

Interim Report 2013

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
Interim Report 2013





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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng (*Chairman*)

Mr. GUO Aiping

Mr. WANG Jiyang

Non-Executive Directors

Mr. BO Lianming

(Retired on 22 April 2013)

Mr. HUANG Xubin

Mr. YAN Xiaolin

(Appointed on 24 April 2013)

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

Mr. KWOK Hoi Sing (*Chairman*)

Mr. LAU Siu Ki

Mr. LOOK Andrew

Ms. XU Fang

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

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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

Corporate Information

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

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China Hong Kong City
33 Canton Road
Tsimshatsui, Kowloon
Hong Kong

INVESTOR AND MEDIA RELATIONS

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Units 2008-12, 20/F, The Center
99 Queen's Road Central
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TICKER SYMBOL

Listed on The Stock Exchange of
Hong Kong Limited under
the share ticker number 02618

WEBSITE

<http://tclcom.tcl.com>



Interim Report

The Board of Directors (the “Board”) of TCL Communication Technology Holdings Limited (the “Company”) announced the unaudited condensed consolidated results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 June 2013, with comparative figures for the same period last year as follows and these condensed interim consolidated financial statements have not been audited, but have been reviewed by the Company’s Audit Committee:

INTERIM CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2013

		Six months ended 30 June 2013 (Unaudited) HK\$'000	Six months ended 30 June 2012 (Unaudited) HK\$'000	Three months ended 30 June 2013 (Unaudited) HK\$'000	Three months ended 30 June 2012 (Unaudited) HK\$'000
	Notes				
REVENUE	3	6,407,106	5,093,460	3,958,331	2,988,271
Cost of sales		(5,278,229)	(4,111,080)	(3,231,791)	(2,424,578)
Gross profit		1,128,877	982,380	726,540	563,693
Other income and gains	3	247,587	268,449	149,554	101,590
Research and development costs		(431,813)	(247,372)	(208,030)	(107,486)
Selling and distribution costs		(655,805)	(488,639)	(366,929)	(276,119)
Administrative expenses		(424,329)	(268,261)	(236,617)	(152,272)
Other operating expenses		(30,853)	(50,418)	(25,719)	(3,913)
Finance costs	4	(60,269)	(83,293)	(24,450)	(43,348)
Share of losses of an associate		(872)	(878)	(416)	(356)
(LOSS)/PROFIT BEFORE TAX	5	(227,477)	111,968	13,933	81,789
Income tax	6	18,426	(11,830)	24,478	(5,215)
(LOSS)/PROFIT FOR THE PERIOD		(209,051)	100,138	38,411	76,574

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INTERIM CONSOLIDATED INCOME STATEMENT (continued)

For the three months and six months ended 30 June 2013

	Six months ended 30 June 2013 (Unaudited) HK\$'000	Six months ended 30 June 2012 (Unaudited) HK\$'000	Three months ended 30 June 2013 (Unaudited) HK\$'000	Three months ended 30 June 2012 (Unaudited) HK\$'000
<i>Notes</i>				
Attributable to:				
Owners of the parent	(206,888)	104,963	39,345	79,261
Non-controlling interests	(2,163)	(4,825)	(934)	(2,687)
	(209,051)	100,138	38,411	76,574
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	8			
Basic	(18.29)	9.37	3.47	7.06
Diluted	(18.29)	9.01	3.38	6.85

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INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2013

	Six months ended 30 June 2013 (Unaudited) HK\$'000	Six months ended 30 June 2012 (Unaudited) HK\$'000	Three months ended 30 June 2013 (Unaudited) HK\$'000	Three months ended 30 June 2012 (Unaudited) HK\$'000
(LOSS)/PROFIT FOR THE PERIOD	(209,051)	100,138	38,411	76,574
OTHER COMPREHENSIVE INCOME/(LOSS)				
Cash flow hedges:				
Effective portion of changes in fair value of hedging instruments arising during the period	129,875	(19,897)	33,095	(21,168)
Reclassification adjustment for gains included in the consolidated income statement	(7,179)	(40,603)	(29,703)	(6,061)
Income tax effect	(4,701)	8,939	(4,701)	8,939
	117,995	(51,561)	(1,309)	(18,290)
Exchange differences on translation of foreign operations	54,181	(59,364)	49,706	(94,243)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	172,176	(110,925)	48,397	(112,533)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(36,875)	(10,787)	86,808	(35,959)
Attributable to:				
Owners of the parent	(34,712)	(5,962)	87,742	(33,272)
Non-controlling interests	(2,163)	(4,825)	(934)	(2,687)
	(36,875)	(10,787)	86,808	(35,959)

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INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

	Notes	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		715,970	597,287
Prepaid land lease payments		127,976	176,656
Other intangible assets		951,095	920,536
Goodwill		253,954	253,954
Investment in an associate		2,683	3,502
Available-for-sale investments		26,272	26,272
Deferred tax assets		164,939	130,659
Total non-current assets		2,242,889	2,108,866
CURRENT ASSETS			
Inventories		2,076,909	1,263,038
Trade receivables	9	2,709,597	2,842,494
Factored trade receivables		395,293	432,334
Notes receivable		85,021	39,220
Prepayments, deposits and other receivables		1,177,220	1,246,325
Due from related companies	18(d)	103,777	29,512
Tax recoverable		14,734	22,236
Derivative financial instruments		225,473	145,894
Pledged deposits	10	2,300,363	4,221,125
Cash and cash equivalents	10	1,277,504	969,789
Total current assets		10,365,891	11,211,967
CURRENT LIABILITIES			
Interest bearing bank and other borrowings	11	3,780,781	5,726,390
Loan from a related company	11,18(d)	232,893	–
Trade and notes payables	12	2,924,457	2,428,661
Bank advances on factored trade receivables		395,293	432,334
Other payables and accruals		1,885,713	1,620,401
Derivative financial instruments		60,928	96,282
Provision for warranties		255,244	187,975
Due to a related company	18(d)	240,380	112,826
Tax payable		7,448	738
Total current liabilities		9,783,137	10,605,607
NET CURRENT ASSETS		582,754	606,360
TOTAL ASSETS LESS CURRENT LIABILITIES		2,825,643	2,715,226

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INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2013

		30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
	<i>Notes</i>		
TOTAL ASSETS LESS CURRENT LIABILITIES		2,825,643	2,715,226
NON-CURRENT LIABILITIES			
Retirement indemnities		3,695	3,738
Long service medals		1,790	1,840
Interest bearing bank and other borrowings	11	390,709	193,790
Loan from a related company	11,18(d)	–	116,274
Deferred tax liabilities		83,323	76,958
Total non-current liabilities		479,517	392,600
Net assets		2,346,126	2,322,626
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	1,142,377	1,128,290
Shares held for Share Award Scheme		(66,684)	(77,870)
Reserves		1,271,081	1,270,691
		2,346,774	2,321,111
Non-controlling interests		(648)	1,515
Total equity		2,346,126	2,322,626

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the parent															Non-controlling interests	Total equity
	Issued share capital	Share premium account	Shares held for		Share option reserve	Hedging reserve	Contributed surplus	Statutory reserve	Other reserve	Exchange fluctuation reserve		Proposed dividends	Retained profits	Total			
			Share Award Scheme	Awarded shares						Exchange fluctuation reserve	Proposed dividends						
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2012 (audited)	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		
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	104,963	104,963	(4,825)	100,138		
Other comprehensive loss for the period																	
Cash flow hedges, net of tax	-	-	-	-	-	(51,561)	-	-	-	-	-	-	(51,561)	-	(51,561)		
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(59,364)	-	-	(59,364)	-	(59,364)		
Total comprehensive loss for the period	-	-	-	-	-	(51,561)	-	-	-	(59,364)	-	104,963	(5,962)	(4,825)	(10,787)		
Addition of non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	5,531	5,531		
Exercise of share options	12,817	29,097	-	-	(15,648)	-	-	-	-	-	-	-	26,286	-	26,286		
Issue of new shares under Share Award Scheme	1,203	(1,203)	-	-	-	-	-	-	-	-	-	-	-	-	-		
Reclassification of lapsed share options	-	1,914	-	-	(1,914)	-	-	-	-	-	-	-	-	-	-		
Equity-settled share option arrangements	-	-	-	-	17,315	-	-	-	-	-	-	-	17,315	-	17,315		
Share Award Scheme arrangements	-	-	-	12,268	-	-	-	-	-	-	-	-	12,268	-	12,268		
Reclassification of vested shares	-	7,421	629	(8,050)	-	-	-	-	-	-	-	-	-	-	-		
2011 final dividend declared	-	-	-	-	-	-	-	-	-	-	(167,384)	(1,031)	(168,415)	-	(168,415)		
Proposed 2012 interim dividend	-	-	-	-	-	-	-	-	-	-	33,849	(33,849)	-	-	-		
At 30 June 2012 (unaudited)	1,128,213	320,115*	(80,079)	14,178*	69,765*	6,461*	232,555*	220,922*	(130,232)*	161,947*	33,849	572,400*	2,550,094	5,155	2,555,249		

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2013

	Attributable to owners of the parent													Non-controlling interests	Total equity
	Issued share capital	Share premium account	Shares held for		Share option reserve	Hedging reserve	Contributed surplus	Statutory reserve	Other reserve	Exchange fluctuation reserve	Retained profits/ (loss) (accumulated)	Total			
			Share Award Scheme	Awarded shares											
			HK\$'000	HK\$'000											
At 1 January 2013 (audited)	1,128,230	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	
Loss for the period	-	-	-	-	-	-	-	-	-	-	(206,888)	(206,888)	(2,163)	(208,051)	
Other comprehensive income for the period															
Cash flow hedges, net of tax	-	-	-	-	-	117,995	-	-	-	-	-	117,995	-	117,995	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	54,181	-	54,181	-	54,181	
Total comprehensive loss for the period	-	-	-	-	-	117,995	-	-	-	54,181	(206,888)	(34,712)	(2,163)	(36,675)	
Exercise of share options	6,833	18,491	-	-	(7,427)	-	-	-	-	-	-	17,897	-	17,897	
Issue of new shares under Share Award Scheme	7,254	(7,254)	-	-	-	-	-	-	-	-	-	-	-	-	
Reclassification of lapsed share options	-	972	-	-	(972)	-	-	-	-	-	-	-	-	-	
Equity-settled share option arrangements	-	-	-	-	20,265	-	-	-	-	-	-	20,265	-	20,265	
Share Award Scheme arrangements	-	-	-	22,213	-	-	-	-	-	-	-	22,213	-	22,213	
Reclassification of vested shares	-	19,949	11,186	(31,135)	-	-	-	-	-	-	-	-	-	-	
Transfer from retained profits	-	-	-	-	-	-	-	2,685	-	-	(2,685)	-	-	-	
At 30 June 2013 (unaudited)	1,142,377	353,488*	(66,684)	28,591*	106,508*	133,245*	232,555*	278,210*	(130,232)*	273,295*	(4,579)*	2,346,774	(648)	2,346,126	

* These reserve accounts comprise the consolidated reserves of HK\$1,271,081,000 (30 June 2012: HK\$1,468,111,000) in the consolidated statement of financial position.

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflows from operating activities	539,418	321,253
Net cash outflows used in investing activities	(503,533)	(439,940)
Net cash flows from/(used in) financing activities	269,441	(301,395)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	305,326	(420,082)
Cash and cash equivalents at beginning of period	969,789	1,186,637
Effect of foreign exchange rate changes, net	2,389	(37,824)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,277,504	728,731
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents as stated in the consolidated statement of financial position	1,277,504	728,731

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed interim consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2012. Except for the changes in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements. 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 and all values are rounded to the nearest thousand except when otherwise indicated.

Impact of new and revised HKFRSs and HKASs

HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: <i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
<i>Annual Improvements 2009 -2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012

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.

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1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Impact of new and revised HKFRSs and HKASs (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 remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12.

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 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 affect presentation only and have no impact on the financial position or performance.

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.



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1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Impact of new and revised HKFRSs and HKASs (continued)

The *Annual Improvement to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. 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 required 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 clarify 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.

The amendments to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

HKFRS 1 Amendments	Amendments to <i>HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HK (IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>

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2. OPERATING SEGMENT INFORMATION

For management purpose, the management does not review the performance of the business in China and overseas segments separately, but considers there is only one segment which is 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

	For the six months ended 30 June	
	2013 (Unaudited) <i>HK\$'000</i>	2012 (Unaudited) <i>HK\$'000</i>
Europe, the Middle East and Africa	2,829,502	1,650,482
Americas	2,338,686	2,300,356
Asia Pacific	672,609	297,001
China	566,309	845,621
Total	6,407,106	5,093,460

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 of non-current assets is presented.

Information about major customers

For the six months ended 30 June 2013 and 2012, no revenue from a single customer accounted for 10% or more of the total revenue of the Group.

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3. 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 period, 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:

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Revenue		
Sale of mobile phones and other products	6,407,106	5,093,460
<hr/>		
Other income and gains		
Interest income	70,799	107,297
Subsidy income*	45,254	47,310
Value-added-tax ("VAT") refund**	98,190	62,030
Value-added service income	13,109	4,598
Gain on disposal of items of property, plant and equipment (note 5)	-	832
Gain on disposal of prepaid land lease payment and affiliated buildings (note 5)	496	43,000
Dividend income from an available-for-sale investment	-	1,913
Others	19,739	1,469
	<hr/> 247,587 <hr/>	268,449

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3. REVENUE, OTHER INCOME AND GAINS (continued)

* Subsidy income represents 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 six months ended 30 June 2013 and 2012, JRD Communication (Shenzhen) Limited ("JRD Shenzhen") and JRD Communication Technology (Shanghai) Limited ("JRD Shanghai"), being designated as 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%.

4. FINANCE COSTS

	For the six months ended 30 June	
	2013 (Unaudited) <i>HK\$'000</i>	2012 (Unaudited) <i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within three years	59,090	80,605
Interest on discounted notes and factored trade receivables*	1,179	2,688
	60,269	83,293

* The effective interest rate of factored trade receivables is 0.15% (six months ended 30 June 2012: 0.20%) per month.

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5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	<i>HK\$'000</i>
Cost of inventories sold	5,278,229	4,111,080
Depreciation of property, plant and equipment	70,666	51,178
Amortisation of land lease payment	1,469	1,701
Amortisation of computer software, intellectual property and ALCATEL brand licence	21,410	18,980
Research and development costs:		
Deferred expenditure amortised	377,990	100,868
Current period expenditure	53,823	146,504
	431,813	247,372
Brand management fee/TCL Brand Common Fund	4,175	7,870
Minimum lease payments under operating leases in respect of land and buildings	38,661	34,702
Provision/(reversal) of impairment loss of trade receivables	39,917	(4,539)
Impairment loss of other receivables	2,066	1,190
Gain on disposal of items of property, plant and equipment (note 3)	-	(832)
Gain on disposal of prepaid land lease payment and affiliated buildings (note 3)	(496)	(43,000)

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6. INCOME TAX

	For the six months ended 30 June	
	2013	2012
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current		
Charge for the period:		
The PRC	7,137	169
France	1,233	5,063
Russia	6,229	2,461
The United States	-	86
(Overprovision)/underprovision in prior years	(391)	3,008
	14,208	10,787
Deferred	(32,634)	1,043
Tax (credit)/charge for the period	(18,426)	11,830

No Hong Kong profits tax has been provided (six months ended 30 June 2012: nil) since no assessable profit arose in Hong Kong during the period. 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"), a subsidiary of the Company in the PRC, was given a high technology enterprise accreditation for 2011 to 2013 and hence is subject to a corporate income tax rate of 15% for the years of 2013 and 2012.

JRD Shenzhen, a subsidiary of the Company in the PRC, was given a high technology enterprises accreditation from 2011 to 2013. Hence it is subject to a corporate income tax rate of 15% for the years 2013 and 2012.

TCL Communication (Ningbo) Limited, a subsidiary of the Company in the PRC, was given a high technology enterprise accreditation from 2011 to 2013. Hence it is subject to a corporate income tax rate of 15% for the years 2013 and 2012.

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6. INCOME TAX (continued)

According to the Corporate Income Tax Law of 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.

Expect for subsidiaries in PRC mentioned above, other subsidiaries of the Company in PRC are subject to the PRC corporate income tax rate of 25% for the years 2013 and 2012.

TCT Mobile Europe SAS, a subsidiary of the Company in France, is subject to a corporate income tax rate of 33.33% for the years 2013 and 2012. According to the French tax policy issued in 2011, entity needs to pay income tax even though the entity has tax losses carried forward. 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.

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 is 17.5% for the years 2013 and 2012. 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 is 30% for the years 2013 and 2012. In all cases, the payment of IETU is required only to the extent that it exceeds 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 2013 and 2012.

TCT Mobile, Inc. and TCT Mobile (US) Inc., 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 2013 and 2012.

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.



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7. DIVIDENDS

	For the six months ended 30 June	
	2013	2012
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Proposed interim – Nil (six months ended 30 June 2012: 3.0 HK cents per ordinary share)	–	33,849

The Company does not intend to declare the payment of any interim dividend in respect of the six months ended 30 June 2013 to shareholders.

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic and diluted (loss)/earnings per share is based on:

	For the six months ended 30 June	
	2013	2012
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
(Loss)/profit		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculation	(206,888)	104,963

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8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	Number of shares For the six months ended 30 June	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation	1,131,430,784	1,119,936,376
Effect of dilution – weighted average number of ordinary shares:		
Assumed issuance upon the exercise of share options and allotment and issuance of awarded shares	–	45,269,489
Weighted average number of ordinary shares in issue during the period used in the diluted (loss)/earnings per share calculation	1,131,430,784	1,165,205,865

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

The calculation of the diluted (loss)/earnings per share is based on the (loss)/profit for the period 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 period, as used in the basic (loss)/earnings 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. For the current period, since the ordinary shares assumed to have been issued upon the exercise of share options and allotment and issuance of awarded shares will decrease the loss per share, these potential ordinary shares had an anti-dilutive effect on the Company.

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9. TRADE RECEIVABLES

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

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Within 3 months	2,281,793	2,413,735
4 to 12 months	444,072	414,531
Over 12 months	42,484	33,138
	2,768,349	2,861,404
Impairment	(58,752)	(18,910)
	2,709,597	2,842,494

The credit period is generally 30 to 180 days.

As at 30 June 2013, export invoices amounting to HK\$499,095,000 (31 December 2012: HK\$568.591,000) was used to secure the Group's interest bearing bank borrowings.

10. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Cash and bank balances	1,277,504	969,789
Pledged deposits	2,300,363	4,221,125
	3,577,867	5,190,914
Less: Pledged deposits		
– for factored trade receivables	44,578	33,566
– for interest bearing bank borrowings and banking facilities	2,255,785	4,187,559
Cash and cash equivalents	1,277,504	969,789

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10. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS (continued)

As at 30 June 2013, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to HK\$1,846,721,000 (31 December 2012: HK\$2,074,775,000). 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\$348,872,000 (31 December 2012: HK\$74,478,000) 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 0.15% – 1.27% (2012: 0.10% – 1.31%) per annum, being the saving rate offered by the People's Bank of China.

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

	30 June 2013		31 December 2012	
	Maturity (Year)	HK\$'000 (Unaudited)	Maturity (Year)	HK\$'000 (Audited)
Current				
Bank borrowings – unsecured	2013	145,364	2013	218,360
Bank borrowings – secured*	2013-2014	3,635,417	2013	5,508,030
Loan from a related company**	2013	232,893		–
		4,013,674		5,726,390
Non-current				
Bank borrowing – secured*	2014-2015	390,709	2014-2015	193,790
Loan from a related company**		–	2015	116,274
		390,709		310,064
		4,404,383		6,036,454

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

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Analysed into:		
Bank borrowings:		
Within one year or on demand	3,780,781	5,726,390
In the second year	261,322	96,856
In the third to fifth years, inclusive	129,387	96,934
	4,171,490	5,920,180
Other borrowing:		
Within one year or on demand	232,893	–
In the second year	–	–
In the third to fifth years, inclusive	–	116,274
	232,893	116,274
	4,404,383	6,036,454

* The Group's interest bearing bank borrowings secured are bank advance comprising (i) bank borrowings of HK\$2,146,465,000 (31 December 2012: HK\$4,055,271,000) which are secured by the pledge of certain of the Group's time deposits amounting to HK\$2,255,785,000 (31 December 2012: HK\$4,187,559,000); (ii) bank borrowings of HK\$1,448,445,000 (31 December 2012: HK\$1,134,817,000) which are guaranteed by the ultimate holding company; (iii) bank borrowings of HK\$428,357,000 (31 December 2012: HK\$511,732,000) which are secured by export invoices amounted to HK\$499,095,000 (31 December 2012: HK\$568,591,000); and (iv) bank borrowings of HK\$2,859,000 (31 December 2012: Nil) which are secured by certain of the Group's machinery amounting to HK\$3,645,000 (31 December 2012: Nil).

** The loan from a related company is an unsecured, interest-bearing loan from the immediate holding company with an effective contractual interest rate of 1.46% (2012: 5.00%) per annum and with a payment term of less than one year (31 December 2012: three years).

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

The effective contractual interest rate for the secured bank borrowings ranged from 0.80% to 6.00% (2012: 0.74% – 5.48%) per annum.

HK\$2,859,000 (31 December 2012: HK\$324,975,000) and HK\$40,744,000 (31 December 2012: HK\$41,228,000) of the interest bearing bank loan and other borrowings are denominated in RMB and Euro respectively, and others are denominated in United States dollars.

12. TRADE AND NOTES PAYABLES

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

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Within 6 months	2,896,969	2,410,050
7 to 12 months	14,623	6,578
Over 12 months	12,865	12,033
	2,924,457	2,428,661

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

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13. 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 2012, 31 December 2012, 1 January 2013 and 30 June 2013	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
As at 1 January 2012	1,114,193,373	1,114,193	282,886
Share options exercised	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
As at 31 December 2012 and 1 January 2013	1,128,290,105	1,128,290	321,330
Share options exercised*	6,832,913	6,833	18,491
Issue of new shares under Share Award Scheme**	7,253,783	7,254	(7,254)
Reclassification of lapsed share options	–	–	972
Reclassification of vested awarded shares	–	–	19,949
As at 30 June 2013	1,142,376,801	1,142,377	353,488

* During the six months ended 30 June 2013, 6,832,913 share options were exercised at subscription prices ranging from HK\$2.423 to HK\$3.462 per share, resulting in the issue of 6,832,913 ordinary shares of par value HK\$1 each for a total cash consideration of HK\$17,897,000.

** During the six months ended 30 June 2013, a total of 7,253,783 awarded shares vested under Share Award Scheme of the Company through new issuance of shares, resulting in the issue of 7,253,783 ordinary shares of par value HK\$1 each at no consideration.

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14. 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. 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 22 April 2013) is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 22 April 2013 (i.e., up to 112,843,845 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 closing price of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

As at 30 June 2013, the Company had 102,568,745 share options outstanding under the Share Option Scheme. Further details of the Share Option Scheme are as follows:



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14. SHARE OPTION SCHEME (continued)

14.1 The following share options were outstanding under the Share Option Scheme of the Company during the reporting period:

Date of grant	Number of share options					At 30 June 2013	Exercise period (both dates inclusive) <i>(Note a & b)</i>	Exercise price per share <i>(HK\$)</i>
	At 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	Expired during the period			
5 July 2007	17,734,997	-	(3,995,247)	(92,038)	-	13,647,712	5 April 2008 to 4 July 2014	2.423
11 March 2010	17,256,336	-	(1,445,000)	(227,000)	-	15,584,336	11 December 2010 to 10 March 2016	3.020
25 May 2010	12,730,000	-	(50,000)	-	-	12,680,000	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	8,181,099	-	-	(319,006)	-	7,862,093	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	48,692,000	-	(1,342,666)	(272,667)	-	47,076,667	4 March 2013 to 3 June 2018	2.740
Total	110,312,369	-	(6,832,913)	(910,711)	-	102,568,745		

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14. SHARE OPTION SCHEME (continued)

14.2 During the reporting period, 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 30 June 2013	Date of grant	Exercise period (both dates inclusive) <i>(Notes a & b)</i>	Exercise price per share <i>(HK\$)</i>
	At 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	Expired during the period	Re- classified				
Executive Director										
Mr. LI Dongsheng	1,414,252	-	-	-	-	-	1,414,252	5 July 2007	5 April 2008 to 4 July 2014	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
	12,416,165	-	-	-	-	-	12,416,165			
Mr. GUO Aiping	1,234,258	(1,234,000)	-	-	-	-	258	5 July 2007	5 April 2008 to 4 July 2014	2.423
	1,980,000	(680,000)	-	-	-	-	1,300,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
	3,084,737	-	-	-	-	-	3,084,737	3 May 2011	3 February 2012 to 2 May 2017	7.614
	8,909,091	(969,000)	-	-	-	-	7,940,091	4 June 2012	4 March 2013 to 3 June 2018	2.740
	15,218,086	(2,883,000)	-	-	-	-	12,335,086			
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
	8,576,498	-	-	-	-	-	8,576,498			

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14. SHARE OPTION SCHEME (continued)

14.2 During the reporting period, 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 30 June 2013	Date of grant	Exercise period (both dates inclusive) (Notes a & b)	Exercise price per share (HK\$)
	At 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	Expired during the period	Re- classified				
Non-Executive Directors										
Mr. BO Lianming (Note c)	719,987	-	-	-	-	(719,987)	-	5 July 2007	5 April 2008 to 4 July 2014	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
	3,388,987	-	-	-	-	(3,388,987)	-			
Mr. HUANG Xubin	349,806	-	-	-	-	349,806	5 July 2007	5 April 2008 to 4 July 2014	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	
	2,767,906	-	-	-	-	2,767,906				
Mr. YAN Xiaolin (Note d)	-	-	-	-	-	45,000	5 July 2007	5 April 2008 to 4 July 2014	2.423	
	-	-	-	-	-	167,200	167,200	9 August 2011	9 May 2012 to 8 August 2017	6.472
	-	-	-	-	-	212,200	212,200			
Ms. XU Fang	93,367	-	-	-	-	93,367	5 July 2007	5 April 2008 to 4 July 2014	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	
	2,511,467	-	-	-	-	2,511,467				

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14. SHARE OPTION SCHEME (continued)

14.2 During the reporting period, 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 30 June 2013	Date of grant	Exercise period (both dates inclusive) (Notes a & b)	Exercise price per share (HK\$)
	At 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	Expired during the period	Re- classified				
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
	500,000	-	-	-	-	-	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
	600,000	-	-	-	-	-	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
	500,000	-	-	-	-	-	500,000			
Directors	3,811,670	-	(1,234,000)	-	-	(674,987)	1,902,683	5 July 2007	5 April 2008 to 4 July 2014	2.423
	3,300,000	-	(680,000)	-	-	-	2,620,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
	8,300,000	-	-	-	-	(1,000,000)	7,300,000	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	-	-	-	-	(501,800)	1,303,400	9 August 2011	9 May 2012 to 8 August 2017	6.472
	24,220,134	-	(969,000)	-	-	(1,000,000)	22,251,134	4 June 2012	4 March 2013 to 3 June 2018	2.740
Sub-total	46,479,109	-	(2,883,000)	-	-	(3,176,787)	40,419,322			

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14. SHARE OPTION SCHEME (continued)

14.2 During the reporting period, 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 30 June 2013	Date of grant	Exercise period (both dates inclusive) <i>(Notes a & b)</i>	Exercise price per share <i>(HK\$)</i>
	At 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	Expired during the period	Re- classified				
Employees and those who have contributed or may contribute to the Group	13,923,327	-	(2,761,247)	(92,038)	-	674,987	11,745,029	5 July 2007	5 April 2008 to 4 July 2014	2.423
	13,966,336	-	(765,000)	(227,000)	-	-	12,964,336	11 March 2010	11 December 2010 to 10 March 2016	3.020
	4,430,000	-	(50,000)	-	-	1,000,000	5,380,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	3,538,994	-	-	(319,006)	-	-	3,219,988	3 May 2011	3 February 2012 to 2 May 2017	7.614
	3,512,737	-	-	-	-	501,800	4,014,537	9 August 2011	9 May 2012 to 8 August 2017	6.472
	24,471,866	-	(373,666)	(272,667)	-	1,000,000	24,825,533	4 June 2012	4 March 2013 to 3 June 2018	2.740
Sub-total	63,833,260	-	(3,949,913)	(910,711)	-	3,176,787	62,149,423			
Total	110,312,369	-	(6,832,913)	(910,711)	-	-	102,568,745			

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14. SHARE OPTION SCHEME (continued)

Notes:

- a. During the reporting period, 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)	5 July 2007	2.423	5 April 2008 to 4 July 2014; 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.	During the reporting period, the directors of the Company have resolved to extend the share options period of the outstanding share options granted by the Company on 5 July 2007 to a period of 7 years from the share options grant date. As a result of this, the expiry date of the said share options were extended, and the new expiry date is 4 July 2014.
(ii)	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.	
(iii)	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.	
(iv)	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.	

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14. SHARE OPTION SCHEME (continued)

Notes: (continued)

- a. During the reporting period, 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
(v)	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.	
(vi)	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.	
(vii)	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.

Interim Report

14. SHARE OPTION SCHEME (continued)

Notes: (continued)

- b. The weighted average share price at the date of exercise for share options exercised during the reporting period was HK\$3.97 (year ended 31 December 2012: HK\$3.33) per share.
- c. Mr. BO Lianming retired from his position as a non-executive Director on 22 April 2013 and his share options under the Share Option Scheme were re-classified under "Employees and those who have contributed or may contribute to the Group".
- d. Mr. YAN Xiaolin was appointed as a non-executive Director on 24 April 2013 and his share options under the Share Option Scheme were re-classified under "Non-Executive Directors".

As at 30 June 2013, the Company had 102,568,745 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 102,568,745 additional ordinary shares of the Company. Total funds raised from exercise of the outstanding share options would be HK\$349,133,000 which represents additional share capital of HK\$102,569,000 and share premium of HK\$246,564,000 (before issue expenses).

15. SHARE AWARD SCHEME

The 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, the Share Award Scheme B, on 11 March 2008. The 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 the Share Award Scheme B. On 17 March 2011, the 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 the Share Award Scheme B, the Board may allot and issue shares as awarded shares and have 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.

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15. SHARE AWARD SCHEME (continued)

Under the Share Award Scheme B of the Company, shares of the Company would be transferred to the employees by the trustee or through allotment and issuance of shares at nil consideration upon vesting. During the reporting period, the trustee transferred a total of 9,984,872 shares to the awardees and a total of 7,253,783 shares were allotted and issued to awardees upon vesting of those shares awarded under the Share Award Scheme B. The total cost of the related vested shares was HK\$11,186,000. As at 30 June 2013, the carrying amount of shares held for Share Award Scheme was HK\$66,684,000 (31 December 2012: HK\$77,870,000).

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

Date of grant	Number of awarded shares				As at 30 June 2013	Remaining vesting period (both dates inclusive) <i>(Note b)</i>	Fair value per share <i>(HK\$)</i>
	As at 1 January 2013	Granted during the period	Vested during the period <i>(Note a)</i>	Lapsed during the period			
3 May 2011	1,129,005	-	(547,812)	(35,669)	545,524	1 July 2013 to 3 May 2014	7.10
9 August 2011	397,653	-	-	-	397,653	1 July 2013 to 9 August 2014	5.75
29 August 2011	1,476,699	-	(738,301)	(9,334)	729,064	1 July 2013 to 1 May 2014	4.62
4 June 2012	26,622,000	-	(8,698,759)	(561,669)	17,361,572	1 July 2013 to 4 June 2015	2.74
Total	29,625,357	-	(9,984,872)	(606,672)	19,033,813		

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15. SHARE AWARD SCHEME (continued)

15.2 During the reporting period, outstanding awarded shares of the directors of the Company, employees and those who have contributed or may contribute to the Group are as follows:

	Number of awarded shares				At 30 June 2013	Date of grant	Remaining vesting period (both dates inclusive) (Note b)	Fair value per share (HK\$)
	At 1 January 2013	Granted during the period	Vested during the period (Note a)	Lapsed during the period				
Directors								
Executive Directors								
Mr. WAGN Jiyang	397,653	-	-	-	397,653	9 August 2011	1 July 2013 to 9 August 2014	5.75
Sub-total	397,653	-	-	-	397,653			
Employees and those who have contributed or may contribute to the Group								
	1,129,005	-	(547,812)	(35,669)	545,524	3 May 2011	1 July 2013 to 3 May 2014	7.10
	1,476,699	-	(738,301)	(9,334)	729,064	29 August 2011	1 July 2013 to 1 May 2014	4.62
	26,622,000	-	(6,698,759)	(561,669)	17,361,572	4 June 2012	1 July 2013 to 4 June 2015	2.74
Sub-total	29,227,704	-	(9,984,872)	(606,672)	18,636,160			
Total	29,625,357	-	(9,984,872)	(606,672)	19,033,813			

Notes:

- a. During the reporting period, a total of 9,984,872 awarded shares vested, in which a total of 7,253,783 awarded shares were vested through new issuance of shares and the remaining 2,731,089 awarded shares were vested through purchased shares by the trustee on the market.

Interim Report

15. SHARE AWARD SCHEME (continued)

Notes: (continued)

- b. During the reporting period, the following awarded shares were effective under the Share Award Schemes of the Company:

Date of Grant	Number of awarded shares granted	Vesting Period	Remark
3 May 2011	A maximum of 11,500,000 awarded shares offered by the Board to be awarded to designated employees under the 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.

Interim Report

16. CONTINGENT LIABILITIES

As at the end of the reporting period, the Group had no significant contingent liabilities (31 December 2012: Nil).

17. CAPITAL COMMITMENTS

As at 30 June 2013, the capital commitments of the Group were as follows:

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
<hr/>		
Property, plant and equipment:		
Contracted but not provided for	288,741	106,885
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Interim Report

18. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	<i>HK\$'000</i>
<hr/>		
Transactions with the ultimate holding company		
Brand management fee/TCL Brand Common Fund*	4,175	7,870
Purchases of raw materials**	38,683	509,919
Administration fee for purchase of raw materials**	214	2,202
Technology service expense	282	129
Sales of products**	–	14
Rental charges**	1	–
Transactions with the immediate holding company		
Loans obtained***	232,893	116,382
Interest expenses***	663	890
Transactions with fellow subsidiaries		
Purchases of raw materials**	338,424	253,930
Interest income	689	2,200
Rental charges**	11,815	11,978
Fees and commission charges	420	–
Sales of raw materials**	1,170	15
Sales of products and spare parts**	11,516	2,176
Purchases of products**	1,426	25
Transportation expenses	–	1,064
Service expenses**	8,021	75

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

Interim Report

18. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

** The sales, purchases, administration fee for purchase of raw materials, leasehold transactions with the related parties and service expenses were made according to prices mutually agreed between two parties after arm's length negotiation on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties.

*** The loan obtained from the immediate holding company is unsecured, interest-bearing with effective contractual interest rate of 1.46% (2012: 5.00%) per annum and with a payment term of less than one year (six months ended 30 June 2012: three years).

(b) Other transactions with related parties

- i. The Company's ultimate holding company has guaranteed certain bank loans made to the Group of up to HK\$1,448,445,000 (note 11) (31 December 2012: HK\$1,134,817,000) as at the end of the reporting period.
- ii. On 26 June 2013, Huizhou TCL entered into transfer agreements with two fellow subsidiaries of the Group, TCL King Electrical Appliance (Huizhou) Co., Ltd. ("TCL King") and TCL Technoly Electronics (Huizhou) Co., Ltd. ("TCL Technoly") respectively, to transfer a piece of land together with buildings thereon. The total consideration of the transfer was RMB72,918,000 (equivalent to HK\$90,761,000) of which RMB42,175,000 (equivalent to HK\$52,495,000) will be paid by TCL King and RMB30,743,000 (equivalent to HK\$38,266,000) will be paid by TCL Technoly.



Interim Report

18. RELATED PARTY TRANSACTIONS (continued)

(c) Commitments with related parties

- i. On 9 August 2012, 17 December 2012 and 26 March 2013, Huizhou TCL entered into construction management agreements ending April 2014, October 2014 and December 2015 respectively, with a fellow subsidiary of the Group, TCL Real Estate (Huizhou) Co., Ltd ("TCL Real Estate"), pursuant to which Huizhou TCL would appoint TCL Real Estate to provide construction management services for its two construction projects. During the six months ended 30 June 2013, the amount of service fees under the construction management agreements was RMB4,810,000 (equivalent to HK\$5,987,000). The total amount of services fees under the construction management agreements in future is estimated not to exceed RMB32,990,000 (equivalent to HK\$41,063,000). The service fees are determined on normal commercial terms and are reached after arm's length negotiation.

- ii. On 26 June 2013, a strategic cooperation framework agreement was entered into between the Company and TCL Corporation which would be effective from 1 July 2013 to 31 December 2015, pursuant to which TCL Corporation shall provide research and development service to the Company. During the six months ended 30 June 2013, no research and development service fee under the agreement was incurred. The total consideration under the agreement is estimated not to exceed RMB29,000,000 (equivalent to HK\$36,096,000) for 2013, RMB62,000,000 (equivalent to HK\$77,171,000) for 2014 and RMB93,000,000 (equivalent to HK\$115,757,000) for 2015. The service fees are determined on normal commercial terms and are reached after arm's length negotiation.

Interim Report

18. RELATED PARTY TRANSACTIONS (continued)

(c) Commitments with related parties (continued)

- iii. Subsidiaries of the Group have entered into several leasehold contracts with related parties, to lease certain premises for the Group's operation. Details of rental commitment related to these leasehold contracts are as follow:

Contract date	Leaser	Ending date of contract	Within one year HK\$'000
1 January 2013	Shenzhen TCL Central R&D Co., Ltd.	31 December 2013	11,656
1 January 2013	TCL Real Estate	30 December 2013	140
1 January 2013	TCL Optoelectronic TECH (Huizhou) Co., Ltd.	1 January 2014	13
1 January 2013	TTE Technology, Inc.	31 December 2013	50
			11,859

(d) Outstanding balances with related parties

	Due from related companies		Due to related companies	
	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Current:				
Ultimate holding company	222	14,599	20,269	9,008
Fellow subsidiaries	103,555	14,913	220,111	103,818
The immediate holding company	–	–	232,893	–
	103,777	29,512	473,273	112,826
Non-current:				
The immediate holding company	–	–	–	116,274
	103,777	29,512	473,273	229,100

Interim Report

18. RELATED PARTY TRANSACTIONS (continued)

(d) Outstanding balances with related parties (continued)

The balances are mainly trading balances, unsecured, interest-free and have no fixed terms of repayment, except for a loan from the immediate holding company amounted to HK\$232,893,000 (31 December 2012: HK\$116,274,000) which is unsecured, interest-bearing with effective contractual interest rate of 1.46% (2012: 5.00%) per annum and with a payment term of less than one year (31 December 2012: three years).

(e) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	6,057	6,304
Post-employment benefits	880	1,201
Equity-settled share option and Share Award Scheme expenses	10,091	8,295
Total compensation paid to key management personnel	17,028	15,800

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

19. COMPARATIVE AMOUNTS

During the reporting period, certain comparative amounts have been adjusted to conform to the current period's presentation.

20. APPROVAL OF THE INTERIM FINANCIAL REPORT

The condensed interim consolidated financial statements were approved and authorised for issue by the Board on 15 August 2013.

Management Discussion and Analysis

OPERATIONAL HIGHLIGHTS

- Successfully turnaround in the second quarter of 2013 from the loss of the previous three quarters. Net profit in the second quarter of 2013 was HK\$38 million.
- Sales volume of handsets and other products reached 20.6 million units, representing a year-on-year growth of 11%, while average selling price increased by 14% from US\$35 in the first half of 2012 to US\$40 in the first half of 2013.
- Sales of smartphones and other smart devices surged 113% year-on-year to 4.7 million units, and its sales as a proportion of the Group's total shipment reached 22.8%.
- Revenue in the first half of 2013 reached HK\$6.4 billion, representing a year-on-year increase of 26%.
- Although gross profit margin in the first half of 2013 slightly decreased by 1.7% from the same period of 2012 to 17.6%, the gross profit margin in the second quarter of 2013 rebounded to 18.4% since it bottomed out at 15.6% in the fourth quarter of 2012 and 16.4% in the first quarter of 2013.
- Net loss in the first half of 2013 was HK\$209 million; basic loss per share in the first half of 2013 was 18.29 HK cents, while basic earnings per share in the first half of 2012 was 9.37 HK cents.



Management Discussion and Analysis

INDUSTRY OVERVIEW

In the first half of 2013, the short-term risks associated with the situation in the Euro area, the fiscal adjustments in the United States and the economic slowdown in large developing countries have diminished, but not disappeared. Accordingly, the global handset market only recorded a mild growth in the first half of the year. Based on statistics from the International Data Corporation ("IDC"), global handset shipments in the first quarter of 2013 grew by 4.0% year-on-year to 418.6 million units.

Smartphones outstripped feature phones for the first time in shipment, with global smartphone shipments growing 41.6% year-on-year to 216.2 million units in the first quarter of 2013. With the rise in global smartphone shipments, demand has quickly spread from developed markets to emerging markets. As a result, the smartphone average selling price (ASP) has declined in 2013, which has posed many challenges to handset vendors and component suppliers.

IDC expects smartphone shipments to grow 32.7% year-on-year in 2013 as a whole, reaching 958.8 million units, up from 722.5 million units last year and accounting for 52.2% of all mobile phone shipments worldwide.

BUSINESS REVIEW

For the six months ended 30 June 2013, despite the sluggish global economy, total sales volume of handsets and other products of the Group reached 20.6 million units, representing an increase of 11% over the same period in 2012. A total of 18.2 million units were sold in the overseas markets, while 2.4 million units were sold in the China market. Thanks to the Group's tremendous effort in developing smartphone business, sales volume of smartphones and other smart devices surged 113% year-on-year to 4.7 million units, and accounted for 22.8% of the Group's total shipments. The overall ASP increased from US\$35 in the first half of 2012 to US\$40 in the same period of 2013, which greatly increased the Group's overall revenue to HK\$6.4 billion, representing a year-on-year growth of 26%.

For the six months ended 30 June 2013, the Group's overall gross margin was 17.6%, decreasing from 19.3% for the same period in 2012. However, upon the completion of the launch of the first wave of competitive mid-range smartphones worldwide, the growth momentum started from the second quarter of 2013. The Group's overall gross margin rebounded to 18.4% quarter by quarter since it bottomed out at 15.6% in the fourth quarter of 2012 and 16.4% in the first quarter of 2013.



Management Discussion and Analysis

BUSINESS REVIEW (continued)

In order to increase the competitiveness of the Group's product portfolio and sustain its long-term development of the handset business, offering its customers the best-in-class and high quality products, the Group has continuously invested in research and development ("R&D"). In the first half of 2013, the Group successfully launched its mid-range smartphone which has been very well received. At the same time, the Group also devoted more effort to promoting the brand. As a result, in the first half of 2013, the Group's R&D and selling and marketing expenses increased by 75% and 34% year-on-year to HK\$432 million and HK\$656 million respectively.

Although the overall situation of the Group has been improved, due to the loss was recorded in the first quarter of 2013, it still recorded a loss of HK\$209 million for the first half of 2013. Nevertheless, it is encouraging that the Group recorded a net profit of HK\$38 million in the second quarter of 2013 and successfully achieved a turnaround in the second quarter of 2013 from the loss of the previous three quarters.

In the first half of 2013, the Group launched 25 new products in the market, including 12 smartphones and 13 feature phones. These new products included several mid-range smartphone models, such as ALCATEL ONE TOUCH IDOL ULTRA/TCL S850, the world's slimmest smartphone at 6.45mm; ALCATEL ONE TOUCH IDOL/TCL S820, the lightest big screen smartphone; and ALCATEL ONE TOUCH SCRIBE HD/TCL Y900, the 5-inch HD display and quad-core product. The launch of these stylish, fashionable and quality products have been very well received by the market and greatly boosted the Company's smartphone sales.

Geographical Breakdown of Revenue

<i>(HK\$ Million)</i>	Sales of Handsets and Other Products		
	For the six months ended 30 June		
	2013	2012	Change (%)
EMEA	2,830	1,650	+72%
Americas	2,338	2,300	+2%
APAC	673	297	+127%
China	566	846	-33%
Total	6,407	5,093	+26%
Including: smartphones and other smart devices	3,659	1,758	+108%

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Geographical Breakdown of Revenue (continued) Europe, the Middle East and Africa (“EMEA”)

The Group’s shipments of handsets and other products to the EMEA region increased by 21% year-on-year to 7.2 million units, with revenue up by 72% across the same period to HK\$2.8 billion. Smartphones shipment reached to 2.1 million units, increasing by 211% year-on-year, and revenue generated from the sales of smartphones and other smart devices in EMEA accounted for 51% of the Group’s smartphone revenue.

In the first half of 2013, the Group actively conducted a variety of marketing and promotional activities to boost sales of its first wave of smartphone. In February 2013, the Group participated in Barcelona Mobile World Congress 2013 (“MWC 2013”), where the new products received an enthusiastic response and the brand awareness for ALCATEL ONE TOUCH was greatly enhanced. The successful marketing initiatives also translated into sales. In particular, the Group achieved significant improvement in the Italian and Russian markets, with year-on-year sales volume improved by 85% and 39% respectively.

The Group also made tremendous effort to expand its distribution network, especially in the open market. ALCATEL ONE TOUCH is a fast-growing brand in EMEA, and a number of new customers are looking for chance to cooperate with the Group. The growth momentum in the EMEA market, especially the segment for mid-range smartphones, is expected to continue in the rest of 2013.

Americas

In the first half of 2013, shipment of handsets and other products to the Americas increased by 7% year-on-year to 9.3 million units, with revenue up by 2% to HK\$ 2.3 billion across the same period.

In Latin America, tightened regulations on foreign currency and imports affected the handset markets in Argentina, Venezuela and Ecuador. The aggressive pricing policies of competitors also led to weaker sales performance for the Group in these markets. However, with continuing effort by the Group, it recorded significant growth in sales in the United States and Mexico, where year-on-year shipments increased by 45% and 69% respectively.

To further boost smartphone sales in the region, the Group increased expenditure on advertising and marketing. It also participated in two important electronic shows in Las Vegas – the Consumer Electronic Show 2013 (“CES 2013”) in January and the Cellular Telecommunications and Internet Association exhibition (“CTIA”). It also promoted its handsets through product placement in a Hollywood movie, Iron Man 3, to enhance brand awareness.



Management Discussion and Analysis

BUSINESS REVIEW (continued)

Geographical Breakdown of Revenue (continued)

Americas (continued)

The Group has also engaged with new customers in the first half of 2013, including operators and distributors in both North and South America, and expects this effort to pay off in the second half of the year.

Asia Pacific (“APAC”)

During the period under review, shipment of handsets and other products across the APAC region increased by 50% year-on-year to 1.7 million units, with revenue up by 127% year-on-year to HK\$673 million.

In the first half of 2013, the Group continued to strengthen its relationships with key telecom operators to stimulate smartphone sales growth. Riding on the strong relationship with local operators, the Group successfully cooperated with the Malaysian government to promote its smartphone. During the period, Malaysia, the Philippines and India were the fastest growing markets for the Group’s smartphone business in the region.

China

In the first half of 2013, sales volume of handsets and other products in China declined by 15% year-on-year to 2.4 million units, with revenue down by 33% year-on-year to HK\$566 million.

The unsatisfactory sales results were mainly due to the fierce competition in the China market. In order to strengthen its competitiveness, the Group began to restructure its sales channel and sales teams, paving the way for smartphone sales. The Group has strategically partnered with the biggest B2C electronic commerce company in China, 360 Buy to promote its 5-inch full high-definition display flagship product, TCL IDOL X.

In spite of the weak performance, the Group still achieved breakthroughs in collaborating with operators in China, and several models were selected by three operators in China, including TCL J310 for China Unicom, TCL J210C and J320C for China telecom, as well as TCL J305T and TCL P606T for China Mobile.



Management Discussion and Analysis

BUSINESS REVIEW (continued)

Product Development

The Group continued to focus on R&D and launched a series of new products with outstanding features in the first half of 2013, including the ONE TOUCH IDOL ULTRA/TCL S850, the world's slimmest smartphone, ONE TOUCH IDOL/TCL S820, the world's lightest dual-SIM and dual-mode big screen model, ONE TOUCH SCRIBE HD/TCL Y900, a quad-core 5-inch smartphone with dual-SIM, and TCL IDOL X, a 5-inch full HD display quad-core smartphone which equipped with 13.1 Mega Pixels camera. TCL IDOL X has the narrowest bezels around the display currently available, and response to its design has been overwhelmingly positive. With these sophisticated products, the Group has satisfied consumer demand for innovative smartphones with ever-higher standards.

Apart from the success of the products launched in the smartphone market, the Group also invested in research and development on other mobile devices. According to Gartner, tablet shipments are expected to grow 67.9% to a total of 202 million units in 2013. As such, the Group continued to introduce new mobile devices, including ONE TOUCH EVO7 HD, a thinner and faster modular tablet with 3G/4G modules which can be upgraded by end users.

Marketing and Brand Building

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

Overseas, the Group launched its new wave of products at several important exhibition and trade shows, such as CES 2013, MWC 2013 and CTIA 2013, and received an enthusiastic response. In the first half of 2013, the Group jointly sponsored Iron Man 3 with TCL Corporation, putting its product ONE TOUCH IDOL on screens globally. In addition, in EMEA, the Group has sponsored the Tour de France for the third consecutive year and also the 100th anniversary of the event, which is the world's most famous cycling event. The event will be broadcast to an audience of over 3.5 billion people in over 190 countries, thereby further enhancing ALCATEL ONE TOUCH's market presence and brand image worldwide, especially in America and Europe.

In China, the Group jointly held "It's Really Different! TCL Press Conference in the Spring of 2013" with TCL Corporation and TCL Multimedia Technology Holdings Limited. The Group also launched a number of promotional activities in various distribution channels to directly promote its product around public holidays. Thanks to Iron Man 3, recognition for the TCL branded smartphone was also greatly enhanced in China.



Management Discussion and Analysis

OUTLOOK

Although global economic environments are expected to gain momentum slowly after marked down-turns during the past two years, it is still unstable due to imminent reduction of USA stimulus and China's controlled money supply policy, which added uncertainty to emerging countries' currency fluctuation and might weaken purchasing power in emerging countries. Besides the economy, the Group is facing a lot of challenges from the industry in the second half of 2013. Some key components, such as memory, glass and display, are possible to be in shortage in the following two quarters; first tier smartphone players are going to launch mid-to-low range smartphone models, which will bring price pressure to this smartphone segment. The Group is relocating its factory site in the third quarter of 2013, and it may affect the production in certain extent.

In light of these prevailing trends, the Group will continue to implement its "step-up" product strategy, which has proven to be the right track and has begun to show results. Capitalizing on the rising popularity of low-to-mid-priced smartphones, the Group will continue to invest in development of mid-range smartphones to keep abreast of the ever-changing market trends and technology. The second wave of smartphones is to be launched globally from the third quarter of 2013 as an extension of the first-wave products. More advanced products featuring full HD display and LTE standard will also be launched in the second half of 2013, such as ONE TOUCH IDOL X, a 5-inch full HD display quad-core smartphone, ONE TOUCH SCRIBE PRO, a 6-inch full HD display quad-core product, and ONE TOUCH IDOL S, an ultra-fast but slim LTE smartphone. With this outstanding product portfolio, the Group is confident that it will gradually reach optimal economies of scale for smartphone production and the smartphone strategy will lead the Group to a prosperous future.

The Group has successfully achieved a breakthrough in extending its product portfolio from entry-level smartphone to mid-range smartphone and it clearly recognizes that the next challenge will be enhancing the brand value of ALCATEL ONE TOUCH/TCL, in order to support its mid-range smartphone segment. Therefore, the Group will continue to focus on improving the brand awareness in the second half of the year.

As the second half of the year is normally the peak season for the handset industry, the Group's smartphone shipment, especially for the mid-range smartphones, is expected to grow during the second half of 2013. As a result, the management would like to reiterate at achieving the revenue growth target of 25% year-on-year for the full year of 2013. While the Group has outlined plans to invest in R&D and brand building, it will also adopt stringent expenses control, in order to keep the expenses growth at a much slower pace than revenue growth in 2013. The financial performance for the second half of 2013 will be better than the first half.

Management Discussion and Analysis

OUTLOOK (continued)

The Group will continue to pursue its “step-up” product strategy by leveraging its solid strengths in product development, the reputable brands of TCL and ALCATEL ONE TOUCH and its strong marketing capabilities. It will proactively, yet prudently, address business challenges and create value for the shareholders in the long term.

FINANCIAL REVIEW

Results

For the six months ended 30 June 2013, the Group’s unaudited consolidated revenue amounted to HK\$6,407 million (six months ended 30 June 2012: HK\$5,093 million), representing a year-on-year increase of 26% as compared to the same period last year.

The Group’s gross profit margin dropped to 17.6% from 19.3% in the same period of last year.

LBITDA and loss attributable to owners of the parent were HK\$144 million (six months ended 30 June 2012: EBITDA of HK\$160 million) and HK\$207 million respectively (six months ended 30 June 2012: profit attributable to owners of the parent of HK\$105 million). Basic loss per share were 18.29 HK cents (six months ended 30 June 2012: basic earnings per share of 9.37 HK cents).

Inventory

For the current period, the Group’s inventory (including factory inventory only) turnover period was 44 days (year ended 31 December 2012: 30 days).

Trade Receivables

Credit period ranged from 30 to 180 days on average and the trade receivable (excluding factored trade receivables) turnover period was 79 days for the current period (year ended 31 December 2012: 87 days).

Significant Investments and Acquisitions

There had been no significant investment and acquisition for the six months ended 30 June 2013 and up to the date of approval of this interim report.

Fund Raising

There had been no fund raising for the six months ended 30 June 2013 and up to the date of approval of this interim report.



Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period under review. The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, interest bearing bank and other borrowings, loan from a related company and bank advances on factored trade receivables. The cash and cash equivalents balance as at 30 June 2013 amounted to HK\$1,278 million, of which 25% were in Renminbi ("RMB"), 48% in United States dollars ("USD"), 11% in Euro and 16% in Hong Kong dollars and other currencies for the operations. The Group's total interest-bearing borrowings as at 30 June 2013 were HK\$4,800 million, in which the interest bearing bank and other borrowings were HK\$4,172 million, bank advances on factored trade receivables were about HK\$395 million and loan from a related company was HK\$233 million. The Group's financial position remained healthy with equity attributable to owners of the parent of HK\$2,347 million as at 30 June 2013 (31 December 2012: HK\$2,321 million). The Group had a gearing ratio of 38% as at the end of the period under review (31 December 2012: 49%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge of Deposits

Deposit balance of HK\$2,300 million (31 December 2012: HK\$4,221 million) represented the pledged deposit for interest bearing borrowings and banking facilities of HK\$2,256 million (31 December 2012: HK\$4,188 million) and retention guarantee for factored trade receivables of HK\$44 million (31 December 2012: HK\$33 million).

Capital Commitments and Contingent Liabilities

As at 30 June 2013, the capital commitments of the Group were as follows:

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Property, plant and equipment:		
Contracted but not provided for	288,741	106,885

The Group had no significant contingent liabilities as at 30 June 2013 (31 December 2012: Nil).

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Foreign Exchange Exposure

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in Euro, Brazilian real, Russian rouble, USD 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 30 June 2013. Total staff costs for the period under review were HK\$645 million. The remuneration policy was reviewed in accordance with current legislation, market conditions and both individual and company performance.



Other Information

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

As at 30 June 2013, the interests and short positions of the Directors and chief executive of the Company 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held			Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of the Company
	Personal interests	Family interests	Other interests (Note i)	(Note ii)		
LI Dongsheng	38,356,756	1,920,000	–	12,416,165	52,692,921	4.61%
GUO Aiping	2,213,293	–	–	12,335,086	14,548,379	1.27%
WANG Jiyang	2,989,291	–	397,653	8,576,498	11,963,442	1.05%
HUANG Xubin	–	–	–	2,767,906	2,767,906	0.24%
YAN Xiaolin	–	–	–	212,200	212,200	0.02%
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%

Other Information

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

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

TCL Corp. (Note iii)

Name of Director	Number of ordinary shares held		Number of underlying shares held under equity derivatives (Note iv)	Total	Approximate percentage of issued share capital of TCL Corp.
	Personal interests	Family interests			
LI Dongsheng	511,570,300	–	–	511,570,300	6.02%
WANG Jiyang	–	–	1,590,400	1,590,400	0.02%
HUANG Xubin	1,933,360	–	2,900,040	4,833,400	0.06%
YAN Xiaolin	531,500	–	4,310,400	4,841,900	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			Number of underlying shares held under equity derivatives (Note vi)	Total	Approximate percentage of issued share capital of TCL Multimedia
	Personal interests	Family interests	Other interests			
LI Dongsheng	32,067,888	2,538,000	1,100,932	3,977,200	39,684,020	2.98%
HUANG Xubin	43,257	–	17,303	708,711	769,271	0.06%
YAN Xiaolin	–	–	34,600	283,467	318,067	0.02%
XU Fang	77,686	–	31,074	1,134,900	1,243,660	0.09%

Notes:

- i. The shares are awarded shares granted to Mr. WANG Jiyang under the Share Award Scheme B of the Company and were not vested as at 30 June 2013. Further details of the awarded shares during the period under review were set out in note 15 to the financial statements.

Other Information

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

Notes (continued):

- ii. These equity derivatives were the share options granted to the Directors under the Share Option Scheme of the Company. Further details of the share options during the period under review were set out in note 14 to the financial statements.
- iii. TCL Corporation ("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 8 January 2013, new share options were granted to the Directors under the stock option incentive plan of TCL Corp.
- v. TCL Multimedia Technology Holdings Limited ("TCL Multimedia"), a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange (stock code: 01070), and controlled by TCL Corp., is a subsidiary of TCL Corp.
- vi. The shares are awarded shares granted to the Directors under the restricted share award scheme of TCL Multimedia and were not vested as at 30 June 2013.

Save as disclosed above, as at 30 June 2013, 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.



Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2013, 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 of the Company	Notes
TCL Corp.	Interest of controlled corporation	572,933,000	50.15%	i
Mr. WONG Toe Yeung	Beneficial owner/ Interest of spouse/ Interest held jointly with his spouse/ Interest of controlled corporation	68,888,925	6.03%	ii
Ms. LEUNG Lai Bing	Beneficial owner/ Interest of spouse/ Interest held jointly with her spouse/ Interest of controlled corporation	68,888,925	6.03%	ii

Notes:

- i. Under the SFO, as at 30 June 2013, 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 30 June 2013, each of Mr. WONG Toe Yeung and Ms. LEUNG Lai Bing as husband and wife is deemed to be interested in 68,888,925 shares of the Company, comprising (a) 27,020,000 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 10,744,737 shares of the Company.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Save as disclosed above, there is 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 30 June 2013, 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.

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 period under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the Directors is aware of any information which would reasonably indicate that the Company had not, for any part of the six months ended 30 June 2013, complied fully with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the deviation from Code Provisions A.6.7, D.1.4, E.1.2, and F.1.1. The reasons for the deviation from the Code Provision F.1.1 remain the same as those stated in the Company's 2012 annual report.

1) 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, were not present at the extraordinary general meeting of the Company held on 25 January 2013 and annual general meeting of the Company held on 22 April 2013.

2) 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 (except for Mr. YAN Xiaolin), 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.



Other Information

CODE ON CORPORATE GOVERNANCE PRACTICES (continued)

3) Under Code Provision E.1.2, the chairman of the board should attend the annual general meeting.

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 22 April 2013. However, Mr. GUO Aiping, being an executive director and the chief executive officer of the Company, presented at the annual general meeting and was elected as the chairman thereof pursuant of the Articles of Association to ensure an effective communication with the shareholders thereat.

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 as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period under review.

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 interim 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 as set out in Appendix 14 to the Listing Rules.

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 of the Company, and Mr. HUANG Xubin, a non-executive Director of the Company.



Other Information

CHANGES OF PARTICULARS OF THE DIRECTORS

Certain Particulars of the following Directors have been changed in the following respects which are required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules:

Effective Date	Changes
22 April 2013	Mr. BO Lianming retired as a non-executive Director of the Company and was re-designated as a non-executive director of TCL Multimedia.
24 April 2013	Mr. YAN Xiaolin was appointed as a non-executive Director of the Company and was also appointed as a non-executive director of TCL Multimedia.
24 April 2013	Ms. XU Fang, a non-executive Director of the Company, has resigned as an executive director of TCL Multimedia.
24 May 2013	Mr. LI Dongsheng, an executive Director of the Company, has been appointed as an independent director of Legrand, shares of which are listed on NYSE Euronext.
30 May 2013	Foxconn International Holdings Limited which is a company listed on the Stock Exchange and in which Mr. LAU Siu Ki, an independent non-executive Director of the Company, acts as an independent non-executive director, has changed its English name from "Foxconn International Holdings Limited" to "FIH Mobile Limited" and adopted "富智康集團有限公司" as its formal Chinese name.
12 July 2013	Mr. HUANG Xubin, a non-executive Director of the Company, has been elected as a director of TCL Corp.
13 August 2013	Mr. YAN Xiaolin, a non-executive Director of the Company, has been re-designated as an executive director and appointed as a member of executive committee of TCL Multimedia.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong
 15 August 2013