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

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

RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

Unaudited results for the six months ended 30 June

	2019	2018	**Change**
	(HK$M)	*(HK$M)*	
Turnover	**22,724**	21,050	**8.0%**
Gross profit	**3,724**	3,220	**15.7%**
Operating profit	**1,515**	762	**98.8%**
Net profit after tax	**1,369**	571	**139.8%**
Profit attributable to owners of the parent	**1,362**	572	**138.1%**
Basic earnings per share *(HK cents)*	**60.01**	26.72	**124.6%**
Interim dividend per share *(HK cents)*	**10.56**	9.80	**7.8%**

BUSINESS REVIEW OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2019

In 2019, the Group proactively propels globalization, business diversification, R&D innovation, and AI x IoT strategic transformation. The Group focuses on developing smart TV, Internet services, smart home, smart audio-visual ("Smart AV") and commercial systems based on household and commercial scenarios, by leveraging on its leading position in the industry. The Group is committed to providing smart and healthy living products and services to users worldwide and becoming a global fast-growing smart technology company with sustainable user operating revenue. In the future, the Company will continue to increase investment in R&D, further enhance product competitiveness, and fully explore the household AI x IoT field, bringing superior product and service experiences to users worldwide.

In the first half of 2019, the Company's key business performance was as follows:

- **The Company's Global Business Scale Continued to Expand and the Sales Volume Remained No.2 in the Global TV Market**

  In the first half of 2019, the Group's global TV sales volume again hit a new high of 15.53 million sets, up by 17.9% year-on-year, representing a market share of 14.3% (data source: Sigmaintell) and remained at No. 2 in the global TV market. Among which, sales volume of TCL brand TV increased significantly by 33.1% year-on-year to 10.31 million sets, with its market share ranking No.3 in the global TV market (data source: IHS), further showing the global competitive advantage of TCL brand. According to GfK and NPD reports, the market share of TCL brand TV kept stable growth in many countries around the world and ranked among the top in 15 countries in the first half of 2019.

- **Profitability was Greatly Improved**

  For the six months ended 30 June 2019, the Group recorded a turnover of HK$22.72 billion, up by 8.0% year-on-year. The gross profit was HK$3.72 billion, up by 15.7% year-on-year. As a result of product mix optimization, gross profit margin increased by 1.1 percentage points to 16.4% year-on-year. By persisting in cost reduction and efficiency enhancement, the expense ratio of the Group remained stable at 12.7%. Having benefited from the overall efficiency improvement and the rapid growth of overseas and Internet businesses, the Group's profitability was greatly improved, with net profit after tax reaching HK$1.37 billion, up by 139.8% year-on-year. Profit attributable to owners of the parent company was HK$1.36 billion (including a one-off gain of HK$787 million on fair value remeasurement of 44.44% pre-existing equity interest in Shenzhen Falcon Network Technology Co., Ltd.* (深圳市雷鳥網絡科技有限公司, "Falcon Network Technology") held by the Group), up by 138.1% year-on-year. The operating net profit (profit attributable to owners of the parent after deducting one-time non-operating gain) significantly increased by 32.9% to HK$554 million, compared with HK$417 million in the same period of last year. Basic earnings per share was HK60.01 cents and the basic earnings per share after deducting one-time non-operating gain was HK24.41 cents. The Board declared an interim dividend of HK10.56 cents per share, implying a dividend payout ratio of 45% based on profit attributable to owners of the parent after deducting one-time non-operating gain.

- **Development of High-end Products and Continuous Improvement of Product Mix**
  By adhering to cutting-edge display and intelligent technologies, the Group is committed to developing high-end and intelligent products. In the first half of the year, sales volume of the Group's smart TVs and 4K TVs increased significantly by 31.8% and 52.5% year-on-year to 12.37 million sets and 5.75 million sets respectively. As large screen and smart function are becoming the new trend, the Group's TV sales volume of 65-inch and above significantly increased by 116.5% year-on-year. In the future, the Company will continuously increase its investment in R&D to develop global leading display technologies such as quantum dot, Mini LED and 8K, so as to further enhance its product competitiveness.

- **TCL Brand TV Business Continued Rapid Growth in Overseas Markets**
  With 20-year penetration in overseas market and prominent advantage of its leading global business layout, the Group has significantly enhanced its international business competitiveness. Sales volume of TCL brand TVs in overseas markets had significantly increased by 49.8% year-on-year to 7.07 million sets in the first half of 2019. The turnover of TCL brand TVs reached HK$10.77 billion, up by 32.5% year-on-year. The operating results of TCL brand TVs rapidly increased by 132.1% year-on-year, which showed that the profit growth had significantly surpassed the turnover growth. Among which, in spite of the China-US trade dispute, sales volume in North American markets increased by over 70% year-on-year. In addition, sales volume in the emerging Indian market also soared by over 200% year-on-year. With the apparent advantages of the economies of scale, profitability in overseas markets was significantly enhanced.

- **Internet Business Showed Brilliant Performance with New Revenue from Overseas Markets and Continuously Enhancing Profitability from Falcon Network Technology**
  The Group actively optimized user experience and enriched platform content of its Internet business, and at the same time deepened its Internet business cooperation with Roku and Google in North America, Europe and South America. In the first half of 2019, the Group's Internet business revenue was HK$349 million, up by 125.2% compared to the same period of last year. Among which, sustainable revenue of HK$96 million from overseas Internet business was included for the first time, accounting for 27.5% of the total Internet business revenue. The revenue of Falcon Network Technology in the first half of the year was about HK$253 million, up by 63.3% year-on-year. The net profit of Falcon Network Technology in the first half of the year was HK$78 million, exceeding its full year's net profit in 2018, with the net profit margin reaching 30.7%. In addition, user base and user loyalty of the Group's Internet business were both further enhanced. As of 30 June 2019, the global accumulated number of activated users reached 36.75 million, up by 34.3% year-on-year. The global average daily number of active users reached 17.07 million in June 2019. The average daily time of global users spent on TV increased to 5.66 hours.

- **Increased R&D Investment and Took the Lead in AI x IoT Business Layout**
  With increased investment in R&D, the Group took the lead in the business layout of AI and IoT. The Company has further improved its product intelligence and implemented new generation of smart engine, which has expanded the application from entertainment to daily services. With the newly added AI scenario identification and AI facial recognition, TVs can provide smart and customized services to users via automatically recommending content that users are interested in. In addition, by using the IoT cloud platform as the core and building up its capabilities of cloud, channel and terminal, the Company established an open smart IoT platform, which had realized voice control over full categories of smart terminal products. By enhancing the infrastructure of the content and services ecology, the Company will fully explore the household AI x IoT field. In the future, the Company will further enrich the services content of AI and IoT, dedicating itself to bringing superior product and service experiences to users worldwide.

- **ODM Business Remained Top 3 in the Global Market**
  ODM business of the Group remained stable growth. With its remarkable R&D and industrial capabilities, together with the advantage of vertical integration of industrial chain, product competitiveness was continuously enhanced and operating efficiency was further improved. In the first half of 2019, the shipment of ODM business reached 5.22 million sets, and its turnover reached HK$5.18 billion. In the first half of 2019, the shipment of ODM business remained top 3 in the global market (data source: the AVC Revo).

The board (the "Board") of directors ("Directors") of TCL Electronics Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months and three months ended 30 June 2019 with comparative figures for the previous periods as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June		Three months ended 30 June	
		2019	2018	**2019**	2018
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	4	**22,724,403**	21,050,481	**10,151,889**	10,197,356
Cost of sales		**(19,000,457)**	(17,830,324)	**(8,328,098)**	(8,696,413)
Gross profit		**3,723,946**	3,220,157	**1,823,791**	1,500,943
Other revenue and gains		**1,168,219**	486,453	**942,895**	343,612
Selling and distribution expenses		**(2,284,732)**	(2,040,690)	**(1,069,934)**	(1,017,471)
Administrative expenses		**(608,373)**	(603,042)	**(279,405)**	(209,277)
Research and development costs		**(462,313)**	(292,083)	**(234,287)**	(144,846)
Other operating expenses		**(4,340)**	–	**(608)**	–
Impairment on financial assets, net		**(17,159)**	(8,830)	**(5,756)**	(8,990)
		1,515,248	761,965	**1,176,696**	463,971
Finance costs	5	**(73,009)**	(25,868)	**(29,890)**	(12,184)
Share of profits and losses of:					
Joint ventures		**6,318**	637	**4,643**	1,400
Associates		**14,240**	24,015	**(3,203)**	14,057
PROFIT BEFORE TAX	6	**1,462,797**	760,749	**1,148,246**	467,244
Income tax	7	**(94,245)**	(189,253)	**(49,648)**	(144,253)
PROFIT FOR THE PERIOD		**1,368,552**	571,496	**1,098,598**	322,991

	Six months ended 30 June		Three months ended 30 June	
	2019	2018	**2019**	2018
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Cash flow hedge:				
Effective portion of changes in fair value of the hedging instruments arising during the period	**6,038**	26,661	**(5,436)**	31,931
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**(13,116)**	(7,656)	**(8,205)**	(18,899)
	(7,078)	19,005	**(13,641)**	13,032
Exchange differences:				
Translation of foreign operations	**(86,828)**	(116,963)	**(213,112)**	(351,863)
Reclassification adjustments for foreign operations liquidated during the period	**1,656**	–	**–**	–
Reclassification adjustments for associates disposed of during the period	**377**	–	**–**	–
	(84,795)	(116,963)	**(213,112)**	(351,863)
Financial assets at fair value through other comprehensive income:				
Changes in fair value, net of income tax	**9,539**	–	**9,539**	–
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(82,334)**	(97,958)	**(217,214)**	(338,831)

	Note	Six months ended 30 June 2019 (unaudited) HK$'000	Six months ended 30 June 2018 (unaudited) HK$'000	Three months ended 30 June 2019 (unaudited) HK$'000	Three months ended 30 June 2018 (unaudited) HK$'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, net of income tax		**(1,217)**	(5,878)	**(1,217)**	(5,878)
Share of other comprehensive income/(loss) of associates		**(1,506)**	1,665	**(1,738)**	1,665
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		**(2,723)**	(4,213)	**(2,955)**	(4,213)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**(85,057)**	(102,171)	**(220,169)**	(343,044)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**1,283,495**	469,325	**878,429**	(20,053)
Profit/(loss) attributable to:					
Owners of the parent		**1,362,015**	571,958	**1,088,168**	323,539
Non-controlling interests		**6,537**	(462)	**10,430**	(548)
		1,368,552	571,496	**1,098,598**	322,991
Total comprehensive income/(loss) attributable to:					
Owners of the parent		**1,285,168**	470,297	**876,067**	(16,378)
Non-controlling interests		**(1,673)**	(972)	**2,362**	(3,675)
		1,283,495	469,325	**878,429**	(20,053)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9				
Basic		**HK60.01 cents**	HK26.72 cents		
Diluted		**HK58.70 cents**	HK26.00 cents		

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2019 (unaudited)** ***HK$'000***	31 December 2018 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,367,529**	1,347,073
Right-of-use assets		**291,339**	–
Prepaid land lease payments		**–**	154,123
Investment properties		**130,105**	128,079
Goodwill		**1,872,847**	781,962
Other intangible assets		**172,078**	111,102
Investments in joint ventures		**24,531**	18,801
Investments in associates		**1,100,829**	1,412,601
Equity investments designated at fair value through other comprehensive income		**126,563**	128,770
Deferred tax assets		**88,819**	101,737
Other deferred assets		**45,253**	46,011
Total non-current assets		**5,219,893**	4,230,259
CURRENT ASSETS			
Inventories		**5,027,270**	6,982,733
Trade receivables	10	**5,110,619**	4,881,560
Bills receivable		**2,770,244**	2,360,909
Prepayments, other receivables and other assets		**2,608,240**	2,900,251
Tax recoverable		**79,122**	74,802
Financial assets at fair value through profit or loss		**576,062**	–
Derivative financial instruments		**30,205**	7,268
Cash and bank balances		**6,817,998**	6,741,976
		23,019,760	23,949,499
Non-current assets classified as held for sale		**–**	21,445
Total current assets		**23,019,760**	23,970,944

	Notes	**30 June 2019 (unaudited)** *HK$'000*	31 December 2018 (audited) *HK$'000*
CURRENT LIABILITIES			
Trade payables	11	**7,323,463**	9,801,922
Bills payable		**2,887,397**	1,613,794
Other payables and accruals		**4,973,432**	5,151,507
Interest-bearing bank and other borrowings	12	**856,605**	1,093,987
Lease liabilities		**81,369**	–
Tax payable		**69,082**	56,423
Derivative financial instruments		**35,204**	22,177
Provisions		**597,638**	589,091
Total current liabilities		**16,824,190**	18,328,901
NET CURRENT ASSETS		**6,195,570**	5,642,043
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,415,463**	9,872,302
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	12	**–**	20,540
Lease liabilities		**56,299**	–
Deferred tax liabilities		**48,565**	44,472
Other long-term payables		**27,662**	27,725
Total non-current liabilities		**132,526**	92,737
Net assets		**11,282,937**	9,779,565
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	**2,360,555**	2,335,494
Reserves		**8,589,994**	7,443,827
		10,950,549	9,779,321
Non-controlling interests		**332,388**	244
Total equity		**11,282,937**	9,779,565

Notes:

1. BASIS OF PREPARATION

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

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 2 below.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised HKFRSs effective as of 1 January 2019.

HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015–2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the adoption of other new and revised HKFRSs have had no significant financial effect on the preparation of the Group's unaudited interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

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. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

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. The 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.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standalone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land and buildings, motor vehicles and other equipment. As a lessee, the 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 the Group. Under HKFRS 16, the Group applies a single approach to recognize and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognize right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognized 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 were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

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

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

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applied a single discount rate to a portfolio of lease with reasonably similar characteristics

- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) *HK$'000* (unaudited)
Assets	
Increase in right-of-use assets	334,890
Decrease in prepaid land lease payments	(157,145)
Decrease in prepayments, other receivables and other assets	(2,726)
Increase in total assets	175,019
Liabilities	
Increase in lease liabilities	175,019
Increase in total liabilities	175,019
Decrease in retained earnings	–

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	HK$'000 (unaudited)
Operating lease commitments as at 31 December 2018	206,166
Less: Value-added tax ("VAT") recognized in commitments	(7,694)
Operating lease commitments excluded VAT as at 31 December 2018	198,472
Weighted average incremental borrowing rate as at 1 January 2019	4.72%
Discounted operating lease commitments as at 1 January 2019	186,443
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(11,424)
Lease liabilities as at 1 January 2019	175,019

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realizable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognized 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, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts recognized in the unaudited interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets				
	Land and buildings	**Motor vehicles**	**Other equipment**	**Sub-total**	**Lease liabilities**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2019	332,042	2,686	162	334,890	175,019
Additions	3,429	406	–	3,835	4,084
Lease modification	(5,560)	–	–	(5,560)	(5,305)
Depreciation charge	(40,410)	(595)	(18)	(41,023)	–
Interest expense	–	–	–	–	3,417
Payments	–	–	–	–	(39,279)
Exchange realignment	(783)	(20)	–	(803)	(268)
As at 30 June 2019	288,718	2,477	144	291,339	137,668

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]
Amendments to HKFRS 3	*Definition of a Business*[1]
Revised Conceptual Framework	*Revised Conceptual Framework for Financial Reporting*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

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

4. OPERATING SEGMENT INFORMATION

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

(a) Television segment - manufacture and sale of television sets in:

- TCL brand – the People's Republic of China ("PRC") market;
- TCL brand – the overseas markets; and
- original design manufacturer ("ODM") business;

(b) Internet business segment – advertising, value-added, video-on-demand and membership cards; and

(c) Others segment – comprises Smart AV, smart home solutions and products and other businesses, including manufacture and sale of television related components, sale of white goods, mobile phones and air conditioners.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that finance costs, interest income, share of profits and losses of joint ventures and associates as well as head office and corporate income and expenses are excluded from such measurement.

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

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

	Six months ended 30 June											
	Television						Internet business		Others###		Consolidated	
	TCL brand -PRC market		TCL brand - overseas markets		ODM business							
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**6,217,984**	7,307,634	**10,768,357**	8,127,189	**5,183,602**	5,516,358	**229,678#**	–	**324,782**	99,300	**22,724,403**	21,050,481
Segment results	**11,486**	246,014	**440,620**	189,754	**161,901**	182,247	**97,149#**	–	**(53,767)**	11,848	**657,389**	629,863
Corporate income, net											**804,139##**	104,213
Finance costs											**(73,009)**	(25,868)
Interest income											**53,720**	27,889
Share of profits and losses of:												
Joint ventures	**(6)**	–	**6,324**	637	**–**	–	**–**	–	**–**	–	**6,318**	637
Associates	**10,504**	13,252	**(11,154)**	(7,330)	**–**	–	**13,257**	14,450	**1,633**	3,643	**14,240**	24,015
Profit before tax											**1,462,797**	760,749
Income tax											**(94,245)**	(189,253)
Profit for the period											**1,368,552**	571,496

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

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

Smart AV and smart home products segments have been reclassified to other segment for better decision making of management.

5. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank and other loans	**65,621**	22,883
Discounted bills receivable from an associate	**3,971**	2,985
Interest expense on lease liabilities	**3,417**	–
Total	**73,009**	25,868

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**95,718**	110,197
Depreciation of investment properties	**1,623**	1,441
Depreciation of right-of-use assets	**41,023**	–
Amortization of other intangible assets	**10,008**	50
Amortization of prepaid land lease payments	**–**	1,809
Employee share-based compensation benefits under the Award Scheme	**14,946**	27,734
Equity-settled share option expense	**17,663**	41,077

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**–**	99
Overprovision in prior periods	**(53)**	–
Current – Elsewhere		
Charge for the period	**77,784**	122,776
Underprovision in prior periods	**6,693**	47,461
Deferred	**9,821**	18,917
Total tax charge for the period	**94,245**	189,253

8. DIVIDENDS

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interim dividend – HK10.56 cents (30 June 2018: HK9.80 cents) per ordinary share	**249,275**	228,672

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

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

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**1,362,015**	571,958

	Number of shares	
	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue less shares held for Award Scheme during the period used in the basic earnings per share calculation	**2,269,633,346**	2,140,939,199
Effect of dilution – weighted average number of ordinary shares:		
Share options	**10,441,904**	9,275,525
Awarded shares	**40,054,289**	49,676,629
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**2,320,129,539**	2,199,891,353

10. TRADE RECEIVABLES

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

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

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

	30 June 2019 (unaudited) *HK$'000*	31 December 2018 (audited) *HK$'000*
Current to 90 days	**4,547,712**	4,399,290
91 to 180 days	**184,400**	237,704
181 to 365 days	**149,026**	69,285
Over 365 days	**418,348**	356,183
	5,299,486	5,062,462
Impairment allowance	**(188,867)**	(180,902)
	5,110,619	4,881,560

Included in the Group's trade receivables are receivables to be factored of HK$48,910,000 (31 December 2018: HK$126,162,000), which are classified as financial assets at fair value through profit or loss. The remaining trade receivables with gross carrying amount of HK$5,250,576,000 (31 December 2018: HK$4,936,300,000) are measured at amortized cost.

11. TRADE PAYABLES

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

	30 June 2019 (unaudited) *HK$'000*	31 December 2018 (audited) *HK$'000*
Current to 90 days	**6,283,526**	6,622,392
91 to 180 days	**722,753**	2,789,680
181 to 365 days	**14,884**	287,580
Over 365 days	**302,300**	102,270
	7,323,463	9,801,922

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

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2019 (unaudited) *HK$'000*	31 December 2018 (audited) *HK$'000*
Current		
Bank loans – unsecured	**769,563**	610,864
Trust receipt loans – unsecured	**87,042**	483,123
	856,605	1,093,987
Non-current		
Other loans	**–**	20,540
	856,605	1,114,527
Analyzed into:		
Bank and other loans repayable:		
Within one year or on demand	**856,605**	1,093,987
In the second year	**–**	20,540
	856,605	1,114,527

Notes:

(a) As at 30 June 2019 and 31 December 2018, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(b) TCL Corporation has guaranteed certain of the Group's bank loans up to HK$227,320,000 (31 December 2018: HK$20,540,000) as at the end of the reporting period.

13. SHARE CAPITAL

	30 June 2019 (unaudited) *HK$'000*	31 December 2018 (audited) *HK$'000*
Authorized:		
3,000,000,000 (31 December 2018: 3,000,000,000) shares of HK$1.00 each	**3,000,000**	3,000,000
Issued and fully paid:		
2,360,555,117 (31 December 2018: 2,335,493,874) shares of HK$1.00 each	**2,360,555**	2,335,494

During the six months ended 30 June 2019, the subscription rights attaching to 253,806, 110,022, 21,560,816, 2,866,260 and 270,339 share options were exercised at the subscription prices of HK$4.4834, HK$4.3860, HK$3.3918, HK$3.7329 and HK$3.5700 per share, respectively, resulting in the issue of an aggregate of 25,061,243 shares of HK$1.00 each for a total cash consideration of HK$86,415,000 before expenses.

14. EVENTS AFTER THE REPORTING PERIOD

On 23 July 2019 (after trading hours), Falcon Network Technology entered into the Exclusive Business Co-operation Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreement, the Authorization Letters, the Confirmation Letters and the Spousal Consent Letters (collectively the "VIE Agreements") with Hawk Digital Entertainment Technology (Shenzhen) Co., Ltd*(豪客數字娛樂科技(深圳)有限公司) (the "OPCO") and/or Mr. WANG Hao and Ms. ZHU Xiaojiang. Through the VIE Agreements, Falcon Network Technology will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. Upon the entering into of the VIE Agreements, the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group and the OPCO will become an indirect subsidiary of the Company. The transaction was completed as at the date of approval of these condensed financial statements. Further details of this transaction are set out in the Company's announcement dated 23 July 2019.

On 12 August 2019 (after trading hours), TCL King Electrical Appliances (Chengdu) Company Limited*(TCL王牌電器(成都)有限公司), an indirect wholly-owned subsidiary of the Company ("TCL King (Chengdu)") entered into the sale and purchase agreement (the "SPA") with Shenzhen China Star Optoelectronics Technology Co., Ltd*(深圳市華星光電技術有限公司) ("CSOT" or the "Purchaser"), pursuant to which, the Purchaser has conditionally agreed to acquire and TCL King (Chengdu) (as the seller) has conditionally agreed to sell the 14% equity interest in TCL Finance Co., Ltd.*(TCL集團財務有限公司) held by TCL King (Chengdu) immediately prior to the entering into of the SPA at the consideration of approximately RMB255 million (equivalent to approximately HK$290 million). The transaction was not yet completed as at the date of approval of these condensed financial statements. Further details of this transaction are set out in the Company's announcement dated 12 August 2019.

15. COMPARATIVE AMOUNTS

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

BUSINESS REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2019

In 2019, both challenges and opportunities coexist in the TV industry. The Group is committed to providing smart and healthy living products and services to users worldwide and becoming a global fast-growing smart technology company with sustainable user operating revenue. By proactively propelling globalization, business diversification, R&D, and AI x IoT strategic transformation, together with the advantage of its leading position in the industry, the Group focused on developing smart TV, Internet services, smart home, Smart AV and commercial systems based on household and commercial scenarios. In the first half of the year, the Group maintained stable and rapid business growth, with a substantial increase in profits.

The Company's Global Business Scale Continued to Expand and the Sales Volume Remained No.2 in the Global TV Market

In the first half of 2019, the Group's global TV sales volume again hit a new high of 15.53 million sets, up by 17.9% year-on-year, representing a market share of 14.3% (data source: Sigmaintell) and remained at No. 2 in the global TV market. Among which, the sales volume of TCL brand TV increased significantly by 33.1% year-on-year to 10.31 million sets, with its market share ranking No.3 in the global TV market (data source: IHS), further showing the global competitive advantage of TCL brand. According to GfK and NPD reports, the market share of TCL brand TV kept stable growth in many countries around the world and ranked among the top in 15 countries.

Profitability was Greatly Improved

For the six months ended 30 June 2019, the Group recorded a turnover of HK$22.72 billion, up by 8.0% year-on-year. The gross profit was HK$3.72 billion, up by 15.7% year-on-year. As a result of the product mix optimization, gross profit margin increased by 1.1 percentage points to 16.4% year-on-year. By persisting in cost reduction and efficiency enhancement, the expense ratio of the Group remained stable at 12.7%. Having benefited from the overall efficiency improvement and the rapid growth of overseas and Internet businesses, the Group's profitability was greatly improved, with net profit after tax reaching HK$1.37 billion, up by 139.8% year-on-year. Profit attributable to owners of the parent company was HK$1.36 billion (as a result of stronger operating capability and profitability, as well as increasing valuation of Falcon Network Technology, a one-off gain of HK$787 million on the fair value remeasurement of 44.44% pre-existing equity interest in Falcon Network Technology held by the Group was included), up by 138.1% year-on-year. The operating net profit (profit attributable to owners of the parent after deducting one-time non-operating gain) had significantly increased by 32.9% to HK$554 million, compared with HK$417 million in the same period of last year. Basic earnings per share was HK60.01 cents and the basic earnings per share after deducting one-time non-operating gain was HK24.41 cents. The Board declared an interim dividend of HK10.56 cents per share, implying a dividend payout ratio of 45% based on profit attributable to owners of the parent after deducting one-time non-operating gain.

Development of High-end Products and Continuous Improvement of Product Mix

By adhering to cutting-edge display and intelligent technologies, the Group is committed to developing high-end and intelligent products. In 2019, sales volume of the Group's smart TVs and 4K TVs increased significantly by 31.8% and 52.5% year-on-year to 12.37 million sets and 5.75 million sets respectively. As large screen and smart function are becoming the new trend, sales volume of the Group's TVs of 65 inches and above significantly increased by 116.5% year-on-year. In the future, the Company will continuously increase its investment in R&D to develop global leading display technologies such as quantum dot, Mini LED and 8K, so as to further enhance its product competitiveness.

The Group's TV sales volume by region and the number of TCL Internet TV users during the period were as follows:

TV sales volume	**1H 2019** *(000' sets)*	1H 2018 *(000' sets)*	**Change**
Total	**15,526**	13,173	+17.9%
– TCL brand TV in overseas markets	**7,073**	4,721	+49.8%
– TCL brand TV in the PRC market	**3,237**	3,027	+6.9%
– ODM business	**5,216**	5,425	(3.9%)
Among which: Smart TVs	**12,371**	9,383	+31.8%
4K TVs	**5,752**	3,773	+52.5%

	Accumulative Number as of 30 June 2019	**1H 2019**	1H 2018	**Change**
Number of global accumulative activated users(1)	**36,747,849**	**4,840,429**	3,817,734	+26.8%
Average daily number of global active users(2) (3)	**N/A**	**17,065,266**	12,814,096	+33.2%

Notes:

(1) The number of users who have used Internet TV web services once or more

(2) The number of unrepeated individual users who have used the Internet TV services within seven days

(3) Data as of June 2019

Products Business

– TCL Brand Business in Overseas Markets

Sales Scale Maintained Rapid Growth and Global Production Capacity Layout Achieved Remarkable Results

Adhering to Global Brand Strategy, Sales Volume in Key Countries Continued to Grow at a High Speed

The Group adheres to its global brand strategy. By actively exploring key overseas markets and optimizing product mix, the Group has now established a leading competitive advantage and overseas markets have become an important development engine for the Group. In the first half of 2019, the Group's sales volume in various regions in overseas markets maintained strong growth and the market share continued to increase:

- North American markets continued to consolidate and strengthen its leading position with TV sales volume rising strongly by 75.0% year-on-year in spite of the China-US trade dispute. In the first half of 2019, the market share of the Group in terms of TV sales volume ranked 2nd in the US market and jumped to No.1 in March (data source: NPD);

- Emerging markets maintained strong growth momentum, with TV sales volume up by 28.8% year-on-year, of which India (up by 216.8%), Indonesia (up by 109.5%), Argentina (up by 64.4%) and Russia (up by 52.0%) all achieved rapid growth. In the first half of 2019, the market share of the Group in terms of TV sales volume ranked 2nd in both Myanmar and Pakistan, 3rd in the Philippines, 4th in Australia, Vietnam and Thailand, and 5th in India (data source: GfK); and

- TV sales volume in the European markets rose by 20.7% year-on-year, with areas including France (up by 57.4%), Germany (up by 161.1%) and Italy (up by 196.9%) recording notable growth. In the first half of 2019, the market share of the Group in terms of TV sales volume ranked 3rd in France (data source: GfK).

Significant Increase in Both Sales Volume and Turnover: With its persistent efforts to penetrate into key overseas markets and continuous expansion in emerging markets, sales volume of the Group's TCL brand TV in overseas markets recorded significant growth of 49.8% year-on-year and reached 7.07 million sets in the first half of 2019. Turnover of TCL brand TV in overseas markets increased by 32.5% to HK$10.77 billion year-on-year.

In the first half of 2019, the Group's sales volume of mid-to-high end TCL brand TV products in overseas markets continued to increase, alongside the Group's continuously optimizing product mix:

- The proportion of smart TV sales volume rose from 82.4% in the first half of 2018 to 88.2% in the first half of 2019;
- The proportion of 4K TV sales volume rose from 34.9% in the first half of 2018 to 43.6% in the first half of 2019;
- Sales volume of 65-inch and above TVs in the first half of 2019 increased by 204.1% year-on-year, compared with the same period of 2018; and
- The average size of TV sold increased from 41.3 inches in the first half of 2018 to 42.2 inches in the first half of 2019.

Notable Growth in Profitability: With the benefit of continuous optimized product mix, economies of scale, and advantages brought by the synergy of vertically integrated industrial chain, the gross profit margin of the Group's TCL brand TV in overseas markets rose by 1.0 percentage point to 15.1% in the first half of 2019. In the second quarter of 2019, the gross profit margin of its TCL brand TV in overseas markets rose remarkably by 3.3 percentage points sequentially to 17.1%. In the first half of 2019, profitability was greatly improved with the operating results of its TCL brand TV in overseas markets increasing significantly by 132.1% year-on-year.

Realizing Global Production Capacity Layout and Effectively Mitigating Potential Risks

With global production capacity layout, besides China, the Group has factories in Mexico, Vietnam, Poland, India and South America, among which TCL India Intelligent Manufacturing Industrial Park was established jointly with CSOT (a subsidiary of TCL Corporation) in December 2018, with an annual production capacity of 6 million TV sets upon completion. The Group's total production capacity layout in overseas exceeds 15 million sets per year, which is sufficient to meet its shipment demand in the North American markets and can effectively mitigate potential risks of the China-US trade dispute. At the same time, the Group further implemented cost reduction and efficiency enhancement in order to improve operational efficiency, which provides strong support for the rapid development of its overseas business.

– TCL Brand Business in the PRC Market

Further Optimizing Product Mix and Improving Gross Profit Margin Quarter-on-quarter of Self-branded Products

Self-branded Products Increased Against the Industry Downward Trend: By adhering to its premium products strategy, the Group continuously optimized its product mix and enhanced product competitiveness. According to CMM's omni-channel data, the overall TV sales volume in the PRC market decreased by 4.3% year-on-year in the first half of 2019. However, the Group's sales volume of TCL brand TV recorded a positive growth despite the downward trend in the industry of the PRC market, with sales volume up by 6.9% to 3.24 million sets year-on-year, among which the sales volume of super-large TVs over 65 inches increased significantly by 114.6%. The turnover reached HK$6.22 billion.

The Proportion of Online Sales Continued to Increase: Through continuous optimization of sales channels in the PRC market, the proportion of the Group's online TCL brand TV in the first half of 2019 reached 37.7% of the total TCL brand TV sales volume in the PRC market, up by 2.7 percentage points from 35.0% in the same period last year.

Gross Profit Margin Increased Steadily: With the benefit of continuous product mix optimization, the gross profit margin of the Group's TCL brand TV in the PRC market in the first half of 2019 increased by 0.8 percentage point year-on-year to 24.3%. In the second quarter of 2019, the gross profit margin of TCL brand TV increased by 1.6 percentage points to 25.3% sequentially, representing a significant improvement from the first quarter.

The product structure of the Group's TCL brand TV in the PRC market continued to optimize in the first half of 2019:

- The proportion of smart TV sales volume rose from 81.5% in the first half of 2018 to 83.4% in the first half of 2019;

- The proportion of 4K TV sales volume rose from 53.2% in the first half of 2018 to 58.0% in the first half of 2019;

- In the first half of 2019, the sales volume of super-large TVs over 65 inches increased by 114.6%, compared with the same period of 2018;

- The average size of TV sold increased from 47.1 inches in the first half of 2018 to 47.6 inches in the first half of 2019;

- The market share of curved TVs reached 34.7%, the Group remained as No.1 in the PRC market (data source: CMM's omni-channel data); and

- In the first half of 2019, the average selling price of TCL brand TV ranked top 2 among the Chinese first-tier brands in both online and offline sales channels in the PRC market (data source: CMM's online and offline report).

Due to the fierce competition in the PRC market, the operating results of TCL brand TV business in the PRC market decreased in the first half of 2019. In the second half of the year, by focusing on its core strategy of product mix optimization, operating efficiency improvement and increasing market share, the Group will persist in developing its mid-to-high end products, increasing the proportion of high-margin products and optimizing its channel structure so as to improve its operating results.

– ODM Business

In recent years, the Group's ODM business has been developing steadily with its shipment ranking among the top in the global market. In the first half of 2019, the shipment of the Group's ODM business ranked No. 3 in the global market (data source: the AVC Revo), with renowned clients all over the world.

With the benefit of research-production-sales integration, the Group's ODM business has remarkable R&D and industrial capacity as well as well-established quality control system, which ensures high delivery satisfaction. Meanwhile, with the advantage of the vertical integration of industrial chain, product competitiveness and product structure have been further enhanced, which was highly recognized by first-tier customers in both domestic and overseas markets. In addition, the Group further improved its ODM business system capability via digitalized, network-based and intelligent development, thereby realizing a production and operation system with high efficiency, low cost and strong stability.

Based on solid capability of production and high production efficiency, the Group's ODM business has been steadily developing while at the same time increasing the Group's overall production capacity utilization rate. In the first half of 2019, the TV shipment of ODM business reached 5.22 million sets, and turnover reached HK$5.18 billion.

– Product R&D

In 2019, the Group has increased investment in R&D of cutting-edge technologies in order to continuously focus on developing high-end technologies such as quantum dot, 8K and Mini LED. By launching various mid-to-high end products, the Group kept strengthening its product competitiveness.

Regarding high-end products, the industrial leading TCL X10 QLED 8K TV, which the Group displayed at the 2019 CES in the United States of America and first launched in the PRC in May, was equipped with industrial leading 8K+QLED display technology, and adopted for the first time Mini LED backlight and Local Dimming smart control technology, supporting Dolby Vision®, plus powered by TCL's proprietary "AI Visual Engine" and "Q Audio Engine", showing the Group's strong R&D capability. Moreover, C7 theatre TV, which possesses excellent visual and audio system, with 4000R curved monitor, Dolby Vision® HDR technology, and Manhattan 360-degree independent system, was highly recognized with many industry awards after its launch. The P series are specially designed for young generations that pursue fashion styles. The above-mentioned three new product series are all equipped with the "TCL A.I. 2.0 plus" A.I. technology, providing authentic and customized content recommendation capacity, thereby ensuring information and services are more accurately available to users.

The Group's innovative R&D capability is well-recognized internationally by the industry. TCL Electronics was awarded as "2018-2019 CE Brands Top 10" by IDG at the 2019 CES. The Group's industry leading product TCL X10 QLED 8K TV also received the prestigious "2018-2019 8K TV Gold Award of the Year" from IDG, which spotlighted the Group's innovative technology and brand power.

Application Services

– Internet business

Internet revenue surged by 125.2% to HK$349 million

In the first half of 2019, the Group's Internet business developed rapidly. The Company continued to propel the "1+1+N" strategic cooperation model and deepened strategic cooperation with partners in China and abroad to build a smart TV ecosystem, thereby continuing to improve the business operation capability. In the first half of 2019, the accumulated revenue from Internet business reached HK$349 million, remarkably up by 125.2% year-on-year. For the first time, the revenue from overseas Internet business was included, further enhancing the commercial monetization ability of the Group's Internet business (Note: Falcon Network Technology has been consolidated since April 2019 and the consolidated revenue of the total Internet business in the first half of 2019 recorded HK$230 million).

Revenue from Overseas Internet Business Reached HK$96 Million and Will Continue to Grow in the Future

In the first half of 2019, the Company deepened its cooperation with Roku in the North American markets and with Google in the European and South American markets to jointly enhance the user experience of TCL TV overseas. In the first half of 2019, the overseas Internet business contributed HK$96 million of sustainable revenue for the first time, accounting for 27.5% of the total revenue of the Internet business in the first half of the year. As a result, the Company has become the first Chinese enterprise in the industry to have large-scale and sustainable overseas Internet business revenue. With the rapid development of the global OTT industry and the fast growth of the Company's overseas TV sales volume, it is expected that the overseas Internet business will further enhance the overall profitability of the Company in the future.

Falcon Network Technology's Commercial Monetization Ability Continued to be Enhanced with Net Profit Margin of 30.7% in the First Half of 2019

In the first half of 2019, Falcon Network Technology, the Internet business operating platform of the Group that is mainly active in the PRC market and some overseas emerging markets, focused on strengthening user operations and enriching platform content. The Company continued to deepen the "1+1+N" strategic cooperation with Tencent, South New Media and other partners and integrate more content resources so as to provide quality services to users. The penetration rate of Falcon Network Technology's members has increased significantly and its business has developed rapidly. In the first half of 2019, Falcon Network Technology's revenue reached HK$253 million, up by 63.3% year-on-year, among which revenue from video-on-demand and membership increased by 45.7%, revenue from advertising business grew by 36.6%, and revenue from value-added business increased by 269.5%. Falcon Network Technology's net profit in the first half of the year reached HK$78 million, exceeding last year's annual net profit and the net profit margin was as high as 30.7%.

In addition, the Group's Internet business user base and loyalty have further improved. As of 30 June 2019, the Company's total number of global activated users reached 36.75 million, up by 34.3%. The average number of daily active users worldwide reached 17.07 million and the average daily time spent on TV per user continued to grow to 5.66 hours in June 2019.

– AI x loT business

The Group has strengthened the R&D and application of AI, vigorously developed the intelligent loT field with "AI x IoT" as the core strategy in an endeavor to enhance personalized experience of users. By innovating products of all series and proactively engaging in AI and loT business, the Group is devoted to developing TV as the loT center of future households.

Regarding AI, the Company established a joint AI design center with TCL Corporate Research to accelerate the application of AI technology in products. The Group took the lead in establishing an open AI technological framework in the TV industry, which can connect to various businesses and realize autonomous control based on users' intention, thereby enriching user experience and at the same time cultivating user habit to use large-screen TVs as Internet terminals. The new generation smart engine has been adopted in smart products, which has expanded the application from TV, film, music, and encyclopedia to daily services. It also adds more diversified functions, such as navigation, searching for popular attractions, gourmet recommendations and ticketing service, on top of multi-turn dialogue, celebrity identification and natural language interaction. Besides, the new AI scenario and facial recognition functions based on the latest AI technology is able to adjust the display effect in different scenarios in an intelligent way. Meanwhile, it also could provide smart and customized services to users via automatically recommending content that users are interested in. In the future, the Group will further enrich AI services and content to enhance AI scenario experience and application service abilities.

In terms of loT technology, the self-developed cloud platform of the Company enabled stable connection with a wider range and larger number of loT products. In the first half of 2019, the Company greatly broadened the scope of the ecosystem via connection with the cloud platform and realized voice control over all smart devices of different categories. Moreover, the standardized loT module developed by the Company is applicable to products of all categories, which will help to achieve the intelligentization of products.

In terms of the overseas markets, the Group has adopted Google AI (Google Assistant) engine and its smart devices to actively expand the application of AI technology overseas, and provide consumers with a simple and personalized life experience using TV as a large screen smart speaker for families. The Company also builds-in far-field voice module in various overseas product series and is the first Chinese company to use far-field voice technology on overseas Android TV platform. In addition, the Company developed new iterations and upgrades on the self-developed TV middleware TV+ OS and further invested in the digital and network authentication technologies in overseas markets, thus establishing the first-mover advantage of its leading technology in the overseas markets and global digital network authentication.

Outlook

Adhering to the strategic theme of "extreme efficiency, product leadership and user experience", the Group will continue to consolidate its leading position in the global layout, leverage the advantage in vertical industrial chain integration, enhance its global product competitiveness and Internet business capability, deepen the implementation of diversified business layout and development strategy in the second half of 2019. The Group will also build a smart home ecosystem featuring "AI x IoT" and actively expand new profit growth opportunities. At the same time, the Group will vigorously make innovations in technologies, minimize costs, further consolidate intelligent manufacturing and actively propel digital transformation in order to continuously improve profitability and create greater value for shareholders.

1. 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. By always putting the user needs in the first place, the Group is committed to providing users with even more remarkably realistic watching experience. In the future, the Group will make full use of its unique advantages in the synergy of the 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 synergy among 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 consumption and household electronics.

2. Accelerating the Development of Global Internet Business, Strengthening Operational Capability and Serving Global Users

Adhering to the "double +" strategy of "products + services, intelligence + Internet", the Group will comprehensively enrich the content of the Internet business and further enhance the user experience, thus expanding the user base, enhancing the user loyalty, strengthening the 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 competitive advantages in overseas markets in order to further increase the Group's profits.

3. Enhancing the Business Competitiveness in the PRC Market, Further Developing Highly Potential Overseas Markets and Accelerating the Strategic Layout of Globalization

The Group will accelerate its global strategic layout and further enhance its global competitiveness and brand influence. In the PRC market, the Group will firmly transform its business model, vigorously develop mid-to-high end products, optimize its product mix and channel structure, strengthen cost reduction and efficiency enhancement, and improve operating efficiency, so as to further enhance profitability. In overseas markets, the Group will continue to strengthen the global supply chain layout, consolidate and enhance the leading position in the North American markets, increase market share and profitability in the European markets, and further expand highly potential emerging markets such as India, Russia and South America. At the same time, the Group will propel the upgrade of the international brand through localized sports and entertainment marketing strategies to further enhance the Group's global market share.

4. Adopting Strategic Transformation of "Intelligentization + Diversification" to Become a Global Leading Smart Technology Company

On the basis of consolidating and upgrading the existing TV business, the Group will further expand diversified businesses including Smart AV, commercial display and smart home to enhance its overall profitability. In addition, in the context of 5G's entry into the practical phase and the rapid growth of smart home, the Group will seize the opportunity of product innovation and upgrade, increase investment in R&D, and enhance the "AI x IoT" capability building. Through building its capabilities of cloud, channel and terminal, the Company will develop an open loT platform empowered by AI technology and centered on cloud platform to facilitate an interconnected, intelligent and healthy ecosystem, so as to achieve the interconnection of hardware, software and IoT scenarios. The Group will also provide users with video calls, smart interaction, remote services and comfortable healthy smart home experience, and strive to become a fast-growing global leading smart technology company with sustainable user operating revenue and create greater values for shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

On 23 January 2019, TCL King Electrical Appliances (Huizhou) Company Limited* (TCL王牌電器(惠州)有限公司) ("TCL King Electrical", a subsidiary of the Company) and Shenzhen Qianhai Fende Industries Investment Company Limited* (深圳市前海芬德實業投資有限公司) ("Qianhai Fende", a limited liability company established in the PRC) entered into a sale & purchase agreement, pursuant to which Qianhai Fende agreed to sell and TCL King Electrical agreed to acquire approximately 15.56% of the total equity interest of Falcon Network Technology at the consideration of RMB420.12 million. The aforesaid transaction has been completed, the Group held in aggregate of approximately 60.00% of the total equity interest of Falcon Network Technology.

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

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 30 June 2019 amounted to approximately HK$6,817,998,000, of which 0.7% was maintained in Hong Kong dollars, 22.6% in US dollars, 72.4% in Renminbi, 2.3% in Euros and 2.0% in other currencies for overseas operation.

There was no material change in the available credit facilities of the Group when compared with those for the year ended 31 December 2018.

As at 30 June 2019, the Group's gearing ratio was 0% since the Group's cash and bank balances of approximately HK$6,817,998,000 were higher than the total interest-bearing borrowings of approximately HK$856,605,000. Gearing ratio was calculated by net borrowings (i.e. total interest-bearing bank and other borrowings, less cash and bank balances and pledged deposits), divided by equity attributable to owners of the parent. The maturity profile of such borrowings was one year.

Pledge of Assets

As at 30 June 2019, no asset of the Group was pledged (31 December 2018: Nil).

Capital Commitments and Contingent Liabilities

As at 30 June 2019, the Group had capital commitments of approximately HK$500,644,000 (31 December 2018: HK$516,729,000) and HK$253,321,000 (31 December 2018: HK$255,202,000) which were contracted but not provided for and authorized but not contracted for, respectively. There was no significant change in contingent liabilities of the Group compared to the position outlined in the Company's 2018 annual report.

Pending Litigation

The Group was not involved in any material litigation as at 30 June 2019.

Foreign Exchange Exposure

Due to its international presence and operation, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

It is the Group's policy to centralize foreign currency management to monitor its total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasizes the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In addition, in line with the aim of prudent financial management, the Group does not engage in any high-risk derivative trading or leveraged foreign exchange contracts.

Employee and Remuneration Policy

As at 30 June 2019, the Group had a total of 25,158 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. The remuneration policy of the Group was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Group. In order to align the interests of staff with those of shareholders of the Company, share options were granted to relevant grantees, including employees of the Group, under the Company's share option scheme. Share options for subscribing a total number of 194,223,583 shares remained outstanding as at 30 June 2019.

A restricted share award scheme (the "Award Scheme") was also adopted by the Company on 6 February 2008 and was amended on 11 August 2015, 13 June 2016, 24 November 2017 and 23 May 2018 respectively. Pursuant to the Award Scheme existing shares would be purchased from the market or new shares would be subscribed for by a designated trustee out of cash contributed by the Company, and would be held on trust for the relevant grantees until such shares are vested with the relevant grantees in accordance with the provisions of the Award Scheme.

PURCHASES, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2019.

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend for the six months ended 30 June 2019, of HK10.56 cents (30 June 2018: HK9.80 cents) in cash per share.

The interim dividend will be payable on or about 18 December 2019, Wednesday to shareholders whose names appear on the register of members of the Company at the close of business at 4:30 p.m. on 29 November 2019, Friday.

RECORD DATE AND CLOSURE OF REGISTER OF MEMBERS

The record date for determining the entitlements of the shareholders of the Company to the said interim dividend is 29 November 2019, Friday. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 29 November 2019, Friday. The register of members of the Company will be closed from 2 December 2019, Monday to 3 December 2019, Tuesday (both dates inclusive). No transfer of shares may be registered during the said period.

CORPORATE GOVERNANCE

The Company has established and will continue to optimize its risk management and internal control system. The management reports to the Board and the subordinated audit committee ("Audit Committee") the governance situation and the improvement progress of the Company regularly to strengthen the collaboration on corporate governance between the Board and the management continuously, and to fulfill their respective responsibilities in terms of corporate governance.

None of the Directors is aware of any information which would reasonably indicate that the Company had not, throughout the six months ended 30 June 2019, complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules, except for the deviation from the Code Provisions D.1.4, E.1.2 and F.1.1.

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

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

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

Due to other pre-arranged business commitments which must be attended to by each of them, Mr. LI Dongsheng (being the Chairman of the Board and an executive Director) and Professor WANG Yijiang (being the chairman of the nomination committee of the Company and an independent non-executive Director) were not present at the 2019 AGM. However, Mr. LAU Siu Ki (being the chairman of the Audit Committee and an independent non-executive Director), Dr. TSENG Shieng-chang Carter (being the chairman of the remuneration committee of the Company and an independent non-executive Director) were present at the 2019 AGM to maintain an ongoing dialogue and communicate with the shareholders and encourage their participation.

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

The company secretary of the Company, Ms. CHOY Fung Yee ("Ms. CHOY") is not an employee of the Company. From 1 January 2019 to 18 March 2019, the Company has assigned Mr. WANG Yi Michael, an executive Director and the then chief financial officer, as the contact person with Ms. CHOY, and with effect from 18 March 2019, Mr. HU Lihua, the current chief financial officer of the Company, replaced Mr. WANG Yi Michael, as the assigned contact person with Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. CHOY through the contact person assigned. Given the long-term relationship between Messrs. Cheung Tong & Rosa Solicitors (of which Ms. CHOY is a partner) and the Group, Ms. CHOY is very familiar with the operations of the Group and has an in-depth knowledge of the management of the Group. Having in place a mechanism that Ms. CHOY will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. CHOY as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited financial statements for the six months ended 30 June 2019, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee comprises four members, namely Mr. LAU Siu Ki (Chairman), Dr. TSENG Shieng-chang Carter and Professor WANG Yijiang, all being independent non-executive Directors, and Mr. YANG Anming (appointed as a non-executive Director with effect from 10 January 2019), a non-executive Director.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a model code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard as set out in the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period.

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received two confirmations (the "Confirmations") from TCL Corporation and T.C.L. Industries Holding (H.K.) Limited (collectively the "Covenantors") signed by them confirming that for the period from 1 January 2019 to 30 June 2019 and up to the date of signing the Confirmations by the relevant Covenantors, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 November 1999 as amended from time to time (the"Deed of Non-Competition").

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

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 28 August 2019

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

As at the date of this announcement, the Board comprises Mr. LI Dongsheng, Mr. WANG Cheng Kevin, Mr. YAN Xiaolin and Mr. WANG Yi Michael as executive Directors, Mr. Albert Thomas DA ROSA, Junior, Mr. YANG Anming, 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.