

2020 INTERIM REPORT



**TONLY ELECTRONICS HOLDINGS LIMITED**  
通力電子控股有限公司

Incorporated in the Cayman Islands with limited liability  
Stock Code : 01249



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# CORPORATE INFORMATION

## **BOARD OF DIRECTORS**

### *Executive Directors*

Mr. YU Guanghui (Chief Executive Officer)  
Mr. SONG Yonghong (Chief Operating Officer)  
Mr. REN Xuenong (Chief Financial Officer)

### *Non-Executive Director*

Mr. LIAO Qian (Chairman)

### *Independent Non-Executive Directors*

Mr. POON Chiu Kwok  
Mr. LI Qi  
Mr. LEONG Yue Wing

## **COMPANY SECRETARY**

Ms. CHOY Fung Yee, Solicitor, Hong Kong

## **AUDITOR**

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

## **LEGAL ADVISOR**

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

## **PRINCIPAL REGISTRAR**

SMP Partners (Cayman) Limited  
Royal Bank House – 3rd Floor  
24 Shedden Road, P.O. Box 1586  
Grand Cayman KY1-1110  
Cayman Islands

## **BRANCH REGISTRAR**

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

## **PRINCIPAL OFFICE**

8th Floor, Building 22E  
22 Science Park East Avenue  
Hong Kong Science Park  
Shatin, New Territories, Hong Kong

## **REGISTERED OFFICE**

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

## **INVESTOR AND MEDIA RELATIONS**

8th Floor, Building 22E  
22 Science Park East Avenue  
Hong Kong Science Park  
Shatin, New Territories, Hong Kong

# INTERIM RESULTS

The board (the "Board") of directors (the "Director(s)") of Tonly Electronics Holdings Limited (the "Company") hereby announces the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2020 with comparative figures for the corresponding period last year as follows and these condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee (the "Audit Committee"):

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

		<b>Six months ended 30 June</b>	
	Notes	<b>2020 (unaudited) HK\$'000</b>	2019 (unaudited) HK\$'000
REVENUE	4	<b>3,141,317</b>	3,518,176
Cost of sales		<b>(2,748,758)</b>	(3,060,996)
Gross profit		<b>392,559</b>	457,180
Other income and gains, net		<b>66,673</b>	48,610
Selling and distribution costs		<b>(88,860)</b>	(60,572)
Administrative expenses		<b>(139,510)</b>	(140,637)
Research and development costs		<b>(134,485)</b>	(169,464)
Other operating expenses, net		<b>(5,263)</b>	(2,103)
Finance costs	5	<b>91,114</b>	133,014
Share of losses of an associate		<b>(9,227)</b>	(17,897)
		<b>(139)</b>	–
PROFIT BEFORE TAX	6	<b>81,748</b>	115,117
Income tax expense	7	<b>(11,311)</b>	(16,445)
PROFIT FOR THE PERIOD		<b>70,437</b>	98,672
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
Other comprehensive income/(loss) may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period		<b>4,637</b>	2,526
Reclassification adjustments for gains included in profit or loss		<b>(693)</b>	(10,416)
Income tax effect		<b>(459)</b>	(1,585)
		<b>3,485</b>	(9,475)
Exchange fluctuation reserve:			
Translation of foreign operations		<b>(27,157)</b>	(6,493)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		<b>(23,672)</b>	(15,968)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<b>46,765</b>	82,704



# INTERIM RESULTS

		<b>Six months ended</b>	
		<b>30 June</b>	
		<b>2020</b>	2019
		<b>(unaudited)</b>	(unaudited)
	Notes	<b>HK\$'000</b>	HK\$'000
<hr/>			
Profit attributable to:			
Owners of the parent		<b>68,251</b>	98,295
Non-controlling interests		<b>2,186</b>	377
		<hr/>	<hr/>
		<b>70,437</b>	98,672
<hr/>			
Total comprehensive income attributable to:			
Owners of the parent		<b>46,598</b>	82,629
Non-controlling interests		<b>167</b>	75
		<hr/>	<hr/>
		<b>46,765</b>	82,704
<hr/>			
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		<b>HK25.41 cents</b>	HK37.68 cents
Diluted		<b>HK25.24 cents</b>	HK36.55 cents

# INTERIM RESULTS

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	<b>1,188,609</b>	1,086,062
Goodwill		<b>3,925</b>	4,002
Investment in an associate		<b>1,743</b>	1,918
Prepayments and other receivables		<b>141,280</b>	82,937
Deferred tax assets		<b>79,140</b>	79,523
<b>Total non-current assets</b>		<b>1,414,697</b>	1,254,442
<b>CURRENT ASSETS</b>			
Inventories		<b>1,221,765</b>	1,248,668
Trade and bills receivables	11	<b>1,512,916</b>	2,154,029
Prepayments, other receivables and other assets		<b>299,226</b>	211,177
Tax recoverable		<b>6,046</b>	7,071
Derivative financial instruments		<b>4,815</b>	3,755
Cash and cash equivalents		<b>471,059</b>	739,193
<b>Total current assets</b>		<b>3,515,827</b>	4,363,893
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	12	<b>1,690,285</b>	2,318,109
Other payables and accruals	13	<b>904,197</b>	854,785
Tax payable		<b>81,502</b>	90,990
Derivative financial instruments		<b>2,609</b>	1,000
Interest-bearing bank borrowings	14	<b>29,729</b>	69,377
Provision		<b>220,503</b>	232,543
<b>Total current liabilities</b>		<b>2,928,825</b>	3,566,804
<b>NET CURRENT ASSETS</b>		<b>587,002</b>	797,089
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,001,699</b>	2,051,531

# INTERIM RESULTS

	Notes	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>11,370</b>	10,679
Other payables	13	<b>21,989</b>	24,238
Interest-bearing bank borrowings	14	<b>161,003</b>	165,336
Total non-current liabilities		<b>194,362</b>	200,253
Net assets		<b>1,807,337</b>	1,851,278
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	15	<b>273,105</b>	272,459
Reserves		<b>1,471,171</b>	1,515,925
		<b>1,744,276</b>	1,788,384
<b>Non-controlling interests</b>		<b>63,061</b>	62,894
Total equity		<b>1,807,337</b>	1,851,278



# INTERIM RESULTS

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent													
	Share capital (unaudited) HK\$'000	Share premium (unaudited) HK\$'000	Share option reserve (unaudited) HK\$'000	Reserve funds (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Merger reserve (unaudited) HK\$'000	Cash flow hedge reserve (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Share held for the Award Scheme (unaudited) HK\$'000	Awarded share reserve (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Total (unaudited) HK\$'000	Non-controlling interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
At 1 January 2019	268,474	457,532	36,508	97,679	(77,223)	(6,059)	1,752	(28,225)	(26,166)	36,642	837,861	1,598,775	76,499	1,675,274
Profit for the period	-	-	-	-	-	-	-	-	-	-	98,295	98,295	377	98,672
Other comprehensive income for the period:														
Cash flow hedges	-	-	-	-	-	-	(9,475)	-	-	-	(9,475)	-	-	(9,475)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(6,191)	-	-	(6,191)	(302)	-	(6,493)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(9,475)	(6,191)	-	-	98,295	82,629	75	82,704
Transfer of cash flow hedge reserve to inventories	-	-	-	-	-	-	16,494	-	-	-	-	16,494	-	16,494
Equity-settled share option arrangements	-	-	10,156	-	-	-	-	-	-	-	-	10,156	-	10,156
Issue of shares upon exercise of share options	174	666	(135)	-	-	-	-	-	-	-	-	-	-	705
Share options lapsed during the period	-	-	(1,394)	-	-	-	-	-	-	-	243	(1,151)	-	(1,151)
Share options cancelled during the period	-	-	(4,869)	-	-	-	-	-	-	-	2,704	(2,165)	-	(2,165)
Awarded shares lapsed during the period	-	-	-	-	-	-	-	-	-	(1,684)	-	(1,684)	-	(1,684)
Awarded shares cancelled during the period	-	-	-	-	-	-	-	-	-	(8,190)	1,555	(6,635)	-	(6,635)
Purchase of shares for the Award Scheme	-	-	-	-	-	-	-	-	(2,174)	-	-	(2,174)	-	(2,174)
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	-	1,802	(1,823)	-	(21)	-	(21)
Employee share-based compensation benefit under the Award Scheme	-	-	-	-	-	-	-	-	-	14,322	-	14,322	-	14,322
Final 2018 dividend declared	-	-	-	-	-	-	-	-	-	-	(80,587)	(80,587)	-	(80,587)
At 30 June 2019	268,648	458,198	40,266	97,679	(77,223)	(6,059)	8,771	(34,416)	(26,538)	39,267	860,071	1,628,664	76,574	1,705,238
At 1 January 2020	272,459	472,499*	38,764*	115,147*	(81,067)*	(6,059)*	1,613*	(59,010)*	(17,771)*	35,790*	1,016,019*	1,788,384	62,894	1,851,278
Profit for the period	-	-	-	-	-	-	-	-	-	-	68,251	68,251	2,186	70,437
Other comprehensive income for the period:														
Cash flow hedges	-	-	-	-	-	-	3,485	-	-	-	-	3,485	-	3,485
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(25,138)	-	-	-	(25,138)	(2,019)	(27,157)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	3,485	(25,138)	-	-	68,251	46,598	167	46,765
Transfer of cash flow hedge reserve to inventories	-	-	-	-	-	-	(1,227)	-	-	-	-	(1,227)	-	(1,227)
Equity-settled share option arrangements	-	-	2,754	-	-	-	-	-	-	-	-	2,754	-	2,754
Issue of shares upon exercise of share options	646	2,554	(585)	-	-	-	-	-	-	-	-	2,615	-	2,615
Share options expired during the period	-	-	(1)	-	-	-	-	-	-	-	1	-	-	-
Share options cancelled during the period	-	-	(39,124)	-	2	-	-	-	-	-	37,295	(1,827)	-	(1,827)
Awarded shares cancelled during the period	-	-	-	-	-	-	-	-	-	(3,404)	1,778	(1,626)	-	(1,626)
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	-	5,596	(5,677)	-	(81)	-	(81)
Employee share-based compensation benefit under the Award Scheme	-	-	-	-	-	-	-	-	-	3,895	-	3,895	-	3,895
Final 2019 dividend declared	-	-	-	-	-	-	-	-	-	-	(95,209)	(95,209)	-	(95,209)
At 30 June 2020	273,105	475,053*	1,808*	115,147*	(81,065)*	(6,059)*	3,871*	(84,148)*	(12,175)*	30,604*	1,028,135*	1,744,276	63,061	1,807,337

\* These reserve accounts comprise the consolidated reserves of HK\$1,471,171,000 (31 December 2019: HK\$1,515,925,000) in the condensed consolidated statement of financial position as at 30 June 2020.

# INTERIM RESULTS

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash generated from operations	<b>155,205</b>	135,635
Interest paid	<b>(8,939)</b>	(17,897)
Income taxes paid	<b>(18,879)</b>	(9,398)
<b>Net cash flows from operating activities</b>	<b>127,387</b>	108,340
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<b>8,643</b>	2,949
Increase in other receivables	<b>(74,110)</b>	(73,990)
Purchases of items of property, plant and equipment	<b>(183,675)</b>	(197,383)
Proceeds from disposal of items of property, plant and equipment	<b>224</b>	4,628
<b>Net cash flows used in investing activities</b>	<b>(248,918)</b>	(263,796)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New bank loans	<b>27,563</b>	301,100
Repayment of bank loans	<b>(67,321)</b>	(74,430)
Principal portion of lease payments	<b>(6,697)</b>	(30,150)
Purchase of shares for the Award Scheme	–	(2,174)
Proceeds from issue of share upon exercise of share options	<b>2,615</b>	705
Dividends paid	<b>(95,209)</b>	(80,587)
<b>Net cash flows from/(used in) financing activities</b>	<b>(139,049)</b>	114,464
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(260,580)</b>	(40,992)
Cash and cash equivalents at beginning of period	<b>739,193</b>	749,466
Effect of foreign exchange rate changes, net	<b>(7,554)</b>	(4,309)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>471,059</b>	704,165
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>471,059</b>	704,165

# INTERIM RESULTS

Notes:

## 1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial information for the six months ended 30 June 2020 has 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 information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

These unaudited interim condensed consolidated financial information has been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These unaudited interim condensed consolidated financial information 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 and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial information are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2019, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective as of 1 January 2020.

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

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

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

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

The amendments to HKAS 1 and HKAS 8 provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

The Group has early adopted the amendments to HKFRS 16 which provides relief to lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; (iii) there is no substantive change to other terms and conditions of the lease. The Group elects to adopt the practical expedient to account for the COVID-19 pandemic related rent concession as negative variable lease payments. Accordingly, the Group credited HK\$230,000 to profit or loss for the rent concessions received by the Group during the period.

# INTERIM RESULTS

### 3. ISSUED BUT NOT YET EFFECTIVE HKFRSS

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

### 4. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue is as follows:

	<b>Six months ended 30 June 2020 (unaudited) HK\$'000</b>	2019 (unaudited) HK\$'000
<b>Revenue from contracts with customers</b>		
Sale of goods	<b>3,110,446</b>	3,496,304
Rendering of services	<b>30,871</b>	21,872
	<b>3,141,317</b>	3,518,176

#### **Revenue from contracts with customers** **Disaggregated revenue information**

<b>Type of goods or services</b>	<b>Six months ended 30 June 2020 (unaudited) HK\$'000</b>	2019 (unaudited) HK\$'000
Sale of goods	<b>3,110,446</b>	3,496,304
Research and development services	<b>30,871</b>	21,872
Total revenue from contracts with customers	<b>3,141,317</b>	3,518,176

#### **Geographical markets**

United States of America ("US")	<b>90,555</b>	227,743
Japan	<b>355,578</b>	657,833
Europe	<b>875,940</b>	1,446,130
The People's Republic of China (the "PRC")	<b>1,422,273</b>	1,022,829
Korea	<b>339,217</b>	111,869
Others	<b>57,754</b>	51,772
Total revenue from contracts with customers	<b>3,141,317</b>	3,518,176

#### **Timing of revenue recognition**

Goods or services transferred at a point in time	<b>3,141,317</b>	3,518,176
Total revenue from contracts with customers	<b>3,141,317</b>	3,518,176

#### **Segment Information**

For management purposes, the Group has only one reportable operating segment which is the manufacture and sale of audio-visual products. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

# INTERIM RESULTS

## 5. FINANCE COSTS

	<b>Six months ended 30 June 2020 (unaudited) HK\$'000</b>	2019 (unaudited) HK\$'000
Interest on factored trade receivables	<b>3,444</b>	11,957
Interest on bank loans	<b>4,934</b>	4,657
Interest on lease liabilities	<b>849</b>	1,283
	<b>9,227</b>	17,897

## 6. PROFIT BEFORE TAX

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

	<b>Six months ended 30 June 2020 (unaudited) HK\$'000</b>	2019 (unaudited) HK\$'000
Cost of inventories sold	<b>2,711,771</b>	3,035,365
Cost of services rendered	<b>21,610</b>	15,311
Depreciation of owned assets	<b>62,160</b>	64,673
Depreciation of right-of-use assets	<b>10,729</b>	12,036
Employee share-based compensation benefits under the share award scheme	<b>4,250</b>	13,847
Equity-settled share option expense	<b>14,633</b>	11,913
Impairment of trade receivables, net	<b>508</b>	5,539
Loss on disposal/write-off of items of property, plant and equipment	<b>4,755</b>	1,502
Provision on obsoleted inventories	<b>15,377</b>	10,320
Foreign exchange gains, net	<b>(4,532)</b>	(7,889)

# INTERIM RESULTS

## 7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Current – Hong Kong		
Charge for the period	<b>6,398</b>	1,922
Current – Elsewhere		
Charge for the period	<b>5,719</b>	18,093
Deferred	<b>(806)</b>	(3,570)
Total tax charge for the period	<b>11,311</b>	16,445

## 8. DIVIDENDS

The Board does not recommend the payment of any interim dividend in respect of the six months ended 30 June 2020 (30 June 2019: Nil).

## 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:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<b>68,251</b>	98,295

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(unaudited)</b>	(unaudited)
	<b>Number of shares</b>	
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>268,559,040</b>	260,901,683
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	<b>14,398</b>	1,872,244
Assumed issue at no consideration on deemed vesting of all shares granted under the share award scheme outstanding during the period	<b>1,835,117</b>	6,158,340
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	<b>270,408,555</b>	268,932,267



# INTERIM RESULTS

## 10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group incurred HK\$200,458,000 (six months ended 30 June 2019: HK\$197,383,000) on the additions of items of property, plant and equipment.

## 11. TRADE AND BILLS RECEIVABLES

	<b>30 June 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
Trade receivables	<b>1,505,883</b>	2,144,502
Bills receivable	<b>7,033</b>	9,527
	<b>1,512,916</b>	2,154,029

The majority of the Group's sales in the PRC were mainly made on a cash-on-delivery basis or on commercial bills guaranteed by banks with credit periods ranging from 60 to 180 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 15 to 120 days. Sales to certain long-term strategic customers were also made on open-account basis with average credit terms of no more than 180 days.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. 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 and net of loss allowance, is as follows:

	<b>30 June 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
Current to 90 days	<b>1,318,515</b>	1,808,769
91 to 180 days	<b>127,721</b>	249,388
181 to 365 days	<b>16,675</b>	54,890
Over 365 days	<b>42,972</b>	31,455
	<b>1,505,883</b>	2,144,502

A subsidiary of the Group has entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 30 June 2020, trade receivables factored to banks aggregated to HK\$128,475,000 (31 December 2019: HK\$407,644,000), all of which were derecognised from the consolidated statement of financial position because, in the opinion of the Directors of the Company, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

# INTERIM RESULTS

## 12. TRADE AND BILLS PAYABLES

	<b>30 June 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
Trade payables	<b>1,685,499</b>	2,318,109
Bills payable	<b>4,786</b>	–
	<b>1,690,285</b>	2,318,109

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

	<b>30 June 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
Current to 90 days	<b>1,580,674</b>	1,945,464
91 to 180 days	<b>86,320</b>	322,379
181 to 365 days	<b>14,456</b>	47,158
Over 365 days	<b>4,049</b>	3,108
	<b>1,685,499</b>	2,318,109

The trade payables are non-interest-bearing and are normally settled with credit periods ranging from 15 to 120 days.

## 13. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
Other payables	<b>383,454</b>	385,085
Patent fees accruals	<b>140,997</b>	150,036
Accruals	<b>272,016</b>	259,745
Lease liabilities	<b>30,586</b>	37,656
Contract liabilities	<b>94,728</b>	37,410
Refund liabilities	<b>3,950</b>	4,913
Due to related parties:		
TCL Industries Holdings Co., Ltd. and its affiliates	<b>455</b>	2,656
Coxon Industry (Changshu) Co., Ltd and its affiliates	<b>–</b>	1,522
Total other payables and accruals	<b>926,186</b>	879,023
Less: Other payables classified as non-current liabilities	<b>(21,989)</b>	(24,238)
Current liabilities portion	<b>904,197</b>	854,785

# INTERIM RESULTS

## 14. INTEREST-BEARING BANK BORROWINGS

	<b>30 June 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
Bank loans – unsecured	<b>27,607</b>	311
Bank loans – secured	<b>163,125</b>	234,402
	<b>190,732</b>	234,713
Less: Interest-bearing bank borrowings classified as non-current liabilities	<b>(161,003)</b>	(165,336)
	<b>29,729</b>	69,377

## 15. SHARE CAPITAL Shares

	<b>30 June 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
Authorised: 500,000,000 ordinary shares of HK\$1.00 each	<b>500,000</b>	500,000
Issued and fully paid: 273,104,917 (31 December 2019: 272,459,165) ordinary shares of HK\$1.00 each	<b>273,105</b>	272,459

During the six months ended 30 June 2020, the subscription rights attaching to 645,752 share options of the Company were exercised at the subscription prices of HK\$4.05 per share, resulting in the issue of an aggregate of 645,752 shares of HK\$1.00 each for a total cash consideration of approximately HK\$2,615,000 before expenses.

## 16. COMMITMENTS

The Group had the following commitments at the end of the reporting period:

	<b>30 June 2020 (unaudited) HK\$'000</b>	31 December 2019 (audited) HK\$'000
Contracted, but not provided for:		
Buildings	<b>31,641</b>	49,039
Plant and machinery	<b>25,212</b>	7,518
Capital contributions payable to an associate	<b>2,190</b>	2,232
	<b>59,043</b>	58,789

# INTERIM RESULTS

## 17. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
The companies controlled by TCL Technology Group Corporation ("TCL Technology"):		
Sales of raw materials	266,040	270,513
Sales of finished goods	–	6,526
Purchases of raw materials	268,733	271,628
Rental expense	–	6,841
Interest income	–	739
Technology support services	1,264	3,039
Management service fee	44	–
The companies controlled by TCL Industries Holdings Co., Ltd.:		
Sales of finished goods	70,857	21,920
Purchases of raw materials	218	4
Rental expense	3,557	3,594
Interest income	3,207	–
A non-controlling shareholder of a subsidiary:		
Purchases of raw materials	6,217	33,292
Administrative service fee	–	5,232

## (b) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
TCL Technology and its affiliates	112,555	418,224	90,380	467,031
TCL Industries Holdings Co., Ltd. and its affiliates	157,816	58,405	464	2,807
Coxon Industry (Changshu) Co., Ltd. and its affiliates	–	–	–	17,702

## 18. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited interim condensed consolidated financial information were approved and authorised for issue by the Board on 24 July 2020.

# MANAGEMENT DISCUSSION & ANALYSIS

## INDUSTRY OVERVIEW

The novel coronavirus (“COVID-19”) outbreak in early 2020 delayed production of numerous enterprises after the Spring Festival Holiday. Later, on 11 March 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic. Affected by the pandemic, some business operations in the European and US markets were temporarily closed. All these have posed challenges to the overall economic development in the first half of the year. According to the macroeconomic data released by the National Bureau of Statistics of the PRC, the gross domestic product (GDP) of the PRC amounted to RMB45,661.4 billion in the first half of 2020, representing a year-on-year decrease of 1.6% on a constant price basis. From a quarterly perspective, the GDP of the PRC in the second quarter grew by 3.2% year-on-year.

With regard to the sector markets for the Group’s main products, according to a report by Strategy Analytics, a market research institution, the global sales volume of smart speakers reached 28.2 million units in the first quarter of 2020, representing a year-on-year increase of 8.2% as compared to the first quarter of 2019, showing a slowing trend of growth. Amazon and Google ranked the first and the second in terms of market shares with 23.5% and 21.5%, respectively. According to the data from All View Cloud (AVC), a market research company, the sales volume of smart speakers in the PRC market was 8.844 million units in the first quarter of 2020, representing a year-on-year increase of 23.0%; whereas the sales revenue was RMB1.67 billion, representing a year-on-year increase of 21.9%.

## BUSINESS REVIEW

For the six months ended 30 June 2020 (the “period under review”), the Group recorded a turnover of approximately HK\$3,141.3 million, representing a decrease of 10.7% compared with the corresponding period last year, which was because the Group’s primary market is in Europe and the US where the sales volume declined as a result of the pandemic, leading to a substantial decrease in orders from overseas customers. Gross profit amounted to approximately HK\$392.6 million, representing a decrease of 14.1% as compared to the corresponding period last year. Gross profit margin decreased from 13.0% for the corresponding period last year to 12.5%, primarily due to the reduction in the Group’s production efficiency caused by failure of the Group to resume work and production after the Spring Festival Holiday as a result of the pandemic, delayed work resumption of employees and material supply, and imbalanced production. Operating profit and profit for the period amounted to approximately HK\$91.1 million and HK\$70.4 million, representing year-on-year decreases of 31.5% and 28.7% respectively, primarily due to the decrease in turnover and production efficiency and the incurring of extra expenses arising from pandemic prevention and control during the period under review. Profit attributable to the owners of the parent company of the Group for the period under review decreased year-on-year by 30.5% to approximately HK\$68.3 million.

# MANAGEMENT DISCUSSION & ANALYSIS

During the period under review, the Group focused on the development of smart speakers, true wireless stereo (TWS) earphone products and ancillary products businesses. Based on the analysis by product category, the turnover of the Group's audio products, headphones, video products, wireless products, Internet of Things (IoT) related products, ancillary products and other businesses amounted to approximately HK\$2,085.9 million, HK\$397.5 million, HK\$87.4 million, HK\$85.4 million, HK\$69.9 million, HK\$343.7 million and HK\$71.5 million respectively, representing a decrease of 16.6%, 5.7% and 36.2%, nil, a decrease of 10.1%, an increase of 12.7%, and a decrease of 4.1% year-on-year, respectively. The Group's turnover breakdown by product is set out below:

	For the six months ended 30 June		Change
	2020 (HK\$'000) (Unaudited)	2019 (HK\$'000) (Unaudited)	
Audio Products <sup>(1)</sup>	<b>2,085,945</b>	2,502,579	-16.6%
Headphones	<b>397,491</b>	421,474	-5.7%
Video Products <sup>(2)</sup>	<b>87,440</b>	137,077	-36.2%
Wireless Products <sup>(3)</sup>	<b>85,409</b>	–	–
IoT Related Products <sup>(4)</sup>	<b>69,854</b>	77,677	-10.1%
Ancillary Products <sup>(5)</sup>	<b>343,725</b>	304,866	12.7%
Other Businesses	<b>71,453</b>	74,503	-4.1%
<b>Total</b>	<b>3,141,317</b>	3,518,176	-10.7%

<sup>(1)</sup> Mainly include smart voice speakers, wireless speakers, soundbars, home theatres, and mini speakers

<sup>(2)</sup> Mainly include DVD players, BD players and Over-the-top (OTT) set top boxes (STB)

<sup>(3)</sup> Mainly include wireless router products

<sup>(4)</sup> Mainly include smart plugs, smart gateways and other IoT related products

<sup>(5)</sup> Mainly include fabric covering for external sales, plastic injection structural parts, speakers, wireless modules, and other components

During the period under review, the pandemic had relatively less impact on the global market for smart audio products, and the smart audio speaker business of the Group maintained a slight growth. However, as the smart audio products market started to transform from a growing market to a saturated market, the growth has notably slowed down compared to previous years. The new audio business significantly decreased in the first half of the year mainly because the overseas market sharply declined as a result of the pandemic while the Bluetooth speaker market was in decline since this year due to the impact of smart speakers. In particular, orders from key European and US customers of the Group notably decreased during the first half of the year, with the overall sales revenue deriving from a key customer of the Group decreasing by over 30% in the first half of the year. In terms of TWS earphones, as the Group has just entered this market, the product has a small number of customers and is not very competitive, as a result the shipment of TWS earphones remained low.

Wireless products is a product category newly explored by the Group last year. The Group did not have this product category in the corresponding period last year. Currently, the product is still at the preliminary exploration and investment stage and faces many uncertainties in the future due to late start and low profitability. For IoT related products business, further cultivation is required to optimise customer structure and enhance market competitiveness. As to the progress of the new plant in Vietnam, the construction progress was slower than expected due to the impacts of the pandemic. As immigration clearance of management and technical personnel as well as transportation of materials were hindered, relevant operating costs increased without achieving the expected output.



# MANAGEMENT DISCUSSION & ANALYSIS

## PRODUCT RESEARCH AND DEVELOPMENT (R&D) AND INNOVATION

The Group has been committed to product R&D investment. During the period under review, the Group's R&D expenses amounted to HK\$134.5 million, accounting for 4.3% of its total revenue. The Group has its own R&D bases in Huizhou, Shenzhen and Xi'an in the PRC. To facilitate the development of the wireless product business, it has also set up a new R&D base in Wuhan, the PRC. In addition to developing and introducing new products in response to customers' specific requirements, the R&D team also carries out visionary R&D on fundamental product technologies. In recent years, the Group mainly invested in the development of smart products epitomised by smart voice speakers and gradually established the development capability for ancillary products which are ancillary to the smart products. The Group also continued to invest R&D resources to develop TWS earphone products and entered the market of wireless products.

Based on the development of the smart voice speaker, the Group leverages on its years of experience in professional electroacoustic design and smart voice to explore the business of screen-equipped products and the ancillary products thereof to diversify the Group's product lines. Meanwhile, it explores R&D of cross-industry implication of smart voice technologies to better meet customers' needs.

## CUSTOMER AND MARKET EXPANSION

The Group has collaborated with many well-known audio and video brands all over the world for years and has a sound customer base, building on the Group's long-time accumulation in the field to better serve customers. However, smart voice speakers are substitutional to Bluetooth speakers to a certain extent. In the long run, the demand for Bluetooth products is on a downward trajectory, which has a certain impact on the business of audio and video brands and the Company's overall business.

With the popularity of Bluetooth 5.0 technology and binaural transmission, the TWS earphone market sees rapid growth in market sales. Mobile phone brands powered by mainstream Android platforms are rolling out TWS earphone products which provide better user experience. The Group has been building its technical capabilities since last year and currently is still at the stage of capacity accumulation. The Group strives to narrow the gap with mainstream TWS earphone companies and gradually increase the sales volume and market share of the Group's TWS earphones in the short and medium-term.

## PRODUCTION AND SUPPLY CHAIN MANAGEMENT

The Group continued to develop vertical integration capability of the supply chain and continuously enhanced its capabilities in speaker units and structural components, especially the structural parts with a new form related to precision moulding.

The Group used Huizhou Zhongkai as a core base to build an industrial chain primarily comprising complete machines, structural parts, electroacoustics and speakers. At the beginning of 2019, in order to enhance the overseas supply chain capability and to mitigate the impact of the US tariff policy on the export of the Group's products, the Group purchased industrial land of over one hundred thousand square meters in Vietnam to establish its own overseas plant. At present, the progress of the new plant in Vietnam was behind schedule. The hindrance of immigration clearance of management and technical personnel as well as the transportation of materials by pandemic prevention and control measures in Vietnam have severely affected the Group's overall project of overseas supply chain construction. However, the Group aimed to officially put the plant into production in the second half of the year.

During the period under review, the Group continued to increase the proportion of automated equipment to reduce staff turnover rate and improve production efficiency. The Group has introduced some automated test systems and automated packaging systems as well as digital management systems to improve operational efficiency and quality. The Group is also dedicated to optimising the layout of its production plant to closely integrate all aspects of supply chain, production, and logistics while enhancing the actual production capacity of all production bases and reducing operating costs.

# MANAGEMENT DISCUSSION & ANALYSIS

## **FUTURE PLANS AND OUTLOOK**

Looking ahead to the second half of 2020, although the COVID-19 pandemic continues, it is less severe than the first half of the year. However, the adverse impacts of the pandemic on the achievement of the Group's annual targets subsist.

Part of the Group's order amount has gradually recovered since May 2020, and the cash flow is sufficient to support the recovery and development of the Group's business. The Group strives for a recovery of the overall business in the second half of the year as compared with the first half. In respect of smart speakers, with limiting market development space of the product and adjustments to supply chain management strategies by main customers, the growth of the Group's smart voice speakers may be subject to a certain degree of pressure in the future. In addition, due to the restrictions by the US on chip supply to certain PRC enterprises, the Group will be required to switch chip platform for some of its products in the future, which may lead to new R&D investments and longer R&D cycle for products.

The Group will continue to invest in smart voice speakers and other voice-related smart ecological ancillary products to seize new market opportunities. In the meantime, the Group strives to explore more opportunities for cross-industry applications based on smart voice technology. In terms of vertical integration of the supply chain, the Group intends to consolidate the moulding and plastic parts manufacturing and electroacoustic units of its subsidiaries and invest in the automation of certain processes to achieve synergy and reduce production costs. In addition, the Group will gradually build up the production and supply chain vertical integration capability of the new overseas plant.

In conclusion, new businesses of the Group including the smart products, earphones and ancillary products are less susceptible to the pandemic in 2020 than key businesses represented by Bluetooth products. Despite challenges to the Group's operations posed by the pandemic in the first half of the year and that the impact of the pandemic is expected to continue in the second half of the year, the Group will endeavour to achieve a recovery of performance in the second half of the year.

# MANAGEMENT DISCUSSION & ANALYSIS

## FINANCIAL REVIEW

### Significant Investments, Acquisitions and Disposals

There was no significant investment held as at 30 June 2020, nor other material acquisitions and disposals of subsidiaries, associates and/or joint ventures during the period under review.

### Liquidity and Financial Resources

The Group maintained robust financial position during the period under review. The Group's principal financial instruments comprise interest-bearing bank borrowing, cash and short-term deposits. The main objective of the use of these financial instruments is to maintain a continuity of funding and flexibility at the lowest cost possible.

The cash and cash equivalents of the Group as at 30 June 2020 amounted to approximately HK\$471.1 million, of which 2% was maintained in Hong Kong dollars, 38% in US dollars, 56% in Renminbi and 4% in Vietnamese Dong.

For the purpose of day-to-day liquidity management and future expansion, the Group has access to banking facilities. The bank borrowings of the Group as at 30 June 2020 were HK\$190.7 million which were interest-bearing at fixed rates ranging from 4.25% to 4.75% and denominated in Renminbi. The maturity profile of borrowing ranged from one to five years. It is the intention of the Group to maintain a mix of equity and debt to ensure an efficient capital structure and in view of the reasonable interest rate. There was no material change in available credit facilities when compared with the year ended 31 December 2019 and there was no asset held under finance lease as at 30 June 2020.

The Group monitors capital using a gearing ratio, which is debt divided by total capital. The Group's policy is to maintain a gearing ratio of not exceeding 100%. Debt is calculated as a total of interest-bearing bank borrowings. Total capital refers to equity attributable to owners of the parents. The gearing ratio as at the end of the reporting period was 10.9%.

### Pledge of Assets

There was no pledge of assets by the Group as at 30 June 2020.

### Capital Commitments and Contingent Liabilities

As at 30 June 2020, the Group had capital commitments of approximately HK\$59.0 million (31 December 2019: HK\$58.8 million) which were contracted but not provided for. The Group did not have any material contingent liabilities as at 30 June 2020.

### Pending Litigation

The Group had not been involved in any material litigation as at 30 June 2020.

### Foreign Exchange Exposure

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

It is the Group's policy to centralise foreign currency management to monitor the Group's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In 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

The Group had approximately 11,468 dynamic and talented employees. They were all dedicated to upholding product and service quality. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individuals and the Company.

# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

### (A) Interests in the Company – Long Positions

Name of Director	Capacity			Number of shares held under equity derivatives (Note 4)	Total	Approximate percentage of issued share capital of the Company (Note 5)
	Personal Interests	Corporate interests	Other Interests (Note 3)			
Yu Guanghui	2,212,259	11,869,339 (Note 1)	–	–	14,081,598	5.16%
Song Yonghong	1,661,398	13,399,268 (Note 2)	–	–	15,060,666	5.51%
Ren Xuenong	1,100,963	–	–	–	1,100,963	0.40%
Liao Qian	97,746	–	–	19,875	117,621	0.04%
Leong Yue Wing	394,200	–	–	–	394,200	0.14%
Poon Chiu Kwok	20,000	–	–	–	20,000	0.01%
Li Qi	20,000	–	–	–	20,000	0.01%

#### Notes:

- For the purpose of Part XV of the SFO, as at 30 June 2020, other than the personal interests and the other interests (if any) as stated in the above table, Mr. YU Guanghui ("Mr. YU") was deemed to be interested in 11,869,339 shares held by Vast Bright Investment Limited which was wholly owned by Mr. YU.
- For the purpose of Part XV of the SFO, as at 30 June 2020, other than the personal interests and the other interests (if any) as stated in the above table, Mr. SONG Yonghong ("Mr. SONG") was deemed to be interested in the 13,399,268 shares held by Run Fu Holdings Limited, which was owned as to 100% by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) in which Mr. SONG held 37% effective interest.
- These other interests (if any) are awarded shares to the relevant Directors of the Company which remained unvested as at 30 June 2020 according to the Company's restricted share award scheme.
- As at 30 June 2020, these equity derivatives were outstanding share options granted to the relevant Directors under the share option scheme adopted by the Company in accordance with Chapter 17 of the Listing Rules.
- Such percentage was calculated based on the total number of shares in which each of the Directors was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of the Company as at 30 June 2020, being 273,104,917 shares.

# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

### (B) Interests in associated corporations of the Company - Long positions

#### TCL Electronics Holdings Limited ("TCL Electronics")

Name of Director	Capacity			Number of shares held under equity derivatives (Note 7)	Total	Approximate percentage of issued share capital of TCL Electronics (Note 8)
	Personal Interests	Family Interests	Other Interests (Note 6)			
Leong Yue Wing	494,672	–	–	–	494,672	0.02%
Liao Qian	107,437	–	–	353,206	460,643	0.02%

#### 廣東瑞捷光電股份有限公司 Guangdong Regency Optics-Electron Corp. ("Regency")

Name of Director	Capacity			Number of shares held under equity derivatives	Total	Approximate percentage of issued share capital of Regency (Note 9)
	Personal Interests	Family Interests	Other Interests			
Ren Xuenong	799,000	–	–	–	799,000	1.64%
Song Yonghong	–	800,000	–	–	800,000	1.64%
Yu Guanghui	1,600,000	–	–	–	1,600,000	3.29%

#### Notes:

- These other interests (if any) are restricted shares granted to the relevant Directors of the Company which remained unvested as at 30 June 2020 according to the restricted share award scheme of TCL Electronics.
- As at 30 June 2020, these equity derivatives were outstanding share options granted to the relevant Directors under the share option scheme adopted by TCL Electronics in accordance with Chapter 17 of the Listing Rules.
- Such percentage was calculated based on the total number of shares or underlying shares of TCL Electronics in which the relevant Director was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of TCL Electronics as at 30 June 2020, being 2,371,437,404 shares, based on the information available to the Company.
- Such percentage was calculated based on the total number of shares or underlying shares of Regency in which the relevant Director was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of Regency as at 30 June 2020 based on the information available to the Company.

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

# OTHER INFORMATION

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

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

### Long and short positions in shares or underlying shares of the Company

Shareholder	Capacity	Number of shares held or underlying shares Long Position (L)	Approximate percentage of the issued share capital of the Company (Note 2)
TCL Holdings	Interest of controlled corporation	167,452,239 (L) <sup>(Note 1)</sup>	61.3%

#### Notes:

- For the purposes of Part XV of the SFO, TCL實業控股股份有限公司(TCL Industries Holdings Co., Ltd.) ("TCL Holdings") was deemed to be interested in 167,452,239 shares through its controlled corporation, T.C.L. Industries Holdings (H.K.) Limited (its direct wholly-owned subsidiary).
- Such percentage was calculated based on the total number of Shares in which the substantial shareholder was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of the Company as at 30 June 2020, being 273,104,917 shares.

Save as disclosed above, as at 30 June 2020, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 17 April 2014 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include the Company's Directors, including independent non-executive Directors, other employees of the Group, advisers, consultants, agents, contractors, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, any non-controlling shareholder in the Company's subsidiaries and any other person whom the Board at its sole discretion considers may contribute or have contributed to the Group. The share option scheme became effective on 17 April 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares of the Company that could be issued upon exercise of (i) all outstanding share options and (ii) all share options that could be granted under the then available scheme mandate limit as at 30 June 2020 was 806,729 shares and 26,862,375 shares respectively, which represented about 0.30% and 9.84% of the number of issued shares of the Company as at 30 June 2020 respectively.



# OTHER INFORMATION

The following share options were outstanding under the share option scheme adopted by the Company on 17 April 2014 during the period from 1 January 2020 to 30 June 2020:

Name or category of participant	Number of share options						At 30 June 2020	Date of grant of share options	Exercise price of share options HK\$	Exercise period of share options	Closing price immediately before the date of grant of share options HK\$	Weighted average closing price immediately before the exercise of share options* HK\$
	At 1 January 2020	Granted during the period	Exercised during the period	Cancelled during the period (Note 5)	Lapsed during the period	Expired during the period						
<b>Director</b>												
<b>Executive Directors</b>												
YU Guanghui	401,870	-	-	(401,870)	-	-	-	22/09/2017	9.600	Note 2	9.60	
	2,503,392	-	-	(2,503,392)	-	-	-	21/05/2018	7.840	Note 3	7.84	
	2,905,262	-	-	(2,905,262)	-	-	-					
SONG Yonghong	308,100	-	-	(308,100)	-	-	-	22/09/2017	9.600	Note 2	9.60	
	1,919,267	-	-	(1,919,267)	-	-	-	21/05/2018	7.840	Note 3	7.84	
	2,227,367	-	-	(2,227,367)	-	-	-					
REN Xuenong	160,748	-	-	(160,748)	-	-	-	22/09/2017	9.600	Note 2	9.60	
	995,396	-	-	(995,396)	-	-	-	21/05/2018	7.840	Note 3	7.84	
	1,156,144	-	-	(1,156,144)	-	-	-					
<b>Non-executive Director</b>												
LIAO Qian (Note 4)	20,649	-	(20,000)	(649)	-	-	-	30/12/2016	4.050	Note 1	3.95	6.87
	250,000	-	-	(250,000)	-	-	-	22/09/2017	9.600	Note 2	9.60	
	59,625	-	-	(39,750)	-	-	19,875	21/05/2018	7.840	Note 3	7.84	
	330,274	-	(20,000)	(290,399)	-	-	19,875					
<b>Independent non-executive Directors</b>												
LEONG Yue Wing	100,000	-	-	(100,000)	-	-	-	22/09/2017	9.600	Note 2	9.60	
	100,000	-	-	(100,000)	-	-	-					
POON Chiu Kwok	100,000	-	-	(100,000)	-	-	-	22/09/2017	9.600	Note 2	9.60	
	100,000	-	-	(100,000)	-	-	-					
LI Qi	100,000	-	-	(100,000)	-	-	-	22/09/2017	9.600	Note 2	9.60	
	100,000	-	-	(100,000)	-	-	-					
Sub-total	6,919,047	-	(20,000)	(6,879,172)	-	-	19,875					
Other employees and officers	971	-	-	-	-	(971)	-	30/12/2016	4.050	Note 1	3.95	
	7,281,007	-	-	(7,281,007)	-	-	-	22/09/2017	9.600	Note 2	9.60	
	10,066,946	-	-	(10,066,946)	-	-	-	21/05/2018	7.840	Note 3	7.84	
Sub-total	17,348,924	-	-	(17,347,953)	-	(971)	-					
Employees and officers of TCL Technology, TCL Holdings and/or their subsidiaries ("TCL Technology Group" and "TCL Holdings Group" respectively) (Note 4)	637,884	-	(625,752)	(12,132)	-	-	-	30/12/2016	4.050	Note 1	3.95	6.68
	627,241	-	-	(627,241)	-	-	-	22/09/2017	9.600	Note 2	9.60	
	2,413,058	-	-	(1,626,204)	-	-	786,854	21/05/2018	7.840	Note 3	7.84	
Sub-total	3,678,183	-	(625,752)	(2,265,577)	-	-	786,854					
Total	27,946,154	-	(645,752)	(26,492,702)	-	(971)	806,729					

# OTHER INFORMATION

## Notes:

- (1) For the share options granted to grantees in their capacity as employees and/or officers of the TCL Technology Group (excluding the employees and/or officers of the Group) and those of TCL Holdings Group (excluding the employees and/or officers of the Group), one-third of such share options are exercisable commencing from 31 December 2016 to 31 December 2022, another one-third are exercisable commencing from 31 December 2017 to 31 December 2022 and the remaining one-third are exercisable commencing from 31 December 2018 to 31 December 2022, subject to fulfilment of the relevant conditions for exercise of the share options.
- (2) For the share options granted to the directors and senior management of the Company (so granted in their capacity as employees and/or officers of the Group) and employee(s) of TCL Technology Group (excluding the employees and/or officers of the Group) and/or TCL Holdings Group, (excluding the employees and/or officers of the Group), up to 50% of the share options are exercisable commencing from 15 May 2018 to 31 December 2020, and the remaining 50% of the share options are exercisable commencing from 15 May 2019 (out of which the commencement date of the exercise period of the share options granted to the directors of the Company was extended to 15 November 2019) to 31 December 2020, subject to fulfilment of the relevant conditions for exercise of the share options.

For share options granted to the other employees and/or officers of the Group (so granted in such capacity (other than the directors and senior management of the Company)), the share options are exercisable commencing from 15 May 2018 to 31 December 2020, subject to fulfilment of the relevant conditions for exercise of the share options.

- (3) For share options granted to the directors and senior management of the Company (so granted in such capacity), 13% of such share options are exercisable commencing from 15 May 2019, 30% are exercisable commencing from 15 May 2020, 37% are exercisable commencing from 15 May 2021, and the remaining 20% are exercisable commencing from 15 May 2022, all share options will expire on 15 May 2024.

For share options granted to the employees and/or officers of the Group (other than the directors and senior management of the Company), the share options are exercisable commencing from 15 May 2019 to 31 December 2020.

For the share options granted to the employees and/or officers of TCL Technology Group (excluding the employees and/or officers of the Group) and/or TCL Holdings Group, (excluding the employees and/or officers of the Group), approximately one-third of the share options granted are exercisable commencing from 15 June 2018 to 15 June 2024; another approximately one-third are exercisable commencing from 15 June 2019 (out of which the commencement date of the exercise period of share options carrying the rights to subscribe for 377,626 shares was extended to 15 November 2019) to 15 June 2024; and the remaining approximately one-third of the share options are exercisable commencing from 15 June 2020 to 15 June 2024.

- (4) As at the date of the grant, the above grantees were all employees and/or officers of TCL Technology Group but some of them have subsequently become employees and/or officers of TCL Holdings Group.
- (5) Out of the share options carrying rights to subscribe for 26,492,702 shares stated as cancelled during the period, share options carrying rights to subscribe for 17,867,701 shares represented those outstanding and exercisable share options that had not been exercised within 21 business days after the date on which the mandatory general offer became or was declared unconditional and therefore automatically lapsed, according to the terms of the share option scheme.

- \* This represents the weighted average closing price of the shares of the Company immediately before the date of which the relevant share options were exercised by the relevant director, associate of director or other employees of the Group, TCL Technology Group or TCL Holdings Group (as the case may be) during the period from 1 January 2020 to 30 June 2020.

# OTHER INFORMATION

## RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme on 28 August 2014 which was subsequently amended on 5 September 2016, 8 August 2017 and 7 September 2017 (the "Restricted Share Award Scheme"). The Company has appointed BOCI-Prudential Trustee Limited as the trustee (the "Trustee") for the administration of the Restricted Share Award Scheme. To the knowledge and belief of the Company, the Trustee is an independent third party to the Company. No one, including the Trustee, may exercise any voting rights in respect of the awarded shares (the "Awarded Shares") held by the Trustee.

The grantees of the Awarded Shares are not entitled to any distribution the Company made in respect of the Awarded Shares. The Company may determine any vesting conditions for the Awarded Shares as it considers appropriate in its absolute discretion. Details of the Restricted Share Award Scheme are set out in the Company's announcements dated 28 August 2014 and 8 August 2017 and the Company's circular dated 12 September 2017. Information in relation to the Awarded Shares during the period under review under the Restricted Share Award Scheme is as follows:

Name or category of participant	Number of Awarded Shares					At 30 June 2020	Date of grant	Vesting date	Fair value per share on grant date HK\$
	At 1 January 2020	Granted during the period	Vested during the period	Cancelled/lapsed/deducted during the period (Note 1)	At 30 June 2020				
<b>Executive Directors</b>									
YU Guanghui	-	-	-	-	-				
SONG Yonghong	-	-	-	-	-				
REN Xuenong	-	-	-	-	-				
<b>Non-executive Director</b>									
LIAO Qian	5,070	-	(5,070)	-	-	21/05/2018	15/06/2020	7.84	
	5,070	-	(5,070)	-	-				

# OTHER INFORMATION

Name or category of participant	Number of Awarded Shares					At 30 June 2020	Date of grant	Vesting date	Fair value per share on grant date HK\$
	At 1 January 2020	Granted during the period	Vested during the period	Cancelled/ lapsed/ deducted during the period (Note 1)	At 30 June 2020				
<b>Independent non-executive Directors</b>									
LEONG Yue Wing	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
POON Chiu Kwok	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
LI Qi	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Sub-total	5,070	-	(5,070)	-	-	-	-	-	-
Other employees and officers	1,345,000	-	(1,345,000)	-	-	08/08/2017	15/05/2020	9.80	
	263,701	-	-	(263,701)	-	21/05/2018	15/05/2020	7.84	
	263,691	-	-	(263,691)	-	21/05/2018	15/05/2021	7.84	
	-	1,280,000	-	-	1,280,000	16/06/2020	15/05/2021	6.97	
	-	1,280,000	-	-	1,280,000	16/06/2020	15/05/2022	6.97	
Sub-total	1,872,392	2,560,000	(1,345,000)	(527,392)	2,560,000	-	-	-	
Employees and officers of TCL Technology Group and/or TCL Holdings Group (Note 2)	196,459	-	(184,594)	(11,865)	-	21/05/2018	15/06/2020	7.84	
Sub-total	196,459	-	(184,594)	(11,865)	-	-	-	-	
Total	2,073,921	2,560,000	(1,534,664)	(539,257)	2,560,000	-	-	-	

According to the rules of the Restricted Share Award Scheme, subject to the refreshment of the Restricted Share Award Scheme limit and the adjustment in the event of consolidation or subdivision of shares, the Board shall not make any further award of restricted shares which will result in the aggregate number of the Awarded Shares granted under the Restricted Share Award Scheme exceeding 10% of the number of issued shares of the Company as at the approval date (i.e. 7 September 2017 being the date on which the Board approved such amendments, "Approval Date") (or the latest new approval date (i.e. latest date on which the Board approves the refreshment of the Restricted Share Award Scheme limit, "New Approval Date"), as the case may be).

## OTHER INFORMATION

As at 30 June 2020, 16,100,081 further restricted shares might be granted to the eligible participants of the Restricted Share Award Scheme, which represented about 5.90% of the number of issued shares of the Company as at 30 June 2020. On 19 May 2020, an ordinary resolution was passed to renew the annual specific mandate granted to the Directors to allot and issue new shares under the Restricted Share Award Scheme not exceeding 3% of the number of shares in issue as at the date on which the resolution was passed, i.e. 19 May 2020. As at 19 May 2020, the number of issued shares of the Company was 273,104,917 shares and the maximum amount of new shares which could be issued as approved under the said annual specific mandate was 8,193,147 shares. Following the renewal of the annual specific mandate and up to 30 June 2020, no new shares have been issued and allotted under the said annual specific mandate and the remaining maximum amount of new shares which could be issued and allotted under the said annual specific mandate as at 30 June 2020 was therefore 8,193,147 shares.

*Note:* (1) This includes, among others, the number of Awarded Shares deducted by the Company to recover such amount of taxes paid by the Company for the selected person as reimbursement pursuant to the rules to the Restricted Share Award Scheme.

(2) As at the date of the grant, such grantees were all employees and/or officers of TCL Technology Group but some of them have subsequently become employees and/or officers of TCL Holdings Group.

### CHANGE OF PARTICULARS OF THE DIRECTORS

As at 24 July 2020, being the latest practicable date for ascertaining certain information in this interim report, certain particulars of the Directors of the Company had been changed in the following respects since the published date of annual report 2019 of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Effective Date	Changes
29 May 2020	Mr. LIAO Qian, a non-executive Director of the Company, has retired as a non-executive director of Fantasia Holdings Group Co., Limited (a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange, stock code: 1777)
17 July 2020	Mr. POON Chiu Kwok, an independent non-executive Director of the Company, has resigned as an independent non-executive director of TUS International Limited (a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange, stock code: 872)

### PURCHASES, SALES OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the period under review.

### CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the six months ended 30 June 2020, fully complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules, except for the deviation from the Code Provision F.1.1.

#### Code Provision F.1.1

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

## OTHER INFORMATION

Ms. CHOY Fung Yee (“Ms. CHOY”), the current company secretary of the Company, is not an employee of the Company. The Company has assigned Mr. REN Xuenong, an executive Director of the Company, as the contact person with Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) is 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 familiar with the operations of the Group and has 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.

### Environmental, Social and Governance Reporting

The Environmental, Social and Governance Report for the year 2019 was published on the websites of the Company and The Stock Exchange of Hong Kong Limited on 22 May 2020.

### COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received a confirmation (the “Confirmation”) from TCL Technology and T.C.L. Industries Holdings (H.K.) Limited (the “Covenantors”) signed by them on 7 July 2020 confirming that for the period from 1 January 2020 to 30 June 2020 and up to the date of signing the Confirmation 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 July 2013 as amended on 25 August 2017 (the “Deed of Non-Competition”). For details of the Deed of Non-Competition, please refer to the Company’s announcement of 21 July 2017 and the Company’s circular of 11 August 2017.

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

### AUDIT COMMITTEE

The Audit Committee has reviewed the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2020, including the accounting principles adopted by the Group, with the Company’s management. The Audit Committee consists of three independent non-executive Directors, namely, Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, and is chaired by Mr. POON Chiu Kwok who possesses appropriate accounting and related financial management expertise. The primary duties of the Audit Committee are to assist the Board to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company and to perform other duties and responsibilities as assigned by the Board.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Group has adopted a model code of conduct regarding securities transactions by Directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules. Specific enquires have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions during the six months ended 30 June 2020.

On behalf of the Board

**LIAO Qian**  
Chairman

Hong Kong, 24 July 2020

*As at the date of this report, the Board comprises YU Guanghui, SONG Yonghong and REN Xuenong as executive Directors, LIAO Qian (Chairman) as non-executive Director and POON Chiu Kwok, LI Qi and LEONG Yue Wing as independent non-executive Directors.*