Annual Report 2012

TCL Communication Technology Holdings Limited
Stock Code: 02618

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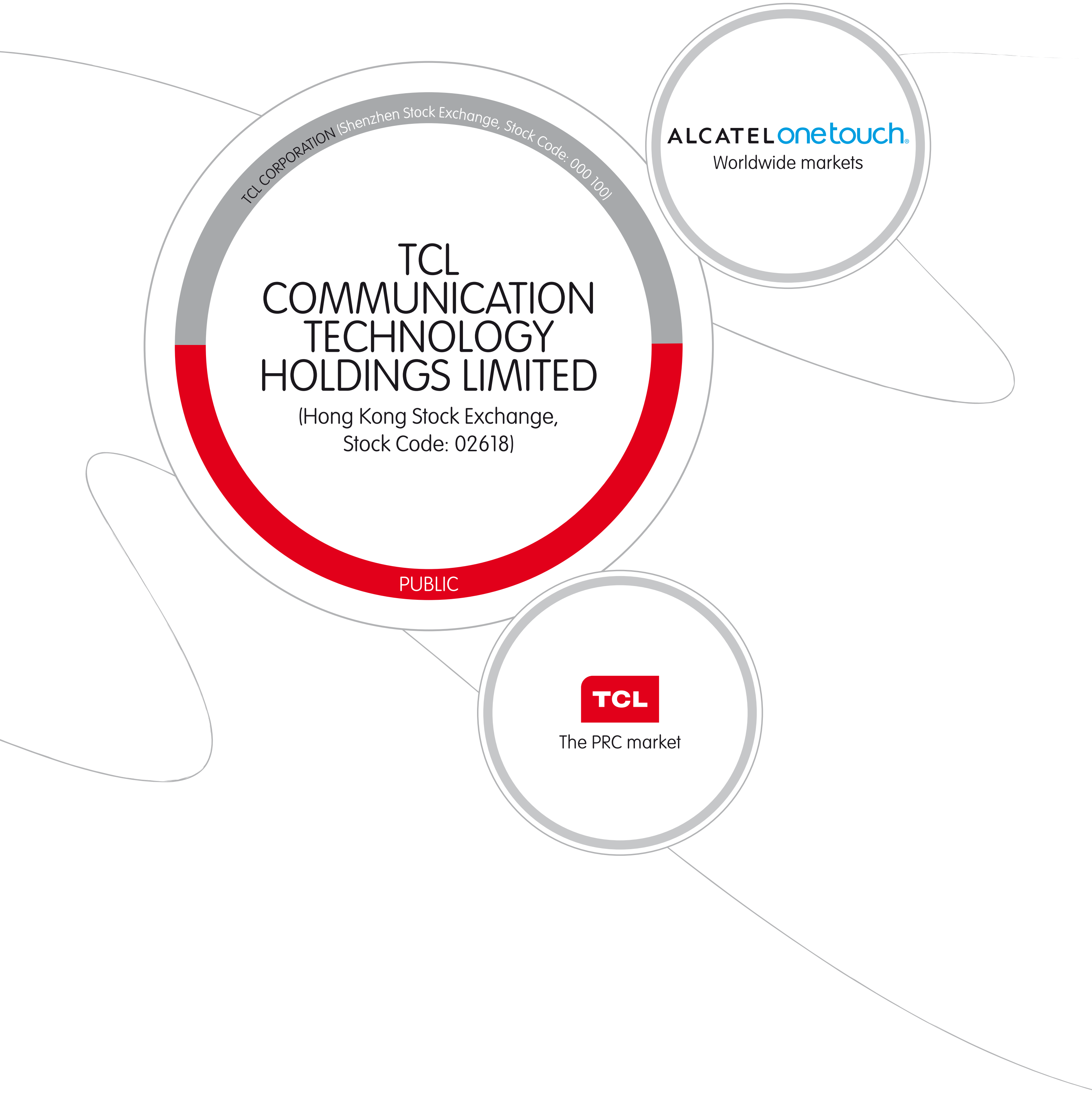
The Creative Life

ANNUAL REPORT 2012

It's all about you

Corporate Structure



TCL Communication Technology Holdings Limited (the "TCL Communication" or the "Company") together with its subsidiaries (collectively the "Group") designs, manufactures and markets an expanding portfolio of mobile and internet products worldwide under two key brands - ALCATEL ONE TOUCH and TCL. The Group's portfolio of products is currently sold in China and over 120 countries throughout the Americas, Europe, the Middle East, Africa and Asia. TCL Communication operates its highly efficient manufacturing plants and R&D centres in various provinces of China with headquarters in Shenzhen, China. Currently, TCL Corporation (the "TCL Corp.") is the Group's largest shareholder.

For more information, please visit the Group's website: http://tclcom.tcl.com

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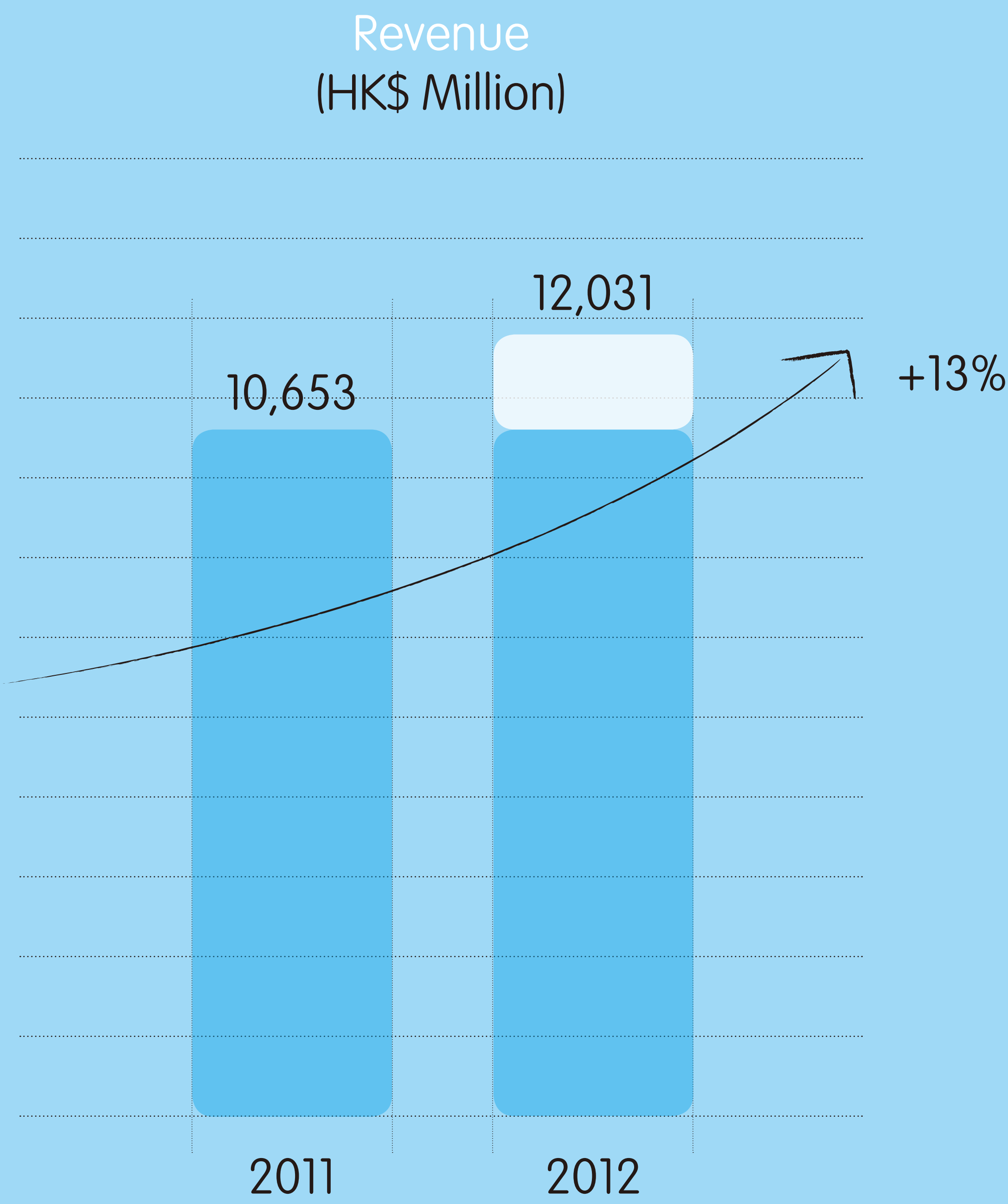

Revenue
(HK$ Million)
12,031
10,653
+13%
2011
2012

Financial Highlights

FINANCIAL SUMMARY

(HK'000)	2012	2011	Change
Revenue	12,031,212	10,653,020	13%
Gross profit	2,096,575	2,328,231	-10%
Gross profit margin(%)	17%	22%	-5%
(Loss)/profit attributable to owners of the parent	(207,840)	799,934	N/A
Basic (loss)/earning per share (HK cents)	(18.49)	72.83	N/A

FINANCIAL POSITION

(HK'000)	2012	2011	Change
Property, plant and equipment and prepaid land lease payments	773,943	682,576	13%
Cash and cash equivalents and pledged deposits	5,190,914	7,279,048	-29%
Net current assets	606,360	938,661	-35%
Total liabilities	10,998,207	11,353,748	-3%
Interest bearing bank and other borrowings	6,468,788	7,532,216	-14%
Net assets	2,322,626	2,673,071	-13%

KEY FINANCIAL INDICATORS

	2012	2011	Change
Inventory turnover (days) *	30	26	15%
Trade receivable turnover (days) **	87	89	-2%
Current ratio (times)***	1.07	1.12	-4%

* Only including factory materials and goods
** Excluding factored trade receivables
*** Excluding Renminbi ("RMB") foreign exchange program

2012
year in review

JANUARY

TCL E906 smartphone had been successfully bid in China Mobile's 2012 first G3 smart terminal centralized procurement. The Group participated CES in Las Vegas.

FEBRUARY

The Group launched its first 3.5-inch QQ smartphone TCL A966 and cooperated Sohu to launch TCL A998 smartphone. The Group participated MWC in Barcelona.

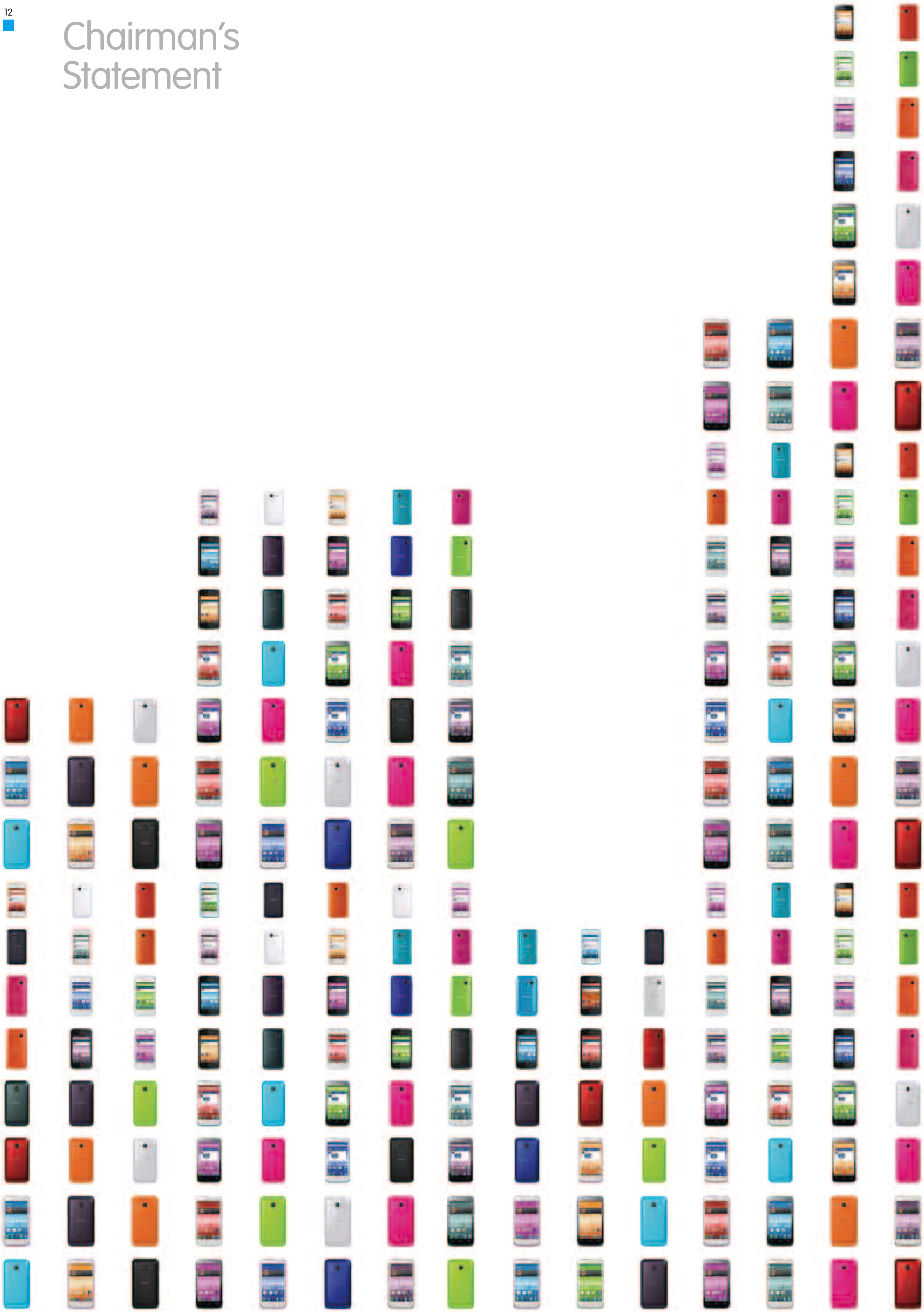
MARCH
ALCATEL ONE TOUCH 916 won the 'Red Dot Award: Product Design 2012' in Germany, marking the second consecutive year in which the Group won this internationally recognized award.

MAY
The Group sponsored Le Tour de France for the second year.

SEPTEMBER
Unveiled TCL S500 at the China Unicom's launching ceremony for new 3G dual-core smartphones in Xi'an. The Group participated IFA 2012 in Berlin, and sponsored La Vuelta 2012 in September for the second consecutive year.

DECEMBER
TCL Branding Event was held in D.Park, Beijing on 4 December 2012.

Chairman's Statement



Mr. LI Dongsheng

Dear Shareholders,

In 2012, we were in the transition period and faced a lot of challenges, including the unfavourable global economic environment, the fast and dynamic technology upgrade of the handset industry, and the intensified competition in the market and so forth. These factors adversely affected our sales and gross profit margin on one hand, and on the other hand we adhered to the well-proven 'Step-up' product strategy through steadily investing in our research and development ("R&D"), and expanded our effort in both brand building and product marketing. As a result, we recorded a net loss of HK$220 million in 2012. However, I am very pleased to report that several breakthroughs in our smartphone business have been achieved during the previous year and I am still very confident that the company will persistently deliver value for the shareholders in the long run.

Significant Progress in Smartphone Business

During the year under review, the smartphone sector remained the focus of the handset industry as smartphones became increasingly popular in both the developing and mature markets. Our "Step-up" strategy of focusing on smartphone business paid off as the total sales of smartphones and other smart devices rose by 375% year-on-year to 6.5 million units, accounting for 15% of the Group's total shipment, up from the 3% in 2011. The increase in smart product shipments had effectively boosted the overall average selling price ("ASP") per unit to US$36.2 during the year under review, up from US$31.3 in the previous year. As a result, the Group's overall revenue in 2012 increased by 13% to HK$12 billion, and the revenue contributed by smartphones and other smart devices reached 43% of the Group's total revenue, up from 12% in 2011.

Breakthroughs in Product Development

In 2012, the Group enriched its product mix by rolling out 26 new models of smartphones. These smartphones which are equipped with innovative features, together with other new

Sales Revenue Increased 13% over 2011

smart device products, effectively enhanced brand recognition and the Group's market presence. A number of smartphone models were selected by global 1st-tier operators, and we have become a real global smartphone supplier. With a series of smartphones with excellent quality launched to the market, all of the key clients trust us as a qualified 3G smartphone manufacturer and set up strategic partnership with us.

In March 2012, our product ALCATEL ONE TOUCH 916 won the 'Red Dot Award: Product Design 2012' in Germany, marking the second consecutive year in which the Group won this internationally recognized award. In October 2012, we launched TCL S606, our first smartphone with Windows 7.5 Operating System, which effectively supplemented the current product portfolio. In addition, we facilitated the users to enjoy better experience by equipping our products with liquid-repellent nano-coating technology, such as the popular models of TCL S800 and TCL S600. In 2013, we will stick to our mission: offering our customers innovation and quality in mobile technology at the best price. We promised to make our products technology simple and accessible, and enable users to do more.

Market Development with Robust Smartphone Growth

Revenue in Europe, the Middle East and Africa ("EMEA") grew by 17% year-on-year ("yoy") to HK$4.5 billion, although shipment decreased by 7% yoy to 15.2 million units. With our efforts in promoting the sales of smartphone products in the open market, shipment and revenue of smartphones and other smart devices accounted for 18% and 49% in this region, increased from 2% and 9% in 2011 respectively.

In Americas, both shipment and revenue slightly decreased by 1% yoy, to 19.1 million units and HK$5.1 billion respectively. Because feature phone market was gradually replaced by the entry-level smartphone, shipment and revenue of smartphones and other smart devices accounted for 7% and 25% in 2012 in this region, increased from 2% and 8% in 2011 respectively.

During the year under review, the shipment of APAC region reached 2.5 million units, down by 14% yoy. Nevertheless, the revenue increased by 27% to HK$817 million. The significant growth of smartphone in APAC region made up 28% of the APAC's total shipment and 53% of its revenue, up from 3% and 11% respectively.

China remained our fastest growing market in 2012. Sales volume grew by 13% to 5.8 million units while the revenue surged 60% to HK$1.6 billion due to the successful launch of new products and the expansion of our distribution network. The shipment and revenue of smartphones respectively accounted for 31% and 80% of the total shipment and revenue in the region, increased from 8% and 34% in 2011 respectively.

Sales Revenue Increased 8% in Overseas

Growth Drivers in the Future

With the future economic uncertainty, unfavourable business environment and fierce competition, the year of 2013 will remain challenging for us in both China and overseas markets. We are poised to focus on optimizing product structure and R&D processes, elevating the efficiency of product R&D in order to speed up the product time-to-market, improving the product quality and users' satisfaction.

While focusing our efforts on product development, we will also foster growth drivers. For instance, we will boost the smartphone shipment in various markets and upgrade our smartphones from entry-level to mid-end. With the increased sales volume and ASP of mid-end products, we are expecting a healthier gross margin to be seen in the foreseeable future.

In 2013, we have geared up to further strengthen cooperation with major component suppliers, improve our operation efficiency, and exercise a more cautious control on cost and expenditure with a major focus on the development of key products, in order to tap emerging opportunities in the telecommunication market for business growth with a view to generate better returns to the shareholders.

On behalf of the Board of Directors, I would like to express my gratitude to our shareholders, customers, suppliers and business partners for their unwavering support. Also, I would like to thank the Board, management and staff for their wholehearted commitment.

LI Dongsheng
Chairman

26 February 2013

Management Discussion and Analysis

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OPERATIONAL HIGHLIGHTS

- Sales volume of handsets and accessories in 2012 totaled 42.6 million units, down 2% year-on-year (YoY); the fourth quarter sales volume up 2% YoY to 13.4 million units.
- Revenue in 2012 increased by 13% YoY to HK$ 12 billion; gross profit margin decreased by 5% to 17%.
- Sales volume of smartphones and other smart devices in 2012 increased by 375% to 6.5 million units.
- Overall average selling price ("ASP") increased from US$ 31.3 in 2011 to US$ 36.2 in 2012.
- Net loss of HK$ 220 million was recorded in 2012. Basic loss per share in 2012 was 18.49 HK cents.

INDUSTRY OVERVIEW

Throughout 2012 the European debt crises, economic slowdown in emerging markets and uncertainty in the recovery of the economy in the United States continued to affect the global economy. These challenging macroeconomic conditions undermined the overall growth of the global handset market, creating an unfavorable environment for the handset manufacturing industry. At the same time, more competitors emerged in the market, which intensified the competition and downward pressure on the average selling prices and margins of handset products.

Although the handset industry was adversely affected by many unfavorable factors, smartphone sales remained strong throughout the year under review, as it became increasingly popular in both the developing and mature markets. According to the latest research by Gartner, China accounted for 26% of the world's smartphone shipments in 2012, compared to 17% from the United States. In 2012, the aggregate number of 3G service subscribers for China's three major telecommunication operators reached 234 million, up 79% year-on-year. The rapidly growing 3G community boosted the development of smartphone industry, which made the smartphones affordable, bringing about a surging demand for both entry-level and mid-market models. In other emerging markets, entry-level users consistently upgraded their handsets, which contributed to stable growth there.

Whilst the smartphone market continued to grow at a good rate in China and other emerging markets, the global smartphone market grew at a slower pace in 2012, mainly due to the uncertain economic environment and intensifying competition. A surge in the number of smartphone products available on the market further restricted the pricing power of manufacturers.

BUSINESS REVIEW

In 2012, TCL Communication Technology Holdings Limited ("TCL Communication" or "the Group") faced many challenges caused by the uncertain global economy, product transition and intensified competition in the handset market. To cope with this industry trend, the Group continued to focus on developing its smartphone business and stepped up its investment and efforts in research and development ("R&D"), brand building and marketing. As a result the group successfully recorded steady and healthy growth in the sales volume of smartphones and other smart devices.

In total sales of smartphones and other smart devices rose by 375% to 6.5 million units in 2012, accounting for 15.3% of the Group's total shipment, compared to 3.2% in the previous year. The increase in smartphone shipment had the additional effect of boosting the overall average selling price ("ASP") per unit to US$36.2 during the year under review, up from US$31.3 in the previous year, which increased the Group's overall revenue in 2012 by 13% to HK$12 billion.

However, as the majority of Group's smartphone and other smart devices at present consist of entry-level smartphones, a market segment where competition is extremely fierce, selling prices are currently under extraordinary pressure. In addition, the sales volume of the Group's smartphones has not yet reached an economy of scale, which has resulted in lower gross profit margins for smartphones. At the same time, due to the global trend of feature phones being replaced by entry-level smartphones, both the ASP and gross margin for feature phones have also decreased dramatically. Affected by the above, the Group's overall gross margin dropped by 5% from 22% to 17%.

To capture the opportunities in the growing smartphone market, and especially those in emerging markets where the demand for low-to-medium priced smartphones is strong, the Group has been persistently implementing its "Step-up" product strategy. This consists predominantly of stepping up investment in R&D to upgrade its R&D capabilities and to speed up the time-to-market for product development. In 2012, the Group's smartphone products were launched in various markets and operators with highly customized software and user interfaces. These smartphones succeeded in meeting the highest quality standard of the industry. As a result, R&D expenses increased by 61% to HK$740 million.

The Group also expanded its efforts in brand building, product marketing and promotional activities to facilitate the expansion of its smartphone business in both China and overseas markets. Numerous marketing events were carried out to enhance brand awareness. For example, the Group sponsored the world famous cycling event "Tour de France" during the summer of 2012 for the second consecutive year, and received great response for this. Besides, the number of points of sales in China increased from 3,000 as at the end of 2011 to over 8,000 by the end of 2012. Therefore, the Group's sales and distribution expenses also rose by 33% to HK$1,154 million.

As a result of the above reasons, the Group recorded a net loss of HK$220 million attributable to owners of the parent company in 2012.

However, despite the unfavorable handset market, the Group ranked No.7 globally in terms of handset sales volume in 2012, according to international research firm in the technology sector, Gartner. The Group's close cooperation with the leading global telecommunication operators also proved the Group's strong market position in the industry. During the year under review, the Group enriched its product mix by developing more smartphones, and a total of 26 models were launched in the market. These smartphones which were equipped with innovative features, together with other new feature phone products, effectively enhanced brand recognition and the Group's market presence.

Geographical breakdown of revenue

	Sales of Handsets and Other Products For the year ended 31 December		
(HK$ Million)	**2012**	2011	**Change (%)**
EMEA	**4,482**	3,823	**+17%**
Americas	**5,116**	5,179	**–1%**
APAC	**817**	641	**+27%**
China	**1,616**	1,010	**+60%**
Total	**12,031**	10,653	**+13%**
Including: smartphones and other smart devices	**5,191**	1,182	**+339%**

Europe, the Middle East and Africa ("EMEA")

During the year under review, shipments of handsets and other products to EMEA totaled 15.2 million units, down by 7%. The weakened market demand was brought by the political instability in the Middle East and the European debt crisis. Yet the revenue from the Group's sales in the region grew by 17% to HK$4.5 billion on the back of its efforts in to promote the sales of smartphone products in the open market, as well as the encouraging sales performance of the smartphones cooperated with first-tier operators in Europe. The Group continued to facilitate the customers' shift from feature phones to smartphones and significantly increased its penetration into the smartphone market with the launch of new products supported by various marketing campaigns. Sales volume of smartphones and other smart devices accounted for around 18% of the Group's sales in the region during the year under review, compared with 2% in 2011, while revenue of the smartphones and other smart devices accounted for 49% in 2012, increased from 9% in 2011.

The smartphone markets were gradually expanding, especially in Germany, France, Italy and Russia. In terms of sales volume, the Group ranked fourth in Russia. Several smartphone models, such as those with 4"-4.3" displays were well-received by the market. During the year, the Group also expanded into new markets like Angola, Kenya and Romania. In addition to the operator market, the Group made great efforts to explore open market in EMEA, where a number of new customers were developed.

In 2013, the Group will continue to develop open market for smartphones while sustaining a healthy growth with operators, and continue to increase its brand awareness through product improvement and participation in different trade fairs.

Americas

Shipment of handsets and other products to the Americas during the year under review dropped by 1% to 19.1 million units, while revenue decreased by 1% to HK$5.1 billion. Sales volume of smartphones and other smart devices accounted for around 7% of the Group's sales in the region during the year under review, compared with 2% in 2011, while revenue of the smartphones and other smart devices accounted for 25% in 2012, increased from 8% in 2011.

The weaker performance in these markets is mainly attributable to the comparatively slow economic recovery and the aggressive pricing policy of competitors. Although feature phones are still very popular in the Americas region, the feature phone market was observed to be replaced by the entry-level smartphone market gradually.

ALCATEL ONE TOUCH was a leading handset brand in Latin America and Caribbean area in 2012. It ranked second in Colombia and fourth in Latin America. During the past year, the Group also increased its presence in markets such as Cuba, Colombia and Venezuela and started its first direct shipment to the first tier telecommunication operators in the US.

To further penetrate into the Americas market, the Group launched a number of customized products in 2012, such as the QWERTY keypad and 2.8"-3.5" display smartphones. At the same time, the Group continued to promote the brand awareness and popularity at the operator's retail and service outlets.

Asia Pacific ("APAC")

During the year under review, the Group's sales volume of handsets and other products across the APAC region reached 2.5 million units, down by 14% year on year. Nevertheless, the revenue increased by 27% to HK$817 million. The sustained momentum in growth can be attributed to the Group's rising market share in smartphones, which made up 28% of the APAC's total shipment and 53% of its revenue in the APAC region. In 2011, the shipment and revenue of smartphones and other smart devices accounted for 3% and 11% respectively of the total shipment and revenue in the region.

TCL Communication achieved a revenue growth of 616% in the Philippines and 82% in India by extending its cooperation with leading telecommunication operators in the Philippines and India, and it also achieved remarkable growth in smartphone sales, ranking number five in the Philippines's domestic smartphone market. The Group continued to strengthen its competitiveness by expanding the distribution channels in the developing markets such as Malaysia, Vietnam and Myanmar.

With the diversified mixture of products covering a wide range of attractive features and pricing points, the Group recorded higher sales in telecommunication operator markets. During the year under review, the Group launched a number of new models in the APAC region and several customized products were very well-received.

In order to continue growing its market share in the region, the Group will increase its promotion of Android-based smartphones and continue its expansion into the telecommunication operator markets. In the near future, the Group plans to develop new sales channels in Cambodia, Papua New Guinea and Indonesia, while increasing its penetration in the key markets such as India, the Philippines, and Vietnam.

China

During the year under review, China remained the Group's fastest growing market. Sales volume of handsets and other products in China grew by 13% to 5.8 million units while the revenue surged 60% to HK$1.6 billion, due to the successful launch of dual core products and the ongoing expansion of our nationwide distribution network. The sales of smartphones and other smart devices held a prominent position, accounting respectively for around 31% and 80% of the Group's shipment and revenue in the region during the year under review, compared with 8% and 34% in 2011.

A number of new models were introduced in 2012. To deepen overall market penetration in China, the Group launched a variety of new products tailored for local consumers. As a case in point, the model which was designed specifically for China Unicom, was strategically priced at an affordable level to attract a broad spectrum of consumers.

In October 2012, the Group launched two more colorful models which targeted the youth market. The smartphone with Windows 7.5 Operating System offers a full set of Office applications and supports various formats of video and music clips. The Group also launched a dual SIM smartphone boasting the P2i™ liquid repellent nano-coating technology. It provides comprehensive entertainment options and unprecedented interactive experiences to users. Apart from new product launch, the Group also strengthened its cooperation with the major three telecommunication operators in the country.

To seize the market opportunities in the smartphone market in China, the Group will continue to improve product designs and launch new products, mainly low-to-mid end smartphones with higher selling prices in 2013.

PRODUCT DEVELOPMENT

The Group continued to focus on R&D and launched a number of new products during the year 2012. These products proved highly popular and were all selected by major global telecommunication operators.

Among the new products, some dual-core and dual-SIM smartphones, featuring liquid-repellent nano-coating technology received positive feedback and achieved successful performance. After launching aggressive promotional campaigns, they both rapidly gained traction in the market. TCL S606 is the Group's first smartphone with Windows 7.5 Operating System, effectively supplemented its current product portfolio. In addition, the customized smartphone was launched in partnership with Baidu. The model offers seamless integration of cloud applications and file sharing creating a comprehensive cloud services portal for mobile internet cloud users.

Apart from the success of the products launched in the smartphone market, the Group also achieved a breakthrough in the development of Android-based tablets. During the year under review, the Group launched two Android-based tablets. The first shipment of the ALCATEL Android tablets to the EMEA, APAC and Latin America regions took place in the third quarter of 2012, heralding a positive start of the penetration into the tablet market.

MARKETING AND BRAND BUILDING

During the year under review, the Group continued to elevate its market position and strengthen market competitiveness in both overseas and China markets through targeted sponsorships, participation in various electronic product promotional events and through numerous brand building activities.

At the beginning of the year, the Group participated in the International Consumer Electronics Shows (CES) 2012 in Las Vagas and the Mobile World Congress (MWC) 2012 in Barcelona, unveiling its flagship products of the Group to the public, and was greeted with positive response in the overseas market. After sponsoring Le Tour de France 2012 in June, the Group sponsored La Vuelta 2012 in September in Spain for the second consecutive year through the "ALCATEL ONE TOUCH" brand. The eye-catching ALCATEL ONE TOUCH caravan and mascots attracted significant attention and successfully raised the Group's popularity amongst the audience and cyclists who come to the event from all over the world. To generate further publicity, a Facebook fan page was created to provide up-to-date race information.

In emerging markets the Group actively promoted its products throughout the year. It participated in the Eletrolar Show in July 2012, which is the largest trade fair of electrical appliances and electronics in Brazil, and in October 2012 it hosted the fourth ALCATEL ONE TOUCH 7K event, an innovative initiative for running enthusiasts and their families in Santiago, Chile.

The Group also hosted various promotional activities in the European market. In September 2012, it participated in IFA (Internationale Funkausstellung Berlin) 2012, one of the world's leading trade shows for consumer electronics and home appliances hosted in Berlin. Whilst in December, the Group sponsored Clothes Show Live 2012, the largest global fashion and beauty event in the UK, in an effort to further increase awareness of the ALCATEL ONE TOUCH brand in European markets.

OUTLOOK

In 2012, the Group successfully carried out a product transition from feature phones to smartphones and consolidated its product portfolio, paving the way for further expansion and long term success. However, because of the current dismal global economic outlook, keen market competition and the prevailing unfavourable operating environment, the Group believes the overall handset market will remain challenging in 2013. In order to cope with the challenges, TCL Communication will improve its product competitiveness, strengthen the cooperation with major suppliers, enhance market position, raise operation efficiency and take a measured approach to the control of cost and expenditure by focusing resources on developing and marketing key products.

Product Development – Feature Phones and Smartphones

The rising popularity of low-to-mid-priced smartphones weakened the demand for feature phones in 2012 and this in turn led to fierce price competition and shrinking demand, putting stronger pressure on selling prices and margins for the feature phone business. The Group expects this pressure to continue in 2013 but will be less heavy than 2012. However, we are confident that our product transition will pay off and the steady growth in smartphone sales will offset the decline in feature phone sales in the coming year. It is expected that when the Group launches its new mid-end smartphones into the market in the first quarter of 2013, its smartphone business will achieve economies of scale gradually. In spite of the emerging demand for smartphone, the competition in the entry-level smartphone market is extremely fierce, so the selling prices and margins for the smartphone business will still be under huge pressure.

With its commitment to research and development, the Group achieved several breakthroughs in the development of new smartphone products and made good progress in increasing the overall smartphone sales volume in 2012. In 2013, it will continue to implement its "Step-up" product strategy by enriching and optimizing its product portfolio and upgrading its products from the entry-level models to ones targeted at the mid-end market. These moves are aimed at achieving economies of scale and maintaining a healthier gross profit margin for its smartphone business. According to our latest product roadmap, a new wave of advanced smartphone products will be launched in the first half of 2013, and we expect a positive reaction from the market. All these new models will have unique and outstanding features, including 4.5"-5" displays, quad-core, and ultra-slim appearance, etc..

onetouch Scribe HD

4.1	5" HD display	1.2GHz	42mbps	8Mpxl/ HD 1.3Mpxl	Wifi display

R&D and Operational Efficiency

Product platforms and technology continue to change rapidly. The Group has always strived to maintain its product competency by enhancing R&D capability and improving product quality. In order to reinforce its market position, the Group will focus on optimizing product structure and R&D processes of the mid-end smartphones, elevating the efficiency of its product R&D and strengthening its cooperation with major component suppliers by actively involving in the selection process for core component. The Group expects to further improve product supply chain, seize the pace of market and speed up the time-to-market of new products.

In terms of operation efficiency, the Group will further optimize organizational structure and business processes, strengthen cooperation, improve overall executive efficiency and establish operational mechanisms designed to create a quick response to market demand.

In addition, while there is a constant increase in the costs relating to product R&D and brand building, the Group will exercise a more cautious control on cost and expenditure in general with a major focus on the development of key products and market promotion in order to realize maximum benefit.

Market Development and Expansion

In 2012, the Group successfully expanded into the biggest two handset markets in the world, the United States and China. In 2013, the Group will focus on enhancing the market position with a healthy gross margin in those markets which it entered into last year.

China

The Group will continue to implement its expansion strategy in the China market by collaborating with mainstream chain stores and distributors as well as the country's three telecommunication operators. Following the success of the mega branding and product launch show in Beijing in December 2012, the Group has formally presented its 2013 product roadmap and debuted a total of twelve new smartphone models. These are clearly categorized into four series: "JOY, STAR, PLAY and YOU", each of which was created to target a different market segment to ensure increased penetration into all areas of the market. These new smartphones come with quad-core CPUs, ultra-slim appearance, large-screens and innovative designs.

It is anticipated that smartphone products and other smart devices will continue to drive the Group's revenue growth in 2013 on the back of strong replacement demand as consumers continue to replace their feature phones with smartphones. The increasing popularity of the 3G services of the country's three telecommunication operators will also add momentum to this trend. The Group intends to capitalize on the growing demand for smartphones by launching more mid-end smartphones models in China throughout the year of 2013. This move will raise the ASP of the Group's products in the smartphone business, which will continue to account for a larger and growing percentage of sales in the coming year.

Overseas

Overseas markets remain challenging as consumer confidence has been dented by the unfavorable macroeconomic environment, especially the European debt crisis and the slow recovery of the US consumer market. The Group will continue to focus on boosting sales volume and revenue by achieving economies of scale and by launching new smartphones and feature phones covering different price ranges and functionalities. It also aims to gain further global market share for its smartphones and feature phones by stepping up existing cooperation with mainstream global telecommunication operators and distributors and by exploring new partnerships.

The Group will deploy more marketing resources to increase brand awareness for ALCATEL ONE TOUCH worldwide. This will include exhibitions at major trade fairs, sponsorships, and targeted marketing programs in different countries to gain more market exposure and build brand recognition. In particular, the Group will maintain its leading position in existing markets such as France, Russia, Brazil, Colombia and some Pacific Islands countries, while expanding its presence in emerging markets, including Malaysia and Israel.

Overall

Year 2013 will be full of both opportunities and challenges. Given the unfavourable economic environment, weakened consumer demand and pressure from keen competition, there has been a slowdown in sales growth in the previous year and the factors which caused the loss in the year 2012 may still persist. Moreover, first quarter is the traditional slack season of the handset industry, and the Group still await complete launch of mid-end smartphones. As a result, the Group anticipates that losses will still be recorded for the three months ending 31 March 2013.

Nevertheless, upon launching the full range of new products in the second quarter of 2013, the management expects the sales volume of smartphones and other smart devices to increase and the situation of the Group to be improved. Management remains confident about the Group's business prospect and the smartphone industry in the long run, and targets an increase of 25% year-on-year on revenue in 2013. The Group will continue to boost sales and improve sales volume of smartphones in order to achieve optimal economies of scale and will continue to pursue its "Step-up" product strategy by leveraging its solid strengths in product development, reputable brands of TCL and ALCATEL ONE TOUCH and strong marketing capability. It will proactively, yet prudently address business challenges and create value for the shareholders in the long term.

FINANCIAL REVIEW

Results

For the year ended 31 December 2012, the Group's audited consolidated revenue amounted to HK$12,031 million (2011: HK$10,653 million), representing a year-on-year increase of 13% as compared to that of last year.

The Group's gross profit margin dropped to 17% from 22% in last year.

LBITDA and loss attributable to owners of the parent were HK$72 million (2011: EBITDA of HK$835 million) and HK$208 million (2011: profit attributable to owners of the parent of HK$800 million) respectively. Basic loss per share was 18.49 HK cents (2011: basic earning per share of 72.83 HK cents).

Inventory

The Group's inventory (including factory inventory only) turnover period was 30 days (2011: 26 days).

Trade Receivables

Credit period was 30 to 180 days on average and the trade receivable (excluding factored trade receivables) turnover period was 87 days (2011: 89 days).

Significant Investments and Acquisition

There had been no significant investment and acquisition during the year ended 31 December 2012 and up to the date of this announcement.

Fund Raising

There had been no fund raising for the year ended 31 December 2012 and up to the date of this announcement.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the year. The Group's principal financial instruments comprise cash and cash equivalents, interest bearing bank and other borrowings, bank advances on factored trade receivables and loan from a related company. The cash and cash equivalents balances as at 31 December 2012 amounted to HK$970 million, of which 12% were in Renminbi, 54% in US dollars, 13% in Euro and 21% in Hong Kong dollars and other currencies for the operations. The Group's total interest-bearing borrowings as at 31 December 2012 were HK$6,469 million, in which the interest bearing bank and other borrowings were HK$5,921 million, bank advances on factored trade receivables were HK$432 million and loan from a related company was HK$116 million. The Group's financial position remained healthy, with equity attributable to owners of the parent of HK$2,321 million (31 December 2011: HK$2,669 million). The Group had a gearing ratio of 49% at the end of the year (31 December 2011: 54%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge Deposits

Deposit balance of HK$4,221 million (31 December 2011: HK$6,092 million) represented the pledged deposit for interest bearing borrowings, banking facilities and other financial instruments of HK$4,188 million (31 December 2011: HK$6,070 million) and retention guarantee for factored trade receivables of HK$33 million (31 December 2011: HK$22 million).

Capital Commitment and Contingent Liabilities

As at 31 December 2012, the capital commitments are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Property, plant and equipment		
Contracted, but not provided for	**106,885**	4,311

As at 31 December 2012, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**16,907,624**	13,393,623

As at 31 December 2012, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$11,993,964,000 (31 December 2011: HK$8,531,097,000).

Foreign Exchange Exposure

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominated in Euro, Brazilian real, Russian rouble, US dollar and RMB. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contracts. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation. 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.

Employees and Remuneration Policy

The Group had over 11,000 employees as at 31 December 2012. Total staff costs for the year under review were HK$1,211 million (2011: HK$941 million). The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

Directors and Senior Management

EXECUTIVE DIRECTOR

Mr. LI Dongsheng
aged 55, is the Chairman of the Board and Executive Director of the Company and TCL Multimedia Technology Holdings Limited (the "TCL Multimedia"), the Chairman of the Board, Chief Executive Officer (the "CEO") and one of the founders of TCL Corp. As one of the most recognized business leaders in China, Mr. LI has led TCL Corp. to stand out as a formidable player in the global consumer electronics sector and a pioneering Chinese company going global.

In 1982, Mr. LI began his career as an engineer in TTK Home Electronic Appliances Co. Ltd, the predecessor of TCL. In 1985, he was appointed as General Manager of the newly established joint venture, Telephone Communication Limited and subsequently he created the TCL brand. He was then transferred to Huizhou Industrial Development Company as the Director of Business Development Department. Mr. LI was appointed as the Deputy General Manager of Huizhou Municipal Electronic Communication Corporation in 1990. In 1993, Mr. LI became the General Manager of TCL Electronics Group. Since then, TCL launched its color TV business and quickly became an industry leader. Mr. LI took the position of Chairman and President of TCL Corp. in 1996.

In 2003, Mr. LI was appointed as the Chairman of the Board and CEO of TCL Corp., which was listed on the Shenzhen Stock Exchange afterwards. Under his leadership, TCL Corp. accomplished two landmark acquisitions: Thomson's television business and Alcatel's mobile phone business both in 2004. With years of efforts in global integration since 1998, TCL Corp. has become an international enterprise with 60,000 employees. In 2012, TCL Corp. has shipped 15.78 million LCD TV sets and 42.6 million mobile phones. The LCD TV actual production capacity leaped to the 3rd place and overall TCL brand market share rose to the 4th place globally.

Mr. LI was awarded "the most Socially Responsible Entrepreneur" by Xinhuanet in 2012 and "Chinese Economic Leader" by Ifeng.com and 21st Century Business Herald in 2011. He also received the "Life Achievement Award of Top 25 Influential Business Leaders" from China Entrepreneur Magazine in the same year. In 2009, Mr. LI was awarded "Business Leader of the Decade" by CCTV Economy Channel, in addition to being listed as one of the "Top 60 Branding Leaders of the Past 60 Years" by Brand China Industry Union. In 2008, Mr. LI received the Deloitte Prize in Barcelona for entrepreneurship and was honored as an "Economic Figure" in 30 years' reform and opening up, and also named China's "Top Ten Outstanding CEOs" by China Times, and awarded "Brand Founder over 30 years' reform and opening up" by a New York brand consulting agency. In 2007, Mr. LI received the Corporate Leadership award from the US-China Forum in Chicago. He was also named as "one of the most influential business leaders" by China Entrepreneur Magazine in 2006 and 2005, "CCTV Man of the Year in the Chinese Economy" in 2004, "Asia Businessman of the Year" by Fortune Magazine in 2004 and one of the Top 25 Global Business Leaders by Time Magazine and CNN in 2004. Mr. LI received a medal of OFFICER DE LA LEGION D'HONNEUR (French national honor) from former president of France, Mr. Jacques Chirac in 2004.

In 2013, Mr. LI was elected as a deputy to the 12th National People's Congress. He was also elected as a delegate to the 16th National Congress of the Communist Party of China, and a deputy to the 10th and 11th National People's Congress. Mr. LI holds a number of prestigious positions including Chairman of China Electronic Imaging Industry Association, Vice Chairman of China Chamber of International Commerce, Chairman of Guangdong Household Electrical Appliances Chamber of Commerce, 11th Executive Committee member of All-China Federation of Industry & Commerce and Vice Chairman of Guangdong Federation of Industry & Commerce.

Mr. LI is also an Independent Non-Executive Director of Tencent Holdings Limited, a company listed on the Stock Exchange.

Mr. LI graduated from South China University of Technology with a Bachelor degree in Department of radio technology.

EXECUTIVE DIRECTOR

Mr. GUO Aiping
aged 50, is the CEO and Executive Director of the Company, and the Senior Vice President of TCL Corp. Mr. GUO joined the Group in July 2001 and he was appointed successively as the Chief Operating Officer, Vice President, Senior Vice President and President. Mr. GUO was also a Vice President of TCL Corp. He has extensive experience in overall management of multinational company, strategic planning and development, and merger and acquisition in the worldwide wireless industry. Prior to joining TCL Corp., Mr. GUO held positions as Manager in SB Global, Project Coordinator in IBM, Senior Business Consultant in Arthur Andersen and Chief Technology Officer in Zhaodaola Internet Company. He graduated from Stanford University with a Doctor's degree in Management Science and Master's degree in Engineering Economics and System.

Mr. WANG Jiyang
aged 43, is the Chief Operating Officer and President of Sales & Marketing China of the Company, and Vice President of TCL Corp. He also serves management positions in a number of wholly owned subsidiaries of the Company. Mr. WANG has over 20 years' experience of research, development and management in electronics industry. He joined the Company in 2001, and had been an Engineer, Project Manager, Deputy Chief Technology Officer, General Manager of Development Center and Vice President of R&D. Mr. WANG graduated from University of Electronic Science and Technology of China with a PhD in Electrocircuit & System. He also holds a MBA degree from China Europe International Business School.

NON-EXECUTIVE DIRECTOR

MR. BO Lianming

aged 50, is a Non-Executive Director of the Company, an Executive Director of TCL Multimedia, an Executive Director, President and Chief Operating Officer of TCL Corp., and the CEO of Shenzhen China Star Optoelectronics Technology Co., Ltd. since 24 December 2012. He previously served as the Vice Chairman of the board of TCL Multimedia and the Chairman of Huizhou TCL Home – Appliance Co., Ltd. Mr. BO also held a number of management positions including Vice President and Financial Director of TCL IT Industrial Group, Vice President of TCL Components Strategic Business Unit, and Executive Vice President of TTE Corporation, as well as Human Resources Director, Vice President and Senior Vice President of TCL Corp. He has over 12 years' experience in the consumer electronics products industry. Before joining TCL Corp. in 2000, he was the Chief Accountant of Shenzhen Airlines Ltd. Mr. BO holds a Doctor's degree in Business Administration from Xi'an Jiaotong University.

MR. HUANG Xubin

aged 47, is a Non-Executive Director of the Company, Chief Financial Officer of TCL Corp., a Non-Executive Director and a member of the audit committee of TCL Multimedia. Mr. HUANG joined TCL Corp. in March 2001 and served as an Officer and General Manager of the Financial Settlement Centre of TCL Corp., the Chief Economist of TCL Corp., General Manager of TCL Finance Co. Ltd., and has been a member of the executive committee of TCL Corp. since July 2007, he was also Vice President of TCL Corp., Financial Director of TCL Corp. and has been Chairman of TCL Finance Co. Ltd. since November 2009. At present he is also the director of Huizhou Techne Corporation, Huizhou TCL Home Appliance Group Co. Ltd and TCL Real Estate (Huizhou) Co., Ltd. Before joining TCL Corp., Mr. HUANG served as Head of Credit Facilities Department of China Construction Bank, Guangdong Branch, the Deputy Manager and Manager of Fund Management Division and Securities Division of Guotai Junan Securities Co. Ltd., Guangdong Branch, and Senior Manager of the representative office of China Cinda Asset Management Co., Ltd. in Guangzhou. Mr. HUANG is a Senior Economist. He graduated from Hunan University (formerly known as Hunan College of Finance and Economics), and obtained a Master's degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, the PRC, and holds an EMBA degree from China Europe International Business School.

MS. XU FANG

aged 50, is a Non-Executive Director of the Company, Vice President and Human Resources Director of TCL Corp., an Executive Director of TCL Multimedia and a member of the remuneration committee thereof. Ms. XU joined TCL Institute of Training of TCL Corp. as the Dean in February 2004. Ms. XU became the Deputy Dean of TCL Institute of Leadership Development of TCL Corp. in February 2006 and the Dean in April 2007. Ms. XU has been the Human Resources Director of TCL Corp. since September 2007. From September 2007 to May 2010, Ms. XU concurrently held the position of General Manager of the Human Resources Management Centre of TCL Corp. Ms. XU has been the Vice President of TCL Corp. since October 2010. From September 2010 to June 2011, Ms. XU concurrently held the position of Chief Human Resources Officer of the TCL Multimedia. Ms. XU is also a part-time lecturer at Shenzhen Graduate School of Peking University, a distinguished professor at Shantou University and a distinguished research fellow at Sun Yat-Sen University. Ms. XU was graduated from Nanjing Normal University in English Linguistics, and a Master degree in Business Administration from New York Institute of Technology.

INDEPENDENT NON-EXECUTIVE DIRECTOR

MR. LAU Siu Ki

aged 54, is an Independent Non-Executive Director of the Company. Mr. LAU joined the Company in April 2004 and save for his directorship in the Company, he does not hold any directorship in any member of the Group. Mr. LAU is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (the "ACCA"). He has over 30 years' experience in corporate finance, financial advisory and management, accounting and auditing and had worked for an international accounting firm for over 15 years. Mr. LAU was a member of the ACCA worldwide Council from May 2002 to September 2011, and was the Chairman of the Hong Kong branch of ACCA in 2000/2001. He is also a consultant in the financial advisory field and an Independent Non-Executive Director of COL Capital Limited, Comba Telecom Systems Holdings Limited, Foxconn International Holdings Limited, Samson Holding Limited, Embry Holdings Limited and Binhai Investment Company Limited, all being companies listed on the Stock Exchange. In the past three years, Mr. LAU had been an Independent Non-Executive Director of Carry Wealth Holdings Limited, Greenfield Chemical Holdings Limited and Proview International Holdings Limited, all being companies listed on the Stock Exchange.

MR. LOOK Andrew

aged 48, is an Independent Non-Executive Director of the Company. He has over 20 years' experience in the equity investment analysis of Hong Kong and China stock markets. From 2000 to 2008, Mr. LOOK served in Union Bank of Switzerland (the "UBS") as the head of Hong Kong research, strategy and product. Prior to joining UBS, Mr. LOOK was the regional director of PPM Worldwide, the fund management arm of the Prudential Corporation of the United Kingdom, where he managed pension and life insurance funds investing in Asia ex-Japan markets. He was also a consultant of Opes Asia Development Limited, which shares are listed on the Stock Exchange. Mr. LOOK is currently the Chief Investment Officer and Managing Director of Look's Asset Management Limited, a SFC licensed asset management company which is based in Hong Kong and founded and solely owned by him. He is also an Independent Non-Executive Director of Ka Shui International Holdings Limited, which shares are listed on the Stock Exchange. He holds a Bachelor of Commerce degree from the University of Toronto.

Mr. KWOK Hoi Sing

aged 62, is the Chair Professor of the Department of Electronic & Computer Engineering at the Hong Kong University of Science and Technology (the "HKUST"). He is also Dr. William Mong Chair Professor of Nanotechnology and Director of Center for Display Research at HKUST. Before joining HKUST, he worked at the Lawrence Berkeley Laboratory from 1978 to 1980, he then taught at the Department of Electrical and Computer Engineering, State University of New York at Buffalo from 1980 to 1992, where he became a tenured Full Professor in 1985. He joined HKUST in 1992 with his research interests in display technologies and emitting thin film materials.

Mr. KWOK enjoys a good reputation in his professional area. He is a member of program committees of many international conferences and had been a Chairman. He was awarded a number of honors including the US Presidential Young Investigator Award in 1984 and the New York State/UUP Excellence Award in 1991. He is a Fellow of the Optical Society of America, a Fellow of Institute of Electrical and Electronics Engineers (the "IEEE") and a Fellow of Society for Information Display. Mr. KWOK has over 500 publications in internationally renowned academic journals and also holds more than 50 patents.

Mr. KWOK was an independent non-executive director of Diguang International Development Co., Ltd., a company listed on the NASDAQ Exchange (Stock Code: DGNG.OB).

Mr. KWOK holds a Bachelor of Science degree in Electrical Engineering from Northwestern University in the United States in 1973. He then pursued further studies at Harvard University where he received his MSc and PhD degrees in Applied Physics in 1974 and 1978 respectively.

SENIOR MANAGEMENT
EXECUTIVE COMMITTEE

Mr. GUO Aiping
aged 50, is the CEO and Executive Director of the Company, and the Senior Vice President of TCL Corp. Mr. GUO joined the Group in July 2001 and he was appointed successively as the Chief Operating Officer, Vice President, Senior Vice President and President. Mr. GUO was also a Vice President of TCL Corp. He has extensive experience in overall management of multinational company, strategic planning and development, and merger and acquisition in the worldwide wireless industry. Prior to joining TCL Corp., Mr. GUO held positions as Manager in SB Global, Project Coordinator in IBM, Senior Business Consultant in Arthur Andersen and Chief Technology Officer in Zhaodaola Internet Company. He graduated from Stanford University with a Doctor's degree in Management Science and Master's degree in Engineering Economics and System.

Mr. LIU Yuk Tung, Thomas
aged 50, is a Senior Vice President and Chief Financial Officer of the Company, and a director of TCL Finance Co., Ltd. since 20 February 2013. Mr. LIU has about 27 years of experience in fields of audit, international finance and trading business. Prior to joining the Company, he was the Asia Pacific Regional Financial Controller of Stratus Corporation in US, Sales and Marketing Director and General Manager of Neo-Neon Holdings Limited, a company with its shares listed on the Stock Exchange. He is also a CPA of HKICPA, Chartered Accountant of ICAEW and fellow member of ACCA. Mr. LIU holds a Bachelor's degree in Economics from the University of Hong Kong, a MBA from the University of New South Wales, Australia and a Master's Degree in Accounting from Jinan University, PRC.

Mr. WANG Jiyang
aged 43, is the Chief Operating Officer and President of Sales & Marketing China of the Company, and Vice President of TCL Corporation. He also serves management positions in a number of wholly owned subsidiaries of the Company. Mr. WANG has over 20 years' experience of research, development and management in electronics industry. He joined the Company in 2001, and had been an Engineer, Project Manager, Deputy Chief Technology Officer, General Manager of Development Center and Vice President of R&D. Mr. WANG graduated from University of Electronic Science and Technology of China with a PhD in Electrocircuit & System. He also holds a MBA degree from China Europe International Business School.

SENIOR MANAGEMENT
EXECUTIVE COMMITTEE (continued)

Mr. WONG Kwok Chung, Albert
aged 41, is an Executive Vice President and General Manager of Sales & Marketing (APAC) of the Company. Mr. WONG joined the Company in 2005. He has 15 years of experience in computers and electronics industry in Hong Kong, Canada and Mainland China. He had been the Senior Software Engineer of KEGO Technology Limited, Chief Information Officer of Inmobo Limited, CEO and Chief Operating Officer of JCT Mobile. Mr. WONG graduated from the University of Toronto with a Bachelor's degree in Science and obtained his Master's degree in Electrical and Electronics Engineering at the Hong Kong University of Science & Technology.

Mr. Yves MOREL
aged 52, is a Senior Vice President of the Company and General Manager of EMEA, responsible for the Company's business in Europe, Middle East and Africa. Mr. MOREL has 28 years sales and marketing experience in telecommunication industries. Mr. MOREL was a Sales Area Director for ALCATEL mobile phones from 2001 to 2005. He contributed to develop sales area such as Russia, Central Europe, Middle East, Africa and Western Europe. Prior to that he held several positions in sales at the Private Mobile Radio division for ALCATEL.

Mr. Nicolas ZIBELL
aged 45, is a Senior Vice President of the Company and General Manager of Americas, responsible for the Company's business in the Americas. Mr. ZIBELL has over 22 years of experience in sales, marketing, product strategy and management in automotive and telecommunications industries in Europe and the Americas. He graduated from école Superieure de Commerce de Lyon and ESADE Business School with an MBA in 1990.

Mr. LV Xiaobin
aged 42, i s a Senior Vice President of the Company and General Manager of Global Manufacturing Center. Mr. LV joined TCL Communication Equipment Co., Ltd. in July 1993 and joined the Company in March 2002 and was appointed successively as Department Head, Factory Director, Vice General Manager of Manufacturing Center, Production Director and Vice President of the Company. Mr. LV has 19 years' experience in communication terminal manufacturing industry, with rich and professional experience and skills in operation management fields including manufacturing engineering technologies and management, production management, quality management, supply chain management, and he also has been through a 8-year international baptism. Mr. LV graduated from University of Electronic Science and Technology of China with a Bachelor degree in Science, majoring in computer, minoring in applied mathematics, and also holds an EMBA degree from China Europe International Business School.

OTHER SENIOR MANAGEMENT

Mr. HUANG Wanquan
aged 48, from 1990 to 2002, Mr. HUANG served in TCL Multimedia, responsible for marketing management. He was one of the earliest pioneers of the TCL's TV business marketing network. From 2002 to 2003, he served as an International Business Unit General Manager of the Company, responsible for developing the first overseas business. In November 2003, he was appointed as a Vice President of the Company, in charge of domestic sales and marketing operations management, and appointed as a Senior Vice President of the Company since November 2009. Mr. HUANG holds a Master's degree in inorganic non-metallic materials from Zhejiang University and an EMBA degree from South Polytechnic University.

Corporate Governance Report

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Simply irresistible

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relationships with its employees, business partners, shareholders and investors.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has adopted the code provisions of the Code on Corporate Governance Practises set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate government of the Group, and has taken steps to comply with the Code wherever appropriate. Appendix 14 to the Listing Rules was revised and renamed as "Corporate Governance Code and Corporate Governance Report" (the "CG Code") by the Stock Exchange of Hong Kong in October 2011. In February 2012, the Company has adopted the code provisions (the "Code Provisions") on the latest CG Code as the guidelines for corporate governance of the Company.

Throughout the year ended 31 December 2012, the Group complied fully with the CG Code with the exceptions as set out below.

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Due to respective pre-arranged business commitments which must be attended to by certain directors, Mr. BO Lianming, Mr. HUANG Xubin and Ms. XU Fang, all being non-executive directors and Mr. LOOK Andrew, being an independent non-executive director, were not present at the annual general meeting of the Company held on 8 May 2012.

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 all directors as most of them have been serving as directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and the directors, and so there is no written record of the same. In any event, all directors, including those without a letter of appointment and those appointed for a specific term, shall be subject to retirement by rotation in the manner prescribed under the articles of association of the Company, and on re-election of the retiring directors, shareholders 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.

As abovementioned, due to other pre-arranged business commitments which must be attended by him, Mr. LI Dongsheng, the Chairman, was not present at the annual general meeting held on 8 May 2012. However, Mr. GUO Aiping, being an executive director and Chief Executive Officer present at the annual general meeting, was elected as the chairman thereof pursuant of the Articles of Association to ensure an effective communication with the shareholders thereat.

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.

The company secretary of the Company, Ms. PANG Siu Yin is a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors. Ms. PANG has been appointed as the company secretary of the Company since 2004. The Company has also assigned Mr. WANG Pui, Finance Director of the Company as the contact person with Ms. PANG. 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. PANG through the contact person assigned. Given the long-term relationship between Ms. PANG and the Group, Ms. PANG 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 she 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. PANG as the company secretary is beneficial to the Group's compliance of the relevant board procedures, applicable laws, rules and regulations.

THE BOARD

(1) The Board of Directors

The Board currently comprises 9 directors, 3 of whom are executive directors, 3 are non-executive directors (the "NEDs") and 3 are independent non-executive directors (the "INEDs"). The composition of the Board is set out as follows:

Executive Directors:	LI Dongsheng *(Chairman)* GUO Aiping *(Chief Executive Officer)* WANG Jiyang *(Chief Operating Officer)*
Non-Executive Directors:	BO Lianming HUANG Xubin XU Fang
Independent Non-Executive Directors:	LAU Siu Ki LOOK Andrew KWOK Hoi Sing

The biographies of the directors are set out in the "Directors and Senior Management" on pages 30 to 37 of this Annual Report.

The members of the Board, all being industry veterans, are responsible to the shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management.

The non-executive directors play an important role on the Board. Accounting for more than half of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders and the Group as a whole. Throughout the year of 2012, the Board at all times met the requirements for having INEDs representing one-third of the Board and that at least one of them had appropriate professional qualifications of accounting or related financial management expertise. Pursuant to Rule 3.13 of the Listing Rules, the Group has received written confirmations from each INED of his independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the directors in person or through other electronic means of communication. The board also oversees the corporate governance policy and functions of the Company.

Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major issues that require the Board's timely attention and decisions. As the Board highly values the independent opinions and diversified perspectives from the INEDs, they, in addition to the executive directors, very often participate in the special Board meetings.

During 2012, the Board held 4 regular meetings at about quarterly intervals and 14 additional meetings (10 of which were held regarding special matters which required the Board's decisions whereas the other 4 meetings were held regarding operational matters involving the attendance of executive directors only). Attendance of individual directors at the Board meetings in 2012 is as follows:

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4.1 | 4.7" IPS display | 1GHz | 8Mpxl/ 2Mpxl | HD sound

Number of Board meetings attended/eligible to attend

	Regular Board Meetings	Additional Board Meetings concerning special matters requiring the Board's decisions	Additional Board Meetings concerning operational matters only	General Meetings
Executive Directors				
LI Dongsheng *(Chairman)*	1/4	5/10	2/4	0/1
GUO Aiping *(Chief Executive Officer)*	4/4	10/10	4/4	1/1
WANG Jiyang *(Chief Operating Officer)*	3/4	10/10	4/4	0/1
Non-Executive Directors				
BO Lianming	3/4	8/10	N/A	0/1
HUANG Xubin	4/4	9/10	N/A	0/1
XU Fang	4/4	7/10	N/A	0/1
Independent Non-Executive Directors				
LAU Siu Ki	4/4	10/10	N/A	1/1
LOOK Andrew	4/4	8/10	N/A	0/1
KWOK Hoi Sing	3/4	9/10	N/A	1/1

On 24 February 2012, the Board has adopted a set of consolidated memorandum of duties, setting out its delegation policy, procedures for Directors seeking professional advice and reporting procedures and division of responsibility between the chairman and managing Director.

(2) Board Committees

The Board delegates its responsibilities to 4 committees, namely the Remuneration Committee, the Audit Committee, the Executive Committee of the Board and the nomination committee (the "Nomination Committee", which has been established on 24 February 2012), all with specific terms of reference, to oversee particular aspects of the Group's affairs. Details of which are set out in the section headed "Board Committees" below.

(3) Management Functions

The types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by board committees (the "Board Committees");
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies.

(4) Operation

To effectively manage the business affairs of the Group, the operation executive committee was set up for implementation of the objectives and strategic plans as approved by the Board or the Executive Committee. Currently the operation executive committee comprises seven members, all of whom are senior executives from various units of the Company, and one secretary. The composition of the operation executive committee is set out as follows:

Members

GUO Aiping
LIU Yuk Tung, Thomas
Yves MOREL
WONG Kwok Chung, Albert
Nicolas ZIBELL
WANG Jiyang
LV Xiaobin

Secretary

SUN Wubin

The operation executive committee is responsible for overseeing the day-to-day operations of the Group. Normally, the operation executive committee meets once a month, and may convene additional meetings when necessary to handle urgent matters.

(5) Appointment, Re-election and Removal

Pursuant to Rule 3.13 of the Listing Rules, the Board has received a written confirmation from each INED of his independence to the Company. The Board considers all of the INEDs to be independent in accordance with the Code Provision A.4.3 and confirms that year of service of all INEDs is less than 9 years. However, it is expected that Mr. LAU Siu Ki, an INED, who has been appointed as an INED since April 2004, will have served the Company for more than 9 years at the AGM to be held in April 2013, his further appointment will therefore be subject to a separate resolution to be approved by shareholders and reasons why the Board believes that he is still independent and should be re-elected will also be included in the circular containing the resolutions concerned.

One third (or such number nearest to and not less than one-third) of the directors are subject to retirement by rotation at the AGM each year, and the NEDs are elected to hold office for a specific term until the next AGM.

Under the Code Provision A.4.1, non-executive directors should be appointed for a term of three years, subject to re-election.

At the last AGM held on 8 May 2012, one-third of the directors (namely Mr. LI Dongsheng, Mr. GUO Aiping and Mr. WANG Jiyang) were subject to retirement by rotation and all of them were re-elected. Mr. WANG Jiyang, whom was appointed by the Board as an executive Director effective from 9 May 2011, was also subject to election at the AGM. Mr. KWOK Hoi Sing, an INED, was elected to hold office for a specific term until the AGM to be held in 2015.

(6) Roles of Chairman and Chief Executive Officer

The position of the Chairman is held by Mr. LI Dongsheng, while the position of the Chief Executive Officer is held by Mr. GUO Aiping. This ensures a clear distinction between the Chairman's duty to manage the Board and the Chief Executive Officer's duty to oversee the overall internal operation of the Group.

(7) Responsibilities of Directors

The Company officers work closely with the newly appointed directors both immediately before and after his/her appointment to acquaint the newly appointed directors with the duties and responsibilities as a director of the Company and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisors setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related law and relevant regulatory requirements of Hong Kong is provided to each newly appointed director. The directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time. Guidelines for directors issued by the Companies Registry of Hong Kong have been forwarded to each director for his/her information and ready reference.

The Board views that the non-executive directors have exercised their independent judgment and provided constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit, Remuneration and Nomination Committee.

The directors have disclosed to the Company at the time of their appointment, and in a timely manner for in respect of any change, the number and nature of offices held in public companies or organisations and other significant commitments. They have also informed the Company of the identity of other public companies or organisations they serve and the time involved in these public companies or organisations.

All directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which he/she is charged with. The extent of participation and contribution should be viewed both quantitatively and qualitatively. The contribution made by the directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the directors with reference to his/her necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and board committee meetings indicates the constant participation of all directors, including executive, independent non-executive and other non-executive directors.

To fulfil their duties properly, where they consider it as necessary to obtain additional information other than that is provided by the management, the directors made inquiries during the Board meetings and board committee meetings. The queries raised by directors have received a prompt and full response.

The directors are continually updated with legal and regulatory development, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the CG Code on continuous professional development during the period from 1 April 2012 to 31 December 2012:

Directors	Read materials	Attend seminars/ briefings
Executive Directors		
LI Dongsheng *(Chairman)*	✓	✓
GUO Aiping *(Chief Executive Officer)*	✓	✓
WANG Jiyang *(Chief Operating Officer)*	✓	✓
Non-Executive Directors		
BO Lianming	✓	✓
HUANG Xubin	✓	✓
XU Fang	✓	✓
Independent Non-Executive Directors		
LAU Siu Ki	✓	✓
LOOK Andrew	✓	✓
KWOK Hoi Sing	✓	✓

(8) Directors' Securities Transactions

The Board has adopted a code of conduct regarding directors' securities transaction 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") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all directors who have confirmed that throughout year 2012, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The directors' interests in shares of the Group as at 31 December 2012 are set out on pages 65 to 66 of this Annual Report.

onetouch Star

4.1 | 4.0" AMOLE | 1GHz | 5Mpxl/ VGA | HD sound

BOARD COMMITTEES

In 2012, the Board had four Board Committees. The four committees under the Board are the Remuneration Committee, the Audit Committee, the Executive Committee and Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

(1) Remuneration Committee

The Remuneration Committee currently comprises three INEDs and one NED, namely Mr. LAU Siu Ki, who is also the Chairman of the Remuneration Committee, Mr. LOOK Andrew, Mr. KWOK Hoi Sing and Ms. XU Fang as members.

The Remuneration Committee is governed by its terms of reference, which have been revised by the Board on 24 February 2012 pursuant to the CG Code. The terms of reference are available on the Group's website at http://tclcom.tcl.com and HKEx's website at www.hkex.com.hk.

The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time, and determines, with delegated responsibility, the remuneration packages of individual executive directors and senior management.

During 2012, the Remuneration Committee met 3 times and accomplished the following:

- reviewed the Group's expenses and changes on staff remuneration in 2012; and
- reviewed the levels of remuneration and bonus plan of certain executive directors and senior management of the Group.

Attendance of each member at the Remuneration Committee meeting in 2012 is as follows:

	Number of committee meeting attended/eligible to attend
LAU Siu Ki *(Chairman)*	3/3
LOOK Andrew	2/3
KWOK Hoi Sing	2/3
XU Fang	3/3

Emolument Policy and Long-Term Incentive Plan

The Group provides a competitive remuneration package to its directors to attract and retain talents. A large portion of the package for executive directors is linked to their performance, which in turn is aligned with the interests of the shareholders, so as to provide an incentive for the executive directors to achieve the best performance. Part of the remuneration of executive directors may comprise of long-term incentive plan which comprises the share option scheme and the share award scheme. The emoluments payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The purpose of the long-term incentive plan of the Group is to reward outstanding performance that is measured by achieved targets, and is closely linked with the performance of the Group. The benefit or award granted under the plan will only be vested over a period of time so as to provide an incentive for the executives or employees to consistently perform at a high standard and bring along long-term benefits to the Group.

The non-executive directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee;
- additional fee for additional responsibilities such as directorship in Board Committees; and
- awarded shares or share options of the Group under the long term incentive plan, which are awarded subject to the discretion of the Board.

The details of the fees and any other reimbursement or emolument payable to the directors are set out in details on note 11 to the financial statements.

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4.1 | 4.5" qHD display | 8Mpxl / HD 1.3Mpxl | 42mbps | 1.2GHz | Wifi display

(2) Audit Committee

The Audit Committee currently comprises three INEDs and one NED, namely Mr. LAU Siu Ki, Mr. LOOK Andrew, Mr. KWOK Hoi Sing and Mr. HUANG Xubin. Mr. LAU Siu Ki, the Chairman of the Audit Committee, is a professional accountant with profound financial and accounting expertise.

The Audit Committee is governed by its terms of reference, which have been revised by the Board on 24 February 2012 pursuant to the CG Code. The terms of reference are available on the Group's website at http://tclcom.tcl.com and HKEx's website at www.hkex.com.hk.

The Audit Committee usually meets 4 times a year to review the truthfulness, completeness, and accuracy of the Group's financial statements. It is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system of internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also oversees the scope of work of external auditors.

The Audit Committee's work in 2012 includes consideration of the following matters:

- the completeness and accuracy of the 2011 annual and 2012 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and their effect on the Group;
- the audit report submitted by the external auditors summarizing matters arising from their audit of the Group for the previous year;
- review of the effectiveness of the system of internal control of the Group;
- the audit fees payable to external auditors for year 2012; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Ernst & Young as the external auditors, which the Board agreed and accepted.

During 2012, the Audit Committee met 4 times and the attendance of each member at the Audit Committee meetings is as follows:

	Number of committee meetings attended/eligible to attend
LAU Siu Ki *(Chairman)*	4/4
LOOK Andrew	4/4
KWOK Hoi Sing	3/4
HUANG Xubin	4/4

Other attendees at the Audit Committee meetings include the Group's chief financial officer and the external auditors (for discussion of the audit of the interim and annual results only).

For the year under review, the remuneration paid for service provided by the auditors is roughly as follows:

Audit services	HK$6,127,000
Non-audit services (which include mainly consultant and taxation services)	HK$1,610,000

(3) Executive Committee

The Executive Committee was established in April 2008 with specific written terms of reference. The Board has delegated responsibilities to the Executive Committee for making certain decision for the management of the Group. The Executive Committee currently comprises three executive Directors, namely Mr. LI Dongsheng, Mr. GUO Aiping and Mr. WANG Jiyang.

(4) Nomination Committee

The Nomination Committee was established on 24 February 2012 in compliance with the CG Code. It currently comprises three INEDs and one NED, namely, Mr. KWOK Hoi Sing, Mr. LAU Siu Ki, Mr. LOOK Andrew and Ms. XU Fang, with Mr. KWOK Hoi Sing as the Chairman of the Nomination Committee.

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the INEDs; and
- make recommendations to the Board on the appointment or re-appointment of directors.

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W800

ONE TOUCH LINK W600

POWER BANK

onetouch Link
Y800

The Nomination Committee considers matters regarding the nomination and/or appointment or re-appointment of director(s). The terms of reference of the Nomination Committee, which are closely aligned with the CG Code, are available on the Group's website at http://tclcom.tcl.com and HKEx's website at www.hkex.com.hk.

During 2012, the Nomination Committee met once and the attendance of each member at the Nomination Committee meetings is as follows:

	Number of committee meetings attended/eligible to attend
KWOK Hoi Sing *(Chairman)*	1/1
LAU Siu Ki	1/1
LOOK Andrew	1/1
XU Fang	1/1

During the meeting, the Nomination Committee considered and reviewed the structure, size and apposition of the board and its compatibility with the corporate strategy of the Company.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the integrity of financial information. The directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

(1) Financial Reporting

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements for the year 2012.

The Management also provides all directors with monthly updates giving them a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

(2) Internal Controls

The Board is responsible for ensuring that an effective internal control system is maintained within the Company. The Directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's system of internal controls. During the year under review, the directors, through the Audit Committee, have reviewed the effectiveness in all material aspects of the internal control system of the Group.

The Company has adopted a set of internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units. Annual budgets of the Group and quarterly financial reports have been provided to the Executive Committee of the Board.

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration. During the year under review, the Company conducted a review of the effectiveness of the internal control system of the Group. For the year of 2012, no critical internal control issues have been identified.

COMPANY SECRETARY

The position of Company Secretary is held by Ms. PANG Siu Yin, a practising solicitor of Hong Kong who is not an employee of the Company. The Company Secretary can contact the Company through the Finance Director of the Company, Mr. WANG Pui. The Company Secretary reported to the Board chairman from time to time. All directors have access to the advice and services of the company secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed.

Since Ms. PANG was appointed in 2004, she has to take no less than 15 hours of relevant professional training for the financing year commencing on or after 1 January 2013 and she has fulfiled the requirement during the year under review.

INVESTOR RELATIONS

(1) Communication with Shareholders and Procedures for putting forward proposals at general meetings

All published information, including all the statutory announcements, press releases and event calendars, is promptly posted on the Group's website at http://tclcom.tcl.com. Viewers can also send enquiries and proposals putting forward for shareholders' consideration at shareholder meetings to the Board or senior management by email at ir.tclcomm@tcl.com or directly by raising questions at the general meeting of the Company.

(2) Procedures for Shareholders to convene an extraordinary general meeting

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionst(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(3) Constitutional Documents

In 2012, certain amendments to the articles of association of the Company have been made in light of the amendments made to the Listing Rules and the CG Code. Certain other amendments in relation to cosmetic changes have also been made. All these amendments are disclosed on pages 16 to 27 of the circular of the Company published on 30 March 2012.

Human Resources & Social Responsibilities

The Company has always regarded the employees as the most valuable asset. As at 31 December 2012, there were a total of over 11,000 employees in the Company. The Company is committed to the compliance with relevant laws and regulations, striving to provide the employees with a safe and pleasant working environment, continuously improving the working conditions, and offering competitive remuneration package.

The Company has been dedicated to perfecting the internal communication system and platform for equal dialogue. Through setting up regular staff meeting, organizing family visiting days and dispatching internal periodicals and e-newsletter, the company shares operation performance and the big events in the development process with the staffs and their families and collect employees' feedback. This has motivated and encouraged employees to share responsibility and grow up with the Company.

The Company has always been devoting effort and investment to talent development. Over the years, it has systematically developed a hi-potential professional and management talent pool. The continuous investment and cultivation on talents makes a critical contribution to the talent development of the Company. Every year it effectively attracts excellent students from well-known universities domestically or globally and offers them the systematic training through "Eyas Training Camp". In addition, the Company chooses high performers from management level to join one of the "Eaglet/Elite/Tercel Training Camps"; through various ways of training, including lectures, introduction of research topics by famous local and overseas professors, visits to model companies and organisations, these programs provide on-job training and leadership development for the participants. Up to 2012, this program has provided opportunities for more than 2,000 managers and professionals. In 2012, the Company selected excellent R&D managers to visit famous companies and universities in Singapore in order to broaden their perspective and widen international exposure. In 2012, the Company started cooperation with a globally well-noted research organization, SRI International. The multi-phased program including a series of "TCL Innovation Workshops" introduced the leading innovation and technology commercialization processes to more than 300 management personnel, product managers, designers, and researchers. The company strives to offer employees learning opportunities from the state of the art of the five leading innovation principles and approaches, which in turn improves the company's innovation ability.

The Company started "Leadership Development Program" to its management team in 2010, with the purpose of developing and promoting more talented staffs. It has benefited over 260 key employees in the past two years. Also, the Company has sponsored top employees for continuing education such as MBA and EMBA program. The Company strives to build up itself as a learning organization. In 2012, the Company cooperated with TCL Corp. to develop and launched Love Learning System, an online learning platform, which enables employees to study online. In the fourth quarter of 2012, the Company designed and introduced more than 100 courses, which has achieved over 20,000 learning hours and facilitated the convenience for study and well received by the staffs.

The Company concerns about employees' health and their families, it organises different kinds of clubs and funds their leisure activities. Currently, there are more than 30 various clubs in the Company globally. Also, the Company promotes employee sport games in different places annually. In addition, the Company sends postcards and gifts to employees' families in traditional holidays, and invites employees children to join various activities.

As a responsible corporate citizen, the Company strives to bear its social responsibilities while undertaking steady business operation. As such, the Company strictly complies with the business convention and the Code of Ethics, dedicates to improve business environment and promote environmental protection as well as energy saving, and proactively participates in charity work.

As a primary member of TCL Group (TCL Corp. together with its subsidiaries, are collectively known as the "TCL Group"), the Company has actively participated in the TCL Group's charitable work. We endeavor to make more contribution and show wider responsibility towards charitable education, assistance to the weak & poverty reduction, employee welfare and environment protection through sponsorship and donation. Since 1996, TCL Group and employees have donated cash and supplies equivalent to RMB100 million to society.

The Company has also been undertaking Corporate Social Responsibility (CSR) initiatives with a focus on education. We actively founded and initiated cooperation with universities and institutions from China and overseas by way of joint project team, fund and talent support to scientific research projects, "Joint Lab" established by donation from universities, "TCL Innovation Club", "Internship Base" etc., invited from students of various Chinese Universities to visit the Company and strived to become a leading development base for innovative and practical talents.

The Company promotes the Green Office by applying an online meeting system which saves substantial cost. Up to 31 December 2012, more than 5,000 employees have used this system for distant meetings. The Company strives to enhance employees' awareness in spreading the Green Consumption concept, encourage and organize staffs to participate in volunteers activities. In 2012 the Company organized a Children Painting Competition with the theme of "Green Consumption, Healthy Travel" among the children of the Company's employees. Over 50 children from different countries participated in the competition and shared their genuine belief and wishes toward the earth and environment protection.

In order to ensure the product quality to meet or surpass industrial standards, the Company has successfully passed the identification of ISO9001/ISO14001/QC080000/OHSAS18001/SA8000. In 2012, it has successfully applied the TL9000 Quality Management System, its product quality plays a leading role in the telecom industry.

Report of the Directors

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The multi skilled

The directors of the Company (the "Directors") are pleased to present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries comprise manufacturing and sale of mobile and internet products. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 80 to 166.

An interim dividend of 3 HK cents per ordinary share was paid on 31 October 2012. The Directors did not recommend the payment of any final dividend in respect of the year 2012 to shareholders of the Company.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 167. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are disclosed in notes 35 and 36 to the financial statements and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in the Report of the Directors respectively.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company had distributable reserves of HK$315,139,000 standing to credit of its share premium account and HK$669,907,000 standing to the credit of its contributed surplus account. The amount of share premium account and contributed surplus account would remain the same as aforesaid since the Directors did not recommend the payment of any final dividend out of its distributable reserves.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 22% of the total sales for the year and sales to the largest customer included therein amounted to 9%. Purchases from the Group's five largest suppliers accounted for 22% of the total purchases for the year and purchase from the largest supplier included therein amounted to 7%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers, except that disclosed in note 42(a) to the financial statements.

DIRECTORS

The Directors during the year 2012 and up to the date of this annual report were:

EXECUTIVE DIRECTORS:

Mr. LI Dongsheng *(Chairman)*
Mr. GUO Aiping *(Chief Executive Officer)*
Mr. WANG Jiyang *(Chief Operating Officer)*

NON-EXECUTIVE DIRECTORS:

Mr. BO Lianming
Mr. HUANG Xubin
Ms. XU Fang

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. LAU Siu Ki
Mr. LOOK Andrew
Mr. KWOK Hoi Sing

In accordance with article 87(1) of the Company's Articles of Association, Mr. BO Lianming, Mr. LAU Siu Ki and Mr. LOOK Andrew will retire by rotation at the conclusion of the forthcoming AGM of the Company. They will hold their office until the conclusion of the AGM and Mr. LAU Siu Ki and Mr. LOOK Andrew will offer themselves for re-election at the AGM. Mr. BO Lianming, being eligible, will not offer himself for re-election and shall retire from office at the AGM.

Each of the independent non-executive Directors has confirmed his independence to the Company pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 30 to 37 of this annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2012, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which will not expire or is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

The Directors' fees are subject to shareholders' approval at general meeting. Other emoluments are determined by the Company's Board of Directors with reference to director's duties, responsibilities and performance and the results of the Group.

Particulars of the Directors' remuneration and the five highest paid employees during the financial year are set out in note 11 to the financial statements.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Details of the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the Directors are set out in "Emolument Policy and Long-Term Incentive Plan" of the Corporate Governance Report.

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 5 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 42 to the financial statements under the heading "Related Parties Transactions", no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during or at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

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

As at 31 December 2012, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held: Personal interests (Note i)	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives (Note ii)	Total	Approximate percentage of issued share capital of the Company
LI Dongsheng	34,102,756	1,920,000	12,416,165	48,438,921	4.29%
GUO Aiping	3,713,293	–	15,218,086	18,931,379	1.68%
WANG Jiyang	3,386,944	–	8,576,498	11,963,442	1.06%
BO Lianming	65,700	–	3,388,987	3,454,687	0.31%
HUANG Xubin	–	–	2,767,906	2,767,906	0.25%
XU Fang	–	–	2,511,467	2,511,467	0.22%
LAU Siu Ki	144,177	–	500,000	644,177	0.06%
LOOK Andrew	–	–	600,000	600,000	0.05%
KWOK Hoi Sing	–	–	500,000	500,000	0.04%

(B) Interests in Associated Corporation of the Company – Long Positions

TCL Corp. (Note iii)

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives (Note iv)	Total	Approximate percentage of issued share capital of TCL Corp.
LI Dongsheng	494,838,400	–	–	494,838,400	5.84%
WANG Jiyang	–	–	1,190,400	1,190,400	0.01%
BO Lianming	802,340	–	6,871,400	7,673,740	0.09%
HUANG Xubin	–	–	4,833,400	4,833,400	0.06%
XU Fang	–	40,000	3,383,400	3,423,400	0.04%

(C) Interests in Associated Corporation of the Company – Long Positions

TCL Multimedia (Note v)

Name of Director	Number of ordinary shares held Personal interests (Note vi)	Family interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Multimedia
LI Dongsheng	30,809,848	2,538,000	5,372,954	38,720,802	2.93%
BO Lianming	98,727	–	1,434,054	1,532,781	0.12%
HUANG Xubin	60,560	–	1,020,280	1,080,840	0.08%
XU Fang	108,760	–	1,258,510	1,367,270	0.10%

Notes:

i. The "Personal interests" herein also includes awarded shares granted by the Company to the Directors as at 31 December 2012. On 9 August 2011, the Board approved the grant of a total of 596,479 shares of the Company to be awarded to Mr. WANG Jiyang under the Share Award Scheme B. Further details of the awarded shares during the year under review were set out in note 37 to the financial statements.

ii. On 4 June 2012, share options for subscribing for a total of 24,220,134 shares were granted to the Directors under the Share Option Scheme of the Company. Further details of the share options during the year under review were set out in note 36 to the financial statements.

iii. TCL Corp., a company incorporated in the People's Republic of China with its shares listed on the Shenzhen Stock Exchange (stock code: 000100), is the ultimate controlling shareholder of the Company.

iv. On 13 January 2012, new shares options were granted to the Directors under the stock option incentive plan of TCL Corp.

v. TCL Multimedia, a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange (stock code: 01070), controlled by TCL Corp. and is a subsidiary of TCL Corp.

vi. On 10 May 2012, a total of 748,240 awarded shares were granted to the Directors under the restricted share award scheme of TCL Multimedia.

Save as disclosed above, as at 31 December 2012, none of the Directors and chief executive of the Company and their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES, UNDERLYING SHARES OR DEBENTURES

Save as disclosed above and in the "Share Option Scheme" and "Share Award Scheme" disclosed in notes 36 and 37 to the financial statements respectively, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable any Director, their respective spouse or children under 18 years of age to acquire benefits by means of an acquisition of shares or underlying shares in or debentures of the Company or its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, the interests and short positions of the persons other than a Director or chief executive of the Company in shares and underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Type of interest	Interest in shares and underlying shares held	Approximate percentage of the issued shares capital	Notes
TCL Corp.	Interest of controlled corporation	572,933,000	50.78%	i
Mr. WONG Toe Yeung	Beneficial owner/Interest of spouse/Interest held jointly with his spouse/Interest of controlled corporation	66,558,925	5.90%	ii
Ms. LEUNG Lai Bing	Beneficial owner/Interest of spouse/Interest held jointly with her spouse/Interest of controlled corporation	66,558,925	5.90%	ii

Notes:

i. Under the SFO, as at 31 December 2012, TCL Corp. was deemed to be interested in 572,933,000 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly-owned subsidiary of TCL Corp.

ii. As at 31 December 2012, each of Mr. WONG Toe Yeung and Ms. LEUNG Lai Bing as husband and wife is deemed to be interested in 66,558,925 shares of the Company, comprising (a) 29,140,000 shares which are held by Ms. LEUNG; (b) 11,129,188 shares which are jointly held by Mr. WONG and Ms. LEUNG; (c) 19,995,000 shares which are held by Top Scale Co. Ltd., a company ultimately owned by Mr. WONG and Ms. LEUNG; and (d) share options of the Company held by Mr. WONG for subscribing for 6,294,737 shares of the Company.

Save as disclosed above, no person (not being a Director or chief executive of the Company) known to the Directors or chief executive of the Company, who, as at 31 December 2012, had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended 31 December 2012, the Group entered into a number of connected transactions and continuing connected transactions with TCL Corp. (being the ultimate controlling shareholder of the Company) and its subsidiaries (which are regarded as connected persons as defined in the Listing Rules).

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2012:

a) On 27 October 2006, a three-year term financial service framework agreement was entered into among the Company, TCL Corp. and TCL Finance Co., Ltd. (the "Finance Company", a non-wholly owned subsidiary of TCL Corp.), pursuant to which the Company may from time to time utilize the financial services provided by the Finance Company including deposit services, finance services and other financial services. As it wishes to continue the continuing connected transactions contemplated thereunder, the Company renewed the said agreement on 9 September 2008 and 26 October 2011 successively. The terms of the said renewal agreements are substantially the same as their predecessors with some minor modifications.

   The current master financial services agreement (the "Master Financial Services Agreement"), was entered into on 26 October 2011, has a three-year term from 1 January 2012 to 31 December 2014. Further details of the Master Financial Services Agreement were set out in the announcement of the Company dated 26 October 2011 and the circular of the Company dated 13 December 2011.

   The deposit services under the Master Financial Services Agreement and the proposed caps thereof were duly approved by the shareholders of the Company at an extraordinary general meeting held on 30 December 2011.

   During the year under review, the maximum total outstanding daily ending balances of deposits (including interest receivables in respect of these deposits) due from the Finance Company was HK$562,962,000 and a fee and commission of HK$11,000 in respect of other financial services has been paid by the Group.

b) On 13 September 2004, a brand promotion agreement was entered into between the Company and TCL Corp., pursuant to which the Group agreed to contribute a certain percentage of the Group's net sales (before value added tax) from the sale of mobile communication products bearing the "TCL" name and products sold for each of our financial quarters for a period of thirty-six calendar months to the TCL Brand Common Fund. As it wishes to continue the continuing connected transactions contemplated thereunder, the Company renewed the said agreement on 29 December 2006, 25 November 2009 and 17 December 2012 successively. The terms of the said renewal agreements are substantially the same as their predecessors with some minor modifications.

   The current brand promotion (renewal 2012) agreement (the "Brand Promotion (Renewal 2012) Agreement"), which was entered into on 17 December 2012, has a three-year term from 1 January 2013 to 31 December 2015. Further details of the Brand Promotion (Renewal 2012) Agreement were set out in the announcement of the Company dated 17 December 2012.

   During the year under review, the Group incurred an amount of HK$18,119,000 under the said agreement.

c) On 13 September 2004, a master supply agreement was entered into between the Company and TCL Corp. for a term of three years pursuant to which (i) TCL Corp., upon the request from any PRC subsidiaries of the Company, shall purchase goods or raw materials manufactured overseas (the "Overseas Goods") and then resell the same to the relevant PRC subsidiary of the Company; and (ii) the Company shall procure its PRC subsidiaries to consider purchasing goods or raw materials manufactured in PRC (the "PRC Goods") from the TCL Corp. and its subsidiaries, excluding members comprising the Group for the purpose of this annual report (the "TCL Corp. Group"). As it wishes to continue the continuing connected transactions contemplated thereunder, the Company renewed the said agreement on 29 December 2006, 25 November 2009 and 17 December 2012 successively. The terms of the said renewal agreements are substantially the same as their predecessors with some minor modifications.

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Android 4.2 | 8" display | 1.6GHz | 2 Mpxl/ 0.3 Mpxl | HD | WiFi

The current master supply (renewal 2012) agreement (the "Master Supply (Renewal 2012) Agreement"), which was entered into on 17 December 2012, has a three-year term from 1 January 2013 to 31 December 2015. Further details of the Master Supply (Renewal 2012) Agreement were set out in the announcement and circular of the Company dated 17 December 2012 and 10 January 2013 respectively.

The transactions under the Master Supply (Renewal 2012) Agreement and its proposed revised caps were duly approved by the shareholders of the Company at an extraordinary general meeting held on 25 January 2013.

During the year under review, the Group paid HK$887,622,000 and HK$577,484,000 for the Overseas Goods and the PRC Goods respectively, of which the amount of HK$887,622,000 for the Overseas Goods comprised the consideration for the purchase of Overseas Goods amounting to HK$883,847,000 and the administration fee amounting to HK$3,775,000.

d) On 8 August 2011, a master supply (sale) agreement (the "Master Supply (Sale) Agreement") was entered into between the Company as the seller and TCL Corp. as the purchaser for a term from 8 August 2011 to 31 December 2013, which governed the existing and future sales contracts (both finished goods and materials) to be entered into between the Company and TCL Corp. Group (TCL Corp. and its subsidiaries and any entity that may become subsidiary of TCL Corp. from time to time during the term of the Master Supply (Sale) Agreement but does not include the Group).

Further details of the Master Supply (Sale) Agreement were set out in the announcement of the Company dated 8 August 2011.

During the year under review, the consideration received by the Group for the transactions under the Master Supply (Sale) Agreement was HK$10,914,000.

e) On 8 August 2011, a master lease agreement (the "Master Lease Agreement") was entered into between the Company and TCL Corp. which governed the existing leases and leases to be entered into. The Master Lease Agreement has a term from 8 August 2011 to 31 December 2013.

Further details of the Master Lease Agreement were set out in the announcement of the Company dated 8 August 2011.

During the year, the total rental borne by the Company under the Master Lease Agreement (including all existing leases) amounted to HK$24,142,000.

f) On 17 December 2012, a master logistics service supply agreement (the "Master Logistics Service Supply Agreement") was entered into between the Company and Shenzhen Speed Distribution Platform Co., Ltd (the "Speed Distribution", a wholly owned subsidiary of TCL Corp.), effective from 17 December 2012 to 31 December 2014, pursuant to which Speed Distribution shall provide logistics services to the Company in consideration of the Company paying carriage fees for such services.

Further details of the Master Logistics Service Supply Agreement were set out in the announcement of the Company dated 17 December 2012.

During the year, the consideration paid by the Company under the Master Logistics Service Supply Agreement amounted to HK$1,884,000.

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2012:

a) On 24 April 2012, a joint construction agreement (the "Joint Construction Agreement") was entered into between Huizhou TCL Mobile Communication Co., Ltd. (the "Huizhou TCL Mobile", an indirect wholly owned subsidiary of the Company) and TCL King Electrical Appliances (Huizhou) Co., Ltd. (the "TCL King", an indirect wholly owned subsidiary of TCL Multimedia), whereby TCL King shall have the right to enter into the land owned by Huizhou TCL Mobile and situated in Sub-division 37, Zhong Kai High Tech Park, Huizhou, Guangdong Province, the PRC (the "Land No. 37") and to commence construction project thereon. The transfer of the land use rights of Land No. 37 and the facilities buildings thereon would take place upon the satisfaction of relevant conditions as imposed by the relevant authorities in the PRC. Details of the Joint Construction Agreement were set out in the announcement of the Company dated 24 April 2012.

   On 17 October 2012, a transfer agreement (the "Transfer Agreement") was entered into between Huizhou TCL Mobile and TCL King transferring the land use rights of Land No. 37 together with the facilities buildings thereon. The total consideration of such transfer covered both the value of the land use rights in the sum of RMB3,701,000 (equivalent to approximately HK$4,515,000 with the exchange rate on the transaction date) and the value of the facilities buildings in the sum of RMB9,307,000 (equivalent to approximately HK$11,355,000 with the exchange rate on the transaction date), totaling a sum of RMB13,008,000 (equivalent to approximately HK$15,870,000 with the exchange rate on the transaction date). Further details of the Transfer Agreement were set out in the announcement of the Company dated 17 October 2012.

   During the year, Huizhou TCL Mobile paid HK$15,870,000 under the said transfer agreement.

b) On 9 August 2012, a construction management agreement (the "Construction Management Agreement") was entered into between Huizhou TCL Mobile and TCL Real Estate (Huizhou) Co., Ltd (the "TCL Real Estate (Huizhou)", a non-wholly owned subsidiary of TCL Corp.), pursuant to which, Huizhou TCL Mobile appointed TCL Real Estate (Huizhou) as the construction manager for the construction project on Land No. 37 to provide it with construction management services for the period from 9 August 2012 to the expiry of one-year warranty period starting from the date of final acceptance of major construction work thereon, but in any event no later than April 2014. The Service Fees are preliminarily agreed at RMB5,000,000 (equivalent to HK$6,150,000), subject to subsequent adjustment of the actual costs reasonably incurred and the reward and punishment mechanism, and in any event will not exceed RMB 6,000,000 (equivalent to HK$7,380,000).

   Further details of the Construction Management Agreement were set out in the announcement of the Company dated 9 August 2012.

   During the year, Huizhou TCL Mobile paid HK$2,703,000 under the said construction management agreement.

c) On 17 October 2012, a tripartite construction agreement (the "Tripartite Agreement") was entered into among Huizhou TCL Mobile, TCL King and TCL Technoly Electronics (Huizhou) Co., Ltd. (the "TCL Technoly", an indirect wholly owned subsidiary of TCL Multimedia), pursuant to which (i) the land situated in Sub-division 38, Zhong Kai High Tech Park, Huizhou, Guangdong Province, the PRC (the "Land No. 38") would first be severed into three different portions; and (ii) Huizhou TCL Mobile, as the owner of the land use rights of Land No. 38, shall execute various contracts in relation to the construction projects on Land No. 38 on behalf of TCL King and TCL Technoly. Once those relevant conditions in relation to the relevant portion of Land No. 38 of each of TCL King and TCL Technoly have been satisfied, Huizhou TCL Mobile shall enter into a transfer agreement with each of them, pursuant to which Huizhou TCL Mobile would transfer the relevant portion of Land No. 38 together with the buildings thereon to each of TCL King and TCL Technoly according to the agreed proportion. The total consideration for the transfer is RMB72,921,000 (equivalent to approximately HK$88,964,000), comprising of RMB42,212,000 (equivalent to approximately HK$51,499,000) to be paid by TCL King and RMB30,709,000 (equivalent to approximately HK$37,465,000 to be paid by TCL Technoly. The amount may be adjusted subject to actual construction costs incurred, but in any event, it will not exceed RMB50,000,000 (equivalent to approximately HK$61,000,000) and RMB48,000,000 (equivalent to approximately HK$58,560,000) for TCL King and TCL Technoly respectively.

Further details of the Tripartite Agreement were set out in the announcement of the Company dated 17 October 2012.

During the year, no consideration was paid by Huizhou TCL Mobile under the Tripartite Agreement.

d) According to the Tripartite Agreement, Huizhou TCL Mobile, as the owner of the land use rights of Land No. 38, shall execute various contracts on behalf of TCL King and TCL Technoly in relation to the construction projects on Land No. 38. As all of the parties intended to commence the construction projects as soon as possible and none of them had the expertise in construction management, on 17 December 2012, Huizhou TCL Mobile entered into three management agreements (collectively the "Management Agreements") with TCL Real Estate (Huizhou) for itself and on behalf of TCL King and TCL Technoly, whereby TCL Real Estate (Huizhou) shall provide management services in relation to the construction projects on the relevant portions of Land No. 38 of each of them. Under the Management Agreements, TCL Real Estate (Huizhou) shall provide management services for the period from 17 December 2012 until TCL King and TCL Technoly have entered into their respective agreements in its respective own name in the capacity as the owners of the land use rights of their relevant portions of the Land No. 38.

For better management and clearer delineation of the rights and obligations of the parties involved, all aforesaid parties entered into a quartet agreement (the "Quartet Agreement") which sets out the basic principle and the framework under which the parties shall follow in relation to the Management Agreements.

The total consideration to be paid by Huizhou TCL Mobile under the Management Agreements amounts to RMB 8,610,000 (equivalent to approximately HK$10,590,000), subject to subsequent adjustment of the actual costs reasonably incurred and the reward and punishment mechanism, and in any event will not exceed RMB 11,000,000 (equivalent to approximately HK$13,530,000).

Further details of the Management Agreements and the Quartet Agreement were set out in the announcement of the Company dated 17 December 2012.

During the year, no consideration was paid by Huizhou TCL Mobile under the Management Agreements and the Quartet Agreement.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Ernst & Young have confirmed to the Board that the above continuing connected transactions:

(i) have been approved by the Board;

(ii) are in accordance with the pricing policies of the Group where the transactions involved provision of goods or services by the Group;

(iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and

(iv) have not exceeded the relevant caps as disclosed in the relevant announcements and/or circulars of the Company (where applicable).

CORPORATE GOVERNANCE

Details of the Group's governance practices can be found in the Corporate Governance Report contained on pages 38 to 57 in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year under review.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year under review, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 47 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audited annual results have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant Code Provisions of the CG Code.

The Audit Committee comprises four members, including Mr. LAU Siu Ki (Chairman), Mr. LOOK Andrew and Mr. KWOK Hoi Sing, all being independent non-executive Directors, and Mr. HUANG Xubin, a non-executive Director.

AUDITORS

The accounts for the year ended 31 December 2012 have been audited by Ernst & Young, who shall retire and, being eligible, shall offer themselves for re-appointment as auditors of the Company at the forthcoming AGM.

On behalf of the Board

LI Dongsheng
Chairman

Hong Kong
26 February 2013

Independent Auditors' Report

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Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of TCL Communication Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of TCL Communication Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 80 to 166, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

ERNST & YOUNG
安永

To the shareholders of TCL Communication Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

26 February 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	8	**12,031,212**	10,653,020
Cost of sales		**(9,934,637)**	(8,324,789)
Gross profit		**2,096,575**	2,328,231
Other income and gains	8	**542,841**	508,225
Research and development costs	9	**(739,654)**	(459,223)
Selling and distribution expenses		**(1,153,653)**	(866,262)
Administrative expenses		**(657,535)**	(558,074)
Other operating expenses		**(109,289)**	(28,116)
Finance costs	10	**(166,009)**	(140,051)
Share of losses of associates		**(1,753)**	(1,381)
(LOSS)/PROFIT BEFORE TAX	9	**(188,477)**	783,349
Income tax	12	**(31,551)**	17,296
(LOSS)/PROFIT FOR THE YEAR		**(220,028)**	800,645
Attributable to:			
Owners of the parent	13	**(207,840)**	799,934
Non-controlling interests		**(12,188)**	711
		(220,028)	800,645
(LOSS)/EARNING PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	15		
Basic		**(18.49)**	72.83
Diluted		**(18.07)**	70.40

Details of the dividends declared for the year are disclosed in note 14 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
(LOSS)/PROFIT FOR THE YEAR		**(220,028)**	800,645
OTHER COMPREHENSIVE (LOSS)/INCOME			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	30	**(10,272)**	41,346
Reclassification adjustments for gains included in the consolidated income statement	30	**(28,653)**	(31,131)
Income tax effect	30	**(3,847)**	(128)
		(42,772)	10,087
Exchange differences on translation of foreign operations		**(2,197)**	89,441
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(44,969)**	99,528
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(264,997)**	900,173
Attributable to:			
Owners of the parent		**(252,809)**	899,462
Non-controlling interests		**(12,188)**	711
		(264,997)	900,173

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**597,287**	497,132
Prepaid land lease payments	17	**176,656**	185,444
Other intangible assets	18	**920,536**	702,215
Goodwill	19	**253,954**	253,954
Investment in an associate	21	**3,502**	2,352
Available-for-sale investments	22	**26,272**	26,272
Deferred tax assets	34	**130,659**	105,668
Total non-current assets		**2,108,866**	1,773,037
CURRENT ASSETS			
Inventories	23	**1,263,038**	981,416
Trade receivables	24	**2,842,494**	2,584,768
Factored trade receivables	25	**432,334**	309,960
Notes receivable		**39,220**	53,470
Prepayments, deposits and other receivables	26	**1,246,325**	870,488
Due from related companies	42(d)	**29,512**	13,678
Tax recoverable		**22,236**	12,261
Derivative financial instruments	30	**145,894**	148,693
Pledged deposits	27	**4,221,125**	6,092,411
Cash and cash equivalents	27	**969,789**	1,186,637
Total current assets		**11,211,967**	12,253,782
CURRENT LIABILITIES			
Interest bearing bank and other borrowings	28	**5,726,390**	7,222,256
Trade and notes payables	29	**2,428,661**	1,952,129
Bank advances on factored trade receivables	25	**432,334**	309,960
Other payables and accruals		**1,620,401**	1,431,091
Derivative financial instruments	30	**96,282**	71,157
Provision for warranties	31	**187,975**	137,574
Due to related companies	42(d)	**112,826**	165,210
Tax payable		**738**	25,744
Total current liabilities		**10,605,607**	11,315,121
NET CURRENT ASSETS		**606,360**	938,661
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,715,226**	2,711,698

continued/...

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,715,226**	2,711,698
NON-CURRENT LIABILITIES			
Retirement indemnities	32	**3,738**	2,263
Long service medals	33	**1,840**	1,332
Interest bearing bank and other borrowings	28	**193,790**	–
Loan from a related company	28,42(d)	**116,274**	–
Deferred tax liabilities	34	**76,958**	35,032
Total non-current liabilities		**392,600**	38,627
Net assets		**2,322,626**	2,673,071
EQUITY			
Equity attributable to owners of the parent			
Issued capital	35	**1,128,290**	1,114,193
Shares held for Share Award Scheme	37	**(77,870)**	(80,708)
Reserves	38(a)	**1,270,691**	1,467,753
Proposed final dividend	14	**–**	167,384
		2,321,111	2,668,622
Non-controlling interests		**1,515**	4,449
Total equity		**2,322,626**	2,673,071

LI Dongsheng
Director

GUO Aiping
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the parent														
	Issued share capital HK$'000 (note 35)	Share premium account HK$'000 (note 35)	Shares held for Share Award Scheme HK$'000 (note 37)	Awarded shares reserve HK$'000 (note 37)	Share option reserve HK$'000 (note 36)	Hedging reserve HK$'000 (note 30)	Contributed surplus HK$'000 (note 38(a))	Statutory reserve HK$'000 (note 38(a))	Other reserve HK$'000 (note 38 (a))	Exchange fluctuation reserve HK$'000	Proposed final dividend HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011	1,097,528	232,602	(11,032)	1,499	56,653	47,935	232,555	191,425	–	131,870	184,805	52,606	2,218,446	3,738	2,222,184
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	799,934	799,934	711	800,645
Other comprehensive income for the year:															
Cash flow hedges, net of tax	–	–	–	–	–	10,087	–	–	–	–	–	–	10,087	–	10,087
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	89,441	–	–	89,441	–	89,441
Total comprehensive income for the year	–	–	–	–	–	10,087	–	–	–	89,441	–	799,934	899,462	711	900,173
Acquisition of a new business under common control	–	–	–	–	–	–	–	–	(130,232)	–	–	–	(130,232)	–	(130,232)
Exercise of share options	17,638	46,418	–	–	(20,169)	–	–	–	–	–	–	–	43,887	–	43,887
Reclassification of lapsed share options	–	116	–	–	(116)	–	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	33,644	–	–	–	–	–	–	–	33,644	–	33,644
Share Award Scheme arrangements	–	–	–	9,971	–	–	–	–	–	–	–	–	9,971	–	9,971
Reclassification of vested awarded shares	–	(70)	1,580	(1,510)	–	–	–	–	–	–	–	–	–	–	–
Shares purchased for Share Award Scheme	–	7,615	(71,256)	–	–	–	–	–	–	–	–	–	(63,641)	–	(63,641)
Shares repurchased	(973)	(3,165)	–	–	–	–	–	–	–	–	–	–	(4,138)	–	(4,138)
Transfer from retained profits	–	–	–	–	–	–	–	29,497	–	–	–	(29,497)	–	–	–
2010 final dividend declared	–	(630)	–	–	–	–	–	–	–	–	(184,805)	–	(185,435)	–	(185,435)
2011 interim dividend declared	–	–	–	–	–	–	–	–	–	–	–	(153,342)	(153,342)	–	(153,342)
Proposed 2011 final dividend	–	–	–	–	–	–	–	–	–	–	167,384	(167,384)	–	–	–
At 31 December 2011	1,114,193	282,886*	(80,708)	9,960*	70,012*	58,022*	232,555*	220,922*	(130,232)*	221,311*	167,384	502,317*	2,668,622	4,449	2,673,071

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Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the parent														
	Issued share capital HK$'000 (note 35)	Share premium account HK$'000 (note 35)	Shares held for Share Award Scheme HK$'000 (note 37)	Awarded shares reserve HK$'000 (note 37)	Share option reserve HK$'000 (note 36)	Hedging reserve HK$'000 (note 30)	Contributed surplus HK$'000 (note 38(a))	Statutory reserve HK$'000 (note 38(a))	Other reserve HK$'000 (note 38 (a))	Exchange fluctuation reserve HK$'000	Proposed final dividend HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012	1,114,193	282,886	(80,708)	9,960	70,012	58,022	232,555	220,922	(130,232)	221,311	167,384	502,317	2,668,622	4,449	2,673,071
Loss for the year	–	–	–	–	–	–	–	–	–	–	–	(207,840)	(207,840)	(12,188)	(220,028)
Other comprehensive loss for the year:															
Cash flow hedges, net of tax	–	–	–	–	–	(42,772)	–	–	–	–	–	–	(42,772)	–	(42,772)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	(2,197)	–	–	(2,197)	–	(2,197)
Total comprehensive loss for the year	–	–	–	–	–	(42,772)	–	–	–	(2,197)	–	(207,840)	(252,809)	(12,188)	(264,997)
Exercise of share options	12,894	29,284	–	–	(15,726)	–	–	–	–	–	–	–	26,452	–	26,452
Issue of new shares under Share Award Scheme	1,203	5,435	–	(6,638)	–	–	–	–	–	–	–	–	–	–	–
Reclassification of lapsed share options	–	2,498	–	–	(2,498)	–	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	42,854	–	–	–	–	–	–	–	42,854	–	42,854
Share Award Scheme arrangements	–	–	–	38,256	–	–	–	–	–	–	–	–	38,256	–	38,256
Reclassification of vested awarded shares	–	1,227	2,838	(4,065)	–	–	–	–	–	–	–	–	–	–	–
Addition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	9,254	9,254
Transfer from retained profits	–	–	–	–	–	–	–	54,603	–	–	–	(54,603)	–	–	–
2011 final dividend declared	–	–	–	–	–	–	–	–	–	–	(167,384)	(1,031)	(168,415)	–	(168,415)
2012 interim dividend declared	–	–	–	–	–	–	–	–	–	–	–	(33,849)	(33,849)	–	(33,849)
At 31 December 2012	1,128,290	321,330*	(77,870)	37,513*	94,642*	15,250*	232,555*	275,525*	(130,232)*	219,114*	–	204,994*	2,321,111	1,515	2,322,626

* These reserve accounts comprise the consolidated reserves of HK$1,270,691,000 (31 December 2011: HK$1,467,753,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(188,477)**	783,349
Adjustments for:			
Share of losses of associates		**1,753**	1,381
Interest income	8	**(213,389)**	(195,504)
Dividend income from available-for-sale investments	8	**(4,016)**	(1,477)
Gain on disposal of prepaid land lease payments and affiliated buildings	8	**(56,114)**	–
Depreciation	9	**120,557**	86,055
Prepaid land lease recognised	9	**3,469**	990
Amortisation of computer software, intellectual property and ALCATEL brand license	9	**40,244**	21,211
Amortisation of deferred development costs	9	**628,321**	168,135
(Gain)/loss on disposal of items of property, plant and equipment	9	**(660)**	72
Loss on retirement and disposal of intangible assets	9	**297**	–
Equity-settled share options expenses	9	**36,504**	33,644
Equity-settled Share Award Scheme expenses	9	**25,639**	9,971
Impairment loss of trade receivables	9	**884**	4,025
Provision for/(reversal of) impairment loss of other receivables	9	**1,192**	(10,337)
Reversal of impairment loss of an investment in an associate	9	**–**	(1,539)
Deemed loss on disposal of an investment in an associate	9	**–**	1,210
Finance costs	10	**166,009**	140,051
Gain on change in fair value of derivative financial instruments	30	**(6,118)**	(30,370)
		556,095	1,010,867
Increase in inventories		**(283,807)**	(191,988)
Increase in trade receivables		**(243,975)**	(136,750)
Increase in factored trade receivables		**(122,374)**	(278,762)
Decrease/(increase) in notes receivable		**14,250**	(46,379)
Increase in prepayments, deposits and other receivables		**(369,801)**	(277,412)
Decrease in pledged deposits		**–**	1,178
Decrease in derivative financial instruments		**12,820**	18,599
(Increase)/decrease in amounts due from related companies		**(10,162)**	300
Increase in trade and notes payables		**651,965**	39,675
Increase in other payables and accruals		**251,152**	138,242
Increase in provision for warranties		**48,273**	12,259
Decrease in amounts due to related companies		**(52,384)**	(1,317)
Increase/(decrease) in retirement indemnities		**1,399**	(23)
Increase in long service medals		**471**	101
Cash generated from operations		**453,922**	288,590
Tax paid		**(52,356)**	(35,547)
Interest paid		**(177,419)**	(131,345)
Net cash flows from operating activities		**224,147**	121,698

continued/...

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Net cash flows from operating activities		**224,147**	121,698
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(246,385)**	(231,823)
Addition of prepaid land lease payments		**–**	(166,774)
Acquisition of intangible assets		**(1,041,757)**	(610,278)
Advance from disposal of prepaid land lease payments and affiliated buildings		**–**	49,320
Proceeds from disposal of prepaid land lease payments and affiliated buildings		**27,094**	–
Proceeds from disposal of items of property, plant and equipment		**2,467**	2,064
Acquisition of subsidiaries		**–**	(121,735)
Acquisition of a new business under common control		**–**	(143,928)
Purchase of available-for-sale investments		**–**	(6,027)
Investment in an associate		**(2,298)**	–
Decrease in pledged deposits		**1,023**	120,921
Dividends received from available-for-sale investments		**1,996**	1,477
Interest received		**206,250**	140,995
Net cash flows used in investing activities		**(1,051,610)**	(965,788)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of new shares by exercise of share options		**26,452**	43,887
Addition of non-controlling interests		**9,254**	–
Decrease/(increase) in pledged deposits		**1,870,263**	(13,514)
Shares purchased for Share Award Scheme		**–**	(63,641)
Shares repurchased		**–**	(4,138)
Decrease in an amount due to the ultimate controlling shareholder		**–**	(2,514)
Increase in bank advances on factored trade receivables		**122,374**	278,762
New bank loans		**7,996,358**	7,727,988
New loan from a related company	42(a)	**116,382**	–
Repayment of bank loans		**(9,298,324)**	(6,992,586)
Capital element of a finance lease		**–**	(1,103)
Dividends paid		**(202,263)**	(336,399)
Net cash flows from financing activities		**640,496**	636,742
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(186,967)**	(207,348)
Cash and cash equivalents at beginning of year		**1,186,637**	1,345,283
Effect of foreign exchange rate changes, net		**(29,881)**	48,702
CASH AND CASH EQUIVALENTS AT END OF YEAR		**969,789**	1,186,637
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash and cash equivalents as stated in the statement of financial position	27	**969,789**	1,186,637

Statement of Financial Position

31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	20	**1,053,679**	1,288,526
Total non-current assets		**1,053,679**	1,288,526
CURRENT ASSETS			
Due from subsidiaries	20	**1,476,352**	1,380,096
Other receivables	26	**5,682**	–
Cash and cash equivalents	27	**3,444**	3,831
Total current assets		**1,485,478**	1,383,927
CURRENT LIABILITIES			
Due to subsidiaries	20	**198,717**	105,052
Other payables and accruals		**8,900**	15,164
Total current liabilities		**207,617**	120,216
NET CURRENT ASSETS		**1,277,861**	1,263,711
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,331,540**	2,552,237
NON-CURRENT LIABILITIES			
Interest bearing bank and other borrowings	28	**193,790**	–
Total non-current liabilities		**193,790**	–
Net assets		**2,137,750**	2,552,237
EQUITY			
Issued capital	35	**1,128,290**	1,114,193
Shares held for Share Award Scheme	37	**(77,870)**	(80,708)
Reserves	38(b)	**1,087,330**	1,351,368
Proposed final dividend	14	**–**	167,384
Total equity		**2,137,750**	2,552,237

LI Dongsheng
Director

GUO Aiping
Director

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 February 2004 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal office of the Company is located at Rooms 1910-12A, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

During the year, the Group was principally engaged in the research and development, manufacture and sale of mobile phones and other products.

In the opinion of the directors, T.C.L. Industries Holding (H.K.) Limited, a company incorporated in Hong Kong, is the immediate holding company of the Company and the ultimate holding company of the Company is TCL Corporation, a limited liability company registered in the People's Republic of China (the "PRC") and listed on the Shenzhen Stock Exchange.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the Group's forward contracts and interest rate swap, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries and a Trust ("the Share Award Scheme Trust"), a controlled special purpose entity, are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

On 3 July 2007, the board of directors (the "Board") approved a Share Award Scheme ("Share Award Scheme A") under which awarded shares may be awarded to employees of subsidiaries of the Group in accordance with the terms and conditions of Share Award Scheme A. Share Award Scheme A was terminated on 23 October 2009. On 11 March 2008, the Board resolved to adopt another Share Award Scheme ("Share Award Scheme B") to provide incentives to employees and to retain and encourage employees for the continual operation and development of the Group. Pursuant to the rules of the Share Award Schemes, the Group has set up the Share Award Scheme Trust for the purpose of administering the Share Award Schemes and holding the awarded shares before they vest. As the Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and derives benefits from the contributions of the employees who have been awarded the awarded shares through their continued employment with the Group, the Group is required to consolidate the Share Award Scheme Trust under HKAS 27 (Revised) *Consolidated and Separate Financial Statements*.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKFRS 7, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The principal effect of adopting HKFRS 7 Amendments is as follows:

The HKFRS 7 Amendments require additional disclosures about financial assets that have been transferred but not derecognised to enable users of the Group's financial statements to understand the relationship of those assets that have not been derecognised with their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognised assets to enable users to evaluate the nature of, and risks associated with, such involvement. Details of the transfers of financial assets, including the related comparative information, are included in note 44 to the financial statements.

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [2]
HKFRS 9	*Financial Instruments* [4]
HKFRS 10	*Consolidated Financial Statements* [2]
HKFRS 11	*Joint Arrangements* [2]
HKFRS 12	*Disclosure of Interests in Other Entities* [2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance* [2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities* [3]
HKFRS 13	*Fair Value Measurement* [2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [1]
HKAS 19 (2011)	*Employee Benefits* [2]
HKAS 27 (2011)	*Separate Financial Statements* [2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [2]
Annual Improvements 2009 – 2011 Cycle	Amendments to a number of HKFRSs issued in June 2012 [2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangement on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consideration.

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated* and *Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing houses systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvement to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum require comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendments clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of its associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations of entities under common control

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

Impairment of non-financial assets

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

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

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

Related parties

A party is considered to be related to the Group if:

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (ii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

(iii) the entity and the Group are joint ventures of the same third party;
(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
(vi) the entity is controlled or jointly controlled by a person identified in (a); and
(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	2.0% to 6.0%
Plant and machinery	9.0% to 18.0%
Furniture, fixtures, office equipment and research and development equipment	18.0% to 50.0%
Motor vehicles	15.0% to 22.5%

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

Research and development costs

All research costs are charged to the income statement as incurred.

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

Deferred development costs are stated at cost less impairment losses and are amortised on a systematic basis with reference to projected revenue, ranging from 12 to 24 months, upon sales of related products.

Computer software

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

Intellectual property

Purchased intellectual property is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life.

Golf club membership

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

ALCATEL brand license

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the period consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and notes payables, bank advances on factored trade receivables, other payables and accruals, amounts due to related companies, derivative financial instruments and interest bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions, and/or reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

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

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

Fair value hedges

The change in the fair value of hedging derivative is recognised in the income statement as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement as other expenses.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges (continued)

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the income statement as other expenses.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

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

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

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(c) value-added service income, upon provision of the relevant services; and

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

Employee benefits

Share-based payments

The Company operates a share option scheme and one Share Award Schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 36 and 37 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options and awarded shares through new issue of shares is reflected as additional share dilution in the computation of (loss)/earning per share.

Shares held for the Share Award Scheme

As disclosed in note 37 to the financial statements, the Group has set up the Share Award Scheme Trust for the share award schemes, where the Share Award Scheme Trust purchases shares issued by the Group, the consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" and deducted from the Group's equity.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Central Pension Scheme

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

Mandatory Provident Fund

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

Retirement indemnities

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

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

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

Borrowing costs

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of share premium or retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends (continued)

Interim dividends and special dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare such dividends. Consequently, such dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

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

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of property, plant and equipment

The Group determines whether property, plant and equipment are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment at 31 December 2012 was HK$597,287,000 (31 December 2011: HK$497,132,000). More details are set out in note 16 to the financial statements.

Management carries out the impairment review on property, plant and equipment by comparing the carrying amount and the recoverable amount of property, plant and equipment.

An impairment loss is recognised when the carrying amount of property, plant and equipment exceeds the recoverable amount. An impairment loss is charged to the income statement in the period in which it arises. Management assesses the recoverable amount by comparing the fair value less costs to sell and the expected value in use which is determined by the expected useful life and the expected discounted net cash flows of property, plant and equipment.

Warranty claims

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

As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years. As at 31 December 2012, the carrying amount of warranty provisions was HK$187,975,000 (31 December 2011: HK$137,574,000). Further details are included in note 31 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 and 2011 was HK$253,954,000. More details are given in note 19 to the financial statements.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying amount of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed. The carrying amounts of trade receivables and other receivables at 31 December 2012 were HK$2,842,494,000 (31 December 2011: HK$2,584,768,000) and HK$1,134,037,000 (31 December 2011: HK$771,941,000), respectively. Further details are given in note 24 and note 26 to the financial statements.

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of the reporting period.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories at 31 December 2012 was HK$1,263,038,000 (31 December 2011: HK$981,416,000). Further details are given in note 23 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategy. The carrying value of deferred tax assets at 31 December 2012 was HK$130,659,000 (31 December 2011: HK$105,668,000). The amount of unrecognised tax losses at 31 December 2012 was HK$2,316,941,000 (31 December 2011: HK$1,104,496,000). Further details are included in note 34 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 5 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2012, the best estimate of the carrying amount of capitalised development costs was HK$565,107,000 (31 December 2011: HK$320,327,000). Further details are included in note 18 to the financial statements.

7. OPERATING SEGMENT INFORMATION

For management purposes, the management does not review the performance of the business in China and overseas segments separately, but considers that there is only one segment which is the research and development, manufacture and sale of mobile phones and other products. All of the Group's products are of a similar nature and subject to similar risk and returns.

Geographical information

(a) Revenue from external customers

	2012	2011
	HK$'000	HK$'000
China	**1,615,557**	1,009,687
Asia Pacific	**816,902**	641,317
Americas	**5,117,254**	5,178,700
Europe, the Middle East and Africa	**4,481,499**	3,823,316
Total	**12,031,212**	10,653,020

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

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

Information about major customers

For the years ended 31 December 2012 and 2011, no revenue from a single customer accounted for 10% or more of the total revenue of the Group.

8. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of mobile phones and other products sold during the year, after deducting allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

		Group	
	Note	**2012** **HK$'000**	2011 HK$'000 (Restated)
Revenue			
Sale of mobile phones and other products		**12,031,212**	10,653,020
Other income and gains			
Interest income		**213,389**	195,504
Subsidy income*		**70,148**	30,863
Value-added-tax ("VAT") refunds**		**172,383**	102,020
Value-added service income		**11,685**	10,293
Exchange gains, net		**–**	135,040
Including: exchange losses on derivative financial instruments		**–**	(40,674)
Ineffectiveness of cash flow hedges		**–**	(3,405)
Gain on disposal of property, plant and equipment		**660**	–
Gain on disposal of prepaid land lease payments and affiliated buildings	9	**56,114**	–
Dividend income from available-for-sale investments		**4,016**	1,477
Others		**14,446**	33,028
		542,841	508,225

* Subsidy income represented various government grants received by the Group in the PRC. In the opinion of the management, there are no unfulfilled conditions or contingencies relating to these grants.

** During the years ended 31 December 2012 and 2011, JRD Communication (Shenzhen) Ltd. ("JRD Shenzhen") and JRD Communication Technology (Shanghai) Limited ("JRD Shanghai") (designated as a software enterprise in December 2011), being designated software enterprises, were entitled to VAT refunds at the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17%.

9. (LOSS)/PROFIT BEFORE TAX

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

		Group	
	Notes	**2012** **HK$'000**	2011 HK$'000 (Restated)
Cost of inventories sold		**9,934,637**	8,324,789
Depreciation	16	**120,557**	86,055
Prepaid land lease recognised	17	**3,469**	990
Amortisation of computer software, intellectual property and ALCATEL brand license*	18	**40,244**	21,211
Research and development costs:			
Deferred expenditure amortised	18	**628,321**	168,135
Current year expenditure		**111,333**	291,088
		739,654	459,223
Brand management fee/TCL Brand Common Fund/ALCATEL brand license fee*		**18,119**	35,783
Minimum lease payments under operating leases in respect of land and buildings		**71,898**	54,457
Auditors' remuneration		**7,737**	8,267
Employee benefit expense (including directors' and chief executive's remuneration (note 11))**:			
Salaries and wages		**1,027,958**	818,946
Equity-settled expenses:			
Share options		**36,504**	33,644
Share Award Scheme		**25,639**	9,971
Pension scheme contributions:			
The contribution plan		**119,322**	78,480
The pension plan	32	**1,399**	(23)
		1,210,822	941,018
Exchange loss/(gain), net****		**88,195**	(135,040)
Including: exchange losses on derivative financial instruments		**61,649**	40,674
Ineffectiveness of cash flow hedges		**16,438**	3,405
Finance costs of loans hedged by interest rate swap	30	**47,534**	45,430
Impairment loss of trade receivables	24	**884**	4,025
Provision for/(reversal of) impairment loss of other receivables	26	**1,192**	(10,337)
Product warranty provisions	31	**214,275**	180,903
(Gain)/loss on disposal of items of property, plant and equipment		**(660)**	72
Gain on disposal of prepaid land lease payments and affiliated buildings	8	**(56,114)**	–
Loss on retirement and disposal of intangible assets		**297**	–
Reversal of impairment loss of an investment in an associate***		**–**	(1,539)
Deemed loss on disposal of an investment in an associate****		**–**	1,210
Write-down of inventories to net realisable value		**83,608**	40,414

9. (LOSS)/PROFIT BEFORE TAX (continued)

* On 19 September 2011, the Group entered into the Amended License Agreement with Alcatel-Lucent as the licensor and a consideration of US$40,000,000 (equivalent to approximately HK$312,000,000) was paid in form of cash as the license fee for the use of the "ALCATEL" brand name for certain of its products for the period from 1 July 2011 to 31 December 2024. The amortisation of the ALCATEL brand license represented the amortisation of the total consideration of US$40,000,000 (equivalent to approximately HK$312,000,000) under the Amended License Agreement, while the ALCATEL brand license fee represented the expense for the use of the "ALCATEL" brand under the original license agreement from 1 January 2011 to 30 June 2011.

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

*** Included in "administrative expenses" in the consolidated income statement.

**** Included in "(other income and gains)/other operating expenses" in the consolidated income statement.

10. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Interest on bank loans and other loans wholly repayable within three years	**165,146**	137,539
Interest on discounted notes and factored trade receivables*	**4,799**	2,512
	169,945	140,051
Less: interest capitalised	**3,936**	–
Total finance costs	**166,009**	140,051

* The effective interest rate of factored trade receivables is 0.17% (2011: 0.20%) per month.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
Fees	**1,290**	1,309
Other emoluments:		
Salaries, allowances and benefits in kind	**3,034**	5,884
Equity-settled share option and Share Award Scheme expenses	**24,350**	16,455
Pension scheme contributions	**155**	98
	28,829	23,746

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

During the years ended 31 December 2012 and 2011, certain directors and the chief executive were granted share options and awarded shares. The grant of share options and awarded shares was in respect of their services to the Group, under the share option scheme and the Share Award Scheme of the Company, further details are set out in notes 36 and 37 respectively to the financial statements. The fair value of such share options and awarded shares, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent Non-Executive Directors

2012	**Fees HK$'000**	**Equity- settled share option expense HK$'000**	**Total remuneration HK$'000**
Mr. LAU Siu Ki	**180**	**146**	**326**
Mr. LOOK Andrew	**180**	**381**	**561**
Mr. KWOK Hoi Sing	**180**	**480**	**660**
	540	**1,007**	**1,547**

2011	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
Mr. LAU Siu Ki	180	121	301
Mr. LOOK Andrew	180	814	994
Mr. KWOK Hoi Sing (appointed on 9 May 2011)	116	225	341
Mr. SHI Cuiming (resigned on 9 May 2011)	64	40	104
Mr. LIU Chung Laung (resigned on 9 May 2011)	64	40	104
	604	1,240	1,844

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive Directors, Non-Executive Directors, the Chief Executive and the five highest paid employees

2012	**Fees HK$'000**	**Salaries, allowances and benefits in kind HK$'000**	**Equity-settled share option and Share Award Scheme expenses HK$'000**	**Pension scheme contributions HK$'000**	**Total remuneration HK$'000**
Executive directors:					
Mr. LI Dongsheng	**130**	**–**	**4,791**	**7**	**4,928**
Mr. GUO Aiping					
(dual appointment as chief executive)	**130**	**1,899**	**8,996**	**52**	**11,077**
Mr. WANG Jiyang	**130**	**1,135**	**5,692**	**96**	**7,053**
Non-executive directors:					
Mr. BO Lianming	**120**	**–**	**1,496**	**–**	**1,616**
Mr. HUANG Xubin	**120**	**–**	**1,184**	**–**	**1,304**
Ms. XU Fang	**120**	**–**	**1,184**	**–**	**1,304**
	750	**3,034**	**23,343**	**155**	**27,282**

2011	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option and Share Award Scheme expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000 (Restated)
Executive directors:					
Mr. LI Dongsheng	130	–	4,529	7	4,666
Mr. GUO Aiping					
(dual appointment as chief executive)	130	5,484	7,228	33	12,875
Mr. WANG Jiyang					
(appointed on 9 May 2011)	84	400	1,115	59	1,658
Non-executive directors:					
Mr. BO Lianming	120	–	906	–	1,026
Mr. HUANG Xubin	120	–	718	–	838
Ms. XU Fang	120	–	718	–	838
	704	5,884	15,214	99	21,901

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included three (2011: three (restated)) directors and the chief executive, details of whose remuneration are set out above.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive Directors, Non-Executive Directors, the Chief Executive and the five highest paid employees (continued)

Details of the remuneration for the year of the remaining two (2011: two (restated)) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2012 **HK$'000**	2011 HK$'000 (Restated)
Salaries, allowances and benefits in kind	**5,315**	11,057
Equity-settled share option and Share Award Scheme expenses	**4,391**	2,987
Pension scheme contributions	**317**	337
	10,023	14,381

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees **2012**	 2011 (Restated)
HK$4,000,001 to HK$4,500,000	**1**	–
HK$5,500,001 to HK$6,000,000	**1**	–
HK$6,500,001 to HK$7,000,000	**–**	1
HK$7,000,001 to HK$7,500,000	**–**	1
	2	2

During the year, share options and awarded shares were granted to two (2011: one) non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in disclosures in notes 36 and 37 respectively to the financial statements. The fair value of such options and awarded shares, which have been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-directors and non-chief executive remuneration disclosures.

12. INCOME TAX

	Group	
	2012	2011
	HK$'000	HK$'000
Current		
Charge for the year:		
The PRC	**8,293**	22,480
France	**2,291**	7,585
Mexico	**–**	4,742
Russia	**6,935**	553
The United States	**185**	570
Over provision in prior years	**(88)**	(236)
	17,616	35,694
Deferred (note 34)	**13,935**	(52,990)
Tax charge/(credit) for the year	**31,551**	(17,296)

No Hong Kong profits tax has been provided (2011: nil) since no assessable profit arose in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

Huizhou TCL Mobile Communication Co., Ltd. ("Huizhou TCL Mobile") a subsidiary of the Company in the PRC, was given a high technology enterprise accreditation from October 2011 to October 2014 and hence is subject to a national income tax rate of 15% for the years 2012 and 2011.

JRD Shenzhen, a subsidiary of the Company in the PRC, was given a high technology enterprise accreditation from December 2008 to December 2011 and renewed such qualification to October 2014. Hence it is subject to a national income tax rate of 15% for the years 2012 and 2011.

TCL Communication (Ningbo) Limited ("Ningbo R&D"), a subsidiary of the Company in the PRC acquired on 25 May 2011, was given a high technology enterprise accreditation from December 2008 to December 2011 and renewed such qualification to November 2014. Hence it is subject to a national income tax rate of 15% for the years 2012 and 2011.

According to the Corporate Income Tax Law of the PRC on the newly established high technology software enterprises, JRD Shanghai, a subsidiary of the Company in the PRC, was eligible for a "two-year exemption and three-year half reduction" tax holiday starting from its first profit-making year being a newly established high technology software enterprise.

Except for the subsidiaries in PRC mentioned above, the subsidiaries of the Company in PRC are subject to the PRC corporate income tax rate of 25% for the years 2012 and 2011.

TCT SAS, a subsidiary of the Company in France, is subject to a corporate income tax rate of 33.33% for the years 2012 and 2011. According the new French tax policy issued in 2011, entity needs to pay income tax whereas the entity has tax losses carried forward. In 2012, based on the French Finance Bill for 2013 which was published on 30 December 2012 and effective for the fiscal years ending on or after 31 December 2012, the amount of the deficit that could be deducted from any subsequent profit is limited to EUR1,000,000 plus, if applicable, 50% of the fraction of earnings exceeding EUR1,000,000. While in 2011, based on article 2 of the Supplementary Budget for 2011 ("loi de finances rectificative pour 2011") dated 19 September 2011, the percentage of the fraction of earnings exceeding EUR1,000,000 was 60%.

12. INCOME TAX (continued)

TCT Mobile SA DE CV, a subsidiary of the Company in Mexico, is subject to Flat Rate Business Tax ("IETU") and income tax ("ISR"). IETU applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, less certain authorised deductions. IETU payable is calculated by subtracting certain tax credits from the tax determined. Revenue, deductions and certain tax credits are determined based on cash flows generated starting from 1 January 2008. The tax rate of IETU was 17.5% for the years 2012 and 2011. ISR is calculated as a certain percentage of net tax income which is determined based on all revenues minus expenses (deductions) as defined by Income Tax Law. The ISR rate was 30% for the years 2012 and 2011. In all cases, the payment of IETU is required only to the extent that it exceeds the ISR for the same period.

"TMC Rus" Limited Liability Company, a subsidiary of the Company in Russia, is subject to corporate income tax rate of 20% for the years 2012 and 2011.

TCT Mobile, Inc. and TCT Mobile (US) Inc. (set up in December 2011), subsidiaries of the Company in the United States, are subject to the United States Federal tax rate of 34% and California State tax rate of 8.84% for the years 2012 and 2011.

TCT Mobile-Telefones LTDA., a subsidiary of the Company in Brazil, is subject to corporate income tax at a rate of 25% and social contribution tax at a rate of 9% on the same taxable income (except for certain specific adjustments), according to Article 17 of Law #11.727 and Article 228 of Decree #3.000 of Income Tax Regulation in Brazil.

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rate for the countries in which the Company and the majority of its subsidiaries, are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e. the statutory tax rate) to the effective tax rate, are as follows:

	2012 HK$'000	**%**	2011 HK$'000	%
(Loss)/profit before tax	**(188,477)**		783,349	
Tax at the applicable rate	**15,087**	**8.0**	160,786	20.5
Lower tax rates for specific provinces or enacted by local authorities	**(192,803)**	**(102.4)**	(51,635)	(6.6)
Adjustment in respect of current tax of previous periods	**(88)**	**–**	(236)	–
Income not subject to tax	**(24,968)**	**(13.2)**	(65,269)	(8.3)
Expenses not deductible for tax	**50,665**	**26.9**	81,249	10.3
Tax effect of expenses that are entitled to additional deduction	**(25,044)**	**(13.3)**	(31,641)	(4.0)
Tax losses utilised from previous periods	**(20,783)**	**(11.0)**	(131,157)	(16.7)
Tax losses not recognised	**244,284**	**129.6**	70,607	9.0
Others*	**(14,799)**	**(7.9)**	(50,000)	(6.4)
Tax charge/(credit) at the Group's effective rate	**31,551**	**16.7**	(17,296)	(2.2)

* Representing deferred tax asset recognised from unused tax losses arising from a subsidiary in France as management considered the subsidiary had commenced profit-making for some time to the extent that it is probable that taxable profit will be available against which such tax losses can be utilised.

13. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated (loss)/profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of HK$319,785,000 (2011: profit of HK$754,735,000) which has been dealt with in the financial statements of the Company (note 38(b)).

14. DIVIDENDS

	2012 HK$'000	2011 HK$'000
Interim – 3.0 HK cents (2011: 13.8 HK cents) per ordinary share	**33,849**	153,342
Proposed final – Nil (2011: 15.0 HK cents per ordinary share)	**–**	167,384
	33,849	320,726

The Company does not intend to declare the payment of any final dividend in respect of the year ended 31 December 2012 to shareholders.

15. (LOSS)/EARNING PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of basic and diluted (loss)/earning per share are based on:

	2012 HK$'000	2011 HK$'000
(Loss)/profit		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earning per share calculation	**(207,840)**	799,934

Shares	**Number of shares 2012**	2011
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earning per share calculation	**1,124,135,436**	1,098,290,458
Effect of dilution – weighted average number of ordinary shares: Assumed issuance upon the exercise of share options and allotment and issuance of awarded shares	**25,774,831**	37,913,583
Weighted average number of ordinary shares in issue during the year used in the diluted (loss)/earning per share calculation	**1,149,910,267**	1,136,204,041

The calculation of the basic (loss)/earning per share is based on the (loss)/profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted (loss)/earning per share is based on the (loss)/profit attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earning per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and research and development equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	113,950	842,243	246,326	15,454	6,633	1,224,606
Accumulated depreciation and impairment	(27,797)	(529,134)	(162,612)	(7,931)	–	(727,474)
Net carrying amount	86,153	313,109	83,714	7,523	6,633	497,132
At 1 January 2012, net of accumulated depreciation and impairment	86,153	313,109	83,714	7,523	6,633	497,132
Additions	877	76,764	85,367	1,632	87,186	251,826
Disposals	(18,776)	(996)	(391)	(252)	(11,436)	(31,851)
Depreciation provided during the year (note 9)	(3,886)	(70,918)	(43,137)	(2,616)	–	(120,557)
Transfer	(1,666)	1,788	5,500	–	(5,622)	–
Exchange realignment	7	185	337	(56)	264	737
At 31 December 2012, net of accumulated depreciation and impairment	62,709	319,932	131,390	6,231	77,025	597,287
At 31 December 2012:						
Cost	81,070	913,770	334,580	14,181	77,025	1,420,626
Accumulated depreciation and impairment	(18,361)	(593,838)	(203,190)	(7,950)	–	(823,339)
Net carrying amount	62,709	319,932	131,390	6,231	77,025	597,287

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and research and development equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011						
At 1 January 2011:						
Cost	102,429	620,580	156,817	12,962	708	893,496
Accumulated depreciation and impairment	(23,093)	(454,667)	(100,532)	(6,088)	–	(584,380)
Net carrying amount	79,336	165,913	56,285	6,874	708	309,116
At 1 January 2011, net of accumulated depreciation and impairment	79,336	165,913	56,285	6,874	708	309,116
Additions	811	179,652	33,278	2,987	17,034	233,762
Acquisition of subsidiaries	–	8,041	15,402	187	–	23,630
Acquisition of a new business under common control	–	1,766	679	51	–	2,496
Disposals	–	(1,416)	(466)	(254)	–	(2,136)
Depreciation provided during the year (note 9)	(3,560)	(53,184)	(26,921)	(2,390)	–	(86,055)
Transfer	6,025	2,402	2,832	–	(11,259)	–
Exchange realignment	3,541	9,935	2,625	68	150	16,319
At 31 December 2011, net of accumulated depreciation and impairment	86,153	313,109	83,714	7,523	6,633	497,132
At 31 December 2011:						
Cost	113,950	842,243	246,326	15,454	6,633	1,224,606
Accumulated depreciation and impairment	(27,797)	(529,134)	(162,612)	(7,931)	–	(727,474)
Net carrying amount	86,153	313,109	83,714	7,523	6,633	497,132

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying amount of HK$21,614,000 (31 December 2011: HK$22,296,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining these certificates.

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	HK$'000	HK$'000
Carrying amount at 1 January	**185,444**	13,149
Additions	**–**	166,774
Disposals	**(5,330)**	–
Recognised during the year (note 9)	**(3,469)**	(990)
Exchange realignment	**11**	6,511
Carrying amount at 31 December	**176,656**	185,444

As at 31 December 2012 and 2011, the Group's leasehold land situated in Mainland China was held under long-term leases.

18. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000	**Computer software HK$'000**	**Intellectual property HK$'000**	**Golf club membership HK$'000**	**ALCATEL brand license HK$'000**	**Total HK$'000**
31 December 2012						
Cost at 31 December 2011 and 1 January 2012, net of accumulated amortisation	**320,327**	**20,292**	**58,332**	**2,966**	**300,298**	**702,215**
Additions	**871,867**	**12,437**	**–**	**1,573**	**–**	**885,877**
Retirements and disposals	**–**	**(297)**	**–**	**–**	**–**	**(297)**
Amortisation provided during the year	**(628,321)**	**(6,735)***	**(10,529)***	**–***	**(22,980)***	**(668,565)**
Exchange realignment	**1,234**	**34**	**32**	**6**	**–**	**1,306**
At 31 December 2012	**565,107**	**25,731**	**47,835**	**4,545**	**277,318**	**920,536**
At 31 December 2012:						
Cost	**1,628,860**	**59,433**	**65,986**	**4,545**	**311,824**	**2,070,648**
Accumulated amortisation	**(1,063,753)**	**(33,702)**	**(18,151)**	**–**	**(34,506)**	**(1,150,112)**
Net carrying amount	**565,107**	**25,731**	**47,835**	**4,545**	**277,318**	**920,536**

18. OTHER INTANGIBLE ASSETS (continued)

Group

	Deferred development costs HK$'000	Computer software HK$'000	Intellectual property HK$'000	Golf club membership HK$'000	ALCATEL brand license HK$'000	Total HK$'000
31 December 2011						
Cost at 1 January 2011, net of accumulated amortisation	59,688	8,837	35,430	2,165	–	106,120
Additions	414,973	11,931	26,674	756	311,824	766,158
Acquisition of subsidiaries	–	3,391	–	–	–	3,391
Amortisation provided during the year	(168,135)	(4,237)*	(5,448)*	–*	(11,526)*	(189,346)
Exchange realignment	13,801	370	1,676	45	–	15,892
At 31 December 2011	320,327	20,292	58,332	2,966	300,298	702,215
At 31 December 2011:						
Cost	756,993	47,215	65,932	2,966	311,824	1,184,930
Accumulated amortisation	(436,666)	(26,923)	(7,600)	–	(11,526)	(482,715)
Net carrying amount	320,327	20,292	58,332	2,966	300,298	702,215

* Being the amortisation of computer software, intellectual property and ALCATEL brand license charged to the income statement of HK$40,244,000 (2011: HK$21,211,000) (note 9) during the year.

19. GOODWILL

	Group 2012 HK$'000	2011 HK$'000
Cost at 1 January	**253,954**	146,927
Acquisition of a subsidiary	**–**	107,027
Cost at 31 December	**253,954**	253,954
At 31 December:		
Cost and carrying amount	**253,954**	253,954

19. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Research and development of mobile handsets cash-generating unit; and
- Research, development, manufacture and sale of mobile handsets and other products cash-generating unit.

The recoverable amount of the research and development of mobile handsets cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17% (2011: 17%) and cash flows within the five-year period are extrapolated using growth rates of sales volume of 7%-8% from 2013-2017.

The recoverable amount of the research, development, manufacture and sale of mobile handsets and other products cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17% (2011: 17%) and cash flows within the five-year period are extrapolated using growth rates of sales volume of 7%-8% from 2013-2017.

In the opinion of the Company's directors, any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Research and development of mobile handsets		**Research, development, manufacture and sale of mobile handsets and other products**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**146,927**	146,927	**107,027**	107,027

Assumptions were used in the value in use calculation of the research and development of the mobile handsets cash-generating unit and the research, development, manufacture and sale of mobile handsets and other products cash-generating unit for 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the past years and the expectation for market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The value assigned to the key assumptions on market development and discount rates are consistent with external information sources.

20. INVESTMENTS IN SUBSIDIARIES

	Company 2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**1,661,641**	1,661,641
Capital contribution in respect of employee share-based compensation	**68,749**	29,787
Impairment	**(676,711)**	(402,902)
	1,053,679	1,288,526

At the end of the reporting period, the amounts due from and due to subsidiaries included in the Company's current assets and current liabilities of HK$1,476,352,000 (31 December 2011: HK$1,380,096,000) and HK$198,717,000 (31 December 2011: HK$105,052,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

The movements in the impairment are as follows:

	Company 2012 HK$'000	2011 HK$'000
At 1 January	**402,902**	1,193,877
Impairment loss recognised/(reversed)	**273,809**	(790,975)
At 31 December	**676,711**	402,902

Impairment loss of investments in subsidiaries is provided based on recoverable amount of the subsidiaries. Since the subsidiaries' recoverable amount decreased, the Company recognised impairment loss of HK$273,809,000 (31 December 2011: impairment reversal of HK$790,975,000) on investments in subsidiaries.

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/ establishment and operations	Nominal value of issued and fully paid share capital	Percentage of attributable equity interest Direct	Indirect	Principal activities
TCL Mobile Communication (HK) Company Limited	Hong Kong 21 April 1999	HK$5,000,000	–	100%	Distribution of mobile phone components and mobile handsets
Huizhou TCL Mobile (note (i))	The PRC/ Mainland China 29 March 1999	US$174,600,000	–	100%	Manufacture and distribution of mobile handsets
TCT Mobile Limited	Hong Kong 17 May 2004	HK$10,000,000	100%	–	Distribution of mobile handsets

20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place and date of incorporation/ establishment and operations	Nominal value of issued and fully paid share capital	Percentage of attributable equity interest Direct	Indirect	Principal activities
TCT SAS	France 12 August 2004	EUR23,031,072	–	100%	Development and distribution of mobile handsets
TCT Mobile SA DE CV	Mexico 24 May 2004	MXP116,594,000	–	100%	Distribution of mobile handsets
TCL Communication Technology (Suzhou) Limited (note (i))	The PRC/ Mainland China 14 December 1998	US$28,000,000	–	100%	Development and distribution of mobile handsets
TCT Mobile International Limited	Hong Kong 11 May 2005	HK$1	–	100%	Development and distribution of mobile handsets
JRD Shenzhen (note (i))	The PRC/ Mainland China 14 February 2006	US$10,000,000	–	100%	Software development for mobile handsets
“TMC Rus” Limited Liability Company	Russia 8 April 2010	RUB10,000	–	100%	Distribution of mobile handsets
TCT Mobile Multinational Limited	Hong Kong 16 April 2010	HK$1	–	100%	Distribution of mobile handsets
JRD Shanghai (note (i))	The PRC/ Mainland China 18 October 2010	US$10,000,000	–	100%	Software development for mobile handsets
TCL Communication Technology (Chengdu) Limited (note (i))	The PRC/ Mainland China 21 January 2011	US$4,500,000	–	100%	Software development for mobile handsets
Ningbo R&D (note (i))	The PRC/ Mainland China 15 December 2005	US$3,000,000	–	100%	Software development for mobile handsets
TCT Mobile-Telefones LTDA.	Brazil 21 November 2006	BRL104,088,757	–	100%	Distribution of mobile handsets
TCT Mobile (US) Inc.	United States 19 December 2011	US$1	–	100%	Distribution of mobile handsets
Huizhou TCL Communication Electronic Limited	The PRC/ Mainland China 9 April 2012	RMB30,000,000	–	100%	Development and distribution of fixed line telephone products

20. INVESTMENTS IN SUBSIDIARIES (continued)

Note:

(i) This is a wholly-foreign-owned enterprise under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

21. INVESTMENT IN AN ASSOCIATE

	Group	
	2012	2011
	HK$'000	HK$'000
Share of net assets	**3,502**	2,352
Goodwill on acquisition	**1,674**	1,674
	5,176	4,026
Impairment	**(1,674)**	(1,674)
	3,502	2,352

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ establishment	Percentage of ownership interest attributable to the Group	Principal activities
Nature Information Science and Technology Ltd.*	One ordinary share of RMB1	The PRC/ Mainland China	37.6%	Sale of financial software and provision of related services

* Not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network.

The associate has been accounted for using the equity method in these financial statements and the reporting period of the associate is coterminous with that of the Group.

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts:

	2012	2011
	HK$'000	HK$'000
Assets	**9,315**	6,255
Liabilities	**(1)**	–
Revenue	**76**	10
Loss for the year	**(4,662)**	(3,673)

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012	2011
	HK$'000	HK$'000
Unlisted equity investments, at cost	**26,272**	26,272

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date and coupon rate.

The unlisted equity investments are stated at cost less any impairment losses as the fair value cannot be reliably measured because the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The Group does not intend to dispose of them in the near future.

23. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**862,809**	458,148
Work in progress	**9,723**	5,444
Finished goods	**503,277**	592,314
	1,375,809	1,055,906
Provision against inventory obsolescence and net realisable value	**(112,771)**	(74,490)
	1,263,038	981,416

24. TRADE RECEIVABLES

	Group	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**2,861,404**	2,597,338
Impairment	**(18,910)**	(12,570)
	2,842,494	2,584,768

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that 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 balances. Trade receivables are non-interest-bearing.

As at the end of the reporting period, export invoices amounting to HK$568,591,000 (31 December 2011: HK$498,891,000) were used to secure the Group's interest bearing bank borrowings.

24. TRADE RECEIVABLES (continued)

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within 3 months	**2,413,735**	2,063,443
4 to 12 months	**414,531**	520,606
Over 12 months	**33,138**	13,289
	2,861,404	2,597,338
Impairment	**(18,910)**	(12,570)
	2,842,494	2,584,768

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**12,570**	23,652
Impairment loss recognised (note 9)	**884**	4,025
Amount written off as uncollectible	**(1,085)**	(15,648)
Derecognition of amount written off in previous year	**6,368**	–
Exchange realignment	**173**	541
At 31 December	**18,910**	12,570

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$18,910,000 (31 December 2011: HK$12,570,000) with a carrying amount before provision of HK$49,224,000 (31 December 2011: HK$17,894,000). The individually impaired trade receivables relate to customers that were in financial difficulties.

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**2,054,431**	1,501,917
Less than 1 month past due	**499,427**	577,161
1 to 3 months past due	**223,103**	403,490
4 to 12 months past due	**32,236**	96,468
Over 12 months past due	**2,983**	408
	2,812,180	2,579,444

24. TRADE RECEIVABLES (continued)

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

25. FACTORED TRADE RECEIVABLES

At 31 December 2012, the Group factored trade receivables to various banks on a recourse basis for cash. As the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated statement of financial position. Maturity dates of the related trade receivables range from 30 to 180 days. No impairment is made on the factored trade receivables.

An aged analysis of the factored trade receivables that are not considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Current	**300,177**	186,976
Within 3 months	**132,157**	114,383
4 to 12 months	**–**	8,601
	432,334	309,960

As at 31 December 2012, the Group factored trade receivables to various banks for cash on a recourse basis which have not fulfilled the financial asset derecognition conditions as stipulated in HKAS 39. Accordingly, bank advances from the factoring of the Group's trade receivables of HK$432,334,000 (31 December 2011: HK$309,960,000) have been accounted for as liabilities in the consolidated statement of financial position.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2012	2011	**2012**	2011
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**112,288**	98,547	**2,669**	–
Deposits and other receivables	(a)	**1,142,012**	778,718	**3,013**	–
		1,254,300	877,265	**5,682**	–
Impairment of other receivables	(a)	**(7,975)**	(6,777)	**–**	–
		1,246,325	870,488	**5,682**	–

The carrying amounts of the prepayments, deposits and other receivables approximate to their respective fair values.

Note:

(a) The movements in provision for individually impaired other receivables are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**6,777**	16,590
Recognised/(reversal of) impairment loss (note 9)	**1,192**	(10,337)
Amount written off as uncollectible	**–**	(33)
Exchange realignment	**6**	557
At 31 December	**7,975**	6,777

The individually impaired other receivables relate to debtors that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over the balances.

An aged analysis of the receivables that are not considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**1,129,482**	738,634

Receivables that were neither past due nor impaired relate to a large number of diversified debtors for whom there was no recent history of default.

27. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**969,789**	1,186,637	**3,444**	3,831
Pledged deposits	**4,221,125**	6,092,411	**–**	–
	5,190,914	7,279,048	**3,444**	3,831
Less: Pledged deposits				
– for factored trade receivables	**33,566**	21,575	**–**	–
– for interest bearing bank borrowings, banking facilities and other financial instruments	**4,187,559**	6,070,836	**–**	–
Cash and cash equivalents	**969,789**	1,186,637	**3,444**	3,831

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to HK$2,074,775,000 (31 December 2011: HK$6,444,377,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in the Group's cash and bank balances are deposits of HK$74,478,000 (31 December 2011: HK$484,767,000) placed with TCL Group Finance Corporation Co., Ltd., a financial institution approved by the People's Bank of China. The effective contractual interest rate for these deposits was 0.10% – 1.31% (2011: 0.15% – 1.31%) per annum, being the savings rate offered by the People's Bank of China.

28. INTEREST BEARING BANK AND OTHER BORROWINGS AND LOAN FROM A RELATED COMPANY

	Group				Company			
	2012		2011		**2012**		2011	
	Maturity (Year)	**HK$'000**	Maturity (Year)	HK$'000	**Maturity (Year)**	**HK$'000**	Maturity (Year)	HK$'000
Current								
Bank borrowings- unsecured	**2013**	**218,360**	–	–	**–**	**–**	–	–
Bank borrowings- secured*	**2013**	**5,508,030**	2012	7,222,256	**–**	**–**	–	–
		5,726,390		7,222,256		**–**		–
Non-current								
Bank borrowing- secured*	**2014-2015**	**193,790**	–	–	**2014-2015**	**193,790**	–	–
Loan from a related company**	**2015**	**116,274**	–	–	**–**	**–**	–	–
		310,064		–		**193,790**		–
		6,036,454		7,222,256		**193,790**		–

28. INTEREST BEARING BANK AND OTHER BORROWINGS AND LOAN FROM A RELATED COMPANY (continued)

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Bank borrowings:				
Within one year or on demand	**5,726,390**	7,222,256	**–**	–
In the second year	**96,856**	–	**96,856**	–
In the third to fifth years, inclusive	**96,934**	–	**96,934**	–
	5,920,180	7,222,256	**193,790**	–
Other borrowing:				
In the third to fifth years, inclusive	**116,274**	–	**–**	–

* The Group's interest bearing bank borrowings are bank advances comprising (i) bank borrowings of HK$4,055,271,000 (31 December 2011: HK$5,772,063,000) which are secured by the pledge of certain of the Group's time deposits amounting to HK$4,187,559,000 (31 December 2011: HK$6,069,812,000); (ii) bank borrowings of HK$1,134,817,000 (31 December 2011: HK$1,001,191,000) which are guaranteed by the ultimate holding company; and (iii) bank borrowings of HK$511,732,000 (31 December 2011: HK$449,002,000) which are secured by export invoices amounting to HK$568,591,000 (31 December 2011: HK$498,891,000) (note 24).

** The loan form a related company is an unsecured, interest-bearing loan from the immediate holding company with an effective contractual interest rate of 5% per annum and with a payment term of three years.

The effective contractual interest rates for the secured bank borrowings ranged from 0.74% to 5.48% (2011: 0.86% to 3.74%) per annum.

HK$324,975,000 (31 December 2011: HK$478,404,000) and HK$41,228,000 (31 December 2011: Nil) of the interest bearing bank and other borrowings are denominated in RMB and Euro respectively, and others are denominated in United States dollars.

29. TRADE AND NOTES PAYABLES

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within 6 months	**2,410,050**	1,929,172
7 to 12 months	**6,578**	10,463
Over 12 months	**12,033**	12,494
	2,428,661	1,952,129

Trade payables are non-interest bearing and have an average term of 90 days.

30. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2012 Assets HK$'000	2012 Liabilities HK$'000	2011 Assets HK$'000	2011 Liabilities HK$'000
Forward currency contracts – Euro	**–**	**36,599**	17,925	–
Forward currency contracts – GBP	**–**	**350**	174	–
Forward currency contracts – RUB	**–**	**10,720**	–	458
Forward currency contracts – BRL	**–**	**680**	13,609	–
Forward currency contracts – RMB:				
Deliverable forward and non-deliverable forward contracts	**124,387**	**45,634**	92,715	70,699
Interest rate swap – cash flow hedges	**21,507**	**2,299**	24,270	–
	145,894	**96,282**	148,693	71,157

Forward currency contracts – cash flow hedges

Forward currency contracts are designated as hedging instruments in respect of forecast future sales to customers in Europe and Americas to which the Group has firm commitments. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

The terms of the Euro, Russian ruble and Brazil real forward currency contracts and RMB deliverable forward contracts match the terms of the commitments. The cash flow hedges relating to expected future sales monthly from January to December of 2013 were assessed to be highly effective and a net loss of HK$33,599,000 (2011: HK$6,570,000) was included in the hedging reserve as follows:

	Group 2012 HK$'000	Group 2011 HK$'000
Total fair value gains included in the hedging reserve*	**46,435**	70,119
Deferred tax on fair value gains**	**(14,780)**	(7,158)
Reclassification from other comprehensive income and recognised in the income statement***	**(76,187)**	(76,561)
Deferred tax on reclassification to profit or loss**	**10,933**	7,030
Net losses on cash flow hedges	**(33,599)**	(6,570)

Interest rate swap – cash flow hedges

At 31 December 2012, the Group held interest rate swap contracts designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

	Group 2012 HK$'000	Group 2011 HK$'000
Total fair value losses included in the hedging reserve*	**(56,707)**	(28,773)
Reclassification from other comprehensive income and recognised in the income statement (note 9)***	**47,534**	45,430
Net (losses)/gains on cash flow hedges	**(9,173)**	16,657

* The net effective portion of changes in fair value of hedging instruments arising during the year amounted to a debit of HK$10,272,000 (2011: a credit of HK$41,346,000).

** The net deferred tax on fair value gain amounted to HK$3,847,000 (2011: HK$128,000) during the year.

*** The total net gain on cash flow hedges reclassified from other comprehensive income amounted to HK$28,653,000 (2011: HK$31,131,000) during the year.

30. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

For non-hedging currency derivatives

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Gains on changes in the fair value of non-hedging currency derivatives amounting to HK$6,118,000 (2011: HK$30,370,000) were recognised in the income statement during the year. The maturity dates of derivative financial instruments are within one year.

31. PROVISION FOR WARRANTIES

The movements in the provision for warranties during the year are summarised as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**137,574**	127,547
Additional provision (note 9)	**214,275**	180,903
Amount utilised during the year	**(166,002)**	(168,644)
Exchange realignment	**2,128**	(2,232)
At 31 December	**187,975**	137,574

The Group generally provides warranties of 12 to 24 months to its customers on all products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and return. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision for warranties was not discounted, as the effect of discounting was not material.

32. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the pension plan at 31 December 2012 amounted to HK$3,738,000 (31 December 2011: HK$2,263,000).

	Group	
	2012	2011
	HK$'000	HK$'000
Retirement indemnities:		
Present value of fund obligation	**3,738**	2,263

Movements in retirement indemnities are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**2,263**	2,351
Recognised/(reversal of) in the income statement (note 9)	**1,399**	(23)
Exchange realignment	**76**	(65)
At 31 December	**3,738**	2,263

The Group does not have any unfunded obligations.

32. RETIREMENT INDEMNITIES (continued)

The main assumptions used in the retirement indemnity computation for the pension plan are as follows:

	Group	
	2012	2011
Discount rate	**2.8%**	5.0%
Future salary increase rate per annum	**3.0%**	4.0%

33. LONG SERVICE MEDALS

TCT SAS provides for the probable future long service medals expected to be made to employees. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to TCT SAS to the end of the reporting period.

34. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group

	Tax losses HK$'000	**Promotion and accruals HK$'000**	**Product warranty HK$'000**	**Bad debt provision HK$'000**	**Provision against inventories HK$'000**	**Unrealised profit HK$'000**	**Impairment of non-current assets HK$'000**	**Amortisation in excess of amortisation allowance HK$'000**	**Total HK$'000**
At 1 January 2012	**50,000**	**12,042**	**6,863**	**1,219**	**10,297**	**24,069**	**1,178**	**-**	**105,668**
Deferred tax credited/(charged) to the income statement during the year	**14,799**	**(7,306)**	**(45)**	**(113)**	**2,685**	**(21,439)**	**-**	**35,573**	**24,154***
Exchange realignment	**-**	**552**	**253**	**-**	**32**	**-**	**-**	**-**	**837**
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2012	**64,799**	**5,288**	**7,071**	**1,106**	**13,014**	**2,630**	**1,178**	**35,573**	**130,659**

Group

	Tax losses HK$'000	Promotion and accruals HK$'000	Product warranty HK$'000	Bad debt provision HK$'000	Provision against inventories HK$'000	Unrealised profit HK$'000	Impairment of non-current assets HK$'000	Total HK$'000
At 1 January 2011	–	9,808	4,765	715	368	16,033	–	31,689
Deferred tax credited to the income statement during the year	50,000	1,798	2,544	555	9,624	8,036	1,137	73,694*
Acquisition of a subsidiary	–	1,557	–	–	–	–	–	1,557
Exchange realignment	–	(1,121)	(446)	(51)	305	–	41	(1,272)
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2011	50,000	12,042	6,863	1,219	10,297	24,069	1,178	105,668

34. DEFERRED TAX (continued)

Deferred tax assets (continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of HK$43,043,000 (31 December 2011: HK$3,528,000), expiring in five years after occurrence, which were related to the subsidiaries in Mainland China and HK$2,273,898,000 (31 December 2011: HK$1,100,968,000) with infinite expiration, which were related to overseas subsidiaries as at 31 December 2012 carried forward for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

Deferred tax liabilities

Group

	Deferred development cost HK$'000	Income not subject to tax HK$'000	Cash flow hedging HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Changes in fair value of derivative financial instruments HK$'000	Total HK$'000
At 1 January 2012	25,174	2,442	5,301	–	2,115	35,032
Deferred tax charged to the income statement during the year	28,393	7,496	–	1,512	688	38,089*
Deferred tax charged to the statement of comprehensive income during the year	–	–	3,847	–	–	3,847
Exchange realignment	–	33	–	–	(43)	(10)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2012	53,567	9,971	9,148	1,512	2,760	76,958

Group

	Deferred development cost HK$'000	Income not subject to tax HK$'000	Cash flow hedging HK$'000	Changes in fair value of derivative financial instruments HK$'000	Total HK$'000
At 1 January 2011	8,953	–	4,924	–	13,877
Deferred tax charged to the income statement during the year	16,221	2,442	–	2,041	20,704*
Deferred tax charged to the statement of comprehensive income during the year	–	–	128	–	128
Exchange realignment	–	–	249	74	323
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2011	25,174	2,442	5,301	2,115	35,032

* Being the total deferred tax charge of HK$13,935,000 (2011: credit of HK$52,990,000) (note 12) to the consolidated income statement during the year.

34. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

As at 31 December 2012, the Group had not recognised any deferred tax liabilities in respect of tax obligations arising from the future distribution of unremitted earnings that are subject to withholding taxes of the Group's subsidiaries in Mainland China, as the Group was exercising control over the dividend policy of such subsidiaries and was in the opinion that distribution in the foreseeable future of profits generated during the relevant period would not be probable. As at 31 December 2012, the total amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was HK$2,048,061,000 (31 December 2011: HK$1,211,396,000).

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position.

35. SHARE CAPITAL

	Number of shares	**Issued share capital** HK$'000	**Share premium** HK$'000
Authorised:			
Ordinary shares of par value HK$1 each at 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
At 1 January 2011	1,097,527,996	1,097,528	232,602
Share options exercised	17,638,377	17,638	46,418
Reclassification of lapsed share options	–	–	116
Reclassification of vested awarded shares	–	–	(70)
Shares purchased for Share Award Scheme	–	–	7,615
Shares repurchased	(973,000)	(973)	(3,165)
2010 final dividend declared	–	–	(630)
At 31 December 2011 and 1 January 2012	1,114,193,373	1,114,193	282,886
Share options exercised* (note 36)	12,893,452	12,894	29,284
Issue of new shares under Share Award Scheme**	1,203,280	1,203	5,435
Reclassification of lapsed share options	–	–	2,498
Reclassification of vested awarded shares	–	–	1,227
At 31 December 2012	1,128,290,105	1,128,290	321,330

* During the year, 12,893,452 share options were exercised at subscription prices ranging from HK$1.648 to HK$3.020 per share, resulting in the issue of 12,893,452 ordinary shares of par value HK$1 each for a total cash consideration of HK$26,452,000.

** During the year, 1,203,280 awarded shares vested under Share Award Scheme of the Company through new issuance of shares, resulting in the issue of 1,203,280 ordinary shares of par value HK$1 each at no consideration.

36. SHARE OPTION SCHEME

The Company has adopted a share option scheme for the purpose of providing incentives rewards for eligible participants who contribute to the success of the Group's operations and eligible participants of the share option scheme include employees (including executive directors, non-executive directors and independent non-executive directors), advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the Board, in its sole discretion, considers has contributed or may contribute to the Group. The share option scheme became effective on 13 September 2004 (the "Share Option Scheme") and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Apart from the Share Option Scheme, the Company has no other share option scheme currently in force.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme (as refreshed by shareholders' approval in the AGM dated 10 May 2010) is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 10 May 2010 (i.e., up to 108,500,152 shares). The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of grant of the share options, (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant, and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 15 January 2012 and 30 June 2012, the share options granted on 16 January 2006 and 30 June 2006 expired respectively.

On 4 June 2012, a maximum of 75,000,000 share options under the Share Option Scheme were offered to certain individuals respectively by the Company, among which a total of 49,000,000 share options were accepted by and granted to the grantees. Further details of the said granted share options were set out in the announcement of the Company dated 4 June 2012.

36. SHARE OPTION SCHEME (continued)

As at 31 December 2012, the Company had 110,312,369 share options outstanding under the Share Option Scheme. Further details of the Share Option Scheme are as follows:

The following share options were outstanding under the Share Option Scheme of the Company during the year:

	Number of share options							
Date of grant	At 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	At 31 December 2012	Exercise period (both dates inclusive) (Note b)	Exercise price per share (HK$)
16 January 2006	2,341,488	–	(1,535,201)	–	(806,287)	–	17 July 2006 to 15 January 2012	1.648
30 June 2006	7,915,160	–	(7,780,895)	–	(134,265)	–	1 April 2007 to 30 June 2012	1.813
5 July 2007	19,554,957	–	(1,653,690)	(166,270)	–	17,734,997	5 April 2008 to 4 July 2013	2.423
11 March 2010	20,047,003	–	(1,923,666)	(867,001)	–	17,256,336	11 December 2010 to 10 March 2016	3.020
25 May 2010	12,730,000	–	–	–	–	12,730,000	25 February 2011 to 24 May 2016	3.462
20 September 2010	400,000	–	–	–	–	400,000	20 June 2011 to 19 September 2016	4.580
3 May 2011	8,496,105	–	–	(315,006)	–	8,181,099	3 February 2012 to 2 May 2017	7.614
9 August 2011	5,317,937	–	–	–	–	5,317,937	9 May 2012 to 8 August 2017	6.472
4 June 2012	–	49,000,000	–	(308,000)	–	48,692,000	4 March 2013 to 3 June 2018	2.740
Total	76,802,650	49,000,000	(12,893,452)	(1,656,277)	(940,552)	110,312,369		

36. SHARE OPTION SCHEME (continued)

Notes:

a. During the year under review, outstanding share options of the directors of the Company, employees and those who have contributed or may contribute to the Group are as follows:

	Number of share options								
	At 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	At 31 December 2012	Date of grant	Exercise period (both dates inclusive) (Note b)	Exercise price per share (HK$)
Executive Directors									
Mr. LI Dongsheng	639,500	–	(639,500)	–	–	–	30 June 2006	1 April 2007 to 30 June 2012	1.813
	1,414,252	–	–	–	–	1,414,252	5 July 2007	5 April 2008 to 4 July 2013	2.423
	5,000,000	–	–	–	–	5,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	1,547,368	–	–	–	–	1,547,368	3 May 2011	3 February 2012 to 2 May 2017	7.614
	–	4,454,545	–	–	–	4,454,545	4 June 2012	4 March 2013 to 3 June 2018	2.740
	8,601,120	4,454,545	(639,500)	–	–	12,416,165			
Mr. GUO Aiping	454,045	–	(454,045)	–	–	–	16 January 2006	17 July 2006 to 15 January 2012	1.648
	831,350	–	(831,000)	–	(350)	–	30 June 2006	1 April 2007 to 30 June 2012	1.813
	1,234,258	–	–	–	–	1,234,258	5 July 2007	5 April 2008 to 4 July 2013	2.423
	1,980,000	–	–	–	–	1,980,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
	3,094,737	–	–	–	–	3,094,737	3 May 2011	3 February 2012 to 2 May 2017	7.614
	–	8,909,091	–	–	–	8,909,091	4 June 2012	4 March 2013 to 3 June 2018	2.740
	7,594,390	8,909,091	(1,285,045)	–	(350)	15,218,086			
Mr. WANG Jiyang	1,320,000	–	–	–	–	1,320,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
	–	7,256,498	–	–	–	7,256,498	4 June 2012	4 March 2013 to 3 June 2018	2.740
	1,320,000	7,256,498	–	–	–	8,576,498			
Non-Executive Directors									
Mr. BO Lianming	719,987	–	–	–	–	719,987	5 July 2007	5 April 2008 to 4 July 2013	2.423
	1,000,000	–	–	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	669,000	–	–	–	–	669,000	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	1,000,000	–	–	–	1,000,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	2,388,987	1,000,000	–	–	–	3,388,987			
Mr. HUANG Xubin	102,320	–	(102,320)	–	–	–	30 June 2006	1 April 2007 to 30 June 2012	1.813
	349,806	–	–	–	–	349,806	5 July 2007	5 April 2008 to 4 July 2013	2.423
	1,000,000	–	–	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	418,100	–	–	–	–	418,100	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	1,000,000	–	–	–	1,000,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	1,870,226	1,000,000	(102,320)	–	–	2,767,906			
Ms. XU Fang	93,367	–	–	–	–	93,367	5 July 2007	5 April 2008 to 4 July 2013	2.423
	1,000,000	–	–	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	418,100	–	–	–	–	418,100	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	1,000,000	–	–	–	1,000,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	1,511,467	1,000,000	–	–	–	2,511,467			

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

a. During the year under review, outstanding share options of the directors of the Company, employees and those who have contributed or may contribute to the Group are as follows (continued):

	Number of share options								
	At 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	At 31 December 2012	Date of grant	Exercise period (both dates inclusive) (Note b)	Exercise price per share (HK$)
Independent Non-Executive Directors									
Mr. LAU Siu Ki	300,000	–	–	–	–	300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	–	200,000	–	–	–	200,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	300,000	200,000	–	–	–	500,000			
Mr. LOOK Andrew	400,000	–	–	–	–	400,000	20 September 2010	20 June 2011 to 19 September 2016	4.580
	–	200,000	–	–	–	200,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	400,000	200,000	–	–	–	600,000			
Mr. KWOK Hoi Sing	300,000	–	–	–	–	300,000	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	200,000	–	–	–	200,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	300,000	200,000	–	–	–	500,000			
Directors	454,045	–	(454,045)	–	–	–	16 January 2006	17 July 2006 to 15 January 2012	1.648
	1,573,170	–	(1,572,820)	–	(350)	–	30 June 2006	1 April 2007 to 30 June 2012	1.813
	3,811,670	–	–	–	–	3,811,670	5 July 2007	5 April 2008 to 4 July 2013	2.423
	3,300,000	–	–	–	–	3,300,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
	8,300,000	–	–	–	–	8,300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	400,000	–	–	–	–	400,000	20 September 2010	20 June 2011 to 19 September 2016	4.580
	4,642,105	–	–	–	–	4,642,105	3 May 2011	3 February 2012 to 2 May 2017	7.614
	1,805,200	–	–	–	–	1,805,200	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	24,220,134	–	–	–	24,220,134	4 June 2012	4 March 2013 to 3 June 2018	2.740
Sub-total	24,286,190	24,220,134	(2,026,865)	–	(350)	46,479,109			
Employees and those who have contributed or may contribute to the Group	1,887,443	–	(1,081,156)	–	(806,287)	–	16 January 2006	17 July 2006 to 15 January 2012	1.648
	6,341,990	–	(6,208,075)	–	(133,915)	–	30 June 2006	1 April 2007 to 30 June 2012	1.813
	15,743,287	–	(1,653,690)	(166,270)	–	13,923,327	5 July 2007	5 April 2008 to 4 July 2013	2.423
	16,747,003	–	(1,923,666)	(867,001)	–	13,956,336	11 March 2010	11 December 2010 to 10 March 2016	3.020
	4,430,000	–	–	–	–	4,430,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	3,854,000	–	–	(315,006)	–	3,538,994	3 May 2011	3 February 2012 to 2 May 2017	7.614
	3,512,737	–	–	–	–	3,512,737	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	24,779,866	–	(308,000)	–	24,471,866	4 June 2012	4 March 2013 to 3 June 2018	2.740
Sub-total	52,516,460	24,779,866	(10,866,587)	(1,656,277)	(940,202)	63,833,260			
Total	76,802,650	49,000,000	(12,893,452)	(1,656,277)	(940,552)	110,312,369			

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

b. During the year under review, the following share options were effective under the Share Option Scheme of the Company:

	Date of grant	Exercise price per share (HK$)	Exercise period	Remark
(i)	16 January 2006	1.648	17 July 2006 to 15 January 2012: one-third of these share options are exercisable after the expiry of 6 months from the date of grant, a further one-third are exercisable after the expiry of 12 months from the date of grant, and the remaining one-third are exercisable after the expiry of 18 months from the date of grant.	On 15 January 2012, the said share options expired.
(ii)	30 June 2006	1.813	1 April 2007 to 30 June 2012: one-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	On 30 June 2012, the said share options expired.
(iii)	5 July 2007	2.423	5 April 2008 to 4 July 2013: one-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	
(iv)	11 March 2010	3.020	11 December 2010 to 10 March 2016: one-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	
(v)	25 May 2010	3.462	25 February 2011 to 24 May 2016: one-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

b. During the year under review, the following share options were effective under the Share Option Scheme of the Company (continued):

	Date of grant	Exercise price per share (HK$)	Exercise period	Remark
(vi)	20 September 2010	4.580	20 June 2011 to 19 September 2016: one-third of the said share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	
(vii)	3 May 2011	7.614	3 February 2012 to 2 May 2017: one-third of the said share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	
(viii)	9 August 2011	6.472	9 May 2012 to 8 August 2017: one-third of the said share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	
(ix)	4 June 2012	2.740	4 March 2013 to 3 June 2018: one-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	A maximum of 75,000,000 share options under the Share Option Scheme were offered by the Company, where the grantees have an option to choose from share options, awarded shares or a combination of both (if appropriate). A total of 49,000,000 share options were accepted by and granted to the grantees, among which a total of 24,220,134 share options were granted to the Directors of the Company. Further details of the said share options were set out in the announcement of the Company dated 4 June 2012.

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

c. The weighted average share price at the date of exercise for share options exercised during the year was HK$3.33 (2011: HK$6.56) per share.

d. The fair value of the options granted during the year ended 31 December 2012 was HK$50,960,000 (HK$1.04 each) (2011: HK$49,353,000 in total, HK$2.85 each), of which the Group recognised a share option expense of HK$23,648,000 (2011: HK$17,757,000) during the year.

The following assumptions were used to derive the fair value, using the binomial model:

Options granted on 16 January 2006

		At grant date	Modification on 30 June 2006		Modification on 3 July 2007		Modification on 11 March 2010
(i)	Exercise period	17 October 2006 to 15 July 2009	17 July 2006 to 15 January 2008	17 July 2006 to 15 April 2010	17 July 2006 to 15 January 2011	17 July 2006 to 15 January 2011	17 July 2006 to 15 January 2012
(ii)	Expected volatility	50% per annum	50% per annum	55% per annum	39% per annum	38% per annum	91.75% per annum
(iii)	Estimated average life	1.72 years	1.25 years	2.46 years	1.08 years	1.13 years	1.85 years
(iv)	Average risk-free interest rate	3.66% per annum	4.48% per annum	4.56% per annum	4.44% per annum	4.44% per annum	0.56% per annum
(v)	Early exercise assumption	When the share price is at least 175% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum	1% per annum	1% per annum	1% per annum	1% per annum	0% per annum
(vii)	Estimated rate of leaving service	20% per annum for the first year after the grant date and 15% per annum thereafter	20% per annum for the first year after the grant date and 15% per annum thereafter		30% per annum for the first year after the grant date and 25% per annum thereafter		N/A

Options granted on 30 June 2006

		At grant date			Modification on 3 July 2007			Modification on 11 March 2010
(i)	Exercise period	1 April 2007 to 31 December 2009	1 April 2007 to 30 September 2010	1 April 2007 to 30 June 2008	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2012
(ii)	Expected volatility	55% per annum	55% per annum	50% per annum	39% per annum	39% per annum	39% per annum	85.38% per annum
(iii)	Estimated average life	2.87 years	3.22 years	1.64 years	1.15 years	1.15 years	1.81 years	2.31 years
(iv)	Average risk-free interest rate	4.59% per annum	4.61% per annum	4.50% per annum	4.48% per annum	4.48% per annum	4.48% per annum	0.72% per annum
(v)	Early exercise assumption	When the share price is at least 210% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum	1% per annum	1% per annum	1% per annum	1% per annum	1% per annum	0% per annum
(vii)	Estimated rate of leaving service	20% per annum for the first year after the grant date and 15% per annum thereafter			30% per annum for the first year after the grant date and 25% per annum thereafter			N/A

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

d. The following assumptions were used to derive the fair value, using the binomial model (continued):

Options granted on 5 July 2007

		At grant date	Modification on 11 March 2010
(i)	Exercise period	5 April 2008 to 4 July 2012	5 April 2008 to 4 July 2013
(ii)	Expected volatility	41% per annum	77.56% per annum
(iii)	Estimated average life	1.16 years	3.32 years
(iv)	Average risk-free interest rate	4.60% per annum	1.08% per annum
(v)	Early exercise assumption	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum	0% per annum
(vii)	Estimated rate of leaving service	30% per annum for the first year after the grant date and 25% per annum thereafter	N/A

Options granted on 11 March 2010

		At grant date
(i)	Exercise period	11 December 2010 to 10 March 2016
(ii)	Expected volatility	69.69% per annum
(iii)	Estimated average life	6 years
(iv)	Average risk-free interest rate	1.98% per annum
(v)	Early exercise assumption	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	0% per annum
(vii)	Estimated rate of leaving service	0% per annum

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

d. The following assumptions were used to derive the fair value, using the binomial model (continued):

Options granted on 25 May 2010

		At grant date
(i)	Exercise period	25 February 2011 to 24 May 2016
(ii)	Expected volatility	70.05% per annum
(iii)	Estimated average life	6 years
(iv)	Average risk-free interest rate	1.82% per annum
(v)	Early exercise assumption	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	0% per annum
(vii)	Estimated rate of leaving service	0% per annum

Options granted on 20 September 2010

		At grant date
(i)	Exercise period	20 June 2011 to 19 September 2016
(ii)	Expected volatility	69.31% per annum
(iii)	Estimated average life	6 years
(iv)	Average risk-free interest rate	1.47% per annum
(v)	Early exercise assumption	When the share price is at least 280% of the exercise price
(vi)	Expected dividend yield	2.51% per annum
(vii)	Estimated rate of leaving service	0% per annum

Options granted on 3 May 2011

		At grant date
(i)	Exercise period	3 February 2012 to 2 May 2017
(ii)	Expected volatility	71.49% per annum
(iii)	Estimated average life	6 years
(iv)	Average risk-free interest rate	1.96% per annum
(v)	Early exercise assumption	When the share price is at least 180% of the exercise price
(vi)	Expected dividend yield	3.99% per annum
(vii)	Estimated rate of leaving service	0% per annum

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

d. The following assumptions were used to derive the fair value, using the binomial model (continued):

Options granted on 9 August 2011

		At grant date
(i)	Exercise period	9 May 2012 to 8 August 2017
(ii)	Expected volatility	69.559% per annum
(iii)	Estimated average life	6 years
(iv)	Average risk-free interest rate	1.105% per annum
(v)	Early exercise assumption	When the share price is at least 180% of the exercise price
(vi)	Expected dividend yield	4.313% per annum
(vii)	Estimated rate of leaving service	0% per annum

Share options granted on 4 June 2012

		At grant date
(i)	Exercise period	4 March 2013 to 3 June 2018
(ii)	Expected volatility	70.841% per annum
(iii)	Estimated average life	6 years
(iv)	Average risk-free interest rate	0.514% per annum
(v)	Early exercise assumption	When the share price is at least 180% of the exercise price
(vi)	Expected dividend yield	7.811% per annum
(vii)	Estimated rate of leaving service	0% per annum

The volatility rate of the share price of the Company was determined with reference to the historical volatilities of the share prices of the Company as extracted from Bloomberg.

BMI Appraisals Limited has been appointed to perform the valuation of the share options newly granted on 4 June 2012.

As at 31 December 2012, the Company had 110,312,369 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 110,312,369 additional ordinary shares of the Company. Total funds raised from the exercise of the outstanding share options would be HK$371,114,000 which represents additional share capital of HK$110,312,000 and share premium of HK$260,802,000 (before issue expenses).

37. SHARE AWARD SCHEMES

Share Award Scheme A adopted by the Company on 3 July 2007 was terminated on 23 October 2009, and the Board resolved to adopt another share award scheme, Share Award Scheme B, on 11 March 2008. Share Award Scheme B aims to provide incentives to employees and to retain and encourage employees to contribute to the continual operation and development of the Group, pursuant to which existing shares will be purchased by the trustee from the market out of cash contributed by the Group and be held in the Share Award Scheme Trust for the relevant selected employees until such shares vest with the relevant selected employees in accordance with the provisions of Share Award Scheme B. On 17 March 2011, Share Award Scheme B was amended by the Group, pursuant to which, as an alternative to purchase of shares on the market for any awards made under Share Award Scheme B, the Board may allot and issue shares as awarded shares and has the discretion to decide whether the awarded shares are to be purchased or subscribed.

The trustee purchased 105,898,000 shares of the Company at a total cost (including related transaction costs) of HK$33,469,000 during the year ended 31 December 2008, and 15,778,000 shares of the Company at a total cost (including related transaction costs) of HK$71,256,000 during the year ended 31 December 2011.

Under the Share Award Scheme B of the Company, shares of the Company would be transfered to the employees by the trustee or through allotment and issurance of shares at nil consideration upon vesting. During the year under review, the trustee transferred a total of 2,100,932 shares to the awardees and a total of 1,203,280 shares were allotted and issued to awardees upon vesting of those shares awarded under Share Award Scheme B. The total cost of the related vested shares was HK$2,838,000. As at 31 December 2012, the carrying amount of shares held for the Share Award Scheme was HK$77,870,000 (31 December 2011: HK$80,708,000).

The following awarded shares were outstanding under Share Award Scheme B of the Company during the year:

	Number of awarded shares						
Date of grant	**At 1 January 2012**	**Granted during the year**	**Vested during the year**	**Lapsed during the year**	**At 31 December 2012**	**Remaining vesting period (both dates inclusive)** (Note b)	**Fair value per share** (HK$)
11 March 2010	500,000	–	(500,000)	–	–	N/A	3.02
3 May 2011	1,923,482	–	(633,806)	(160,671)	1,129,005	1 January 2013 to 3 May 2014	7.10
9 August 2011	596,479	–	(198,826)	–	397,653	1 January 2013 to 9 August 2014	5.75
29 August 2011	2,305,000	–	(768,300)	(60,001)	1,476,699	1 January 2013 to 1 May 2014	4.62
4 June 2012	–	27,000,000	–	(378,000)	26,622,000	1 January 2013 to 4 June 2015	2.74
Total	5,324,961	27,000,000	(2,100,932)	(598,672)	29,625,357		

37. SHARE AWARD SCHEMES (continued)

Notes:

a. During the year under review, outstanding awarded shares of the directors of the Company, employes and those who have contributed to the Group are as follows:

	Number of awarded shares							
	At 1 January 2012	Granted during the year	Vested during the year	Lapsed during the year	At 31 December 2012	Date of grant	Remaining vesting period (both dates inclusive) (Note b)	Fair value per share (HK$)
Executive Directors								
Mr. GUO Aiping	500,000	–	(500,000)	–	–	11 March 2010	N/A	3.02
Mr. WANG Jiyang	596,479	–	(198,826)	–	397,653	9 August 2011	1 January 2013 to 9 August 2014	5.75
Sub-total	1,096,479	–	(698,826)	–	397,653			
Employees and those who have contributed or may contribute to the Group	1,923,482	–	(633,806)	(160,671)	1,129,005	3 May 2011	1 January 2013 to 3 May 2014	7.10
	2,305,000	–	(768,300)	(60,001)	1,476,699	29 August 2011	1 January 2013 to 1 May 2014	4.62
	–	27,000,000	–	(378,000)	26,622,000	4 June 2012	1 January 2013 to 4 June 2015	2.74
Sub-total	4,228,482	27,000,000	(1,402,106)	(598,672)	29,227,704			
Total	5,324,961	27,000,000	(2,100,932)	(598,672)	29,625,357			

b. During the year under review, the following awarded shares were effective under the Share Award Scheme B of the Company:

Date of grant	Number of awarded shares granted	Vesting period	Remark
11 March 2010	The grant of 6,300,000 awarded shares approved by the Board to be awarded to designated employees.	10 September 2010 to 31 December 2012.	
3 May 2011	A maximum of 11,500,000 awarded shares offered by the Board to be awarded to designated employees under Share Award Scheme B, among which a total of 1,962,482 awarded shares were accepted by the awardees.	3 May 2012 to 3 May 2014; one-third of the said awarded shares would be vested after the expiry of 1 year from the date of grant, a further one-third would be vested after the expiry of 2 years from the date of grant, and the remaining one-third would be vested after the expiry of 3 years from the date of grant.	Further details of the said awarded shares were set out in the announcements of the Company dated 3 May 2011 and 4 August 2011 respectively.
9 August 2011	The grant of 596,479 awarded shares approved by the Board to be awarded to a Director.	9 August 2012 to 9 August 2014; one-third of the said awarded shares would be vested after the expiry of 1 year from the date of grant, a further one-third would be vested after the expiry of 2 years from the date of grant, and the remaining one-third would be vested after the expiry of 3 years from the date of grant.	Further details of the said awarded shares were set out in the announcement of the Company dated 9 August 2011.
29 August 2011	The grant of 2,305,000 awarded shares approved by the Board to be awarded to designated employees.	1 May 2012 to 1 May 2014; one-third of the said awarded shares would be vested after the expiry of 8 months from the date of grant, a further one-third would be vested after the expiry of 20 months from the date of grant, and the remaining one-third would be vested after the expiry of 32 months from the date of grant.	
4 June 2012	A maximum of 40,000,000 awarded shares offered by the Board to be awarded to designated employees, among which a total of 27,000,000 awarded shares were accepted by the awardees.	4 June 2013 to 4 June 2015; one-third of the said awarded shares would be vested after the expiry of 1 year from the date of grant, a further one-third would be vested after the expiry of 2 years from the date of grant, and the remaining one-third would be vested after the expiry of 3 years from the date of grant.	Further details of the said awarded shares were set out in the announcement of the Company dated 4 June 2012.

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 84 and 85 of the financial report.

The Group's contributed surplus represents the excess of the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group's reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations in the PRC, certain portion of the profits of the Group's subsidiaries established in the PRC should be transferred to the statutory reserve which are restricted as to use.

The Group's other reserve represents the excess of the consideration over the carrying amount of net asset acquired in business combination under common control.

(b) Company

	Notes	Contributed surplus HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded share reserve HK$'000	Share option reserve HK$'000	Proposed final dividend HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2011		669,907	226,411	(11,032)	1,499	56,653	184,805	(109,215)	1,019,028
Profit for the year	13	–	–	–	–	–	–	754,735	754,735
Total comprehensive income for the year		–	–	–	–	–	–	754,735	754,735
Exercise of share options		–	46,418	–	–	(20,169)	–	–	26,249
Reclassification of lapsed share options		–	116	–	–	(116)	–	–	–
Equity-settled share option arrangements		–	–	–	–	33,644	–	–	33,644
Share Award Scheme arrangements		–	–	–	9,971	–	–	–	9,971
Reclassification of vested awarded shares		–	(70)	1,580	(1,510)	–	–	–	–
Shares purchased for Share Award Scheme		–	7,615	(71,256)	–	–	–	–	(63,641)
Shares repurchased		–	(3,165)	–	–	–	–	–	(3,165)
2010 final dividend declared		–	(630)	–	–	–	(184,805)	–	(185,435)
2011 interim dividend declared	14	–	–	–	–	–	–	(153,342)	(153,342)
Proposed 2011 final dividend	14	–	–	–	–	–	167,384	(167,384)	–
At 31 December 2011		669,907*	276,695*	(80,708)	9,960*	70,012*	167,384	324,794*	1,438,044

38. RESERVES (continued)

(b) Company (continued)

	Notes	Contributed surplus HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded share reserve HK$'000	Share option reserve HK$'000	Proposed final dividend HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2012		669,907	276,695	(80,708)	9,960	70,012	167,384	324,794	1,438,044
Loss for the year	13	-	-	-	-	-	-	(319,785)	(319,785)
Total comprehensive loss for the year		-	-	-	-	-	-	(319,785)	(319,785)
Exercise of share options		-	29,284	-	-	(15,726)	-	-	13,558
Issue of new shares under Share Award Scheme		-	5,435	-	(6,638)	-	-	-	(1,203)
Reclassification of lapsed share options		-	2,498	-	-	(2,498)	-	-	-
Equity-settled share option arrangements		-	-	-	-	42,854	-	-	42,854
Share Award Scheme arrangements		-	-	-	38,256	-	-	-	38,256
Reclassification of vested awarded shares		-	1,227	2,838	(4,065)	-	-	-	-
2011 final dividend declared		-	-	-	-	-	(167,384)	(1,031)	(168,415)
2012 interim dividend declared	14	-	-	-	-	-	-	(33,849)	(33,849)
At 31 December 2012		669,907*	315,139*	(77,870)	37,513*	94,642*	-	(29,871)*	1,009,460

* These reserve accounts comprise the reserves of HK$1,087,330,000 (31 December 2011: HK$1,351,368,000) in the statement of financial position.

The Company's contributed surplus represents the excess of the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

39. CONTINGENT LIABILITIES

As at 31 December 2012, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**16,907,624**	13,393,623

As at 31 December 2012, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$11,993,964,000 (31 December 2011: HK$8,531,097,000).

40. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises, warehouses and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to five years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**25,186**	48,641
In the second to fifth years, inclusive	**25,004**	35,668
	50,190	84,309

41. CAPITAL COMMITMENTS

As at 31 December 2012, the Group had the following capital commitments:

	Group	
	2012	2011
	HK$'000	HK$'000
Property, plant and equipment:		
Contracted, but not provided for	**106,885**	4,311

42. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year.

	2012 HK$'000	2011 HK$'000 (Restated)
Transactions with the ultimate holding company:		
Brand management fee/TCL Brand Common Fund*	18,119	5,636
Fees and commission	2,447	556
Interest expenses	–	350
Purchases of raw materials**	883,847	623,896
Administration fee for purchases of raw materials**	3,775	2,305
Short-term loan obtained	–	974,070
Technology service expense	521	114
Sales of products	14	–
Transactions with the immediate holding company:		
Long-term loan obtained***	116,382	–
Interest expenses	3,845	–
Transactions with fellow subsidiaries:		
Purchases of raw materials**	577,484	441,796
Interest income	2,594	3,645
Rental charges**	24,142	16,593
Fees and commission	11	28
Sales of raw materials**	2,434	629
Sales of products and spare parts**	8,466	2,397
Purchase of products**	57	85
Purchase of property, plant and equipment**	328	2,562
Value-added service income	–	642
Purchase of intangible assets**	–	7,251
Transportation expenses	1,884	1,134
Service expenses	4,863	–

* The brand management fee/TCL Brand Common Fund was charged on a certain percentage of sales of products with "TCL" brand. The percentage was mutually agreed between the two parties.

** The sales, purchases, administration fee for purchases of raw materials and leasehold transactions with the related parties were made according to prices mutually agreed between two parties.

*** The long-term loan obtained from the immediate holding company is unsecured, bears interest at the effective contractual interest rate of 5% per annum and with a payment term of three years.

(b) Other transaction with related parties

i. The Company's ultimate holding company has guaranteed certain bank loans made to the Group of up to HK$1,134,817,000 (31 December 2011: HK$1,001,191,000) as at the end of the reporting period, as further detailed in note 28 to the financial statements.

ii. On 17 October 2012, Huizhou TCL Mobile entered into a transfer agreement with TCL King Electrical Appliances (Huizhou) Co., Ltd. ("TCL King", an indirect wholly-owned subsidiary of TCL Corporation) to transfer a land located Huizhou, Guangdong Province, The PRC, together with affiliated buildings. The total consideration of the transferred land and affiliated buildings was RMB13,008,000 (equivalent to approximately HK$15,870,000).

42. RELATED PARTY TRANSACTIONS (continued)

(c) Commitments with related parties

i. On 9 August 2012 and 17 December 2012, Huizhou TCL Mobile entered into construction management agreements with Huizhou TCL Real Estate (Huizhou) Co., Ltd, a non-wholly owned subsidiary of TCL Corporation, pursuant to which Huizhou TCL Mobile appoints TCL Real Estate (Huizhou) Co., Ltd. to provide construction management services on its two construction projects. The service fees are expected not to exceed RMB6,000,000 (equivalent to HK$7,380,000) and RMB11,000,000 (equivalent to HK$13,530,000), respectively. The service fees are determined on normal commercial terms and are reached after arm-length negotiation. During the year, Huizhou TCL Mobile paid HK$2,703,000 under the said construction management agreements.

ii. On 17 October 2012, a tripartite construction agreement on a land located in Huizhou, Guangdong Province, the PRC (Land No. 38) was entered into among Huizhou TCL Mobile, TCL King and TCL Technoly Electronics (Huizhou) Co., Ltd. ("TCL Technoly", a wholly owned subsidiary of TCL Corporation), pursuant to which Huizhou TCL Mobile, as the owner of the land use rights of Land No. 38, shall execute various contracts in relation to the construction projects on Land No. 38 on behalf of TCL King and TCL Technoly. Once those relevant conditions in relation to the relevant portion of Land No. 38 of each of TCL King and TCL Technoly have been satisfied, Huizhou TCL Mobile shall enter into a transfer agreement with each of them to transfer the relevant portion of Land No. 38 together with the buildings thereon to each of TCL King and TCL Technoly according to the agreed proportion. The total consideration for the transfer is RMB72,921,000 (equivalent to approximately HK$88,964,000), comprising of RMB42,212,000 (equivalent to approximately HK$51,499,000) to be paid by TCL King and RMB30,709,000 (equivalent to approximately HK$37,465,000 to be paid by TCL Technoly. During the year, no consideration was paid by Huizhou TCL Mobile under the tripartie construction agreement.

(d) Outstanding balances with related parties

Group

	Due from related companies		Due to related companies	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current:				
The ultimate holding company	**14,599**	12,219	**9,008**	3,950
Fellow subsidiaries	**14,913**	1,459	**103,818**	161,260
	29,512	13,678	**112,826**	165,210
Non-current:				
The immediate holding company	**–**	–	**116,274**	–
	29,512	13,678	**229,100**	165,210

The balances are mainly trading balances which are unsecured, interest-free and have no fixed terms of repayment, except for a long-term loan from the immediate holding company amounting to HK$116,274,000 (31 December 2011: Nil) which is unsecured, bears interest at the effective contractual interest rate of 5% per annum and with a payment term of three years.

42. RELATED PARTY TRANSACTIONS (continued)

(e) Compensation of key management personnel of the Group

	2012 HK$'000	2011 HK$'000 (Restated)
Short-term employee benefits	**13,135**	25,483
Post-employment benefits	**1,922**	2,069
Equity-settled share option and Share Award Scheme expenses	**22,312**	14,337
Total compensation paid to key management personnel	**37,369**	41,889

Further details of directors' and the chief executive's emoluments are included in note 11 to the financial statements.

The transactions with related parties above also constitute continuing connected transactions or connected transactions as defined in Chapter 14A of the Listing Rules.

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2012

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	**Loans and receivables HK$'000**	**Available-for-sale financial assets HK$'000**	**Total HK$'000**
Available-for-sale investments (note 22)	**–**	**–**	**26,272**	**26,272**
Trade receivables (note 24)	**–**	**2,842,494**	**–**	**2,842,494**
Factored trade receivables (note 25)	**–**	**432,334**	**–**	**432,334**
Notes receivable	**–**	**39,220**	**–**	**39,220**
Financial assets included in prepayments, deposits and other receivables	**–**	**726,747**	**–**	**726,747**
Due from related companies (note 42(d))	**–**	**29,512**	**–**	**29,512**
Derivative financial instruments (note 30)	**145,894**	**–**	**–**	**145,894**
Pledged deposits (note 27)	**–**	**4,221,125**	**–**	**4,221,125**
Cash and cash equivalents (note 27)	**–**	**969,789**	**–**	**969,789**
	145,894	**9,261,221**	**26,272**	**9,433,387**

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

2012

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	**Financial liabilities at amortised cost HK$'000**	**Total HK$'000**
Interest bearing bank and other borrowings (note 28)	**–**	**5,920,180**	**5,920,180**
Trade and notes payables (note 29)	**–**	**2,428,661**	**2,428,661**
Bank advances on factored trade receivables (note 25)	**–**	**432,334**	**432,334**
Derivative financial instruments (note 30)	**96,282**	**–**	**96,282**
Financial liabilities included in other payables and accruals	**–**	**909,372**	**909,372**
Loan from a related company (note 42(d))	**–**	**116,274**	**116,274**
Due to related companies (note 42(d))	**–**	**112,826**	**112,826**
	96,282	**9,919,647**	**10,015,929**

2011

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments (note 22)	–	–	26,272	26,272
Trade receivables (note 24)	–	2,584,768	–	2,584,768
Factored trade receivables (note 25)	–	309,960	–	309,960
Notes receivable	–	53,470	–	53,470
Financial assets included in prepayments, deposits and other receivables	–	449,416	–	449,416
Due from related companies (note 42(d))	–	13,678	–	13,678
Derivative financial instruments (note 30)	148,693	–	–	148,693
Pledged deposits (note 27)	–	6,092,411	–	6,092,411
Cash and cash equivalents (note 27)	–	1,186,637	–	1,186,637
	148,693	10,690,340	26,272	10,865,305

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

2011

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Interest bearing bank and other borrowings (note 28)	–	7,222,256	7,222,256
Trade and notes payables (note 29)	–	1,952,129	1,952,129
Bank advances on factored trade receivables (note 25)	–	309,960	309,960
Derivative financial instruments (note 30)	71,157	–	71,157
Financial liabilities included in other payables and accruals	–	619,397	619,397
Due to related companies (note 42(d))	–	165,210	165,210
	71,157	10,268,952	10,340,109

Financial assets

	Company	
	2012 Loans and receivables HK$'000	2011 Loans and receivables HK$'000
Due from subsidiaries (note 20)	**1,476,352**	1,380,096
Other receivables (note 26)	**5,682**	–
Cash and cash equivalents (note 27)	**3,444**	3,831
	1,485,478	1,383,927

Financial liabilities

	Company	
	2012 Financial liabilities at amortised cost HK$'000	2011 Financial liabilities at amortised cost HK$'000
Due to subsidiaries (note 20)	**198,717**	105,052
Other payables and accruals	**8,900**	15,164
Interest bearing bank and other borrowings (note 28)	**193,790**	–
	401,407	120,216

44. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are not derecognised in their entirety

As part of its normal business, the Group factored trade receivables to banks on a recourse basis for cash. In the opinion of the directors, as the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. The Group continued to recognise the full carrying amounts of the factored trade receivables, and accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated statement of financial position. Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties. The aggregate carrying amount of trade receivables transferred as at 31 December 2012 amounted to HK$470,324,000 (31 December 2011: HK$369,538,000) and the carrying amount of bank advances on factored trade receivables as at 31 December 2012 was HK$432,334,000 (31 December 2011: HK$309,960,000) (note 25).

45. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

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

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade receivables, notes receivable, factored trade receivables, trade and notes payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies, current interest bearing bank and other borrowings and bank advances on factored trade receivables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the non-current interest bearing bank and other borrowings and loan from a related company have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

At 31 December 2012, the available-for-sale investments of HK$26,272,000 (31 December 2011: HK$26,272,000) (note 22) were unlisted equity investments and stated at cost less any impairment losses as the fair value cannot be reliably measured because the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

The Group enters into Euro, GBP, RUB and BRL forward contracts and interest rate swap transactions with international banks with A and B credit ratings with Moody's. The RMB deliverable forward contracts involving derivative financial instruments are mainly with the biggest national banks in Mainland China. The RMB non-deliverable forward contracts are mainly with international banks with A and B credit ratings with Moody's. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

As at 31 December 2012, the market to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

45. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2012, the financial instruments measured at fair value held by the Group only include the derivative financial instruments which belong to Level 2.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest bearing bank and other borrowings, loan from a related company and cash and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. The Group also enters into forward currency contracts and interest rate swaps so as to manage the currency risk arising from the Group's operations and its sources of finance. The Group does not hold or issue derivative financial instruments except for forward currency contracts and interest rate swaps for trading purposes. The Board reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing bank borrowings with a combination of fixed and floating rate debts. The Group also held interest rate swap contracts designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

The following table demonstrates the sensitivity to a reasonably possible change in the United States dollar interest rate of the Group's bank loans and interest rate swap, with all other variables held constant, of the Group's (loss)/profit before tax and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in (loss)/profit before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2012			
United States dollar	**25**	**1,148**	**2,096**
United States dollar	**(25)**	**(1,148)**	**(1,915)**
2011			
United States dollar	25	(800)	1,065
United States dollar	(25)	800	(1,108)

* Excluding retained profits

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in Euro, United States dollars, Brazil real, Russian ruble and RMB. The Group uses forward currency contracts to reduce the foreign currency exposures.

It is the Group's policy to negotiate the terms of the hedging instruments to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Euro and RMB exchange rate, with all other variables held constant, of the Group's (loss)/ profit before tax (due to changes in the fair value of monetary assets and liabilities and non-hedging forward currency contracts) and the Group's equity (due to changes in the fair value of hedging forward currency contracts).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in (loss)/ profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2012			
If Hong Kong dollar weakens against Euro	**(5%)**	**(6,633)**	**(58,841)**
If Hong Kong dollar strengthens against Euro	**5%**	**6,633**	**58,841**
If RMB weakens against United States dollar	**(5%)**	**197,922**	**(187,450)**
If RMB strengthens against United States dollar	**5%**	**(197,922)**	**187,450**
2011			
If Hong Kong dollar weakens against Euro	(5%)	1,817	(10,058)
If Hong Kong dollar strengthens against Euro	5%	(1,817)	10,058
If RMB weakens against United States dollar	(5%)	66,819	(257,256)
If RMB dollar strengthens against United States dollar	5%	(66,819)	257,256

* Excluding retained profits

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables, amounts due from related companies, and trade receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 39 to the financial statements.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Besides, the Group also utilises factoring facilities and credit insurance to minimise credit risk. In this regard, the directors of the Company consider that the Group's credit risk is minimal.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Concentration of credit risk is analysed by customer/counterparty and by geographical region. There is no significant concentration of credit risk with the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in note 24 and note 26 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest bearing bank and other borrowings. The maturity profiles of the Group's borrowings and derivative financial instruments are disclosed in notes 28 and 30 to the financial statements.

As at 31 December 2012, other financial liabilities excluding interest bearing bank and borrowings, derivative financial instruments and a loan from a related company of HK$18,611,000 (31 December 2011: HK$22,957,000) and HK$3,864,582,000 (31 December 2011: HK$3,023,739,000), would be on demand and would mature within one year respectively.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio at an appropriate level. Net debt includes interest bearing bank and other borrowings, trade and notes payables, bank advances on factored trade receivables, other payables and accruals, amounts due to related companies and loan from a related company, less cash and cash equivalents and pledged deposits. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

Group

	2012 HK$'000	2011 HK$'000
Interest bearing bank and other borrowings	**5,920,180**	7,222,256
Trade and notes payables	**2,428,661**	1,952,129
Bank advances on factored trade receivables	**432,334**	309,960
Other payables and accruals	**1,620,401**	1,431,091
Due to related companies	**112,826**	165,210
Loan from a related company	**116,274**	–
Less: Cash and cash equivalents	**969,789**	1,186,637
Pledged deposits	**4,221,125**	6,092,411
Net debt	**5,439,762**	3,801,598
Equity attributable to owners of the parent	**2,321,111**	2,668,622
Equity attributable to owners of the parent and net debt	**7,760,873**	6,470,220
Gearing ratio	**70%**	59%

47. EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the approval date of the financial statements.

48. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation for better presentation of the financial statements.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 26 February 2013.

Five Years Financial Summary

31 December 2012

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**12,031,212**	10,653,020	8,700,694	4,360,886	4,538,281
Cost of sales	**(9,934,637)**	(8,324,789)	(6,752,342)	(3,412,196)	(3,726,663)
Gross profit	**2,096,575**	2,328,231	1,948,352	948,690	811,618
Other income and gains	**542,841**	508,225	278,179	169,964	273,391
Research and development costs	**(739,654)**	(459,223)	(357,179)	(247,113)	(262,924)
Selling and distribution expenses	**(1,153,653)**	(866,262)	(619,627)	(366,084)	(389,388)
Administrative expenses	**(657,535)**	(558,074)	(436,299)	(340,366)	(393,191)
Other operating expenses	**(109,289)**	(28,116)	(5,317)	(25,601)	(1,588)
Finance costs excluding interest on convertible bonds	**(166,009)**	(140,051)	(62,976)	(39,139)	(28,393)
Share of losses of associates	**(1,753)**	(1,381)	(1,388)	(1,455)	–
Share of profit/(loss) of a jointly-controlled entity	**–**	–	1,130	59	(1,399)
	(188,477)	783,349	744,875	98,955	8,126
Changes in fair value of the derivative component of convertible bonds	**–**	–	–	(58,037)	68,078
Interest on convertible bonds	**–**	–	–	(6,839)	(39,959)
(Loss)/profit before tax	**(188,477)**	783,349	744,875	34,079	36,245
Income tax	**(31,551)**	17,296	(43,105)	(11,074)	(7,754)
(Loss)/profit for the year	**(220,028)**	800,645	701,770	23,005	28,491
ATTRIBUTABLE TO:					
Owners of the parent	**(207,840)**	799,934	701,884	23,005	28,491
Non-controlling interests	**(12,188)**	711	(114)	–	–
	(220,028)	800,645	701,770	23,005	28,491

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**13,320,833**	14,026,819	12,253,648	6,765,926	4,564,436
Total liabilities	**(10,998,207)**	(11,353,748)	(10,031,464)	(5,671,225)	(3,499,633)
Non-controlling interests	**(1,515)**	(4,449)	(3,738)	–	–
	2,321,111	2,668,622	2,218,446	1,094,701	1,064,803

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng *(Chairman)*
Mr. GUO Aiping
Mr. WANG Jiyang

Non-Executive Directors

Mr. BO Lianming
Mr. HUANG Xubin
Ms. XU Fang

Independent Non-Executive Directors

Mr. LAU Siu Ki
Mr. LOOK Andrew
Mr. KWOK Hoi Sing

AUDIT COMMITTEE

Mr. LAU Siu Ki *(Chairman)*
Mr. LOOK Andrew
Mr. KWOK Hoi Sing
Mr. HUANG Xubin

REMUNERATION COMMITTEE

Mr. LAU Siu Ki *(Chairman)*
Mr. LOOK Andrew
Mr. KWOK Hoi Sing
Ms. XU Fang

NOMINATION COMMITTEE

(Established on 24 February 2012)
Mr. KWOK Hoi Sing *(Chairman)*
(Appointed on 24 February 2012)
Mr. LAU Siu Ki
(Appointed on 24 February 2012)
Mr. LOOK Andrew
(Appointed on 24 February 2012)
Ms. XU Fang
(Appointed on 24 February 2012)

COMPANY SECRETARY

Ms. PANG Siu Yin

AUTHORISED REPRESENTATIVES

Mr. GUO Aiping
Ms. PANG Siu Yin

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Level 9, HSBC Main Building
1 Queen's Road Central
Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
13/F, Standard Chartered Bank Building
4-4A Des Voeux Road
Central
Hong Kong

Societe Generale
Level 38, 3 Pacific Place
1 Queen's Road East
Hong Kong

SOLICITORS

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

AUDITORS

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

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1910-12A, 19/F, Tower 3
China Hong Kong City
33 Canton Road
Tsimshatsui, Kowloon
Hong Kong

INVESTOR AND MEDIA RELATIONS

iPR Ogilvy Limited
Units 2008-12, 20/F, The Center
99 Queen's Road Central
Central
Hong Kong

TICKER SYMBOL

Listed on The Stock Exchange of Hong Kong Limited under the share ticker number 02618

WEBSITE

http://tclcom.tcl.com

TCL ALCATEL onetouch.

For more information, please visit the Group's website: http://tclcom.tcl.com