	2020SR0043072	Moka RT841 Audio-visual Software V1.0 (Moka RT841影音視聽軟件V1.0)	2019/12/19	2019/12/10
48	Qianhai Moka	2020SR0077710	Moka MS53 Audio-visual Software V1.0 (Moka MS53影音視聽軟件V1.0)	2019/12/19	2019/12/13
49	Qianhai Moka	2020SR0312471	Moka MS63 Audio-visual Software V1.0 (Moka MS63影音視聽軟件V1.0)	2020/1/17	2020/1/8

Moka International and its subsidiaries have acquired a total of 110 patents and proprietary technologies which have all been granted by the authorities and the rights thereof are mainly owned by Overseas Electronics and Qianhai Moka; among which there are 28 invention patents, 66 utility model patents and 16 design patents.

Table 3-3 Distribution of Patents of Moka International and its Subsidiaries

No.	Patentee	Name of patent	Way of acquiring the patent	Type	Patent No.	Date of application	Date of grant	Legal Status
1	Overseas Electronics	Automatic screw device	Independent research and development	Invention	201310115836.1	2013/04/02	2017/09/05	Granted
2	Overseas Electronics	Customized control methods and systems for remote control devices	Independent research and development	Invention	201310752121.7	2013/12/30	2017/09/05	Granted
3	Overseas Electronics	Automatic gain control circuit and method for high frequency tuner	Independent research and development	Invention	201410436958.5	2014/08/29	2018/09/04	Granted
4	Overseas Electronics	Display terminal backlight control methods and devices, TV	Independent research and development	Invention	201410853881.1	2014/12/29	2018/06/19	Granted
5	Overseas Electronics	Channel search methods and devices	Independent research and development	Invention	201410850770.5	2014/12/30	2019/01/04	Granted
6	Overseas Electronics	Standby power management circuits and electronic appliances	Independent research and development	Invention	201510253459.7	2015/05/15	2017/07/25	Granted
7	Overseas Electronics	A carton box folding machine and a carton box sealing device	Independent research and development	Invention	201510310570.5	2015/06/08	2018/09/04	Granted
8	Overseas Electronics	Terminal digital amplifier configuration methods and devices	Independent research and development	Invention	201510338695.9	2015/06/17	2019/10/15	Granted
9	Overseas Electronics	Methods and devices for compatible testing certification	Independent research and development	Invention	201510512605.3	2015/08/19	2019/05/14	Granted

No.	Patentee	Name of patent	Way of acquiring the patent	Type	Patent No.	Date of application	Date of grant	Legal Status
10	Overseas Electronics	Associated cutting methods, devices and TVs for TV sets	Independent research and development	Invention	201510568159.8	2015/09/08	2019/03/29	Granted
11	Overseas Electronics	Programme information sharing methods and devices	Independent research and development	Invention	201510741223.8	2015/11/02	2019/12/17	Granted
12	Overseas Electronics	Handwriting input method and handwriting input devices	Independent research and development	Invention	201510745499.3	2015/11/03	2019/04/02	Granted
13	Overseas Electronics	Methods and devices to prevent concatenated code in remote control	Independent research and development	Invention	201510848740.5	2015/11/26	2019/03/12	Granted
14	Overseas Electronics	Document management methods and systems for smart terminal	Independent research and development	Invention	201511018223.1	2015/12/28	2020/02/14	Granted
15	Overseas Electronics	Light guide and backlight module	Independent research and development	Invention	201511034092.6	2015/12/30	2019/05/31	Granted
16	Overseas Electronics	Face image processing methods and devices	Independent research and development	Invention	201511033376.3	2015/12/31	2019/10/01	Granted
17	Overseas Electronics	TV broadcast control methods and TV sets	Independent research and development	Invention	201610102878.5	2016/02/24	2020/03/17	Granted
18	Overseas Electronics	Terminal testing methods and devices	Independent research and development	Invention	201610211184.5	2016/04/05	2018/11/02	Granted
19	Overseas Electronics	Testing methods, devices and TVs for the TV application license	Independent research and development	Invention	201610260011.2	2016/04/22	2018/12/07	Granted
20	Overseas Electronics	Methods and endpoints for controlling media message playback	Independent research and development	Invention	201610270573.5	2016/04/26	2019/12/03	Granted

No.	Patentee	Name of patent	Way of acquiring the patent	Type	Patent No.	Date of application	Date of grant	Legal Status
21	Overseas Electronics	Decoding methods, devices and systems for remote control signals	Independent research and development	Invention	201610404293.9	2016/06/07	2019/10/01	Granted
22	Overseas Electronics	Methods and devices for controlling TV playback	Independent research and development	Invention	201610454346.8	2016/06/17	2019/09/20	Granted
23	Qianhai Moka	Digital TV field simulation test methods and systems	Independent research and development	Invention	201610443168.9	2016/06/20	2020/03/17	Granted
24	Overseas Electronics	Data transmission methods and systems	Independent research and development	Invention	201610454339.8	2016/06/20	2020/03/17	Granted
25	Qianhai Moka	Remote pen and remote pen-based smart device control methods	Independent research and development	Invention	201610613202.2	2016/07/28	2020/03/17	Granted
26	Qianhai Moka	The method of implementing blind plug-in of TV source connector and TV	Independent research and development	Invention	201610703332.5	2016/08/22	2019/11/05	Granted
27	Qianhai Moka	Data buffering approach based on IPTV and IPTV	Independent research and development	Invention	201611135582.X	2016/12/09	2019/07/12	Granted
28	Overseas Electronics	Judgment methods and devices for automatic screen matching using optical sensors	Independent research and development	Invention	201610349291.4	2016/05/23	2020/5/22	Granted
29	Overseas Electronics	Semi-automatic screwdriver devices and screwdriver machines	Independent research and development	Utility model	201420165328.4	2014/04/04	2014/10/01	Granted
30	Overseas Electronics	Forward voltage drop detection circuits and devices for LED module strip	Independent research and development	Utility model	201420436787.1	2014/08/04	2015/04/22	Granted

No.	Patentee	Name of patent	Way of acquiring the patent	Type	Patent No.	Date of application	Date of grant	Legal Status
31	Overseas Electronics	Backlight components and LCD monitors	Independent research and development	Utility model	201420436542.9	2014/08/04	2015/01/07	Granted
32	Overseas Electronics	Backlight structure and LCD devices	Independent research and development	Utility model	201420579677.0	2014/10/08	2015/01/28	Granted
33	Overseas Electronics	Back-end case components and LCD TVs	Independent research and development	Utility model	201520333262.X	2015/05/21	2015/10/07	Granted
34	Overseas Electronics	TV back cases and TV sets	Independent research and development	Utility model	201520339243.8	2015/05/21	2015/10/07	Granted
35	Overseas Electronics	Display module	Independent research and development	Utility model	201520978342.0	2015/11/30	2016/05/11	Granted
36	Overseas Electronics	Flat panel display module transport equipment	Independent research and development	Utility model	201521088721.9	2015/12/22	2016/05/04	Granted
37	Overseas Electronics	TV interaction control unit and TV set	Independent research and development	Utility model	201521138041.3	2015/12/30	2016/06/22	Granted
38	Overseas Electronics	Adjustment device, suction machine and display panel suction machine	Independent research and development	Utility model	201620148924.0	2016/02/26	2016/08/10	Granted
39	Overseas Electronics	Automatic palletizing and binding device	Independent research and development	Utility model	201620301173.1	2016/04/11	2016/09/21	Granted
40	Overseas Electronics	Fixing elements, fixing structure of LCD TV film and LCD TV	Independent research and development	Utility model	201620368695.3	2016/04/26	2016/09/21	Granted
41	Overseas Electronics	Constant current power supply and TV	Independent research and development	Utility model	201621112221.9	2016/10/10	2017/04/12	Granted
42	Overseas Electronics	Switch power supplies and electronic equipment	Independent research and development	Utility model	201621174044.7	2016/10/25	2017/04/12	Granted
43	Overseas Electronics	Display device	Independent research and development	Utility model	201621198195.6	2016/11/04	2017/04/26	Granted
44	Qianhai Moka	TV with a bar-shaped speaker base	Independent research and development	Utility model	201621258027.1	2016/11/15	2017/06/13	Granted

No.	Patentee	Name of patent	Way of acquiring the patent	Type	Patent No.	Date of application	Date of grant	Legal Status
45	Overseas Electronics	LCD TV	Independent research and development	Utility model	201621257260.8	2016/11/15	2017/04/26	Granted
46	Overseas Electronics	Nozzle material cutting equipment	Independent research and development	Utility model	201621444042.5	2016/12/26	2017/08/11	Granted
47	Overseas Electronics	TV cases and TV sets	Independent research and development	Utility model	201621475880.9	2016/12/29	2017/08/25	Granted
48	Overseas Electronics	Fixture and sponge strip adhesive device	Independent research and development	Utility model	201720411288.0	2017/04/18	2017/12/12	Granted
49	Overseas Electronics	Card clamping device and automatic card loading and unloading device	Independent research and development	Utility model	201720897359.2	2017/07/20	2018/02/13	Granted
50	Overseas Electronics	Automatic sponge strip equipment	Independent research and development	Utility model	201720897565.3	2017/07/20	2018/01/19	Granted
51	Overseas Electronics	TV module flip unit	Independent research and development	Utility model	201721024377.6	2017/08/15	2018/02/13	Granted
52	Overseas Electronics	Backlight module and TV	Independent research and development	Utility model	201721397387.4	2017/10/25	2018/04/20	Granted
53	Overseas Electronics	Backplane components and TV sets	Independent research and development	Utility model	201721412308.2	2017/10/26	2018/05/01	Granted
54	Overseas Electronics	LED light bar panel structures and LED light bars	Independent research and development	Utility model	201721752006.X	2017/12/13	2018/08/24	Granted
55	Overseas Electronics	Direct down backlight modules and displays	Independent research and development	Utility model	201721752063.8	2017/12/13	2018/08/24	Granted
56	Overseas Electronics	Light bar back panel assembly and direct backlight modules	Independent research and development	Utility model	201721790661.4	2017/12/18	2018/06/15	Granted
57	Overseas Electronics	Backlight modules and displays	Independent research and development	Utility model	201721822950.8	2017/12/21	2018/08/24	Granted

No.	Patentee	Name of patent	Way of acquiring the patent	Type	Patent No.	Date of application	Date of grant	Legal Status
58	Overseas Electronics	Edge backlight modules, LCD TVs, smart terminals	Independent research and development	Utility model	201721825629.5	2017/12/21	2018/06/29	Granted
59	Overseas Electronics	Direct backlight modules, LCD TVs and smart terminals	Independent research and development	Utility model	201721831104.2	2017/12/22	2018/08/24	Granted
60	Overseas Electronics	LCD equipment	Independent research and development	Utility model	201721831184.1	2017/12/22	2018/08/24	Granted
61	Overseas Electronics	Assistant moving tools	Independent research and development	Utility model	201721855546.0	2017/12/25	2018/09/07	Granted
62	Overseas Electronics	Backlight modules and display devices	Independent research and development	Utility model	201721854453.6	2017/12/25	2018/08/24	Granted
63	Overseas Electronics	Speaker fixed structure and TV	Independent research and development	Utility model	201721854020.0	2017/12/25	2018/06/29	Granted
64	Overseas Electronics	A light bar assembly and display device	Independent research and development	Utility model	201721854451.7	2017/12/25	2018/06/29	Granted
65	Overseas Electronics	Lifting device	Independent research and development	Utility model	201721887440.9	2017/12/27	2018/08/24	Granted
66	Overseas Electronics	Automatic palletizing equipment and automatic de-palletizing line	Independent research and development	Utility model	201721888266.X	2017/12/27	2018/08/24	Granted
67	Overseas Electronics	Circuit board mounting structures and electronic equipment	Independent research and development	Utility model	201721889756.1	2017/12/27	2018/08/24	Granted
68	Overseas Electronics	Display device	Independent research and development	Utility model	201721927644.0	2017/12/29	2018/08/24	Granted
69	Overseas Electronics	Sponge pad vacuum cleaner	Independent research and development	Utility model	201820198261.2	2018/02/02	2018/11/02	Granted
70	Overseas Electronics	Pressure test equipment	Independent research and development	Utility model	201820266762.X	2018/02/24	2018/08/24	Granted

No.	Patentee	Name of patent	Way of acquiring the patent	Type	Patent No.	Date of application	Date of grant	Legal Status
71	Overseas Electronics	Wall-mounted structure and TV	Independent research and development	Utility model	201820266796.9	2018/02/24	2018/10/19	Granted
72	Overseas Electronics	Display device	Independent research and development	Utility model	201820285234.9	2018/02/28	2018/09/18	Granted
73	Overseas Electronics	Reflector and LCD device	Independent research and development	Utility model	201820400647.7	2018/03/23	2018/10/19	Granted
74	Overseas Electronics	Display device	Independent research and development	Utility model	201820414939.6	2018/03/26	2018/10/19	Granted
75	Overseas Electronics	Backlight Modules and display	Independent research and development	Utility model	201820424760.9	2018/03/27	2018/10/19	Granted
76	Overseas Electronics	Backlight modules and display equipment	Independent research and development	Utility model	201820531487.X	2018/04/13	2018/11/02	Granted
77	Overseas Electronics	Reflector and LCD device	Independent research and development	Utility model	201820675523.X	2018/05/07	2018/12/07	Granted
78	Overseas Electronics	Pressure retaining jig	Independent research and development	Utility model	201821008946.2	2018/06/27	2018/12/28	Granted
79	Overseas Electronics	LCD modules and displays	Independent research and development	Utility model	201821057029.3	2018/07/04	2018/12/28	Granted
80	Overseas Electronics	Atmospheric lighting and displays	Independent research and development	Utility model	201821064906.X	2018/07/05	2019/03/12	Granted
81	Overseas Electronics	Backlight modules and LCD displays	Independent research and development	Utility model	201821275242.1	2018/08/08	2019/02/15	Granted
82	Overseas Electronics	Backlight components and display devices	Independent research and development	Utility model	201821521892.X	2018/09/17	2019/04/23	Granted
83	Overseas Electronics	TV docks and TV sets	Independent research and development	Utility model	201821610416.5	2018/09/29	2019/04/12	Granted
84	Overseas Electronics	Screen bezel structure and display devices	Independent research and development	Utility model	201821671010.8	2018/10/15	2019/04/23	Granted
85	Overseas Electronics	Mounting structure and display device of the main board support	Independent research and development	Utility model	201920313008.1	2019/03/12	2019/08/16	Granted

No.	Patentee	Name of patent	Way of acquiring the patent	Type	Patent No.	Date of application	Date of grant	Legal Status
86	Overseas Electronics	Vacuuming device	Independent research and development	Utility model	201920436415.1	2019/03/29	2019/12/03	Granted
87	Overseas Electronics	Light-guided structures, edge backlight modules, LCD modules and electronic display equipment	Independent research and development	Utility model	201920649726.6	2019/05/07	2019/11/19	Granted
88	Overseas Electronics	Direct backlight module and TV	Independent research and development	Utility model	201920798411.8	2019/05/29	2019/12/03	Granted
89	Overseas Electronics	Installation of structure and display devices	Independent research and development	Utility model	201921011710.9	2019/06/28	2020/03/17	Granted
90	Overseas Electronics	Television docking equipment	Independent research and development	Utility model	201921014290.X	2019/06/28	2020/04/10	Granted
91	Overseas Electronics	Backlight modules and display devices	Independent research and development	Utility model	201921175509.4	2019/07/23	2020/04/10	Granted
92	Overseas Electronics	An audio device	Independent research and development	Utility model	201921720466.3	2019/10/14	2020/04/10	Granted
93	Overseas Electronics	Remote control system	Independent research and development	Utility model	201921739509.2	2019/10/16	2020/04/10	Granted
94	Overseas Electronics	Rolling adhesive jig for attaching adhesive tape to the backboard	Independent research and development	Utility model	201921488962.0	2019/09/06	2020/5/22	Granted
95	Overseas Electronics	Television (S6600)	Independent research and development	Design	201630065866.0	2016/03/09	2016/08/10	Granted
96	Overseas Electronics	Television (D1800)	Independent research and development	Design	201630593378.7	2016/12/05	2017/06/09	Granted
97	Overseas Electronics	Remote control	Independent research and development	Design	201630593381.9	2016/12/05	2017/04/12	Granted
98	Overseas Electronics	Remote control	Independent research and development	Design	201630593396.5	2016/12/05	2017/04/12	Granted
99	Overseas Electronics	Television (D2200)	Independent research and development	Design	201730205822.8	2017/05/26	2017/11/17	Granted

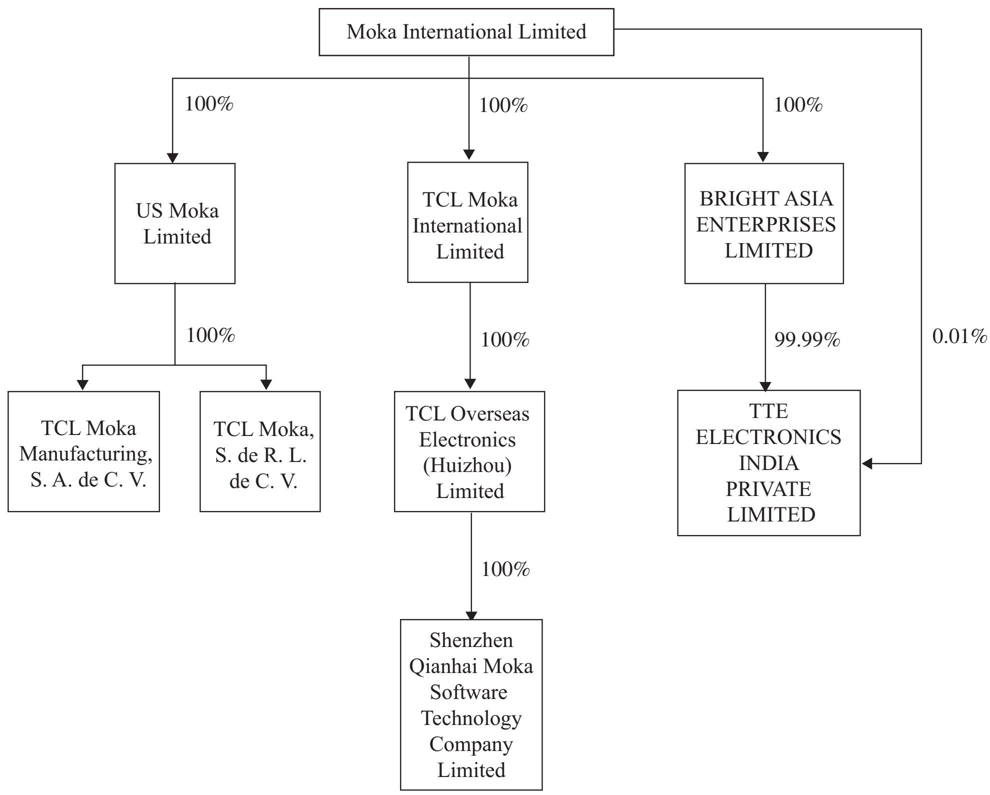
No.	Patentee	Name of patent	Way of acquiring the patent	Type	Patent No.	Date of application	Date of grant	Legal Status
100	Overseas Electronics	Remote control (RC520)	Independent research and development	Design	201730205258.X	2017/05/26	2017/11/17	Granted
101	Overseas Electronics	Touch TV	Independent research and development	Design	201730310382.2	2017/07/14	2017/12/26	Granted
102	Overseas Electronics	Television (S8000)	Independent research and development	Design	201730359692.3	2017/08/08	2018/01/09	Granted
103	Overseas Electronics	Remote control (RC880)	Independent research and development	Design	201730377732.7	2017/08/16	2018/01/30	Granted
104	Overseas Electronics	Television (S6700)	Independent research and development	Design	201730377967.6	2017/08/16	2018/01/19	Granted
105	Overseas Electronics	Television (A7000)	Independent research and development	Design	201830019876.X	2018/01/16	2018/08/24	Granted
106	Overseas Electronics	TV stand	Independent research and development	Design	201830044373.8	2018/03/30	2018/09/14	Granted
107	Overseas Electronics	Remote control (RC890)	Independent research and development	Design	201930123327.1	2019/03/22	2019/10/29	Granted
108	Overseas Electronics	Television (A6000)	Independent research and development	Design	201930123329.0	2019/03/22	2019/11/19	Granted
109	Overseas Electronics	Television (A8000)	Independent research and development	Design	201930225564.9	2019/05/09	2019/10/15	Granted
110	Overseas Electronics	Television (D8000)	Independent research and development	Design	201930225058.X	2019/05/09	2019/10/15	Granted

(4) PARTICULARS OF SUBSIDIARIES OF MOKA INTERNATIONAL

There are eight subsidiaries of Moka International at all levels and the place of registration, registered capital, shareholding ratio and business nature of each subsidiary are set out below:

No.	Company name	Principal place of business/place of registration	Nature of business	Registered capital	Shareholding ratio
1	US Moka Limited	the United States	Manufacturing	US$5,000	100%
2	TCL Moka, S. de R.L.de C.V.	Mexico	Manufacturing	Mexican Peso 3,000	100%
3	TCL Moka Manufacturing, S.A. de C.V.	Mexico	Manufacturing	Mexican Peso 50,000	100%
4	TCL Moka International Limited	Hong Kong	Trading	HK$1	100%
5	TCL Overseas Electronics (Huizhou) Limited	Huizhou	Manufacturing	HK$239,330,000	100%
6	Shenzhen Qianhai Moka Software Technology Company Limited	Shenzhen	Software and information technology services	RMB30,000,000	100%
7	Bright Asia Enterprises Limited	Hong Kong	Investment holding	HK$1	100%
8	TTE Electronics India Private Limited	India	Manufacturing	Indian Rupee 124,585,000	100%

The shareholding structure of Moka International's subsidiaries



Particulars of principal subsidiaries are as follows:

1. *TCL Moka Manufacturing S.A. De C.V.*

Name	TCL Moka Manufacturing S.A. De C.V.
Registered address	Calle 4ta. #55 Ciudad Industrial, Tijuana B.C.
Legal representative	Moises Aranda Atiyeh Yunes
Principal place of business	Calle 4ta. #55 Ciudad Industrial, Tijuana B.C.
Registered capital	Mexican Peso 50,000
Date of incorporation	2014–5
Certificate number	SMA980227149
Business scope	Electrical appliance manufacturing

TCL Moka Manufacturing S.A. De C.V. is a 100% indirectly owned and controlled subsidiary of Moka International and Moka International's production base in North America.

As at the valuation benchmark date, the shareholding structure of TCL Moka Manufacturing S.A. De C.V. was as follows:

Name of shareholder	Amount of contribution *(Mexican Peso)*	Percentage of contribution *(%)*
US MOKA LIMITED	50,000.00	100
Total	50,000.00	100

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of TCL Moka Manufacturing S.A. De C.V. was RMB36,338,500, RMB11,290,800 and RMB25,047,800 respectively. For January to December 2019, the operating revenue was RMB120,967,300 whereas the net profit was RMB2,717,400.

2. *TCL Overseas Electronics (Huizhou) Limited*

Name	TCL Overseas Electronics (Huizhou) Limited
Corporate nature	Limited liability company (solely invested by corporation in Taiwan, Hong Kong or Macau)
Registered address	No. 1 Qiaoguang Road, Chenjiang Street, Zhongkai High-Tech Zone, Huizhou
Legal representative	LIANG Tiemin
Registered capital	HK$239.33 million
Date of incorporation	2003/6/27
Unified social credit code	914413007520587587
Business scope	Research, development, production and sale of digital (digital) electronic products, communications equipment (including VCD and DVD players; analog, digital and rear-projection TVs; set-top boxes, home theater systems, electronic computers and accessories, home appliances, air-conditioning products, monitors) and related plastic injection parts (except for products under national restriction and products subject to export license administration). Exports of related or similar goods that are complementary to products produced by TCL Technology Group Corporation and its member companies. (Approvals by relevant authorities must be obtained for projects that require approval in accordance with laws before operation).

Overseas Electronics is a 100% indirectly owned and controlled subsidiary of Moka International and Moka International's production base, domestic sales platform as well as research and development, supply and sales operation platform in Huizhou.

As at the valuation benchmark date, the shareholding structure of Overseas Electronics was as follows:

Name of shareholder	Amount of contribution *(HK$)*	Percentage of contribution *(%)*
TCL Moka International Limited	239,330,000	100
Total	239,330,000	100

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of Overseas Electronics was RMB6,288,227,800, RMB5,889,481,200 and RMB398,746,600 respectively. For January to December 2019, the operating revenue was RMB9,348,530,000 whereas the net profit was RMB135,898,400.

3. TTE ELECTRONICS INDIA PRIVATE LIMITED

Name	TTE ELECTRONICS INDIA PRIVATE LIMITED
Registered address	D/No – 12–1-16, Plot no. 49, Survey no. 1051, Waltair Main Road, Vishakhapatnam, Visakhapatnam, Andhra Pradesh
Legal representative	Pudipeddi Heramba Bharadwaj
Principal place of business	Naga Chambers, 3rd floor, D/No 12–1-16, Plot No 49, Survey No 1051, Waltair main road, Visakhapatam, Andhra Pradesh, India, 530002
Registered capital	124,585,000 INR
Date of incorporation	2018/10/5
Business license number	37AAGCT9742D1Z3
Business scope	Production of TV and display

TTE ELECTRONICS INDIA PRIVATE LIMITED is a 100% owned subsidiary of Moka International and acts as Moka International's production base in India and is currently under construction.

As at the valuation benchmark date, the shareholding structure of TTE ELECTRONICS INDIA PRIVATE LIMITED was as follows:

Name of shareholders	Amount of contribution *(Rupee)*	Percentage of contribution *(%)*
Bright Asia Enterprises Limited	124,584,900	99.99
Moka International Limited	100	0.01
Total	124,585,000	100

As at the valuation benchmark date of 31 December 2019, the carrying amount of total assets, total liabilities and net assets of TTE ELECTRONICS INDIA PRIVATE LIMITED was RMB35,462,900, RMB-152,800 and RMB35,615,700 respectively. For January to December 2019, the operating revenue was nil whereas the net profit was RMB-446,500.

(5) CLASS AND QUANTITY OF OFF-BALANCE SHEET ASSETS APPLIED FOR VALUATION

As confirmed by the Appointer and the Subject of Valuation, as at the valuation benchmark date, i.e. 31 December 2019, all the assets applied for valuation have been accounted for, and no off-balance sheet assets are applied for valuation, other than those 49 software copyrights and 110 patents as mentioned in the preceding paragraphs that have not been accounted for in the balance sheet.

(6) THE CLASS, QUANTITY AND CARRYING AMOUNT OF THE ASSETS AS REFERRED TO IN THE CONCLUSIONS OF CITED REPORTS ISSUED BY OTHER ORGANIZATIONS

The carry amounts of the consolidated assets and liabilities as at the valuation benchmark date in this valuation report is based on the audit conducted by Ernst & Young Hua Ming LLP, Shenzhen Branch. Apart from that, this valuation report does not cite any contents of reports issued by other organizations.

IV. VALUE TYPE AND DEFINITION

Based on the purpose of the valuation, the type of value to be valued is determined to be the market value.

Market value refers to the estimated value of an arm's length transaction made by the Subject of Valuation in the ordinary course of business on the valuation benchmark date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date for this valuation is 31 December 2019.

The valuation benchmark date is determined by the Appointer for the specific purposes of this valuation.

VI. BASIS OF VALUATION

The asset valuation mainly follows such valuation basis as basis of economic activity, basis of laws and regulations, basis of valuation standards, basis of asset ownership, and the basis of pricing in value estimation as well as other references, details of which are as follows:

(1) BASIS OF ECONOMIC BEHAVIOUR

Minutes of meeting of the strategy committee of TCL Electronics on the Proposed Acquisition of TCL Communication Group and Disposal of Moka International Group dated 2 April 2020.

(2) BASIS OF LAWS AND REGULATIONS

1. The Company Law of the People's Republic of China (Revised at the 6th Session of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 28 December 2013);

2. The Asset Valuation Law of the People's Republic of China (Adopted by the Standing Committee of the National People's Congress of the People's Republic of China on 2 July 2016);

3. The Land Administration Law of the People's Republic of China (Revised at the 11th Session of the Standing Committee of the 10th National People's Congress of the People's Republic of China on 28 August 2004);

4. The Urban Real Estate Administration Law of the People's Republic of China (Revised at the 10th Session of the Standing Committee of the 11th National People's Congress of the People's Republic of China on 27 August 2009);

5. The Property Law of the People's Republic of China (Order of the President of the People's Republic of China (No. 62) and adopted at the 5th Session of the National People's Congress of the People's Republic of China on 16 March 2007).

(3) BASIS OF VALUATION STANDARDS

1. Asset Evaluation Standards – Basic Standards (Cai Zi〔2017〕No. 43);

2. Code of Ethics for Assets Assessment (CAS〔2017〕No. 30);

3. Asset Evaluation Practicing Standards – Asset Evaluation Procedures (CAS〔2018〕No. 36);

4. Asset Evaluation Practicing Standards – Asset Appraisal Report (CAS〔2018〕No. 35);

5. Asset Evaluation Practicing Standards -Asset Appraisal Approaches (CAS〔2019〕No. 35);

6. Asset Evaluation Practicing Standards – Contract on Asset Evaluation Entrustment (CAS〔2017〕No. 33);

7. Asset Evaluation Practicing Standards – Asset Evaluation Files (CAS〔2018〕No. 37);

8. Asset Evaluation Practicing Standards – References to Experts and Related Reports (CAS〔2017〕No. 35);

9. Asset Evaluation Practicing Standards – Enterprise Value (CAS〔2018〕No. 38);

10. Asset Evaluation Practicing Standards – Real Property (CAS〔2017〕No. 38);

11. Guidelines for Business Quality Control of Asset Evaluation Agencies (CAS〔2017〕No. 46);

12. Guidance on Value Type for Asset Evaluation (CAS〔2017〕No. 47);

13. Guidance on Legal Ownership of Asset Evaluation Subject (CAS〔2017〕No. 48).

(4) BASIS OF ASSET OWNERSHIP

1. Land and house ownership certificates;

2. Registration Certificates of Computer Software Copyrights;

3. Patent Certificates;

4. Purchase contracts or certificates for material assets.

(5) BASIS OF PRICING

1. Enterprise Income Tax Law of the People's Republic of China (as approved at the 26th meeting of the Standing Committee of the 12th session of National People's Congress of the PRC on 24 February 2017);

2. Regulations for the Implementation of Enterprise Income Tax Law of the People's Republic of China (as approved at the 197th executive meeting of the State Council on 28 November 2007);

3. The Provisional Regulations on Value Added Tax of the People's Republic of China (The State Council Decree of the PRC No. 691 in 2017);

4. Circular on Policies in relation to Deepening Value-Added Tax Reform (Circular of the Ministry of Finance, General Administration of Taxation and General Administration of Customs, No. 39 in 2019);

5. Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses (Notice of the Ministry of Finance, General Administration of Taxation, Ministry of Science and Technology and General Administration of Customs, No. 99 in 2018)

6. Future revenue forecast data provided by the Appointer and the Subject of Valuation;

7. The valuers' inquiry records through the open market, etc.;

8. The auditor's report for 2018 and as at the reference date, i.e. 31 December 2019 issued by Ernst & Young Hua Ming LLP, Shenzhen Branch;

9. The prevailing tax rules and regulations currently implemented by Moka International and tax incentive documents provided by Moka International;

10. The exchange rate prevailing on the valuation benchmark date.

(6) MAIN REFERENCES

1. Code for Appraisal of Real Estate (GB/T50291–2015);

2. Manual for Commonly-used Methods and Inputs for Asset Evaluation (China Machine Press, 2011 version);

3. Wind financial information terminal;

4. Bloomberg financial information terminal;

5. Investment Valuation ((US) written by Damodaran, and (Canada) translated by Lin Qian, Tsinghua University Press);

6. Valuation: Measuring and Managing the Value of Companies (3rd Edition) ((US) written by Copeland, T. and etc., and translated by Hao Shaolun and Xie Guanping, Electronic Industry Press);

7. Asset Valuation Specialist Guide No. 10 - Reasonable Performance of Asset Valuation Procedures amid the COVID-19 Epidemic (CAS〔2020〕No. 6);

8. Other references.

VII. VALUATION APPROACH

(1) SELECTION OF VALUATION APPROACH

In accordance with asset valuation standards, an appraisal of enterprise value may be conducted using the following three methods – income approach, market method and assets-based method. Income approach is the quantification and discounting of the expected profit of the total assets of a company, emphasizing the overall expected profitability of such company. Market method, characterized by valuation data being originated from market and valuation results being compelling, is the appraisal of the current fair market value of the Subject of Valuation by comparing with objects of reference in the market. Asset-based method is determining the value of the Subject of Valuation based on reasonable valuation of the assets and liabilities of an enterprise.

There are two methods used in the market approach, namely comparison with listed companies and comparison with transaction cases. Comparison with listed companies is a method that determines the value of the subject of valuation by analyzing available information on the operations and finance of comparable listed companies, determining applicable value ratio and making comparisons with the subject of valuation. As the transaction is the disposal of Moka International by a Hong Kong listed company and is conducted in Hong Kong and there is a relatively large number of comparable listed companies engaged in similar industry as the Subject of Valuation, market approach is considered to be appropriate for the valuation.

The production and operation conditions of the Subject of Valuation have matured and a series of consecutive historical financial data is available and can be used as a basis for the income method projection and for the purpose of future income forecast when combined with the company's business plan, therefore the income method is considered to be an option for this valuation.

The purpose of this evaluation is to provide a value reference for TCL Electronics Holdings Limited's disposal of equity interest in Moka International. In accordance with the Asset Valuation Practice Standards, the value of a single asset or group of assets as a component of a company's assets is generally affected by the extent of its contribution to the company when assessing the value of the company under going concern. The asset-based approach reflects the value of a company from the perspective of the purchase and establishment of the company and does not take into account the actual performance and operational efficiency of the company, nor does it reasonably reflect the future profitability of the company. Therefore, the asset-based approach is not considered to be appropriate for this valuation.

The valuation on Moka International is conducted by income approach and market approach and taken into account the characteristics of this project, conclusion based on income approach has been adopted as the basis of reference for the value of the entire shareholders' interest of Moka International.

(2) INTRODUCTION TO THE INCOME APPROACH

1. Overview

According to relevant requirements of the State Administration authorities, Practice Guidelines for Asset Appraisal – Enterprise Value as well as valuation practices for similar transactions internationally and domestically, the capital value of equity interests in Moka International has been valued by adopting the Discounted Cash Flow ("DCF") method based on income sources in this valuation.

Discounted Cash Flow is a method of appraising asset value by discounting the expected net cash flow of the enterprise in future, that is, the appraisal value is reached by appraising the expected net cash flow of the asset in future and then discounting it into the present value with applicable discount rates. The basic conditions for the application of this method include the followings: (i) the enterprise possesses all bases and conditions to operate its business as a going concern; (ii) there is a positive correlation between operation and income; and (iii) future income and risks are predictable and quantitative. The difficulties of using DCF lie in the prediction of future expected cash flow as well as the objectivity and reliability of data collection and processing. The valuation is considered to be objective if and when the prediction on future expected cash flow can be relatively objective and fair, and the discount rate adopted is relatively reasonable.

2. General principles of valuation

Based on the results of due diligence for this valuation, the assets composition and characteristics of the main businesses of the Subject of Valuation, the main businesses of the legal entities within the consolidated financial statements of Moka International were production, research and development and sale of TV ODM products which should be regarded as the same profit subject. Therefore this valuation exercise was conducted by estimating the equity value of the Subject of Valuation based on Moka International's audited consolidated financial statements. To begin with, the value of the operating assets were valued using discounted cash flow method (DCF) based on income sources, plus the value of other non-operating or surplus assets as at the reference date, to derive the enterprise value of the Subject of Valuation. Then, the interest-bearing debts were deducted from the corporate value to arrive at the value of the total equity value of the Subject of Valuation.

Basic principles of this valuation:

(1) In respect of the assets and main businesses included in the scope of the consolidated financial statements, the expected income (net cash flow) was estimated based on the trend of historical operating conditions in recent years and the types of businesses, and discounted to obtain the value of the operating assets;

(2) Cash assets (liabilities) as at the reference date which were included in the scope of the consolidated financial statements but were not taken into account in the expected income (net cash flow) during the valuation, were defined as surplus or non-operating assets (liabilities) existed as at the reference date, and their values were valued separately;

(3) The value of the entire shareholders' equity of the Subject of Valuation was arrived at by adding the value of the operating assets and of the surplus or non-operating assets derived as mentioned above, and deducting the interest-bearing debts due from the entity.

3. Valuation model

(1) Basic model

The basic model for this valuation is as follows:

$$P = E - M \tag{1}$$

Where:

P: Appraised value of equity interest attributable to owners of the parent company;

E: Appraised value of owners' equity;

M: Appraised value of minority equity interest;

Where:

$$E = B - D \tag{2}$$

B: Enterprise value of the Subject of Valuation;

$$B = P + \sum C_i \tag{3}$$

P: Value of operating assets of the Subject of Valuation;

$$P = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{R_n}{r(1+r)^n} \tag{4}$$

Where:

R_i: The expected income (free cash flow) of the Subject of Valuation in the ith year in the future on consolidated statements basis;

R_n: The expected income (free cash flow) of the Subject of Valuation in a sustainable period on consolidated statements basis;

r: Discount rate;

n: The future operating term of the Subject of Valuation.

ΣC_i: The value of non-operating and surplus assets that exist as at the reference date.

$$C_i = C_1 + C_2 + C_3 + C_4 \tag{5}$$

Where:

C_1: Value of wholly-owned, controlling or non-controlling investments that do not reflect investment income in the expected income (free cash flow);

C_2: Value of cash or equivalent assets (liabilities) as at the reference date;

C_3: Value of construction in progress that was not taken into account when calculating the income in the expected income (free cash flow);

C_4: Value of assets including bad or idle equipment and properties as at the reference date;

D: Value of interest-bearing debts of the Subject of Valuation.

(2) Income metrics

In this valuation, the Company's free cash flow was used as an income indicator of its operating assets, as defined below:

R = net profit + depreciation and amortization + post tax interest on interest-bearing debt – additional capital (6)

Where:

Net profit = turnover + other income and gains – cost of sales – selling and distribution expenses – administrative expenses – research and development costs – other operating expenses – financing costs – income taxes (7)

Depreciation and amortization = depreciation and amortization in cost of sales and expenses for the period (selling and distribution expenses, administrative expenses and research and development costs)

Interest on interest-bearing debts net of tax = total interests on long-term and short-term interest-bearing debt × (1 – income tax rate)

Additional capital = investment in assets renewal + additional investment in long-term assets + incremental working capital (8)

Where:

Investment in assets renewal = renewal of buildings + replacement of machines and equipment + replacement of other equipment (electronics, transportation and etc.) + renewal of intangible assets (9)

Additional investments in long term assets = additional investments in fixed assets + additions to intangible or other long term assets (10)

Incremental working capital = current working capital – previous working capital (11)

Where:

Working capital = cash reserves + inventories + receivables + closing balance of VAT – payables (12)

This valuation was based on the specific circumstances of the enterprise, assuming that the minimum amount of cash required to maintain the normal operation of the enterprise was the costs and expenses paid in cash for the year for a period of 30 days.

Costs paid in cash for the year = total cost of sales + total expenses during the period + income tax expenses – total costs not paid in cash (12–1)

Inventory turnover rate = costs paid in cash for the year/inventory at end of period (12–2)

Receivables turnover rate = turnover/receivables at the end of the period (12–3)

Payables turnover rate = costs paid in cash for the year/payables at the end of the period (12–4)

Receivables = notes receivables + accounts receivable – advances received + other receivables (net of non-operating other receivables) (12–5)

Payables = notes payable + accounts payable – prepayments + other payables (net of non-operating other payables) (12–6)

Retained VAT at the end of the period = deductible VAT at the beginning of the period + input VAT – output VAT – export VAT rebate – import equipment tax rebate (12–7)

The expected future free cash flow of an enterprise is calculated according to its operating history and future market development, assuming that it would continue to operate as a going concern for a longer sustainable period after the forecast period, and the expected income of the Subject of Valuation in the sustainable period would be equal to the free cash flow for the final year of the forecast period. The value of the operating assets of the enterprise was calculated by discounting and adding the free cash flow which would be generated in the future operating term.

(3) Discount rate

This valuation adopted the weighted average cost of capital model (WACC) to determine the discount rate r

$$r = r_d \times w_d + r_e \times w_e \qquad (13)$$

Where:

W_d: Debt ratio of the Subject of Valuation;

$$w_d = \frac{D}{(E + D)} \qquad (14)$$

W_e: Equity to capital ratio of the Subject of Valuation;

$$w_e = \frac{E}{(E + D)} \qquad (15)$$

r_e: Cost of equity capital, as determined based on the Capital Asset Pricing Model (CAPM);

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon \qquad (16)$$

Where:

r_f: Risk-free rate of return;

r_m: Market expected return rate;

ε : Specific risk-adjusted factor of the Subject of Valuation;

β_e: Expected market risk factor of equity capital of the Subject of Valuation.

(4) Determination of forecast period

The entity had been operating normally with relatively stable business conditions, thus the forecast period is set at 5 years, i.e. from 2020 to 2024, the revenue would remain stable starting from 2025 onwards.

(5) Determination of yielding period

In the course of the valuation process, we are not aware of any circumstances that would indicate the entity could not operate on a going concern basis for the foreseeable future, and as the entity would be able to operate as a going concern in the long run through normal renewal of long-term assets including fixed assets, the yielding period was determined on a perpetual basis.

(3) Introduction to Market Approach

1. Overview

The market approach is an option for valuation of enterprise value as required in the Asset Appraisal Practice Standards – Enterprise Value. The market approach in valuation of enterprise value refers to the method of determining the value of the subject of valuation by comparing the subject of valuation with comparable listed companies or comparable transaction cases. Two specific methods commonly used in market approach are the listed companies comparison method and the transaction cases comparison method.

The listed companies comparison method refers to the method of arriving at the value of the subject of valuation on the basis of the comparison analysis with the subject of valuation by analyzing the operating and financial data of listed companies in the capital market that are in the same or similar industry as the subject of valuation and calculating appropriate value ratios or economic indicators; and the transaction cases comparison method refers to the method of arriving at the value of the subject of valuation by analyzing the sale and purchase, acquisition and merger cases of companies in the same or similar industry as the subject of valuation, obtaining and analyzing the data of these transaction cases, as well as calculating appropriate value ratios or economic indicators.

This transaction is the disposal of Moka International by a company listed in Hong Kong and is conducted in Hong Kong, there are quite a number of listed companies on the Hong Kong Stock Exchange that are alike or similar to that of the subject of valuation are more listed companies. The personnel of the valuer are able to access more comprehensive information and financial data disclosed by listed companies in the public media, and in view of the purpose of this valuation, the valuation is conducted by adopted the listed companies comparison method.

2. Principles of valuation

This valuation adopts the listed companies comparison method, which determine the market value of the entire shareholders' equity of the Subject of Valuation as at the valuation benchmark date by selecting comparable listed companies in the same industry or similar industries, and analyse with adjustment on the differences between the Subject of Valuation and each of the comparable companies in respects of profitability, development capability, operation capability, solvency, after taking into account the liquidity discount.

3. Valuation Method

① Identify comparable listed companies. Select a sufficient number of comparable companies in the same industry or similar industries to understand the status of the principal business and select the appropriate comparable companies on the basis of comparability. A total of 13 comparable listed companies were selected for this valuation, including Raymond Industrial Limited (0229.HK), Haier Electronics Group Co., Ltd. (1169.HK), Town Ray Holdings Limited (1692.HK), Rare Earth Magnesium Technology Group Holdings Limited (0601.HK), Skyworth Group Limited (0751.HK), TCL Electronics Holdings Limited (1070.HK), Tonly Electronics Holdings Limited (1249.HK), Q Technology (Group) Company Limited (1478.HK), Trio Industrial Electronics Group Limited (1710.HK), Jiu Rong Holdings Limited (2358.HK), Yuxing InfoTech Investment Holdings Limited (8005.HK), and Hi-Level Technology Holdings Limited (8113.HK).

② Select appropriate value ratios. Determine the appropriate value ratios based on the characteristics of the industry in which the subject company is in, after taken into account the applicability of the various value ratios.

③ Adjust the value ratios. Select appropriate adjustment factors to conduct quantitative scoring of indicators between the Subject of Valuation and comparable transaction cases; compare the score of the subject company with that of comparable transaction cases to obtain adjustment coefficient for each comparable case, then multiply by the respective value ratios to arrive at the adjusted value ratios of each comparable case; select appropriate statistical methods to determine the value ratios of the subject company.

④ Conduct calculations on the value ratios of the subject company with reference to corresponding economic indicators and take into account the discount for lack of liquidity so as to arrive at the value of the equity of the subject company.

VIII. PARTICULARS OF THE VALUATION PROCESS

The entire valuation work was carried out in four stages:

(1) PREPARATION STAGE OF THE VALUATION

1. The Appointer and the appraisal institution agreed on issues such as the purpose, the valuation benchmark date and the scope of the valuation, and a work plan for this asset valuation was prepared.

2. Collaborate with the entity to conduct asset inventory and complete the asset valuation declaration forms, etc. Members of the valuation team obtained a detailed understanding of the valued assets, arranged the assets valuation tasks, offered assistance to the enterprise in carrying out the reporting of the valuation assignment, and collected documents required for asset valuation were completed.

(2) ON-SITE ENGAGEMENT STAGE OF THE VALUATION

The main tasks of the on-site engagement stage were as follows:

1. Interviews were conducted with the Appointer, the Subject of Valuation and relevant stakeholders. The Appointer and relevant parties of the Subject of Valuation introduced the overall situation of the enterprise and the historical and current conditions of the valuated assets, and explained the financial system, operation situation, fixed assets and technological conditions of the enterprise.

2. Detailed reports on the asset inventory provided by the enterprise were verified, identified and checked against the corresponding financial data of the enterprise, and coordinated efforts were made in correcting any problems if identified.

3. The income forecast (predictive financial information) provided by the Subject of Valuation were inspected.

4. A verification of fixed assets by way of random check was carried out according to the detailed list of asset inventory and verified and random stock-taking have been carried out on the physical inventory assets within the current assets.

5. The technical information, completion and acceptance information of major facilities were inspected and the facility management system reviewed; pricing information of general facilities was collected through market research and inquiries of relevant data; the relevant information in relation to the management systems, maintenance, alteration and expansion of buildings and constructions was collected.

6. Title documents of the valuated assets were collected and reviewed, and the ownership information provided by the enterprise was verified.

7. A preliminary assessment of the assets and liabilities within the scope of the valuation was performed on the basis of verified information.

(3) VALUATION CONSOLIDATION STAGE

The preliminary results of the valuation on various types of assets and liabilities were analysed and consolidated, and necessary adjustments, amendments and improvements were made to the valuation results.

(4) REPORT SUBMISSION STAGE

On the basis of the above processes, an asset valuation report was drafted and preliminarily reviewed, and ideas were exchanged with the Appointer in respect of the valuation results. After independent analysis of relevant opinions had been carried out, corrections and adjustments were made according to the internal audit system for asset valuation report and procedures of the valuation institution and the final asset valuation report was produced.

IX. VALUATION ASSUMPTIONS

In this valuation, the valuer followed the valuation assumptions as below:

(1) GENERAL ASSUMPTIONS

1. Transactional assumption

Under the transactional assumption, it is assumed that all assets being valued are in the process of being transacted, and the valuer carries out the valuation based on the transactional conditions of the valuated assets in a simulated market. Transactional assumption is the most fundamental precedent assumption under which the asset valuation can proceed.

2. Open market assumption

Under the open market assumption, it is assumed that the two parties of the assets being transacted, or proposed to be transacted in the market, have equal status with ample opportunities and time in obtaining sufficient market information, such that rational judgements can be made in respect of the functions, usages and transactional prices of the assets. Open market assumption is based on assets being able to be publicly traded in the market.

3. Assumption of continuous use of assets

The assumption of continuous use of assets means that when the valuation is conducted, it is assumed that the valuated assets will be used continuously according to their current uses and methods of usage, as well as their scales, frequencies and environment. In the case of altered usage, the corresponding valuation method, parameters and references should be determined.

(2) SPECIAL ASSUMPTIONS

1. The valuated entity would continue to operate as a going concern after the valuation benchmark date;

2. There would be no significant change in the political, economic and social conditions of the countries and regions where the valuated entity locates after the valuation benchmark date;

3. There would be no significant change, other than those as known to the public, in the macroeconomic, industrial and regional development policies of the countries and regions where the valuated entity is located after the valuation benchmark date;

4. There would be no significant change, other than those as known to the public, in the basis and rates of taxation and policy levies in relation to the valuated entity after the valuation benchmark date;

5. As at the valuation benchmark date, the valuated entity and its subsidiaries did not have any litigations and contingencies that might affect their subsequent operations or valuation results, except for those as disclosed herein;

6. The management of the valuated entity would be responsible, stable, and competent after the valuation benchmark date; and the products of the entity could maintain a leading position in terms of technologies employed, with necessary investment in research and development;

7. The valuated entity would comply with relevant laws and regulations, and there would be no material non-compliance matters that might affect the Company's development and realization of income;

8. The accounting policies adopted by the valuated entity after the valuation benchmark date would be consistent with those used in the preparation of the valuation report in all material aspects;

9. The basic information and financial information provided by the Appointer and the valuated entity were true, accurate and complete;

10. There would be no significant change in the business scope and business model of the valuated entity after the valuation benchmark date, other than those as disclosed in the valuation report, on the basis of the existing management method and level;

11. The asset composition, the structure of main business, the revenue and cost structure, marketing strategy and cost control of the Subject of Valuation during the future forecast period would remain consistent with those before and after the reference date, and would change in accordance with the scale of its business;

12. During the future operation periods, the expense structure for respective periods of the Subject of Valuation would not be materially different from the existing one, and would change in accordance to its business scale. The financial expenses as referred to by this valuation represent the finance cost incurred by the entity to fund its normal operation or construction during its production and operation. In view of frequent or significant changes in the monetary funds or bank deposits of an entity during its production and operation, the interest income from deposits was not taken into account in the valuation, and neither were contingent profit or loss other than interest-bearing liabilities;

13. The valuation only covered the items as shown in the valuation application form provided by the Appointer and the valuated entity, and does not include contingent assets and contingent liabilities that might exist other than those as contained in the list provided by the Appointer and the valuated entity;

14. No force majeure that would have a material adverse effect on the valuated entity after the valuation benchmark date.

If there should be any change of the above conditions, the valuation results would generally cease to be effective.

X. CONCLUSION OF VALUATION

Based on the judgement of the equity rights owners and the management of the enterprise on the future development trend and the implementation of business plans, and in accordance with relevant laws and regulations and asset valuation standards, the income approach and market approach have been adopted. In accordance with the necessary valuation procedures, assessment of the market value of the entire shareholders' interest of Moka International as at the valuation benchmark date of 31 December 2019 was carried out.

(1) Valuation conclusion by income approach

By adopting the income approach in conducting the valuation, the book value of the entire shareholder's equity in the consolidated financial statements of Moka International as at the valuation benchmark date of 31 December 2019 is RMB640.3778 million and the valuation of which is RMB2,469.6211 million, representing an appreciation in valuation of RMB1,829.2433 million or an appreciation rate of 285.65%.

(2) Valuation conclusion by market approach

By adopting the market approach in conducting the valuation, the book value of the entire shareholders' equity in the consolidated financial statements of Moka International as at the valuation benchmark date of 31 December 2019 is RMB640.3778 million and the valuation of which is RMB2,507.0471 million, representing an appreciation in valuation of RMB1,866.6694 million or an appreciation rate of 291.50%.

(3) Analysis of the differences between the valuation conclusions and selection of the final conclusion

1. Analysis of the differences between the valuation conclusions

The entire shareholders' equity of Moka International is valued at RMB2,469.6211 million by adopting the income approach in conducting the valuation, which is RMB37.4261 million lower than the value of the entire shareholders' equity of RMB2,507.0471 million arrived at by adopting the market approach. The main reasons for the differences between the two valuation approaches are as follows:

(1) The market approach determines the value of an entity in terms of its business performance and overall market performance;

(2) The income approach predicts the value of an entity value based on its profitability;

Generally, the market approach determines the value of an entity in terms of its business performance and overall market performance, while the income approach predicts the value of an entity value based on its profitability, and these two complement each other. The results from the market approach are the market performance of the results from the income approach whereas the results from the income approach are a solid foundation for the results from the market approach.

The main reason for the difference between the results of the market approach and the income approach is that the market approach reflects the external market price of an entity at a certain point in time, the result of which may fluctuate violently due to the influence of a number of factors such as the environment of market investment, the degree of speculations, and the confidence of investors; whereas the income approach is the conclusion arrived at after professional analysis on the historical operation of an entity, development of the industry and market situation by the valuer based on a reasonable prediction of future incomes of the entity by its management, and thus the fluctuation is relatively smaller as compared with the market approach.

2. Selection of valuation conclusions

Moka International is principally engaged in the TV ODM business with three major production bases in Huizhou, Mexico and India. It will further optimize its global industrial layout and has established a marketing network with North America and Hong Kong as the core sales regions. The ODM business is highly recognized by both domestic and overseas customers and has established a long-term and solid strategic partnership with its customers.

Business operations are more influenced by the global macroeconomic situation, the economies of various countries, the market environment and the competitive situation in the market. The income approach is the judgment of the value of the valuated entity after a comprehensive analysis of its internal business operation and external market environment, combined with the valuated entity's historical profit condition, the forecast of future business development and many other factors. The valuation results can better reflect the value of shareholders' equity interest in the enterprise. With the market approach, valuation is indirectly determined by referring to the equity transactions of peers and the valuation results are affected more by the volatility of the stock market.

The income approach is the judgment of the value of the valuated entity after a comprehensive analysis of its internal business operation and external market environment, combined with the valuated entity's historical profit condition, the forecast of future business development and many other factors. The valuation results can better reflect the value of shareholders' equity interest in the enterprise.

(4) Difference between the valuation conclusion as compared to book value and reasons

The difference between the valuation conclusion of the valuation of all assets and liabilities of Moka International as at the valuation benchmark date of 31 December 2019 by adopting the income approach as compared to the respective book value are as follows:

The book value of the entire shareholders' equity in the consolidated financial statements of Moka International as at the valuation benchmark date of 31 December 2019 is RMB640.3778 million and the valuation of which is RMB2,469.6211 million, representing an appreciation in valuation of RMB1,829.2433 million or an appreciation rate of 285.65%.

The reason for appreciation is that the valuation by income approach is based on the expected return on the asset as a measure of value, reflecting the size of the asset's viability (profitability), which will usually be affected by various conditions such as macroeconomic environment, policy influences and the effective use of the asset. The value of software copyrights, patents and proprietary technologies not recorded in the books, advantages arising from the optimization and integration of industry chain with CSOT upon relocation to the Tonghu plant subsequent to the valuation benchmark date, and advantages of expansion of the Indian market after the commencement of production of the Indian plant and various advantages in marketing resources such as long-term strategic customers are reasonably reflected in future operating projections by adopting the income approach in this valuation and hence resulted in an appreciation in valuation.

XI. SPECIAL NOTES

(1) KEY INFORMATION SUCH AS OWNERSHIP RIGHTS MAY BE INCOMPLETE OR FLAWED

No key information such as ownership rights may be incomplete or flawed is noticed in this report.

(2) UNCERTAINTIES INCLUDING UNRESOLVED MATTERS AND LEGAL DISPUTES

No uncertainties including unresolved matters and legal disputes is noticed in this report.

(3) SIGNIFICANT USE OF EXPERT WORKS AND RELEVANT REPORTS

The carrying amounts of consolidated assets and liabilities as at the valuation benchmark date in this valuation report are extracted from the audit results from the "Audited Financial Statements of Moka International Limited (2018 and 2019)" issued by Ernst & Young Hua Ming LLP, Shenzhen Branch. Apart from that, this valuation did not refer to the contents of reports issued by other institutions.

(4) MAJOR EVENTS AFTER THE PERIOD

Since the outbreak of the novel coronavirus pandemic in early 2020, the global market has been facing tremendous uncertainty. Moka International's business operations have been affected by novel coronavirus to a certain extent. In the course of preparing earnings forecast, Moka International's management has adjusted its earnings expectations for 2020 with reference to actual sales revenue and sales of Moka International for January to April 2020. Moka International's is committed to close monitoring of the novel coronavirus pandemic and will swiftly adjust its marketing and supply chain strategy to minimize the potential impact of the novel coronavirus pandemic on the financial condition and results of operations of Moka International in the future.

As the novel coronavirus pandemic was still not effectively under control globally as at the date of this valuation report, the impact of the global pandemic of novel coronavirus on valuation results has been duly considered in this valuation. The valuation conclusion will become invalid if the impact on the company's operations from the subsequent and continued development of the outbreak significantly exceeds the expectations of the management of the company and the management is unable to adjust its business strategies in a timely manner and compensate for the shortfall effectively. Users of this report are reminded to pay special attention.

(5) OTHER MATTERS REQUIRED TO BE EXPLAINED

1. As the customers and production plants of Moka International and its long-term equity investment units are located in different countries and regions of the world, the business transactions involve different currencies. There are uncertainties in the changes of different countries' exchange rates, and the fluctuation of different currencies may present foreign exchange risks to its future operations. Users of this report are reminded to pay special attention.

2. The legal liability of the valuer and the appraisal institution was to exercise professional judgement on determining the value of assets within the scope of the valuation purpose as indicated in the report. It did not involve the making of judgement by the valuer and the appraisal institution on the economic activities corresponding to such valuation purpose. To a large extent, the valuation depends on the relevant information provided by the Appointer and the Subject of Valuation. Therefore, the valuation work was based on the authenticity and legality of the documents related to relevant economic activity, title documents of ownership rights, certificates, accounting documents and legal documents provided by the Appointer and Subject of Valuation.

3. During the valuation process, for inspections of the equipment, due to the restraints of the testing methods and the fact that some equipment were in operation, this task was mainly done by exterior observation by the valuers and results of the latest checks provided by the Subject of Valuation as well as the enquiries to the operators in order to judge the conditions of the equipment. Due to the COVID-19 outbreak in 2020, the valuers were unable to perform site survey procedures on the equipment and buildings located at Moka International's plant in Mexico. They have instead performed alternative procedures such as referring to site photographs, remote video, and video communication with relevant operators and users of the equipment and buildings so as to understand the condition of the interior and operational status of the equipment and buildings. Users of this asset valuation report are reminded to pay special attention to the above-mentioned non-performance of site survey procedures.

4. The scope of this valuation and the data, financial statements and relevant information used in this valuation are provided by the Subject of Valuation. The Appointer and the Subject of Valuation are responsible for the authenticity and completeness of the information provided.

5. The relevant title documents of ownership rights and related information are provided by the Subject of Valuation. The Appointer and the Subject of Valuation are responsible for the authenticity and legality of the information provided.

6. If, for an effective period after the valuation benchmark date, there is a change in the quantity of assets or standard of valuation, it should be dealt with in accordance with the following principles:

   (1) when there is a change in the quantity of assets, the valuated amount of the assets should be adjusted according to the original valuation method;

   (2) When there is a change in the standard of valuation which has a significant impact on the asset valuation results, the Appointer should promptly engage a qualified appraisal institution to re-determine the value of the assets;

   (3) In the event of any change in the quantity of assets or the standard of valuation after the valuation benchmark date, the Appointer should give full consideration to the actual value of the assets and make corresponding adjustments.

7. The profit forecast of the valuated enterprise obtained by the appraisal institution is the basis of the income approach used in this valuation report. The valuer has carried out the necessary investigation, analysis and judgement on the profit forecast of the valuated enterprise. After a number of discussions with the management of the valuated enterprise and its shareholders and the subsequent revision and improvement by the valuated enterprise, the valuation institution adopted the relevant data of the profit forecast provided by the valuated enterprise. Using the profit forecast of the valuated enterprise by the valuated institution does not guarantee the future profitability of the enterprise.

8. The conclusion of this valuation is based on the accurate judgement of the equity holders and management of the Subject of Valuation on the future development trend and the implementation of related planning. If the actual operating conditions of the enterprise deviate from its business plan in the future and the existing management fails to take effective measures to address the deviation the valuation conclusion will become invalid.

XII. LIMITATIONS ON THE USE OF THIS VALUATION REPORT

(1) Scope of use

1. This valuation report may only be used by the users of valuation report as specified in this valuation report. The right to use the information of this valuation report belongs to the Appointer. Without the permission of the Appointer, the valuation institution will not disclose such information freely to any other parties;

2. This valuation report can only be used for the purpose of valuation as stated in this report;

3. According to the laws and regulations related to asset valuation, asset valuation reports involving valuation of business for legal compliance shall only be used upon the Appointer has performed the supervisory and management procedures regarding asset valuation as required by law and regulations. The valuation results are effective from 31 December 2019 to 30 December 2020 for a term of one year. Re-valuation is required upon expiration of the one year period.

(2) The valuation institution and the asset valuer shall not be held responsible if the Appointer or any other user of the asset valuation report fails to use the asset valuation report in accordance with the provisions of laws and administrative regulations, or within the scope as specified in the asset valuation report;

(3) This asset valuation report may not be used by institutions or individuals other than the Appointer, other users of the asset valuation report as agreed in the asset valuation engagement agreement and the users of the asset valuation report as prescribed by laws and administrative regulations;

(4) The user of the asset valuation report should correctly understand and use the conclusion of the valuation, that the valuation conclusion does not reflect the realizable price of the Subject of Valuation and should not be regarded as the guarantee of the realizable price of the Subject of Valuation.

XIII. VALUATION REPORT DATE

The valuation report was dated 29 June 2020.

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China United Assets Appraisal Group Co., Ltd.

Asset valuer: YU Yanfei

Asset valuer: LI Aijian

29 June 2020

The fair market value of 100% equity interests in Moka International Group of RMB2,469,621,000 as at 31 December 2019 (being the Valuation Benchmark Date) was appraised by the Independent Valuer, which represents the valuation by using discounted cash flow method (income approach) as guideline.

Since the discounted cash flow method has taken into account the discounted cash flow projections of Moka International Group (the "**Moka International Group Profit Forecast**" or "**Moka International Group Discounted Cash Flows**"), Moka International Group Profit Forecast constitutes a profit forecast under Rule 14.61 of the Listing Rules.

Set out below is the information in relation to Moka International Group Profit Forecast:

Bases and Assumptions

(1) GENERAL ASSUMPTIONS

1. Transactional assumption

Under the transactional assumption, it is assumed that all assets being valued are in the process of being transacted, and the independent valuer carries out the valuation based on the transactional conditions of the valuated assets in a simulated market. Transactional assumption is the most fundamental precedent assumption under which the asset valuation can proceed.

2. Open market assumption

Under the open market assumption, it is assumed that the two parties of the assets being transacted, or proposed to be transacted in the market, have equal status with ample opportunities and time in obtaining sufficient market information, such that rational judgements can be made in respect of the functions, usages and transactional prices of the assets. Open market assumption is based on assets being able to be publicly traded in the market.

3. Assumption of continuous use of assets

The assumption of continuous use of assets means that when the valuation is conducted, it is assumed that the valuated assets will be used continuously according to their current uses and methods of usage, as well as their scales, frequencies and environment. In the case of altered usage, the corresponding valuation method, parameters and references should be determined.

(2) SPECIAL ASSUMPTIONS

1. The valuated entity would continue to operate as a going concern after the valuation benchmark date;

2. There would be no significant change in the political, economic and social conditions of the countries and regions where the valuated entity locates after the valuation benchmark date;

3. There would be no significant change, other than those as known to the public, in the macroeconomic, industrial and regional development policies of the countries and regions where the valuated entity is located after the valuation benchmark date;

4. There would be no significant change, other than those as known to the public, in the basis and rates of taxation and policy levies in relation to the valuated entity after the valuation benchmark date;

5. As at the valuation benchmark date, the valuated entity and its subsidiaries did not have any litigations and contingencies that might affect their subsequent operations or valuation results, except for those as disclosed in the valuation report;

6. The management of the valuated entity would be responsible, stable, and competent after the valuation benchmark date; and the products of the entity could maintain a leading position in terms of technologies employed, with necessary investment in research and development;

7. The valuated entity would comply with relevant laws and regulations, and there would be no material non-compliance matters that might affect the Company's development and realization of revenue;

8. The accounting policies adopted by the valuated entity after the valuation benchmark date would be consistent with those used in the preparation of the valuation report in all material aspects;

9. The basic information and financial information provided by the Appointer and the valuated entity were true, accurate and complete;

10. There would be no significant change in the business scope and business model of the valuated entity after the valuation benchmark date, other than those as disclosed in the valuation report, on the basis of the existing management method and level;

11. The asset composition, the structure of main business, the revenue and cost structure, marketing strategy and cost control of the Subject of Valuation during the future forecast period would remain consistent with those before and after the reference date, and would change in accordance with the scale of its business;

12. During the future operation periods, the expense structure for respective periods of the Subject of Valuation would not be materially different from the existing one, and would change in accordance to its business scale. The financial expenses as referred to by this valuation represent the finance cost incurred by the entity to fund its normal operation or construction during its production and operation. In view of frequent or significant changes in the monetary funds or bank deposits of an entity during its production and operation, the interest income from deposits was not taken into account in the valuation, and neither were contingent profit or loss other than interest-bearing liabilities;

13. The valuation only covered the items as shown in the valuation application form provided by the Appointer and the valuated entity, and does not include contingent assets and contingent liabilities that might exist other than those as contained in the list provided by the Appointer and the valuated entity;

14. No force majeure that would have a material adverse effect on the valuated entity after the valuation benchmark date.

Ernst & Young ("**EY**"), the Company's auditor, has examined the calculations of the discounted future estimated cash flows, which do not involve the adoption of accounting policies, on which the Valuation prepared by the Valuer was based.

EY has reported to the Directors that, so far as the calculations of the discounted future estimated cash flows on which the Valuation was based are concerned, the discounted future estimated cash flow has been properly compiled in all material respects in accordance with the Assumptions. The work performed by EY has not reviewed, considered or conducted any work on the appropriateness and validity of the bases and assumptions and expresses no opinion on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows, and thus the Valuation, are based.

The Directors have reviewed the bases and assumptions based upon which the Valuation was prepared by the Independent Valuer. The Directors have also considered the letter from EY. On the basis of the foregoing, the Directors have confirmed that they are satisfied that the Valuation prepared by the Independent Valuer in the Valuation Report has been made after due and careful enquiry.

A letter from EY dated 29 June 2020 in compliance with Rule 14.62(2) of the Listing Rules and a letter from the Directors dated 29 June 2020 in compliance with Rule 14.62(3) of the Listing Rules have been submitted to the Stock Exchange, the texts of which are included in Appendix IVC and Appendix IVD to this circular, respectively.

EY 安永

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29 June 2020

The Directors
TCL Electronics Holdings Limited
7th Floor, Building 22E,
22 Science Park East Avenue,
Hong Kong Science Park,
Shatin, New Territories, Hong Kong

Dear Sirs,

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF MOKA INTERNATIONAL LIMITED AND ITS SUBSIDIARIES (HEREINAFTER COLLECTIVELY REFERRED TO AS "MOKA INTERNATIONAL GROUP")

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "Forecast") on which the valuation dated 29 June 2020 prepared by China United Assets Appraisal Group Co., Ltd. in respect of Moka International Group as at 31 December 2019 is based. The valuation is set out in the announcement of TCL Electronics Holdings Limited (the "Company") in connection with the disposal of Moka International Group. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' responsibilities

The directors of the Company (the "Directors") are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "Assumptions"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in Appendix II "Bases and Assumptions" of the announcement of the Company dated 29 June 2020.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors of the Company. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the directors of Moka International. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of Moka International Group. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,

Ernst & Young

Certified Public Accountants
Hong Kong

TCL ELECTRONICS HOLDINGS LIMITED
TCL電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

29 June 2020

To the Shareholders

Dear Sir or Madam,

Re: Major and Connected Transaction – Disposal of 100% Equity Interest in Moka International

Reference is made to the determination of market value of Moka International Limited ("**Moka International**") dated 29 June 2020 (the "**Valuation Report**") prepared by China United Assets Appraisal Group Co., Ltd. (the "**China United**") in relation to the valuation of Moka International as at 31 December 2019 (the "**Valuation**"). The Valuation was performed based on the income approach which had taken into account the discounted cash flow projections of Moka International Group, (the "**Moka International Group Forecast**"), and therefore constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have reviewed and considered the Moka International Group Forecast including the bases and assumptions upon which the Moka International Group Forecast was based and reviewed and considered the Valuation for which China United is responsible. We have also considered the letter dated 29 June 2020 from Ernst & Young, so far as the calculations are concerned, whether the Moka International Group Forecast have been properly complied in all material respects in accordance with the bases and assumptions adopted by the China United as set out in the Valuation. We have noted that the Moka International Group Forecast in the Valuation is mathematically accurate.

On the basis of the foregoing, we are of the opinion that the Valuation Report prepared by the China United has been made after due and careful enquiry.

Yours faithfully,
On behalf of the Board
LI Dongsheng
Chairman

1. RESPONSIBILITY OF THE DIRECTORS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions, by Directors of Listed Issuers contained in the Listing Rules ("**Model Code**"), to be notified to the Company and the Stock Exchange, were as follows:

(a) Interest in the Company – Long Positions

Name of Directors	Number of ordinary Shares held			Number of underlying shares held under equity derivatives			Approximate percentage of the number of issued shares of the Company
	Personal interests	Spouse Interests	Other interests *(Note 1)*	Personal interests	Spouse interests	Total	*(Note 2)*
LI Dongsheng	55,823,410	2,453,975	413,515	7,312,235	504,895	66,508,030	2.80%
WANG Cheng Kevin *(Note 3)*	1,204,084	–	827,031	7,262,284	–	9,293,399	0.39%
YAN Xiaolin	258,315	–	22,389	1,970,324	–	2,251,028	0.09%
Albert Thomas DA ROSA, Junior	85,722	–	22,389	315,907	–	424,018	0.02%
LI Yuhao	24,000	–	–	–	–	24,000	0.001%
Robert Maarten WESTERHOF	22,389	–	22,389	315,907	–	360,685	0.02%
WANG Yijiang	21,923	–	22,389	242,260	–	286,572	0.01%
LAU Siu Ki	22,389	–	22,389	236,301	–	281,079	0.01%

(b) Interest in Associated Corporation of the Company – Long Positions

(i) TCL Holdings

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

***(ii) Tonly Electronics** (Note 6)*

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

Notes:

1. These interests are restricted shares that have been granted to the relevant directors under the Award Scheme of the Company and were not vested as at the Latest Practicable Date. Further, the restricted shares that have been granted to the spouse of the relevant Directors under the share award scheme of the Company are also included.

2. The percentages are calculated based on the number of issued share of the Company as at the Latest Practicable Date, i.e. 2,371,282,404 Shares.

3. Mr. WANG Cheng Kevin is also the chief executive officer of TCL Holdings.

4. These percentages are calculated based on the number of issued shares of TCL Holdings as at the Latest Practicable Date, i.e. 6,450,000,000 Shares, as advised by TCL Holdings.

5. Mr. LI Dongsheng is also a director of TCL Holdings. As at the Latest Practicable Date, Mr. LI Dongsheng was deemed to have a 33.33% indirect shareholding in TCL Holdings via Ningbo Lida Zhihui Enterprise Management Partnership (Limited Partnership)*(寧波礪達致輝企業管理合夥企業(有限合夥)).

6. Tonly Electronics is a Subsidiary of TCL Holdings and hence an associated corporation of the Company under Part XV of the SFO.

7. These interests are restricted shares that have been granted to the relevant directors under the award scheme of Tonly Electronics and were not vested as at the Latest Practicable Date.

8. The percentages are calculated based on the number of issued shares of Tonly Electronics as at the Latest Practicable Date, being 273,104,917 shares in issue, as informed by Tonly Electronics.

Save as disclosed in this paragraph 2, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

3. MATERIAL ADVERSE CHANGES

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since the date to which the latest published audited accounts for the financial year ended 31 December 2019 of the Group were made up.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group after completion of the Acquisition which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTEREST IN THE GROUP'S ASSETS

As at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to member of the Group after completion of the Acquisition, or are proposed to be acquired or disposed of by or leased to any member of the Group after completion of the Acquisition as referred to in Paragraph 40 of the Appendix 1B of the Listing Rules.

As at the Latest Practicable Date, none of the Directors had any material interest in any contract or arrangement which was subsisting and significant in relation to the business of the Group after completion of the Acquisition.

6. COMPETING INTERESTS

As at the Latest Practicable Date, the Directors were not aware that any of them had interests in any business which competes or was likely to compete, either directly or indirectly, with the business of the Group which would fall to be discloseable under the Listing Rules.

7. LITIGATION

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

TCT Mobile – Telefones LTDA (a former subsidiary of TCL Communication, sold in March 2018) is currently a defendant in a lawsuit in Brazil with Brazil tax authority for improper application of tax credits for the period of 2012 and 2013 for a total amount of undue credit BRL15,000,000, with the penalty and interests, the assessment is currently around BRL45,000,000. According to the share purchase agreement between TCL Communication Group and the purchaser, any new provision that was identified within 1 January 2018 to the day of instalment of payment cover contingencies of TCT Mobile – Telefones LTDA for periods before 31 December 2017, the corresponding new provision amount would be deducted from the instalment. In June 2018, TCT Mobile – Telefones LTDA filed ordinary appeal and the court ordered the record remanded for a new trial of the administrative defense at March 2019. Up till to the Latest Practicable Date, the lawsuits is still ongoing. TCL Communication Group's directors, based on the response from the independent attorney in charge, expect that the litigation period will last for 3–5 years. TCL Communication Group has not made any provision as the Directors, based on the advice from TCL Communication Group's Legal Counsel, believe that the TCT Mobile – Telefones LTDA has a valid defense against the allegation.

Save as disclosed above, at the Latest Practicable Date, no member of the Group after completion of the Acquisition was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group after completion of the Acquisition.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Somerley Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO
Ernst & Young	Certified Public Accountants
China United Assets Appraisal Group Co., Ltd.	Independent Valuer

Each of the experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of their letter or report, as the case may be, dated 30 June 2020 and references to their respective names, in the form and context in which they appear.

As at the Latest Practicable Date, each expert did not have (i) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and (ii) any direct or indirect interest in any assets which have, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Company were made up), been acquired or disposed of by, of leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

9. MATERIAL CONTRACTS

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contracts, not being contracts entered into the usual course of business, were entered into by the Group after completion of the Acquisition which are or may be material:

(a) the share purchase agreement dated 3 June 2020 entered into between TCL NL (as purchaser), STA (as seller), SEMP TCL (as intervening-consenting party), ABH (as intervening-consenting party) and OCE (as intervening-consenting party) for the acquisition of 40% equity interest in SEMP TCL at a maximum consideration of approximately R$325,407,278.84;

(b) the sale and purchase agreement dated 12 August 2019 entered into between TCL King Electrical Appliances (Chengdu) Company Limited* (TCL王牌電器(成都)有限公司) as seller and CSOT as purchaser for the transfer of 14% equity interest in Finance Company at a consideration of approximately RMB255 million;

(c) the exclusive business co-operation agreement (獨家業務合作協議) entered into among Falcon Network Technology and Hawk Digital Entertainment Technology (Shenzhen) Co., Ltd.* (豪客數字娛樂科技(深圳)有限公司) ("**OPCO**" or "**Hawk Digital**") on 23 July 2019 for the provision of business support, technical services, consulting services and other services by Falcon Network Technology at a fee equivalent to all profits generated by Hawk Digital after deducting relevant costs, expenses and taxes;

(d) the exclusive purchase right agreement (獨家購買權協議) dated 23 July 2019 entered into among Falcon Network Technology, Hawk Digital, Mr. WANG Hao and Ms. ZHU Xiaojiang on 23 July 2019 for the grant of an exclusive right to Falcon Network Technology to purchase or nominate any individuals/entities to purchase all or part of the equity interests in Hawk Digital at the lowest price permissible under the PRC Laws;

(e) the equity pledge agreement (股份質押協議) entered into among Falcon Network Technology, Hawk Digital, Mr. WANG Hao and Ms. ZHU Xiaojiang on 23 July 2019 for the pledge in interests in Hawk Digital in favour of Falcon Network Technology to secure any payment by Hawk Digital to Falcon Network Technology;

(f) the authorization letter(s) entered into by each of Mr. WANG Hao and Ms. ZHU Xiaojiang on 23 July 2019 to unconditionally and irrevocably authorize Falcon Network Technology and its successor to exercise all the rights as a shareholder of Hawk Digital under the relevant PRC laws;

(g) the confirmation letter(s) entered into by each of Mr. WANG Hao and Ms. ZHU Xiaojiang on 23 July 2019 regarding certain matters relating to their interests in Hawk Digital;

(h) the spousal consent letter(s) entered into by the spouse of each of Mr. WANG Hao and Ms. ZHU Xiaojiang on 23 July 2019 regarding their rights relating to the interests in Hawk Digital due to their being the spouse of Mr. WANG Hao and Ms. ZHU Xiaojiang respectively;

(i) the sale & purchase agreement entered into between TCL King Electrical Appliances (Huizhou) Company Limited* (TCL王牌電器(惠州)有限公司) as purchaser and Qianhai Fende Industries as seller on 23 January 2019 for the transfer of approximately 15.56% equity interest in Falcon Network Technology at a consideration of RMB420.12 million;

(j) the articles of association of Gechuang Dongzhi Technology Co., Ltd.* (格創東智科技有限公司) entered into among Shenzhen TCL Digital Technology Co., Ltd.* (深圳TCL數字技術有限公司), TCL Tech, Ningbo Xingxing Jiuli Investment Management Partnership (Limited Partnership)* (寧波星興久力投資管理合夥企業(有限合夥)), Ningbo Juge Yingrui Investment Partnership (Limited Partnership)* (寧波聚格盈睿投資合夥企業(有限合夥)), CSOT and Mr. HE Jun (何軍) on 21 September 2018 in relation to the establishment of Gechuang Dongzhi Technology Co., Ltd.* (格創東智科技有限公司);

(k) the sale and purchase agreement entered into between TCL King Electrical Appliance (Huizhou) Company Limited* (TCL王牌電器(惠州)有限公司) and TCL Intelligence Industry (Huizhou) Co., Ltd.* (TCL智慧工業(惠州)有限公司) on 20 July 2018 for the purchase of certain equipment at a consideration of RMB15,494,434.63;

(l) the shareholder agreement entered into on 29 June 2018 among TCL Netherland B.V., Radio Victoria Fueguina S.A., Sontec S.A., RV TECH S.A. and JWG S.A., pursuant to which TCL Netherlands B.V. would grant call option and lock-up option in certain operating companies to RV TECH S.A. and JWG S.A.; and

(m) the trademark licence agreement entered into on 29 June 2018 between TCL Netherlands B.V. as the licensor and Radio Victoria Fueguina S.A. as the licensee for the use of certain trademarks being the word "TCL" in connection with certain products in Argentina for a period of 50 years at an annual consideration of 2% of free on board price of relevant licensed products.

10. MISCELLANEOUS

(a) The registered office of the Company is situated at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business in Hong Kong is at 7th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

(b) The Company's Hong Kong branch share registrar and transfer office is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The secretary of the Company is Ms. CHOY Fung Yee, a practising solicitor of Hong Kong.

(d) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 7th Floor, Building 22 E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, for a period of 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the three years ended 31 December 2017, 2018 and 2019 respectively;

(c) a copy of the Acquisition Agreement;

(d) a copy of the Disposal Agreement;

(e) a copy of the Deed of Termination (2020);

(f) a copy of the Deed of Non-Competition (2020);

(g) this circular;

(h) the letter from the Independent Board Committee, the text of which is set out in this circular;

(i) the letter from Somerley Capital Limited, the text of which is set out in this circular;

(j) the Accountants' on TCL Communication Group, the text of which is set out in Appendix IIA;

(k) the Valuation Report on TCL Communication Group, the text of which is set out in Appendix IIB;

(l) the Unaudited Pro Forma Financial Information of the Group upon completion of the Acquisition, the text of which is set out in Appendix IIIA;

(m) the Unaudited Pro Forma Financial Information of the Group upon completion of Business Transformation, the text of which is set out in Appendix IIIB;

(n) the Valuation Report on Moka International Group, the text of which is set out in Appendix IVA;

(o) the written consent from Somerley Capital Limited referred to in the section headed "EXPERTS AND CONSENTS" in this appendix; and

(p) the material contracts referred to in the section headed "Material Contracts" in this appendix.

TCL ELECTRONICS HOLDINGS LIMITED
TCL電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of TCL Electronics Holdings Limited (the "**Company**") will be held at 8/F., Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, on 28 July 2020, Tuesday, at 2:30 p.m., to consider and, if thought fit, pass the following ordinary resolution(s) (with or without modifications):

ORDINARY RESOLUTION(S)

1. **"THAT**

(a) the Acquisition Agreement (as defined in the circular of the Company dated 30 June 2020), the terms and the transactions contemplated thereunder (a copy of the agreement has been produced to the meeting and marked "A" and initialed by the chairman of the meeting for the purposes of identification) be and are hereby approved, confirmed and ratified; and

(b) subject to and conditional upon fulfillment of the conditions in the Acquisition Agreement, any director of the Company be and is hereby authorized to sign or execute all such other documents or supplemental agreements or deeds or take any action, do such things, as such director may in his opinion consider necessary or desirable for the purpose of implementing and giving effect to the Acquisition Agreement and completing the transactions contemplated under the Acquisition Agreement with such changes as such director may consider necessary, desirable or expedient."

2. **"THAT**

(a) the Disposal Agreement (as defined in the circular of the Company dated 30 June 2020), the terms and the transactions contemplated thereunder (a copy of the agreement has been produced to the meeting and marked "B" and initialed by the chairman of the meeting for the purposes of identification) be and are hereby approved, confirmed and ratified; and

(b) subject to and conditional upon the fulfillment of the conditions in the Disposal Agreement, any director of the Company be and is hereby authorized to sign or execute all such other documents or supplemental agreements or deeds or take any action, do such things, as such director may in his opinion consider necessary or desirable for the purpose of implementing and giving effect to the Disposal Agreement and completing the transactions contemplated under the Disposal Agreement with such changes as such director may consider necessary, desirable or expedient."

3. "THAT

(a) the Deed of Termination (2020) (as defined in the circular of the Company dated 30 June 2020), the terms and the transactions contemplated thereunder (a copy of the deed has been produced to the meeting and marked "C" and initialed by the chairman of the meeting for the purposes of identification) be and are hereby approved, confirmed and ratified; and

(b) subject to and conditional upon the fulfillment of the conditions in the Deed of Termination (2020), any director of the Company be and is hereby authorized to sign or execute all and such other documents or deeds or take any action, do such things, as such director may in his opinion consider necessary or desirable for the purpose of implementing and giving effect to the Deed of Termination (2020) with such changes as such director may consider necessary, desirable or expedient."

4. "THAT

(a) the Deed of Non-Competition (2020) (as defined in the circular of the Company dated 30 June 2020), the terms and the transactions contemplated thereunder (a copy of the deed has been produced to the meeting and marked "D" and initialed by the chairman of the meeting for the purposes of identification) be and are hereby approved, confirmed and ratified; and

(b) subject to and conditional upon the fulfilment of the conditions in the Deed of Non-Competition (2020), any director of the Company be and is hereby authorized to sign or execute all such other documents or deeds or take any action, do such things, as such director may in his opinion consider necessary or desirable for the purpose of implementing and giving effect to the Deed of Non-Competition (2020) with such changes as such director may consider necessary, desirable or expedient."

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 30 June 2020

Notes:

1. A member of the Company who is holder of two or more shares, and who is entitled to attend and vote at the meeting, is entitled to appoint more than one proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the EGM and any adjournment thereof should he/she so wish. In such event, his/her form of proxy will be deemed to have been revoked.

2. A form of proxy for the EGM is enclosed to the circular dated 30 June 2020. In order to be valid, the form of proxy together with the power of attorney, if any, under which it is signed, or a notarially certified copy of such power or authority must be lodged at the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen s Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.

3. The record date for determining the entitlements of the shareholders of the Company to attend and vote at the EGM is 22 July 2020, Wednesday. In order to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre 183 Queen s Road East Hong Kong, by no later than 4:30 p. m. on 22 July 2020, Wednesday.

4. Where there are joint registered holders of any share of the Company, any one of such persons may vote at any meeting, either personally by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders, stand on the register in respect of the relevant joint holding.

5. Shareholders of the Company should note that the EGM will be held as scheduled when typhoon signal no. 8 (or above), black rainstorm warning signal or "extreme conditions" as defined under Chapter 1 of the Rules of the Exchange of The Stock Exchange of Hong Kong Limited is in force. In such event, shareholders of the Company should make their own decision as to whether they would attend the meeting under bad weather conditions bearing in mind their own situations and if they should choose to do so, they are advised to exercise care and caution.

6. In view of the recent development of the pandemic caused by novel coronavirus disease 2019 (COVID-19), and in order to better protect the safety and health of the shareholders of the Company, a series of pandemic precautionary measures will be implemented at the venue of the EGM:

   (i) compulsory body temperature check will be conducted for every person at the entrance of the venue of EGM. Any person with a body temperature of over 37.5 degrees Celsius will not be admitted to the venue; and

   (ii) every person is required to wear facial mask at the venue of the EGM.

7. The Company will not serve refreshment at the EGM to avoid the coming into close contact amongst participants. The Company wishes to remind its shareholders and other participants who will attend the EGM in person to take personal precautions and abide by the requirements of pandemic precaution and control at the venue of the EGM. The Company also advises its shareholders to attend and vote at the EGM by way of non-physical presence. The shareholders of the Company may choose to vote by filling in and submitting the relevant proxy form of the EGM, and appoint the chairman of the EGM as a proxy to vote on relevant resolution(s) as instructed in accordance with the relevant proxy form instead of attending the EGM in person.

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