TCL Communication Technology Holdings Limited
Stock Code: 02618

2013

annual report

创意感动生活
The Creative Life

TCL

2013 annual report

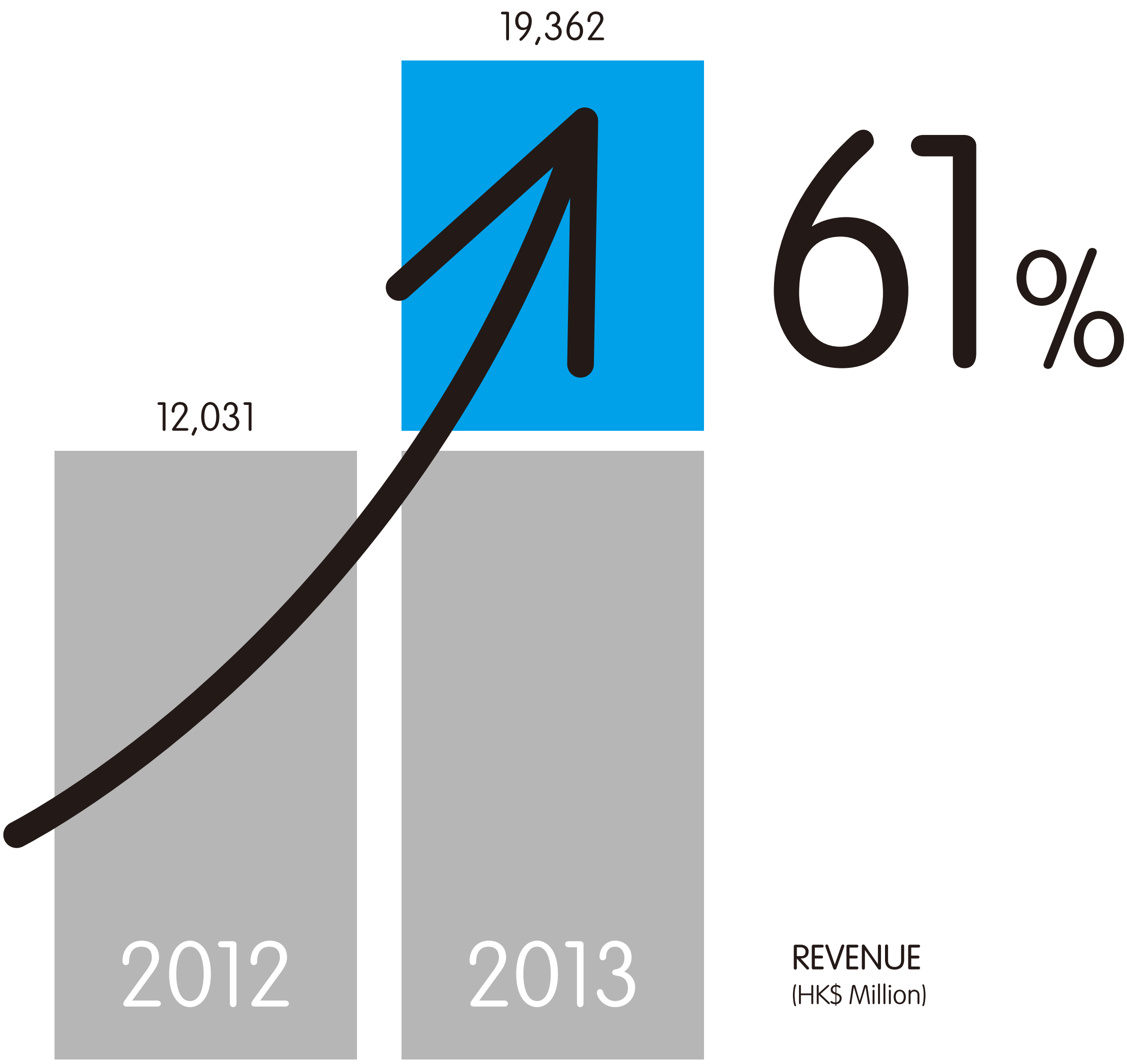
smart move.


ALCATEL onetouch
Worldwide markets
TCL CORPORATION (Shenzhen Stock Exchange, Stock Code: 000 100)
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
(Hong Kong Stock Exchange, Stock Code: 02618)
PUBLIC (Including the directors of the Company)
TCL
The PRC market

Corporate Structure

TCL Communication Technology Holdings Limited ("TCL Communication" or the "Company"; HK stock code: 02618) together with its subsidiaries (collectively the "Group") designs, manufactures and markets an expanding portfolio of mobile and internet products worldwide under two key brands – ALCATEL ONETOUCH and TCL. The Group's portfolio of products is currently sold in China and over 160 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific. Headquartered in Shenzhen, China, TCL Communication operates its highly efficient manufacturing plant and R&D centers in various provinces of the PRC. It employs over 12,000 people in China, Hong Kong and overseas. TCL Communication is one of the few companies in Hong Kong or China who owns or licenses 2G, 2.5G, 2.75G, 3G and 4G patented technologies. It is also able to independently develop products and solutions for the GSM, GPRS, EDGE, CDMA, WCDMA, TD-SCDMA and LTE. Currently, TCL Corporation ("TCL Corp.") is the Group's largest shareholder.

Contents


19,362
12,031
61%
2012
2013
REVENUE
(HK$ Million)

Financial Highlights

FINANCIAL SUMMARY

(HK$'000)	2013	2012	Change
Revenue	19,362,061	12,031,212	+ 61%
Gross profit	3,672,153	2,096,575	+ 75%
Gross profit margin (%)	19.0%	17.4%	+ 1.6%
Profit/(loss) attributable to owners of the parent	313,422	(207,840)	N/A
Basic earning/(loss) per share (HK cents)	27.50	(18.49)	N/A

FINANCIAL POSITION

(HK$'000)	2013	2012	Change
Property, plant and equipment and prepaid land lease payments	1,069,532	773,943	+ 38%
Cash and cash equivalents and pledged deposits	1,840,036	5,190,914	- 65%
Net current assets	645,276	606,360	+ 6%
Total liabilities	11,509,970	10,998,207	+ 5%
Interest bearing borrowings	3,648,979	6,468,788	- 44%
Net assets	2,913,054	2,322,626	+ 25%

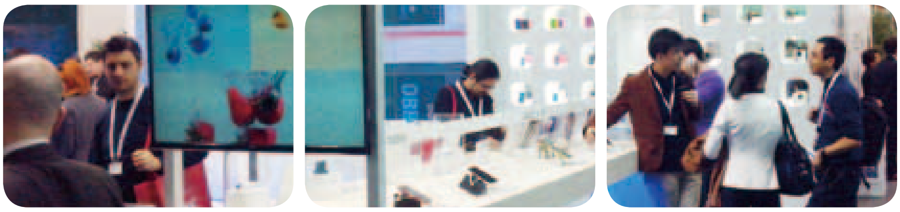
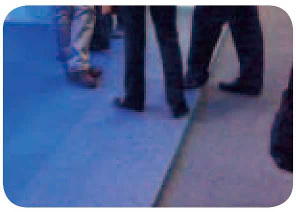
KEY FINANCIAL INDICATORS

	2013	2012	Change
Inventory turnover (days) *	39	38	+ 3%
Trade receivable turnover (days) **	63	68	- 7%
Current ratio (times) ***	1.06	1.07	- 1%

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

APRIL
Sponsored the Hollywood Movie, Iron Man 3. ONETOUCH IDOL ULTRA won the National Innovation Gold Award in China

JANUARY
Participated at CES 2013 in Las Vegas. Partnered with Suning and China Telecom to launch TCL D768 phone

FEBRUARY
Launched the world slimmest phone, ONETOUCH IDOL ULTRA at MWC 2013 in Barcelona

JULY
Launched Six New Smartphones with China Mobile in China and took part as the exclusive official handset partner in Le Tour de France for the third year

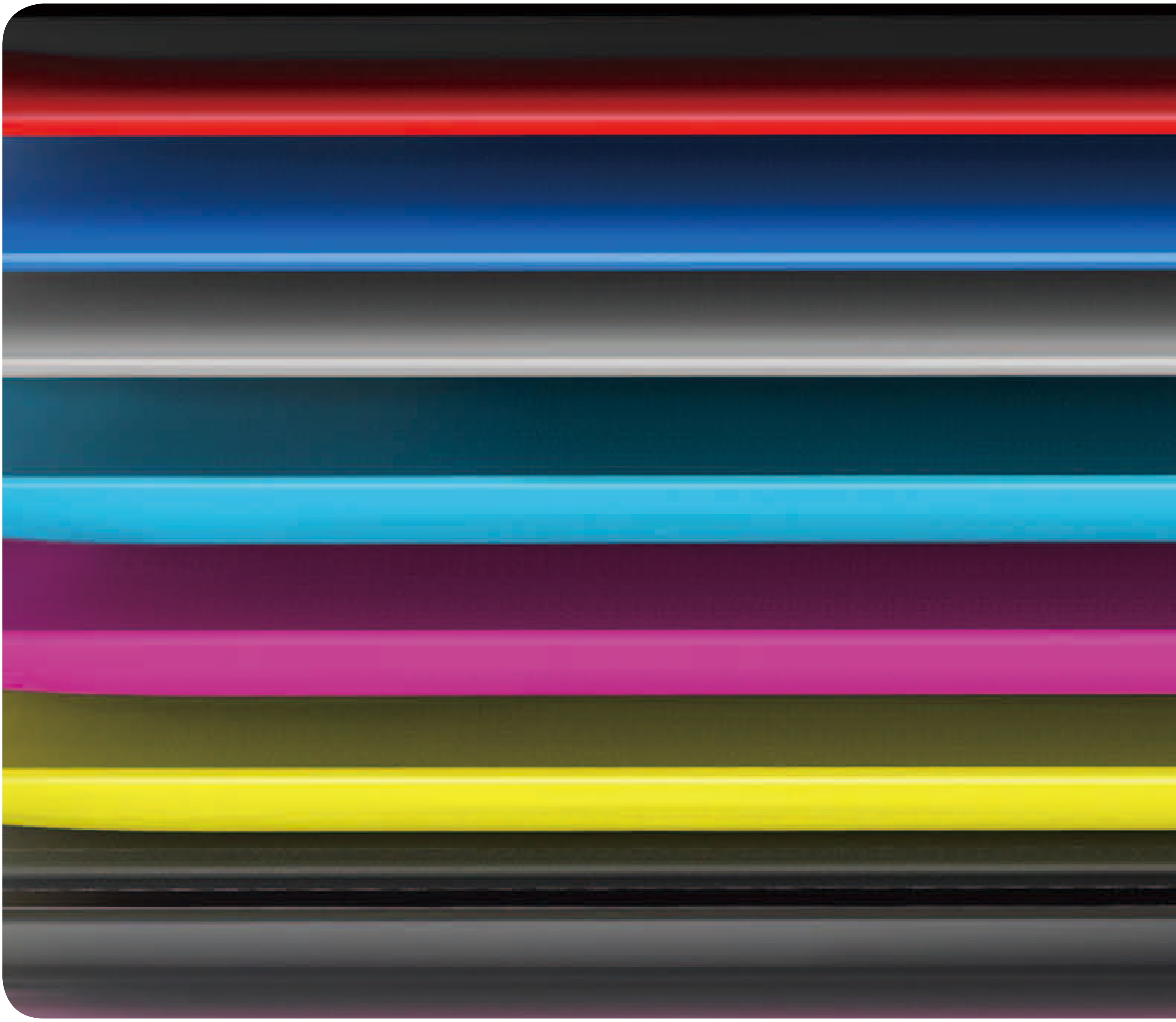
2013 Year in Review

AUGUST
Introduced ONETOUCH FIRE to Colombia and Venezuela. ONETOUCH IDOL X global launch event in Hong Kong

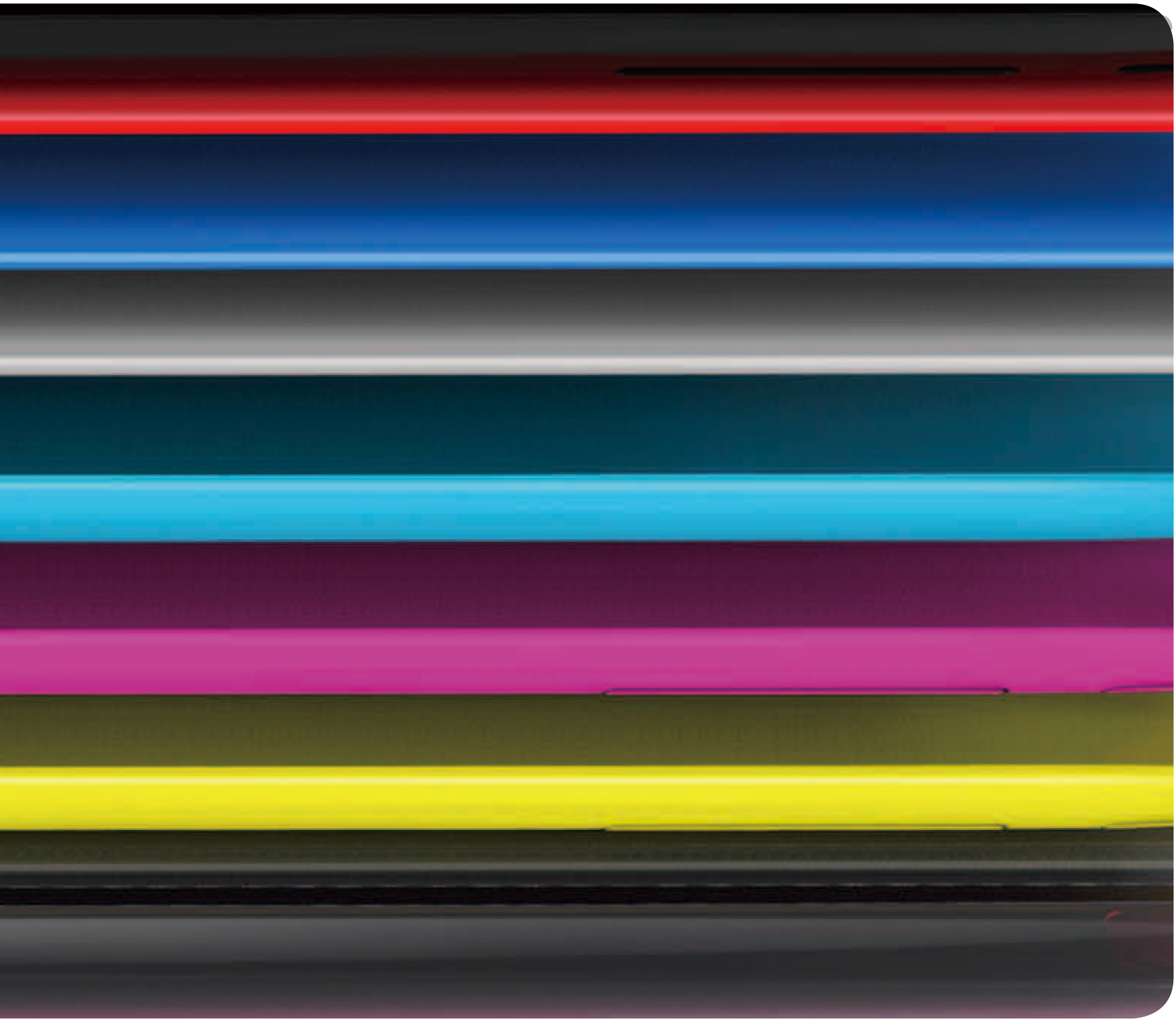
SEPTEMBER
Commenced the operation of the new global manufacturing facility in Huizhou

OCTOBER
Signed strategic partnership with ASTRI in Hong Kong

DECEMBER
Unveiled a new flagship smartphone – TCL IDOL X+ and showcased TCL 4G smartphone models in China. ONETOUCH IDOL X won GOOD DESIGN Award. TCL HERO N3 won the Best Innovative Product Award of 2013 in China



12



Chairman's Statement

Mr. LI Dongsheng

Dear Shareholders,

On behalf of TCL Communication, I am pleased to present the annual results of the Group for the year ended 31 December 2013.

In 2013, the global economy showed signs of improvement, in particular the developed countries were regaining strength. Although competition in handset industry remained intense, increasing penetration of smartphone being a major driving force in both emerging and developed markets led to a robust sales growth of the Company in 2013. Adhering to its "step-up" product strategy, TCL Communication continues to commit resources in research and development ("R&D"), brand building and marketing, and made headway by introducing several award-bearing models and attributed a recording breaking sales and shipment volume.

During the year of 2013, the Group achieved turnaround, reported a net profit of HK$316 million and basic earnings per share of 27.50 HK cents, compared with the net loss of HK$220 million and 18.49 HK cents loss per share recorded in 2012. The Board is glad to propose a final dividend of 10 HK cents per ordinary share, representing a full year dividend payout ratio of 36%.

Successful product transition in Smartphone Business

During 2013, the Company has completed the transition from the focus on feature phone to smartphones. The Company has registered rapid and steady smartphone shipment growth since the second quarter of 2013 with the launch of the new wave of smartphones and hence attained economies of scale. Sales volume of smartphone and other smart devices for the year surged 169% to 17.6 million units, accounting for 32% of the Group's total shipments (2012: 15%). The overall average selling price ("ASP") increased from US$36.2 in 2012 to US$45.0 in 2013, up by 24% year-on-year ("y-o-y"). As a result, the Group's total revenue increased by 61% y-o-y to HK$19.4 billion, and the revenue contributed by smartphone and other smart devices reached 63% of the Group's total revenue (2012: 43%).

Product innovation gained market recognition

The restless efforts of our R&D department in pursuing product innovation were recognized by the industry in receiving numerous important accolades in 2013. HERO N3 was granted "Best Creative Product Award" by one of the leading industry associations China Communications Industry Association, and IDOL X was recognized by The Chicago Athenaeum by granting "Good Design Award" for its compact but functional design. The IDOL X+, which unveiled in December 2013, is the first smart device to feature true Octa-Core processor and the Boom Band, a smart wristband co-developed with Baidu. The roll-up of these stylish, fashionable yet affordable smartphones helps the Company boost the sales substantially. According to the estimation from Gartner, TCL Communication has moved up to the fifth place from the seventh in the fourth quarter of 2013, and successfully emerged itself as one of the major global smartphone players.

Sales Revenue Increased

61%

over 2012

Smart Devices Sales Volume Increased

169%

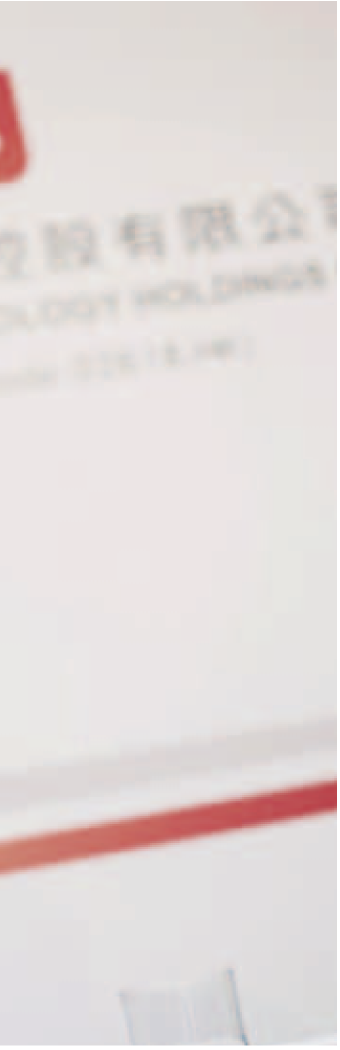
over 2012

New Global Manufacturing Facility

In order to support its global sales and business growth and meet the growing demand for quality products, the Company is establishing a new mobile handset manufacturing facility in Huizhou, Guangdong Province with the maximum production capacity of 120 million handsets. With the second phase expected to be completed in the first half of 2014, the production base will become the largest single-location mobile phone manufacturing facility in China, with production capacity, technology, automation, product quality and other aspects meeting world-class standards.

Growth Drivers in the Future

With the intensifying competition in smartphone market, the key to success lies in smartphone companies' swift response to new trends and their ability to capture the opportunities in the fast-changing market. In the wireless internet era, the rapid development of cloud computing, 4G and other technologies provide enterprises with new business opportunities. The Group is committed to actively building up its research and development capability, shortening its products' time-to-market and delivering a wide range of advanced, user-friendly, affordable and stylish 3G and 4G products to consumers.



The Group will further strengthen its competitiveness by expanding distribution channels, enhancing relationships with telecom operators and bolster the sales and marketing force in both overseas and domestic markets. These moves will lay a solid foundation for future growth. Meanwhile, we will also leverage on our advantages in developing new business segments such as tablets and other smart devices

In 2014, we will continue to maintain close partnerships with major suppliers of key components to improve our operation efficiency and impose stringent cost control to improve the Company financial performance. We will also explore new opportunities in smart devices so as to maximize shareholders benefit.

On behalf of the Board of Directors, I would like to express my sincere gratitude to our shareholders, customers, suppliers, business partners for their unwavering support. Also, I would like to thank the Board, management and employees for their excellent effort and dedication.

LI Dongsheng
Chairman

24 February 2014

18

Management Discussion and Analysis

OPERATIONAL HIGHLIGHTS

- Sales volume of handsets and accessories in 2013 totalled 55.2 million units, up by 30% year-on-year ("y-o-y"); sales volume in the fourth quarter of 2013 rose by 43% y-o-y to 19.2 million units.

- Sales volume of smartphones and other smart devices in 2013 increased by 169% y-o-y to 17.6 million units; in the fourth quarter of 2013, sales volume of smartphones and other smart devices surged by 228% y-o-y to 7.7 million units.

- Overall average selling price ("ASP") increased from US$36.2 in 2012 to US$45.0 in 2013.

- Revenue in 2013 increased by 61% y-o-y to HK$19.4 billion.

- Gross profit margin increased from 17.4% in 2012 to 19.0% in 2013.

- Net profit of HK$316 million was recorded in 2013, compared with the net loss of HK$220 million in 2012. Basic earnings per share increased to 27.50 HK cents from -18.49 HK cents for the corresponding period of the previous year.

- A final dividend of 10.0 HK cents per ordinary share is recommended.

INDUSTRY OVERVIEW

In 2013, the majority of developed economies showed signs of recovery. The growth momentum finally resumed in the United States and Europe after a prolonged period of economic stimulation. Though the growth in emerging markets was relatively modest, the overall improvement in macroeconomic conditions helped boost consumer sentiment in the consumer electronics market.

Market sentiment has also improved with a notable increase in rich user experience through affordable smartphones. International Data Corporation reported that the launch of entry-level smartphones has driven demand in emerging markets. As a result, despite the global mobile phone shipments only set to increase by 3% to 1.8 billion y-o-y, smartphone shipments grew to 1 billion units, representing a 47% growth y-o-y, accounting for 56% of total mobile phone shipments. Gartner reported that worldwide tablet shipment grew by 68% to 195 million units in 2013 and projected the personal computer market will be eroded by tablets eventually. The increase in demand of smart devices continues to call for needs of smartphones and as a result has laid the foundation for a sustainable growth in smart devices market.

BUSINESS REVIEW

In 2013, the Group demonstrated the successful smartphone transition with improving profitability since the second quarter. It delivered solid results despite competitions in the industry. The total sales volume of handsets and other products of the Group rose by 30% y-o-y to 55.2 million units. Overseas sales reached 50.4 million units, whereas domestic sales in China reported at 4.8 million units. According to the total shipment ranking in the fourth quarter of 2013 recorded by Gartner, the Group's ranking moved from the seventh to the fifth among global phone manufacturers and has become one of the top ten global smartphone players in the fourth quarter of 2013.

Adhering to the "step-up" strategy which has been implemented along with the Group's transformation, the Group has been making unremitting efforts in research and development, product innovation and product structure optimization. In order to bring more innovation of smartphone interaction to different consumers, the Group introduced three new series of smartphones: HERO for emphasizing premium user experience; IDOL for featuring cutting-edge designs and POP consisting of entry-level, value-for-money smartphones. These three series are well received in the market. The Group has completed its transition from feature phone-centric to smartphone centric and has attained economies of scale. The sales volume of smartphones and other smart devices increased by 169% y-o-y to 17.6 million units, accounting for 32% of the Group's total shipments. As a result, the overall ASP increased from US$36.2 in 2012 to US$45.0 in 2013, boosting the Group's total revenue by 61% y-o-y to HK$19.4 billion.

The Group's gross margin has improved as a result of the strong ramping-up of smartphones since May 2013 of which the monthly shipment of smartphones surpassed 1 million units for the first time. The Group's gross margin was reported at 16.4% in the first quarter, significantly enhanced to 18.4% in the second quarter, and 19.6% in both the third and fourth quarter of 2013. On a y-o-y basis, The Group's overall gross margin increased from 17.4% in 2012 to 19.0% in 2013.

Leveraging on unique relationships with global tier-1 carriers and distributors, the Group stood out in the market and well positioned to ride on the wave of smartphone growth. In the best performing markets such as EMEA and the Americas, revenue increased by 73% and 71% respectively. Penetration in APAC was also remarkable, with 81% revenue growth y-o-y. In particular, the Group achieved breakthrough results in Mexico, the United States and Malaysia.

Because of the product portfolio expanded from entry-level to advanced level, the Group's R&D expenses increased by 44% y-o-y to HK$1.1 billion and, selling and distribution expenses rose by 40% y-o-y to HK$1.6 billion. Operating cost management strategies and economies of scale ensured operating profitability remained on track. This has also laid a solid foundation for sustainable future growth.

As a result, the net profit of HK$316 million was recorded in 2013, compared with the net loss of HK$220 million in 2012. Basic earnings per share increased to 27.50 HK cents from -18.49 HK cents for the corresponding period of the previous year. In view of this, the Board of Directors has recommended the payment of a final dividend of 10.0 HK cents per ordinary share, representing a payout ratio of 36%.

Geographical breakdown of revenue:

Sales of Handsets and Other Products	**For the year ended 31 December**		
(HK$ Million)	**2013**	2012	**Change (%)**
EMEA	**7,759**	4,482	**+73%**
Americas	**8,715**	5,116	**+71%**
APAC	**1,476**	817	**+81%**
China	**1,412**	1,616	**–12%**
Total	**19,362**	12,031	**+61%**
Including: smartphones and other smart devices	**12,251**	5,191	**+136%**

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

Shipments of handsets and other products to EMEA increased by 35% y-o-y to 20.5 million units with revenue increased by 73% y-o-y to HK$7.8 billion, which was mainly due to the robust smartphone growth and improved market penetration.

The Group leveraged its successes in channel expansion through operators and continued to develop the open distribution channels. In particular, the Group successfully extended its presence in Russia, the United Kingdom and Italy with 122%, 55% and 29% y-o-y growth in sales volume respectively.

In 2013, the Group substantially increased its share in the smartphone market through conducting more targeted marketing campaigns and actively participating in major trade exhibitions. For instance, the Group participated in Mobile World Congress ("MWC") 2013, the world's largest tradeshow for the telecommunications industry, in Barcelona; and Internationale Funkausstellung Berlin ("IFA") 2013, the world's leading trade show for consumer electronics and home appliances, in Berlin. The Group rolled-out a number of new smartphone models at these trade exhibitions, which significantly improved recognition of both the product and the brand of ALCATEL ONETOUCH. In France, ALCATEL ONETOUCH sponsored the prestigious cycling tournament, Le Tour de France, for the third consecutive year. This move further enhanced the Group's brand image worldwide. In addition, the successful launch of the Group's first 4G LTE smartphone, IDOL S, in Europe in October 2013 marked a meaningful milestone for its "step-up" product strategy.

Americas

Shipments of handsets and other products to the Americas increased by 37% to 26.1 million units, with revenue up by 71% to HK$8.7 billion. In particular, Mexico and the United States recorded significant shipment growth of 103% and 78% respectively.

The Group successfully enrolled new customers, including first-tier telecom operators and major distributors in the United States. In Latin America, the Group's smartphone business began to pick up as there was strong demand for entry-level smartphones from customers. Coupled with the optimized product portfolio, the Group further strengthened its partnerships with telecom operators in the region and hence delivered an impressive performance.

In the fourth quarter of 2013, ALCATEL ONETOUCH ranked first by sales volume in Central America, Pacific Islands and the Caribbean region, second in Mexico, third in Latin America and fifth in North America regions. ALCATEL ONETOUCH was also one of the best-selling brands in Mexico in terms of sales volume. This was, mainly attributable to the Group's continued marketing and promotional efforts.

Asia Pacific ("APAC")

Across the APAC region, the shipment of handsets and other products increased by 50% y-o-y to 3.8 million units. Revenue increased to HK$1.5 billion which was 81% higher than that of 2012.

The Group significantly increased its share of smartphone sales with the top telecom operators in India, the Philippines and Malaysia. In these countries, the Group recorded shipment growths of 138%, 39%, and 3,538% respectively. In the Philippines, the Group became the No. 1 supplier for the country's major operators; In Malaysia, the Group was the No.2 smartphone brand in the second half of 2013.

In 2013, the Group continued to strengthen its competitive edge by penetrating open distribution channels and deepen its relationships with key telecom operators.

During the year 2013, the Group restructured the organization of its operations in the region, streamlined the management process and established dedicated teams to drive development of open market channels in these countries.

China

During the year under review, sales volume of handsets and other products in China declined by 16% to 4.8 million units, with revenue down by 12% to HK$1.4 billion.

These unsatisfactory sales results were mainly due to the fierce competition in the country's mobile phone market. In order to strengthen the competitiveness of its products, the Group has extended its product portfolio and restructured its sales department, paving the way for improved smartphone sales. The Group launched six new TD-SCDMA smartphone models together with China Mobile in second half of 2013. Meanwhile, the Group also appropriated more resources and undertook efforts to foster closer relationships with the telecom operators in a move. More than ten models of latest smartphones have been selected in the procurement list of the three main operators via enhanced cooperation with operators in major provinces, including Jiangsu, Inner Mongolia, Hebei, Sichuan, Chongqing, and Shanxi. The Group explored opportunities in online retail channels. It partnered with JD, the country's biggest B2C electronic commerce company, and Suning.com, to promote its flagship products. The Group also initiated the interactions with TCL fans by allowing them to participate in research and development which helped to improve the customer satisfaction and brand awareness.

The Group unveiled its flagship smartphone TCL IDOL X+ in December 2013, which is the first smart device to feature true Octa-Core processor. TCL IDOL X+ is accompanied by the Boom Band, a smart wristband co-developed with Baidu. These products received an encouraging response from the market.

R&D

In order to continue to develop more innovative products, the Group has maintained its commitment to invest in research and development and has launched a series of new products with cutting-edge features throughout 2013. Furthermore, by collaborating with key suppliers on new technologies in the early stages, the Group successfully expedited the research and development cycles for new products and remarkably shortened the lead time for product launches.

In 2013, the Group achieved numerous technological breakthroughs. For example, the Group introduced its slimmest smartphone, the 6.45-mm-thick IDOL ULTRA, to the market at the beginning of 2013. This was followed by the launch of its quad-core smartphone, SCRIBE HD, IDOL X and its first real Octa-core smartphone, IDOL X+, which were all warmly received by the market. IDOL X, a 5-inch full-HD display and a narrow-bezel design smartphone featuring a 13.1-mega-pixel camera, won the GOOD DESIGN Award for Design Excellence from The Chicago Athenaeum, the world's oldest and most recognized international design award program. HERO N3 was also given the "Best Creative Product Award" by the China Communications Industry Association which is one of the leading industry associations. In addition, IDOL X+, the Group's first Octa-core smartphone, earned recognition as one of the best smartphones at CES 2014, attributed to its excellent performance that provides its customer a rich multimedia experience. Meanwhile, the Group successfully launched its first 4G LTE smartphone, IDOL S in Europe in October 2013.

To generate additional value and enhance its product competitiveness, in October 2013 the Group established a long-term strategic partnership with Hong Kong Applied Science and Technology Research Institute ("ASTRI"), the largest technological research and development center in Hong Kong. The cooperation will stimulate the development of wireless technology and product applications. This strategic partnership agreement and multi-year joint research technology program will focus on linking ASTRI's on-going key communication research to applications in TCL's 4G products and 5G standard development as well as wireless products in order to create a holistic user experience with intelligent telecommunication devices.

Working in parallel, the Group was successful in developing accessories for smartphones. For example, the Group cooperated with Baidu, the Chinese web service giant, to launch Boom Band, a Bluetooth chip wristband featuring unique capabilities of monitoring the wearer's health during activities and their sleep quality. It was well received by consumers as an accessory for the new smartphone model IDOL X+.

These achievements represented a staged conclusion of the initial phase of the Group's efforts in stepping up its product portfolio from entry-level smartphones to advanced smartphones. In particular, the success of the Group's advanced smartphones in most of its overseas markets afforded recognition of the Group by the world's smartphone industry as a key player, attracting closer following from industry critics and participants. This recognition has in turn resonated positively on the Group's branding efforts, allowing more and more consumers worldwide to consider TCL and ALCATEL ONETOUCH as brands of choice for advanced smartphones.

MANUFACTURING FACILITY

As one of the world leaders in telecommunications products, the Group established a new global manufacturing facility in Huizhou, Guangdong Province in the PRC in 2013 to meet the growing demand for premium-quality products. The new global manufacturing facility situates on a site of 120,000 square meters to support the Group's global operations and commenced production in September 2013.

Phase one of the new global manufacturing facility has already commenced operation while construction of phase two will be completed in June 2014. The Group expects its total annual production capacity will increase from 65 million units to maximum 120 million units after the entire manufacturing facility is put into operation. It will become the largest single-location mobile phone manufacturing facility in China, with production capacity, technology, automation, and product quality meeting world-class standards.

The new facility will give the Group extra muscle to further optimize its production management and establish a firm footing for development of the Group's smartphone business.

MARKETING AND BRAND BUILDING

During the year under review, the Group continued to improve its market position and strengthened its competitiveness in both overseas and China markets through sponsorship, international trade exhibitions, and other marketing and promotional events and activities.

In the overseas markets, the Group launched new products which had been showcased at several important exhibitions and trade shows such as CES 2013, MWC 2013, and IFA 2013. They received an enthusiastic response from the market. During the year under review, the Group jointly sponsored the Hollywood movie, Iron Man 3, with TCL Corporation, which placed its product ONETOUCH IDOL on screens around the globe. In EMEA, the Group has been sponsoring Le Tour de France, the world's most prestigious cycling tournament, for three years in a row. The event is broadcast to a potential audience of over 3.5 billion viewers in over 190 countries, which further enhances ALCATEL ONETOUCH's market presence and brand image worldwide, especially in the Americas and Europe.

In China, the Group jointly hosted "It's Really Different! TCL Press Conference in Spring 2013" with TCL Corporation and TCL Multimedia Technology Holdings Limited. The Group launched a number of promotional activities in various distribution channels to promote its products during public holidays. Thanks to Iron Man 3, recognition of TCL branded smartphones was greatly enhanced in China. The Group showcased a number of its latest TCL 4G smartphones at China Mobile Worldwide Partner Conference in Guangzhou, China. In addition, the Group has strategically partnered with JD to promote its flagship product TCL S950. A series of promotional initiatives, including TV advertisements and on-line broadcasts, has significantly raised awareness of the TCL brand.

OUTLOOK

In 2013, the Group successfully carried out its "step-up" product strategy, with a positive response from the market on its new series of state-of-the-art smartphones. Although competition in this industry remains keen, the groundwork laid in 2013 including substantial progress made in overseas markets and the upgrade of production facilities, together with the favorable market environment such as the stabilizing macroeconomic situation and the strong market needs of LTE products would allow the Group to sustain growth in the years ahead.

Network infrastructure is being constructed aggressively around the world. 3G networks in emerging markets such as Latin America and 4G LTE networks in developed markets are being developed rapidly, all of which strike a very positive note for an increasing demand for 3G and 4G products. The Company has prepared itself for this growth momentum. It will continue to reinforce its "step-up" product strategy. A series of new 3G and 4G products will be launched by the Group throughout 2014, from entry-level to advanced models, which will provide users with an even better experience in the new network age.

In addition, with the ongoing trend of having tablets cut into the market share of traditional PCs and strong demand from telecom and channel distributors, the Group will continue to develop its tablet business, leveraging the success of its smartphone strategy. Tablets are expected to be another growth driver for the Group's business in 2014.

To meet the strong market demand of LTE products, 60% of the whole product portfolio in 2014 will support LTE mode including both TDD-LTE and FDD-LTE, of which includes entry-level and advanced smartphones and tablets. To further increase open market penetration, the Group will strengthen direct sales to major retailers and distributors. Since the brand recognition is important in such competitive business environment, the Group will continue reinforcing the branding via digital and traditional platforms.

The Company will continue to adhere to its "step-up" product strategy, increase investments in R&D, brand building and sales channel development with an aim to achieve a 35% y-o-y revenue growth in 2014. By leveraging its strengths in product development, production and distribution, the Group will proactively, yet prudently, address business challenges and create value for shareholders for the long term.

FINANCIAL REVIEW

Results

For the year ended 31 December 2013, the Group's audited consolidated revenue amounted to HK$19,362 million (2012: HK$12,031 million), representing a y-o-y increase of 61% as compared to that of last year.

The Group's gross profit margin increased to 19.0% from 17.4% in last year.

EBITDA and profit attributable to owners of the parent were HK$484 million (2012: LBITDA of HK$72 million) and HK$313 million (2012: loss attributable to owners of the parent of HK$208 million) respectively. Basic earnings per share was 27.50 HK cents (2012: basic loss per share of 18.49 HK cents).

Inventory

The Group's inventory (including factory inventory only) turnover period was 39 days (2012: 38 days) for the year under review.

Trade Receivables

Credit period ranged from 30 to 180 days on average and the trade receivables (excluding factored trade receivables) turnover period was 63 days (2012: 68 days) for the year under review.

Significant Investments and Acquisition

There had been no significant investment and acquisition during the year ended 31 December 2013 and up to the date of this announcement.

Fund Raising

There had been no fund raising for the year ended 31 December 2013 and up to the date of this announcement.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the year under review. The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, interest-bearing bank borrowings, bank advances on factored trade receivables and loan from a related company. The cash and cash equivalents balances as at 31 December 2013 amounted to HK$142 million, of which 20% were in Renminbi ("RMB"), 34% in United States dollars ("USD"), 23% in Euro and 23% in Hong Kong dollars and other currencies for the operations. The Group's total interest-bearing borrowings as at 31 December 2013 were HK$3,649 million, in which the interest-bearing bank borrowings were HK$2,401 million, bank advances on factored trade receivables were HK$485 million and loan from a related company was HK$763 million. The Group's financial position remained healthy, with equity attributable to owners of the parent of HK$2,909 million (31 December 2012: HK$2,321 million). The Group had a gearing ratio of 25% at the end of 2013 (31 December 2012: 49%). The gearing ratio was calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge Deposits

Deposit balance of HK$1,698 million (31 December 2012: HK$4,221 million) represented the pledged deposit for interest-bearing borrowings, banking facilities and other financial instruments of HK$1,638 million (31 December 2012: HK$4,188 million) and retention guarantee for factored trade receivables of HK$60 million (31 December 2012: HK$33 million).

Capital Commitment and Contingent Liabilities

As at 31 December 2013, the capital commitments are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Property, plant and equipment		
Contracted, but not provided for	**106,946**	106,885

As at 31 December 2013, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection				
with facilities granted to subsidiaries	**–**	–	**18,306,538**	16,907,624

As at 31 December 2013, the banking facilities granted to the subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of HK$9,660,260,000 (31 December 2012: HK$11,993,964,000).

Foreign Exchange Exposure

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominated in Euro, Brazilian real, Pound sterling, Malaysian ringgit, 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 12,000 employees as at 31 December 2013. Total staff costs for the year under review were HK$1,624 million (2012: HK$1,211 million). The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

30

Directors, Senior Management and Executives

EXECUTIVE DIRECTORS

Mr. LI Dongsheng

aged 56, is the Chairman of the Board and an Executive Director ("ED") of the Company and TCL Multimedia Technology Holdings Limited ("TCL Multimedia"), the Chairman of the Board, the Chief Executive Officer (the "CEO") and founder of TCL Corp. He is one of the most recognized business leaders in China.

In 1982, Mr. LI began his career in TTK Home Electronic Appliances Co. Ltd, the predecessor of TCL. In 1985, he was appointed as General Manager ("GM") of the newly established Telephone Communication Limited and subsequently he created the TCL brand. In 2003, Mr. LI was appointed as the Chairman and CEO of TCL Corp., which was listed on the Shenzhen Stock Exchange afterwards. Under his leadership, TCL Corp. accomplished two landmark acquisitions: Thomson's television business and Alcatel's mobile phone business both in 2004. Now TCL Corp. has become a multinational enterprise with 60,000 employees in 80 countries and areas. In the fourth quarter of 2013, TCL ranked No. 3 globally in terms of LCD TV market share and ranked No. 5 globally in terms of TCL handset market share.

Mr. LI was awarded "the Most Socially Responsible Entrepreneur" by XinhuaNet in 2012; the "Life Achievement Award of Top 25 Influential Business Leaders" from China Entrepreneur Magazine in 2011; "Business Leader of the Decade" by CCTV Economy Channel in 2009; "Economic Figure" in 30 years' reform and opening up in 2008. In 2004, he was also named "Asia Businessman of the Year" by Fortune Magazine and "Top 25 Global Business Leaders" by Time Magazine and CNN. Mr. LI received OFFICIER DE LA LEGION D'HONNEUR (French national honor) from former President of France, Mr. Jacques Chirac in the same year.

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

Mr. LI is also an Independent Non-Executive Director of Tencent Holdings Limited and a Non-Executive Director of Fantasia Holdings Group Co., Limited, both of which are listed on the Hong Kong Stock Exchange, and an Independent Director of Legrand, which is listed on NYSE Euronext.

Mr. LI graduated from South China University of Technology.

EXECUTIVE DIRECTORS

Mr. GUO Aiping

aged 51, is the Chief Executive Officer and an Executive Director of the Company, and the Senior Vice President of TCL Corp. Mr. GUO joined the Group in July 2001 and he was appointed successively as the Chief Operating Officer, Vice President, Senior Vice President ("VP") and President. Mr. GUO was also a Vice President of TCL Corp. He has extensive experience in overall management of multinational company, strategic planning and development, and merger and acquisition in the worldwide wireless industry. Prior to joining TCL Corp., Mr. GUO held positions as Manager in SB Global, Project Coordinator in IBM, Senior Business Consultant in Arthur Andersen and Chief Technology Officer ("CTO") in Zhaodaola Internet Company. He graduated from Stanford University with a Doctor's degree in Management Science and Master's degree in Engineering Economics and System.

Mr. WANG Jiyang

aged 44, is an Executive Director, the Chief Operating Officer and President of Sales & Marketing China of the Company, and Vice President of TCL Corp. He also serves management positions in a number of wholly owned subsidiaries of the Company. Mr. WANG has over 20 years' experience in research, development and management in electronics industry. He joined the Company in 2001, and had been an Engineer, Project Manager, Deputy Chief Technology Officer, General Manager of Development Center and Vice President of R&D. Mr. WANG graduated from University of Electronic Science and Technology of China with a PhD in Electrocircuit & System. He also holds an MBA degree from China Europe International Business School.

NON-EXECUTIVE DIRECTORS

MR. HUANG Xubin

aged 48, is a NED and a member of the audit committee of the Company, a Director, CFO and a member of the executive committee of TCL Corp., and a NED and a member of the audit committee of TCL Multimedia. Mr. HUANG joined TCL Corp. in March 2001 and served as an Officer and GM of the Financial Settlement Centre of TCL Corp., the Chief Economist, Financial Director and Vice President of TCL Corp., and GM of Finance Company. At present he is also the Chairman of Finance Company, and the director of Huizhou Techne Corporation, Huizhou TCL Home Appliance Group Co. Ltd and Shenzhen TCL Real Estate Co., Ltd. Before joining TCL Corp., Mr. HUANG served as Head of Credit Facilities Department of China Construction Bank, Guangdong Branch, the Deputy Manager and Manager of Fund Management Division and Securities Division of Guotai Junan Securities Co. Ltd., Guangdong Branch, and Senior Manager of the representative office of China Cinda Asset Management Co., Ltd. in Guangzhou. Mr. HUANG graduated from Hunan University (formerly known as Hunan College of Finance and Economics), and obtained a Master's degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, the PRC, and holds an EMBA degree from China Europe International Business School.

MR. YAN Xiaolin

aged 47, is a NED of the Company, President of TCL Corporate Research and CTO of TCL Corp., ED and member of Executive Committee of TCL Multimedia. Mr. YAN joined TCL Corp. in 2001 and served as Project Manager, Director of Research Institute and Deputy GM of the R&D Centre and NED of TCL Multimedia, CTO of Components Strategic Business Unit, Deputy Principal and Acting Principal of TCL Corporate Research and VP of TCL Corp. He is Person-in-charge of the expert group of the New Display Key Project of the 12th five-year plan of the Ministry of Science and Technology of the PRC, Chief Scientist of the National "863" Plan, Committee Member of the Electrical Technology Committee of the Ministry of Industry and Information Technology of the PRC, Director-General of Beijing Chapter of the Society for Information Display ("SID"), Director of the Display Technology Committee of the Chinese Vacuum Society, Director of the Engineering Research Centre of Digital Family Life of the PRC, ED of the Engineering Technology Research Centre of Digital Family Life of the PRC and Chairman of the China 3D Industry Association. Mr. YAN graduated from the Institute of Plasma Physics of Chinese Academy of Science with Doctoral Degree and worked as post-doctoral fellow in the Chinese Academy of Science.

MS. XU FANG

aged 51, is a Non-Executive Director of the Company, Vice President and Human Resources Director of TCL Corp. Ms. XU joined TCL Institute of Training of TCL Corp. as the Dean in February 2004. Ms. XU became the Deputy Dean of TCL Institute of Leadership Development of TCL Corp. in February 2006 and the Dean in April 2007. Ms. XU has been the Human Resources Director of TCL Corp. since September 2007. From September 2007 to May 2010, Ms. XU concurrently held the position of General Manager of the Human Resources Management Centre of TCL Corp. Ms. XU has been the Vice President of TCL Corp. since October 2010. From September 2010 to June 2011, Ms. XU concurrently held the position of Chief Human Resources Officer of the TCL Multimedia. From July 2009 to April 2013, Ms. XU concurrently held the position of Executive Director of TCL Multimedia and member of the remuneration committee thereof. Ms. XU is also a part-time lecturer at Shenzhen Graduate School of Peking University, a distinguished professor at Shantou University and a distinguished research fellow at Sun Yat-Sen University. Ms. XU graduated from Nanjing Normal University in English Linguistics, and a Master degree in Business Administration from New York Institute of Technology.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. LAU Siu Ki

aged 55, is an Independent Non-Executive Director of the Company. Mr. LAU joined the Company in April 2004 and save for his directorship in the Company, he does not hold any directorship in any member of the Group. Mr. LAU is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (the "ACCA"). He has over 30 years' experience in corporate finance, financial advisory and management, accounting and auditing and had worked for an international accounting firm for over 15 years. Mr. LAU was a member of the ACCA worldwide Council from May 2002 to September 2011, and was the Chairman of the Hong Kong branch of ACCA in 2000/2001. He is also a consultant in the financial advisory field and an Independent Non-Executive Director of COL Capital Limited, Comba Telecom Systems Holdings Limited, FIH Mobile Limited, Samson Holding Limited, Embry Holdings Limited and Binhai Investment Company Limited, all being companies listed on the Stock Exchange. In the past three years, Mr. LAU had been an Independent Non-Executive Director of Carry Wealth Holdings Limited, a company listed on the Stock Exchange.

MR. LOOK Andrew

aged 49, is an Independent Non-Executive Director of the Company. He has over 20 years' experience in the equity investment analysis of Hong Kong and China stock markets. From 2000 to 2008, Mr. LOOK served in Union Bank of Switzerland (the "UBS") as the head of Hong Kong research, strategy and product. Prior to joining UBS, Mr. LOOK was the regional director of PPM Worldwide, the fund management arm of the Prudential Corporation of the United Kingdom, where he managed pension and life insurance funds investing in Asia ex-Japan markets. He was also a consultant of Opes Asia Development Limited, which shares are listed on the Stock Exchange. Mr. LOOK is currently the Chief Investment Officer and Managing Director of Look's Asset Management Limited, a SFC licensed asset management company which is based in Hong Kong and founded and solely owned by him. He is also an Independent Non-Executive Director of Ka Shui International Holdings Limited, which shares are listed on the Stock Exchange. He holds a Bachelor of Commerce degree from the University of Toronto.

Mr. KWOK Hoi Sing

aged 63, is an Independent Non-Executive Director of the Company, Chair Prof. of Dept. of Electronic & Computer Engineering at the Hong Kong University of Science and Technology ("HKUST"), Dr. William Mong Chair Prof. of Nanotechnology and Director of Display Research Center at HKUST. He worked at the Lawrence Berkeley Laboratory from 1978 to 1980, taught at Dept. of Electrical and Computer Engineering, State University of NY at Buffalo from 1980 to 1992, and became tenured Full Prof. in 1985. He joined HKUST in 1992 researching display technologies and light emitting thin film materials. He was member of program committees or Chairman of many international conferences with various honors including US Presidential Young Investigator Award in 1984, New York State/UUP Excellence Award in 1991 and Slotto-Owaki Award from SID in 2013. He is fellow of the Optical Society of America, Institute of Electrical and Electronics Engineers and SID. He was an INED of Diguang International Development Co., Ltd., listed in NASDAQ (stock code: DGNG.OB) and resigned on 30 June 2011. He holds Bachelor of Science degree in Electrical Engineering from Northwestern University in the US and MSc and PhD degrees in Applied Physics from Harvard University with over 500 publications in renowned academic journals and more than 50 patents.

SENIOR MANAGEMENT

Mr. GUO Aiping

aged 51, is the Chief Executive Officer and an Executive Director of the Company, and the Senior Vice President of TCL Corp. Mr. GUO joined the Group in July 2001 and he was appointed successively as the Chief Operating Officer, Vice President, Senior Vice President and President. Mr. GUO was also a Vice President of TCL Corp. He has extensive experience in overall management of multinational company, strategic planning and development, and merger and acquisition in the worldwide wireless industry. Prior to joining TCL Corp., Mr. GUO held positions as Manager in SB Global, Project Coordinator in IBM, Senior Business Consultant in Arthur Andersen and Chief Technology Officer in Zhaodaola Internet Company. He graduated from Stanford University with a Doctor's degree in Management Science and Master's degree in Engineering Economics and System.

Mr. WANG Jiyang

aged 44, is an Executive Director, the Chief Operating Officer and President of Sales & Marketing China of the Company, and Vice President of TCL Corp. He also serves management positions in a number of wholly owned subsidiaries of the Company. Mr. WANG has over 20 years' experience in research, development and management in electronics industry. He joined the Company in 2001, and had been an Engineer, Project Manager, Deputy Chief Technology Officer, General Manager of Development Center and Vice President of R&D. Mr. WANG graduated from University of Electronic Science and Technology of China with a PhD in Electrocircuit & System. He also holds an MBA degree from China Europe International Business School.

SENIOR MANAGEMENT

Mr. LIU Yuk Tung, Thomas

aged 51, is the Chief Financial Officer ("CFO") and a Senior Vice President, Business Strategy of the Company, and a director of TCL Finance Company Limited since February 2013. Mr. LIU has about 28 years of experience in fields of audit, international finance and technology business. Prior to joining the Company, he was the Asia Pacific Regional Financial Controller of Stratus Corporation in US, Sales and Marketing Director and General Manager of Neo-Neon Holdings Limited, a company with its shares listed on the Hong Kong Stock Exchange, and possessed extensive audit experiences in Arthur Andersen. He is also a CPA of HKICPA, Charted Accountant of ICAEW and fellow member of ACCA. Mr. LIU holds a Bachelor's degree in Economics from the University of Hong Kong, a MBA from the University of New South Wales, Australia and a Master's Degree in Accounting from Jinan University, PRC.

Mr. Nicolas ZIBELL

aged 46, is a Senior Vice President of the Company and General Manager of Americas, responsible for the Company's business in the Americas. Mr. ZIBELL has over 23 years of experience in sales, marketing, product strategy management and supply chain in automotive and telecommunications industries in Europe and the Americas. He graduated from école Superieure de Commerce de Lyon and ESADE Business School with an MBA in 1990.

Mr. Yves MOREL

aged 53, is a Senior Vice President of the Company and General Manager of EMEA, responsible for the Company's business in Europe, Middle East and Africa. Mr. MOREL has 29 years sales and marketing experience in telecommunication industries. Mr. MOREL was a Sales Area Director for ALCATEL mobile phones from 2001 to 2005. He contributed to develop sales area such as Russia, Central Europe, Middle East, Africa and Western Europe. Prior to that he held several positions in sales at the Private Mobile Radio division for ALCATEL.

SENIOR MANAGEMENT

Mr. WONG Kwok Chung, Albert

aged 42, is an Executive Vice President and General Manager of Sales & Marketing (APAC) of the Company. Mr. WONG joined the Company in 2005. He has 16 years of experience in computers and electronics industry in Hong Kong, Canada and Mainland China. He had been the Senior Software Engineer of KEGO Technology Limited, Chief Information Officer of Inmobo Limited, CEO and Chief Operating Officer of JCT Mobile. Mr. WONG graduated from the University of Toronto with a Bachelor's degree in Science and obtained his Master's degree in Electrical and Electronics Engineering at the Hong Kong University of Science & Technology.

Mr. LV Xiaobin

aged 43, is a Senior Vice President of the Company and General Manager of Global Manufacturing Center. Mr. LV joined TCL Communication Equipment Co., Ltd. in July 1993 and joined the Company in March 2002 and was appointed successively as Department Head, Factory Director, Vice General Manager of Manufacturing Center, Production Director and Vice President of the Company. Mr. LV has 20 years' experience in communication terminal manufacturing industry, with rich and professional experience and skills in operation management fields including manufacturing engineering technologies and management, production management, quality management, supply chain management, and he also has been through a 9-year international baptism. Mr. LV graduated from University of Electronic Science and Technology of China with a Bachelor degree in Science, majoring in computer, minoring in applied mathematics, and also holds an EMBA degree from China Europe International Business School.

EXECUTIVES

Mr. Dan DERY

aged 42, is the Chief Marketing Officer and a Vice President of Global Marketing & Products of the Company. Mr. DERY has over 15 years of experience in telecom, mobile devices and global consumer market, in the last 10 years at Director or higher level. Spanning 2 continents and 4 of the world's largest electronic brands, he has brought his unique background and expertise in both new product creation and marketing strategy to the Company. Since taking up the position he has led the Company in making a significant impact by spearheading their aggressive move into the smartphone market. Mr. DERY obtained a master degree of Advanced Computer Science at the SUPELEC, France.

Mr. Alain LEJEUNE

aged 50, is a Senior Vice President and General Manager of the Worldwide Mobile Phone Division of the Company. He assumed this position in September 2012 after having served in a number of senior management roles in TCL and Alcatel-Lucent Group. Graduated in 1987 from Ecole Centrale de Paris, Mr. LEJEUNE has more than 20 years of senior management experience in the telecommunication industry, in multi-cultural organization, and cross-border merger and acquisition situations.

Mr. Vittorio DI MAURO

aged 48, is a Vice President of the company and General Manager of Smart Connectivity Business Division. Mr. DI MAURO has been working for the company for over 10 years, first as Marketing Director and then as Business Unit director and Vice President. Graduated in Economics in 1992 at Bocconi Universiy of Milan, Mr DI MAURO previously worked as Product Manager for the Consumer Electronics Division of Texas Instruments.

EXECUTIVES

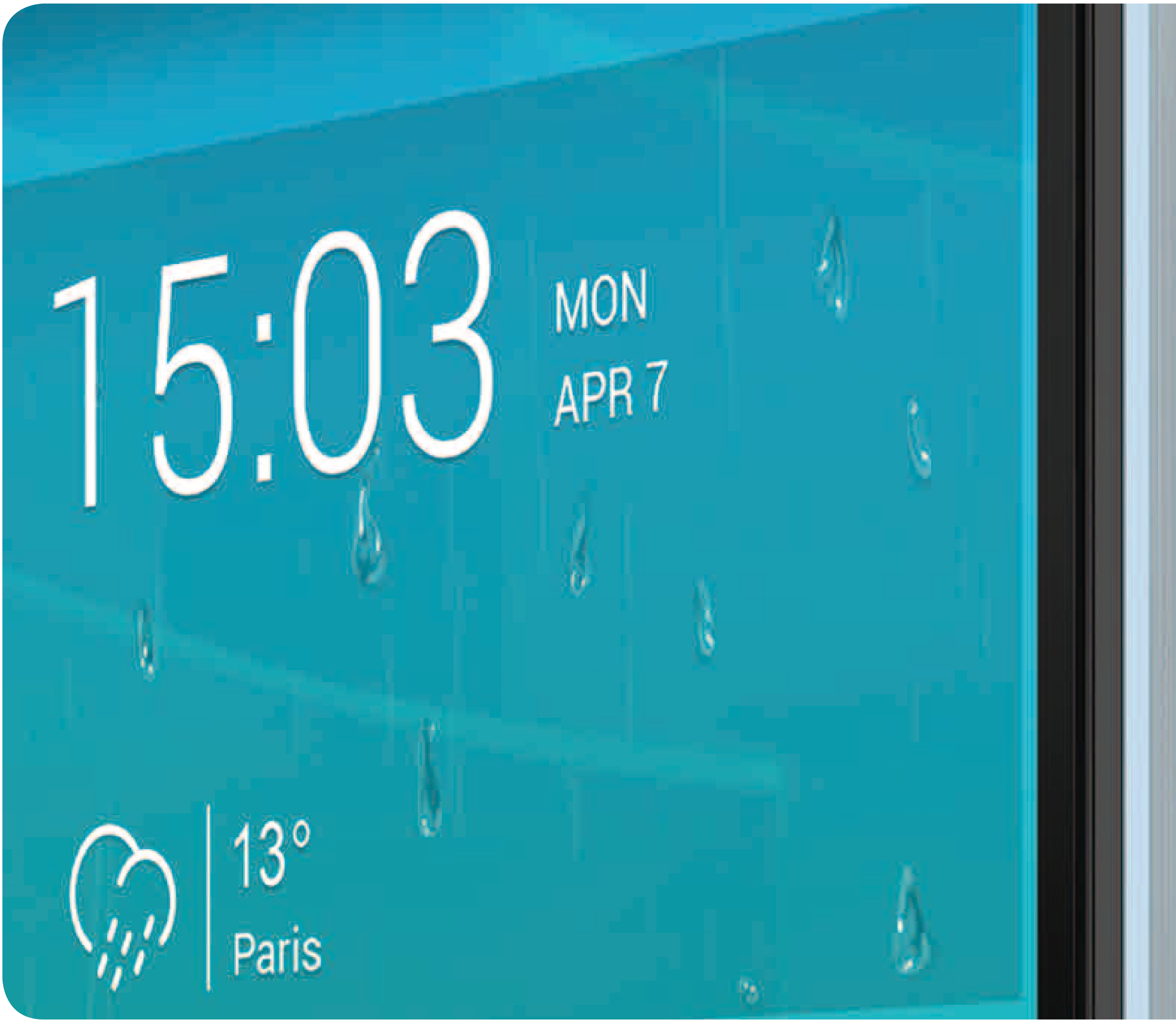
Mr. Laurent LABBE

aged 51, is a Vice President and General Manager of Global Quality & Global Customer Care of the Company. Prior to joining the Company since 2004, Mr. LABBE has been working for Alcatel Mobile Company more than 24 years as a hardware engineer, software engineer, project manager, manufacturing technical support manager, and then industrial project manager who was responsible for the most successful handset ever produced by Alcatel, 22 million unit produced for one range. Later, he asked to move to China to manage the industrial transfer from France to Asia. In the last 10 years, he has been in charge of the global quality, and in order to close quality loop better, his responsibility added customer care part 6 years ago. Mr. LABBE holds a degree of the Ecole Superieure Ingenieur Genie Electrique in Rouen, majored in Electronic. He followed management training provided by ESSEC in 2004.

Mr. LABBE has lived in China for more than 10 years, has good understanding of both of French and Chinese culture, and has more than 26-year' experience of telecommunication industry, owns professional skills of fields including R&D, quality, manufacturing, and customer care.

Mr. Eric VALLET

aged 51, is a Vice-President Global Accounts & Partnerships of the Company. Mr. VALLET has extensive experience in management of multicultural teams, product planning, sales and marketing in the worldwide wireless industry. Mr. VALLET is proud to entertain true and fruitful relationships with key people at different levels of global operator group organizations. Since 2013, he is also in charge of Partnerships and Open Innovation with in particular the corporate incubator called "Le Project". Prior to joining the Company, Mr. VALLET held positions as Military Antenna Project Manager, Marketing Manager in Civil Avionics, and Telecom Business Development Director at DASSAULT Electronique (now part of THALES). He graduated in 1985 from a French engineering school, EUDIL (with an engineer degree in Microwave) and in 2000 he graduated from the ESCP Europe business school with an Executive MBA.



42

Corporate Governance Report

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

CODE ON CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2013, the Group complied fully with the CG Code with the exceptions as set out below.

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

Due to respective pre-arranged business commitments which must be attended to by certain directors, Mr. BO Lianming, being the-then non-executive director, 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 the annual general meeting of the Company held on 22 April 2013.

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 who was appointed as a non-executive director of the Company on 24 April 2013) as most of them have been serving as directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and the directors, and so there is no written record of the same. In any event, all directors, including those without a letter of appointment and those appointed for a specific term, shall be subject to retirement by rotation in the manner prescribed under the articles of association of the Company, and on re-election of the retiring directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant directors.

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

Due to other pre-arranged business commitments which must be attended to 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 present at the annual general meeting, was elected as the chairman thereof pursuant of the Articles of Association to ensure an effective communication with the shareholders thereat.

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

The company secretary of the Company, Ms. PANG Siu Yin is a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors. Ms. PANG has been appointed as the company secretary of the Company since 2004. The Company has also assigned Mr. WANG Pui, Janus, the Finance Director of the Company as the contact person with Ms. PANG. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. PANG through the contact person assigned. Given the long-term relationship between Ms. PANG and the Group, Ms. PANG is very familiar with the operations of the Group and has an in depth knowledge of the management of the Group. Having in place a mechanism that she will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. PANG as the company secretary is beneficial to the Group's compliance of the relevant board procedures, applicable laws, rules and regulations.

THE BOARD

(1) The Board of Directors

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

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

The biographies of the directors are set out in the "Directors, Senior Management and Executives" on pages 30 to 41 of this Annual Report.

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

The non-executive directors play an important role on the Board. Accounting for more than half of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders and the Group as a whole. Throughout the year of 2013, the Board at all times met the requirements for having INEDs representing one-third of the Board and that at least one of them had appropriate professional qualifications of accounting or related financial management expertise.

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

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

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

During 2013, the Board held 4 regular meetings at about quarterly intervals and 19 additional meetings (10 of which were held regarding special matters which required the Board's decisions whereas the other 9 meetings were held regarding operational matters involving the attendance of executive directors only). Attendance of individual directors at the Board meetings in 2013 is as follows:

Number of Board meetings attended/eligible to attend

	Regular Board Meetings	Additional Board Meetings concerning special matters requiring the Board's decisions	Additional Board Meetings concerning operational matters only	General Meetings
Executive Directors				
Mr. LI Dongsheng *(Chairman)*	1/4	5/10	4/9	0/2
Mr. GUO Aiping *(Chief Executive Officer)*	4/4	10/10	9/9	2/2
Mr. WANG Jiyang *(Chief Operating Officer)*	3/4	7/10	9/9	0/2
Non-Executive Directors				
Mr. BO Lianming *(retired on 22 April 2013)*	0/1	3/4	N/A	0/2
Mr. HUANG Xubin	2/4	9/10	N/A	0/2
Mr. YAN Xiaolin *(appointed on 24 April 2013)*	2/2	5/6	N/A	0/0
Ms. XU Fang	4/4	8/10	N/A	0/2
Independent Non-Executive Directors				
Mr. LAU Siu Ki	4/4	10/10	N/A	2/2
Mr. LOOK Andrew	4/4	9/10	N/A	2/2
Mr. KWOK Hoi Sing	4/4	10/10	N/A	2/2

(2) Management Functions

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

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

(3) Operation

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

Members	Mr. GUO Aiping
	Mr. WANG Jiyang
	Mr. LIU Yuk Tung, Thomas
	Mr. Nicolas ZIBELL
	Mr. Yves MOREL
	Mr. WONG Kwok Chung, Albert
	Mr. LV Xiaobin
Secretary	Mr. SUN Wubin

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

(4) Appointment, Re-election and Removal

Pursuant to Rule 3.13 of the Listing Rules, the Board has received a written confirmation from each INED of his independence to the Company. The Board considers all of the INEDs to be independent in accordance with Code Provision A.4.3 and confirms that year of service of all INEDs is less than 9 years.

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

In accordance with Code Provision A.4.1, non-executive directors have been appointed for a term of three years, subject to re-election.

At the last AGM held on 22 April 2013, one-third of the directors (namely Mr. BO Lianming, Mr. LAU Siu Ki and Mr. LOOK Andrew) were subject to retirement by rotation and all of them, except Mr. BO Lianming who did not offer himself for re-election, were re-elected.

(5) Roles of Chairman and Chief Executive Officer

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

(6) Responsibilities of Directors

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

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

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

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

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

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

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the year 2013:

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

(7) Directors' Securities Transactions

The Board has adopted a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all directors who have confirmed that throughout 2013, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The directors' interests in shares of the Group as at 31 December 2013 are set out on pages 67 to 68 of this Annual Report.

BOARD COMMITTEES

In 2013, the Board had four Board Committees. The four committees under the Board are the Remuneration Committee, the Audit Committee, the Executive Committee and Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

(1) Remuneration Committee

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

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

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

During 2013, the Remuneration Committee met 3 times and accomplished the following:

- reviewed the Group's expenses and changes on staff remuneration in 2013; and
- reviewed the levels of remuneration and bonus plan of certain executive directors and senior management of the Group.

Attendance of each member at the Remuneration Committee meeting in 2013 is as follows:

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

Emolument Policy and Long-Term Incentive Plan

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

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

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

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

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

(2) Audit Committee

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

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

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

The Audit Committee's work in 2013 includes consideration of the following matters:

- the completeness and accuracy of the 2012 annual and 2013 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and their effect on the Group;
- the audit report submitted by the external auditors summarizing matters arising from their audit of the Group for the year 2013;

- review of the effectiveness of the system of internal control of the Group;
- the audit fees payable to external auditors for the year 2013; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Ernst & Young as the external auditors, which the Board agreed and accepted.

During 2013, the Audit Committee met 4 times and the attendance of each member at the Audit Committee meetings is as follows:

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

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

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

Audit services	HK$5,718,000
Non-audit services (which include mainly consultant and taxation services)	HK$791,000

(3) Executive Committee

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

(4) Nomination Committee

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

The main duties of the Nomination Committee include the following:

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

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

Potential new directors are identified and considered for appointment by the Nomination Committee. The Nomination Committee would make recommendation to the Board as to the appointment of such director. A director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all directors are subject to re-election by shareholders every three years.

The Company has adopted a board diversity policy ("Board Diversity Policy") on 13 August 2013 which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises the benefits of board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Board has set measurable objectives (in terms of gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Nomination Committee considers that the current composition of the Board is characterised by diversity, whether considered in terms of gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

During 2013, the Nomination Committee met once and the attendance of each member at the Nomination Committee meetings is as follows:

	Number of committee meeting attended/eligible to attend
Mr. KWOK Hoi Sing *(Chairman)*	1/1
Mr. LAU Siu Ki	1/1
Mr. LOOK Andrew	1/1
Ms. Xu Fang	1/1

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

ACCOUNTABILITY AND AUDIT

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

(1) Financial Reporting

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements for the year 2013.

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

(2) Internal Controls

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

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

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

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration. During the year under review, the Company conducted a review of the effectiveness of the internal control system of the Group. For the year of 2013, no critical internal control issues have been identified.

COMPANY SECRETARY

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

Since Ms. PANG was appointed in 2004, she has to take no less than 15 hours of relevant professional training during the year 2013. She has fulfilled the requirement during the year under review.

INVESTOR RELATIONS

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

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

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

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

(3) Constitutional Documents

In 2013, no amendment had been made to the articles of association of the Company.

58

Human Resources & Social Responsibilities

TCL Communication, as a global mobile phone manufacturer, always adheres to the spirit of "China value, the world quality", and makes efforts to improve the lives of consumers around the world of digital wireless communication. To this target, TCL Communication gathers global resources, with the innovation, to provide better products and service for the customers, to bring more pleasure consumption experience for the users.

The Company is committed to product development and meanwhile also to the driving force promoting and consolidating the growth of the enterprise, especially in the talent domain, the Company insists the strategic objective to cultivate and create sustainable development talents with innovative and challenge spirit and focus on building an organization with global vision and values.

The Company enforces continuously the internal talent development system, whether it is for junior college students, or professional talents, or elite management team enterprises, the Company has tailored specific training and development plan devoted to the common development and growing up of its employees and the enterprise.

In 2013, the Company continued to carry out cooperation with domestic famous universities, and paid attention to the development of "TCL Innovation Club", "Joint Laboratory" and other education cooperation bases, continuously cultivate the required talents team for the Company and the society.

The Company invited outstanding students from the global and domestic well-known colleges and universities, to join the Company's "Eyas team", and arrange an one-on-one mentoring training plan to help them quickly integrate into the Group. By the end of year 2013, the Company had more than 12,000 employees.

At the same time, the Company has held specially the "Activating flying class" and "flying class" for managers of elementary and middle levels; and also has designed an on-job-learning action training plan to the "Elite Eagle project" for middle and senior managers of R & D team, while realising the mutual promotion of practice and study.

As a member of TCL Group, the Company actively participates in the training of TCL Group, and has designated many excellent R&D and sales management talents to study in the "Leadership Development School" organised by the TCL Group. Meanwhile, in order to strengthen the cultivation of professional marketing talent with globalization vision, the Company specially organized many "Elite Training Series" for the PRC district marketing and sales department and our core distributors. More than 300 employees and agents, through development activities and training, have got professional promotion and also enhanced team working spirit and sense of sharing weal and woe.

With the mobile Internet era, the Company has put increasing resources in strengthening staff trainings on the user experience. In particular, the Company has cooperated with external professional institute to hold CUA certification training for staffs and to provide a good learning and communication platform for employees. At the same time, along with the era of the 4G network, the Company has also prepared series of professional training about this new technology for its staffs. We have invited a number of American and domestic experts to hold various trainings and communications like "LTE Technical Professional Training" and "Mobile Ecological Environment in 2020", to ensure the enterprise and employees walking together into the 4G network era with technical and professional guarantee.

Talent has always been one of the most important resources for the Company. In order to establish a team of employees with an encouraging, positive, friendly and also harmonious atmosphere, the Company has encouraged all departments to organize team building and development activities, and also has carried out the caring activities for our overseas employees. In the year 2013, the Company has organized "Human Resources Consulting Day" to listen attentively to the voices of employees, and answer staffs' enquiries and questions. Besides, the "Open Day to Family" held aiming to help the employees' family know more about the working environment of employees has been so appreciated.

As a social organization with globalization strategy, the Company has taken all along corporate social responsibility as one of its operation regulations, which must be penetrated into the mind of each employee. As such, the Company strictly complies with the business convention and the Code of Ethics, dedicates to participate in domestic and international charity work.

In 2013, in the PRC, the Company joined TCL Group to aid "YA'AN" area by donation and organisation of various condolent and caring activities for employees whose families are in the disaster area. On the other side of overseas, employees of ALCATEL ONETOUCH in different countries have been devoted to programs for public good. As we know, overseas offices have worked together with our client "ORANGE" to donate supplies for elementary students in Dominican Republic and showed concern about the education and growing up of children in poverty-stricken areas.

The Company will continuously be dedicated to improve business environment and promote environmental protection as well as energy saving, and will contribute heartily to people in need.

62

Report of the Directors

The directors of the Company (the "Directors") are pleased to present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 80 to 174.

The Directors recommended the payment of a final dividend of 10 HK cents (2012: Nil) per ordinary share in respect of the year ended 31 December 2013 to shareholders of the Company ("Shareholders") whose names appear on the register of members of the Company at the close of business on 7 May 2014. Subject to the Shareholders' approval at the forthcoming annual general meeting (the "AGM") to be held on 28 April 2014, the said final dividend will be paid on or about 22 May 2014.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 175. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company had distributable reserves of HK$411,473,000 standing to credit of its share premium account and HK$669,907,000 standing to the credit of its contributed surplus account. As the Company intends to pay out to the proposed final dividend out of its retained earnings, the amount of the share premium account and contributed surplus account would remain the same as aforesaid after the payment of the proposed final dividend.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 25% of the total sales for the year and sales to the largest customer included therein amounted to 8%. Purchases from the Group's five largest suppliers accounted for 13% of the total purchases for the year and purchase from the largest supplier included therein amounted to 5%.

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

DIRECTORS

The Directors during the year 2013 and up to the date of this annual report were:

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS:

Mr. BO Lianming *(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

Mr. YAN Xiaolin was appointed by the Board as a non-executive Director effective from 24 April 2013 until the conclusion of the forthcoming AGM of the Company, which is to be held on 28 April 2014. He will offer himself for re-election at the AGM. If re-elected, Mr. YAN will hold office until the conclusion of the AGM to be held in 2017.

In accordance with article 87(1) of the Articles, Mr. HUANG Xubin, Ms. XU Fang and Mr. KWOK Hoi Sing will retire by rotation at the conclusion of the forthcoming AGM of the Company. They will hold their office until the conclusion of the AGM and will offer themselves for re-election at the AGM.

If re-elected at the AGM, Ms. XU Fang, Mr. HUANG Xubin and Mr. KWOK Hoi Sing will hold office until the conclusion of the annual general meeting of the Company of 2017 and, subject to the terms agreed otherwise which expire earlier, will be subject to rotation, removal, vacation or termination of their offices as Directors as set out in the Articles or the disqualification to act as a Director under the Articles, the laws of the Cayman Islands and the Listing Rules.

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

DIRECTORS, SENIOR MANAGEMENT AND EXECUTIVES' BIOGRAPHIES

Biographical details of the Directors, senior management and executives of the Group are set out on pages 30 to 41 of this annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2013, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which will not expire or is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

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

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

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

PENSION SCHEME

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2013, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of ordinary shares held: Other interests (Note i)	Number of underlying shares held under equity derivatives (Note ii)	Total	Approximate percentage of issued share capital of the Company
LI Dongsheng	38,356,756	–	–	13,256,165	51,612,921	4.44%
GUO Aiping	2,213,293	–	–	8,745,086	10,958,379	0.94%
WANG Jiyang	1,854,117	–	198,827	10,256,498	12,309,442	1.06%
HUANG Xubin	–	–	–	2,016,035	2,016,035	0.17%
YAN Xiaolin	–	–	–	422,200	422,200	0.04%
XU Fang	–	–	–	2,628,100	2,628,100	0.23%
LAU Siu Ki	144,177	–	–	500,000	644,177	0.06%
LOOK Andrew	–	–	–	134,000	134,000	0.01%
KWOK Hoi Sing	–	–	–	500,000	500,000	0.04%

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

TCL Corp. (Note iii)

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives (Note iv)	Total	Approximate percentage of issued share capital of TCL Corp.
LI Dongsheng	511,570,300	–	–	511,570,300	6.00%
WANG Jiyang	475,160	–	1,114,240	1,589,400	0.02%
HUANG Xubin	1,933,360	–	2,900,040	4,833,400	0.06%
YAN Xiaolin	793,000	–	4,048,900	4,841,900	0.06%
XU Fang	–	–	2,030,040	2,030,040	0.02%

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

TCL Multimedia (Note v)

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of ordinary shares held: Other interests (Note vi)	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Multimedia
LI Dongsheng	38,379,799	4,000,000	1,100,932	3,535,289	47,016,020	3.53%
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%

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

Tonly Electronics (Note vii)

Name of Director	Number of ordinary shares held Personal interests	Family interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of Tonly Electronics
LI Dongsheng	3,537,979	253,800	–	3,791,779	2.84%
HUANG Xubin	4,325	–	–	4,325	0.003%
XU Fang	7,768	–	–	7,768	0.01%

Notes:

i. The shares are awarded shares granted to Mr. WANG Jiyang under the Share Award Scheme B and were not vested as at 31 December 2013. Further details of the awarded shares during the year under review were set out in note 37 to the financial statements.

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 year under review were set out in note 36 to the financial statements.

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

iv. On 8 January 2013, new share options were granted to the Directors under the stock option incentive plan of TCL Corp.

v. TCL Multimedia, a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange (stock code: 01070), 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 31 December 2013.

vii. Tonly Electronics Holdings Limited ("Tonly Electronics"), a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange (stock code: 01249), and controlled by TCL Corp., is a subsidiary of TCL Corp.

Save as disclosed above, as at 31 December 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES, UNDERLYING SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 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	Notes
TCL Corp.	Interest of controlled corporation	591,408,000	50.88%	i

Note:

i Under the SFO, as at 31 December 2013, TCL Corp. was deemed to be interested in 591,408,000 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly-owned subsidiary of TCL Corp. Such percentage is calculated based on the issued share capital of the Company as at 31 December 2013.

Save as disclosed above, no person (not being a Director or chief executive of the Company) known to the Directors or chief executive of the Company, who, as at 31 December 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.

CONNECTED TRANSACTIONS

During the year ended 31 December 2013, the Group entered into a number of connected transactions and continuing connected transactions with TCL Corp. (being the ultimate controlling shareholder of the Company) and its subsidiaries (which are regarded as connected persons as defined in the Listing Rules).

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2013:

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

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

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

   During the year under review, the maximum total outstanding daily ending balances of deposits (including interest receivables in respect of these deposits) due from the Finance Company was HK$843,609,000 and a fee and commission of HK$762,000 in respect of other financial services has been paid by the Group. The interest rates offered by Finance Company were not lower than the interest rates offered by other independent financial institution during the year.

Pursuant to the Master Financial Services Agreement, if a qualified member of the Group demands repayment of any money deposited by it with Finance Company in accordance with the relevant terms and procedure and Finance Company fails to follow the repayment demand, such member shall then have the right to:

(a) offset the relevant outstanding deposit amount against up to the same amount of any outstanding loans owed by it and/or any financing provided to it by Finance Company and/or TCL Corp.; and/or

(b) transfer the right mentioned in (a) above to other qualified members of the Group; and/or

(c) request TCL Corp. to repay immediately the outstanding deposit amount on behalf of Finance Company in full.

There was no collateral provided by Finance Company for the deposit placed by the Group during the year.

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

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

On 31 December 2013, a supplemental agreement was entered into between the Company and TCL Corp., pursuant to which the parties agreed, with effective from 1 January 2014, the annual contribution rate to be made by the Company to the common fund in respect of its mobile communication products bearing the "TCL" brand name be increased from 1.5% to 2% of the Group's sales income (before value added tax) from the sale of such products. Save for this amendment, other terms and conditions under the Brand Promotion (Renewal 2012) Agreement remain unchanged.

During the year under review, the Group incurred an amount of HK$9,515,000 under the said agreement.

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

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

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

During the year under review, the Group paid HK$921,521,000 and HK$390,362,000 for the Overseas Goods and the PRC Goods respectively, of which the amount of HK$921,521,000 for the Overseas Goods comprised the consideration for the purchase of Overseas Goods amounting to HK$917,800,000 and the administration fee amounting to HK$3,721,000.

d. On 8 August 2011, a master supply (sale) agreement (the "Master Supply (Sale) Agreement") was entered into between the Company as the seller and TCL Corp. as the purchaser for a term from 8 August 2011 to 31 December 2013, which governed the existing and future sales contracts (both finished goods and materials) to be entered into between the Company and TCL Corp. Group (TCL Corp. and its subsidiaries and any entity that may become subsidiary of TCL Corp. from time to time during the term of the Master Supply (Sale) Agreement but does not include the Group). In order to continue the continuing connected transactions contemplated thereunder, the Company renewed the said agreement on 22 October 2013. The terms of the said renewal agreement are substantially the same as its predecessors with some minor modifications.

Since it was expected that the original annual caps under the Master Supply (Sale) Agreement would not be sufficient for the expected amount of the annual considerations for sales and purchase of the finished goods and materials for the year ended 31 December 2013, the annual caps therefor were revised on 26 June 2013.

Further details regarding the Master Supply (Sale) Agreement, the revision of 2013 annual caps and the renewal agreement were set out in the announcements of the Company dated 8 August 2011, 26 June 2013 and 22 October 2013 respectively.

During the year under review, the consideration received by the Group for the transactions under the Master Supply (Sale) Agreement was HK$21,636,000.

e. On 8 August 2011, a master lease agreement (the "Master Lease Agreement") was entered into between the Company and TCL Corp. for a term from 8 August 2011 to 31 December 2013, which governed the existing leases and leases to be entered into. In order to continue the continuing connected transactions contemplated thereunder, the Company renewed the said agreement on 22 October 2013. The terms of the said renewal agreement are substantially the same as its predecessors with some minor modifications.

Further details of the Master Lease Agreement and the renewal agreement were set out in the announcement of the Company dated 8 August 2011 and 22 October 2013 respectively.

During the year under review, the total rental borne by the Company under the Master Lease Agreement (including all existing leases) amounted to HK$24,179,000.

f. On 26 June 2013, a strategic cooperation framework agreement (the "Strategic Cooperation Framework Agreement") was entered into between the Company and TCL Corp., effective from 1 July 2013 to 31 December 2015, which sets out the principal provisions for further cooperation in technological development.

Further details of the Strategic Cooperation Framework Agreement were set out in the announcement of the Company dated 26 June 2013.

During the year under review, the total service fees paid by the Company under the Strategic Cooperation Framework Agreement amounted to HK$21,537,000, comprising the service fees for the Joint Laboratory Project and the Strategic Mutual Research and the Mid-to-Long-Term Planning Project amounting to HK$765,000 and HK$20,772,000 respectively.

g. On 26 March 2013, a master construction management agreement (the "Master Construction Management Agreement") was entered into between Huizhou TCL Mobile Communication Co., Ltd. ("Huizhou TCL Mobile", an indirect wholly owned subsidiary of the Company) and TCL Real Estate (Huizhou) Co., Ltd ("TCL Real Estate (Huizhou)", a non-wholly owned subsidiary of TCL Corp.) for a term from 26 March 2013 to 31 December 2015, pursuant to which, Huizhou TCL Mobile appointed TCL Real Estate (Huizhou) as the construction manager for its various construction projects on the lands situated in Sub-division 37 and Sub-division 38 (to be referred as "Land 37" and "Land 38" respectively), Zhong Kai High Tech Park, Huizhou, Guangdong Province, the PRC to provide it with construction management services. Further details of the Master Construction Management Agreement were set out in the announcement of the Company dated 26 March 2013.

During the year under review, the service fee paid by Huizhou TCL Mobile under the Master Construction Management Agreement amounted to HK$10,228,000.

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

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

During the year under review, no consideration was paid by the Company under the Master Logistics Service Supply Agreement.

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2013:

a. On 26 June 2013, a transfer agreement (the "Transfer Agreement") was entered into among Huizhou TCL Mobile, TCL King Electrical Applicances (Huizhou) Co., Ltd. ("TCL King", an indirect wholly owned subsidiary of TCL Multimedia) and TCL Technoly Electronics (Huizhou) Co., Ltd. ("TCL Technoly", an indirect owned subsidiary of TCL Multimedia) transferring the land use rights of Land 38 together with the buildings thereon. The total consideration of such transfer was in the sum of approximately RMB72,918,000 (equivalent to approximately HK$91,148,000 calculated based on the exchange rate on the transaction date) comprising (i) the value of the land use rights in the sum of approximately RMB42,416,000 (equivalent to approximately HK$53,020,000 calculated based the exchange rate on the transaction date); and (ii) the construction cost of the buildings on the land in the sum of approximately RMB30,502,000 (equivalent to approximately HK$38,128,000 calculated based on the exchange rate on the transaction date), of which approximately RMB42,175,000 (equivalent to approximately HK$52,719,000 calculated based on the exchange rate on the transaction date) would be paid by TCL King and approximately RMB30,743,000 (equivalent to approximately HK$38,429,000 calculated based on the exchange rate on the transaction date) would be paid by TCL Technoly. Further details of the Transfer Agreement were set out in the announcement of the Company dated 26 June 2013.

   During the year under review, Huizhou TCL Mobile received approximately RMB42,175,000 (equivalent to approximately HK$52,719,000 calculated based on the exchange rate on the transaction date) and approximately RMB20,000,000 (equivalent to HK$25,436,000, according to amount in HK dollar recognized in financial statements) from TCL King and TCL Technoly respectively for the abovementioned transfers under the said agreement.

b. On 15 November 2013, a capital injection agreement (the "Capital Injection Agreement") was entered into among JRD Communication (Shenzhen) Ltd ("JRD Shenzhen", an indirect wholly owned subsidiary of the Company), TCL Corp., TCL King Electrical Appliances (Chengdu) Company Limited ("TCL King (Chengdu)", a wholly owned subsidiary of TCL Multimedia) and Finance Company, pursuant to which JRD Shenzhen, TCL Corp. and TCL King (Chengdu), all being shareholders of Finance Company with respective equity interest of 4%, 82% and 14% therein, agreed to inject a total of RMB1,000,000,000 (approximately equivalent to HK$1,260,000,000 calculated based on the exchange rate on the transaction date) into Finance Company on a pro rata basis. The amount of capital injection to be made by JRD Shenzhen would be RMB40,000,000 (approximately equivalent to HK$50,400,000 calculated based on the exchange rate on the transaction date).

   Further details of the Capital Injection Agreement were set out in the announcement of the Company dated 15 November 2013.

   During the year under review, the amount of capital injected by JRD Shenzhen under the Capital Injection Agreement was RMB40,000,000 (approximately equivalent to HK$50,400,000 calculated based on the exchange rate on the transaction date).

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

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

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

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

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

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

(i) have been approved by the Board;

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

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

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

CORPORATE GOVERNANCE

Details of the Group's governance practices can be found in the Corporate Governance Report contained on pages 42 to 57 in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

EVENTS AFTER THE REPORTING PERIOD

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

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

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

AUDITORS

The accounts for the year ended 31 December 2013 have been audited by Ernst & Young, who shall retire and, being eligible, shall offer themselves for re-appointment as auditors of the Company at the forthcoming AGM.

On behalf of the Board

LI Dongsheng
Chairman

Hong Kong
24 February 2014

76

Independent Auditors' Report

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

We have audited the consolidated financial statements of TCL Communication Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 80 to 174, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

24 February 2014

Consolidated Statement of Profit or Loss

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (Restated)
REVENUE	8	**19,362,061**	12,031,212
Cost of sales		**(15,689,908)**	(9,934,637)
Gross profit		**3,672,153**	2,096,575
Other income and gains	8	**512,743**	542,841
Research and development costs	9	**(1,064,154)**	(739,654)
Selling and distribution expenses		**(1,611,218)**	(1,153,653)
Administrative expenses		**(946,351)**	(657,535)
Other operating expenses		**(158,229)**	(109,289)
Finance costs	10	**(104,983)**	(166,009)
Share of loss of associates		**(1,581)**	(1,753)
PROFIT/(LOSS) BEFORE TAX	9	**298,380**	(188,477)
Income tax	12	**17,798**	(31,551)
PROFIT/(LOSS) FOR THE YEAR		**316,178**	(220,028)
Attributable to:			
Owners of the parent	13	**313,422**	(207,840)
Non-controlling interests		**2,756**	(12,188)
		316,178	(220,028)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	15		
Basic		**27.50**	(18.49)
Diluted		**26.56**	(18.49)

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**316,178**	(220,028)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	30	**68,352**	(10,272)
Reclassification adjustments for gains included in the consolidated statement of profit or loss	30	**(99,665)**	(28,653)
Income tax effect	30	**(1,372)**	(3,847)
		(32,685)	(42,772)
Exchange differences on translation of foreign operations		**143,235**	(2,197)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**110,550**	(44,969)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**110,550**	(44,969)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**426,728**	(264,997)
Attributable to:			
Owners of the parent		**423,972**	(252,809)
Non-controlling interests		**2,756**	(12,188)
		426,728	(264,997)

Consolidated Statement of Financial Position

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**940,599**	597,287
Prepaid land lease payments	17	**128,933**	176,656
Other intangible assets	18	**955,821**	920,536
Goodwill	19	**253,954**	253,954
Investments in associates	21	**5,143**	3,502
Available-for-sale investments	22	**77,144**	26,272
Deferred tax assets	34	**195,340**	130,659
Total non-current assets		**2,556,934**	2,108,866
CURRENT ASSETS			
Inventories	23	**2,649,306**	1,263,038
Trade receivables	24	**5,550,714**	2,842,494
Factored trade receivables	25	**484,856**	432,334
Notes receivable		**34,244**	39,220
Prepayments, deposits and other receivables	26	**1,151,117**	1,246,325
Due from related companies	42(d)	**48,653**	29,512
Tax recoverable		**13,931**	22,236
Derivative financial instruments	30	**93,233**	145,894
Pledged deposits	27	**1,698,028**	4,221,125
Cash and cash equivalents	27	**142,008**	969,789
Total current assets		**11,866,090**	11,211,967
CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**2,204,923**	5,726,390
Trade and notes payables	29	**3,874,663**	2,428,661
Bank advances on factored trade receivables	25	**484,856**	432,334
Other payables and accruals		**3,148,245**	1,620,401
Derivative financial instruments	30	**92,396**	96,282
Provision for warranties	31	**306,663**	187,975
Loan from a related company	28,42(d)	**763,080**	–
Due to related companies	42(d)	**333,361**	112,826
Tax payable		**12,627**	738
Total current liabilities		**11,220,814**	10,605,607
NET CURRENT ASSETS		**645,276**	606,360
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,202,210**	2,715,226

continued/...

Consolidated Statement of Financial Position

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,202,210**	2,715,226
NON-CURRENT LIABILITIES			
Retirement indemnities	32	**5,740**	3,738
Long service medals	33	**2,452**	1,840
Interest-bearing bank borrowings	28	**196,120**	193,790
Loan from a related company	28,42(d)	**–**	116,274
Deferred tax liabilities	34	**84,844**	76,958
Total non-current liabilities		**289,156**	392,600
Net assets		**2,913,054**	2,322,626
EQUITY			
Equity attributable to owners of the parent			
Issued capital	35	**1,162,460**	1,128,290
Shares held for Share Award Scheme	37	**(65,786)**	(77,870)
Reserves	38(a)	**1,695,582**	1,270,691
Proposed final dividend	14	**117,141**	–
		2,909,397	2,321,111
Non-controlling interests		**3,657**	1,515
Total equity		**2,913,054**	2,322,626

LI Dongsheng
Director

GUO Aiping
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2013

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

continued/...

Consolidated Statement of Changes in Equity

Year ended 31 December 2013

	Attributable to owners of the parent														
	Issued capital HK$'000 (note 35)	Share premium account HK$'000 (note 35)	Shares held for Share Award Scheme HK$'000 (note 37)	Awarded shares reserve HK$'000 (note 37)	Share option reserve HK$'000 (note 36)	Hedging reserve HK$'000 (note 30)	Contributed surplus HK$'000 (note 38(a))	Statutory reserve HK$'000 (note 38(a))	Other reserve HK$'000 (note 38(a))	Exchange fluctuation reserve HK$'000	Proposed final dividend HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2013	1,128,290	321,330	(77,870)	37,513	94,642	15,250	232,555	275,525	(130,232)	219,114	-	204,994	2,321,111	1,515	2,322,626
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	313,422	313,422	2,756	316,178
Other comprehensive income for the year:															
Cash flow hedges, net of tax	-	-	-	-	-	(32,685)	-	-	-	-	-	-	(32,685)	-	(32,685)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	143,235	-	-	143,235	-	143,235
Total comprehensive income for the year	-	-	-	-	-	(32,685)	-	-	-	143,235	-	313,422	423,972	2,756	426,728
Exercise of share options	26,916	82,285	-	-	(31,163)	-	-	-	-	-	-	-	78,038	-	78,038
Issue of new shares under Share Award Scheme	7,254	15,531	-	(22,785)	-	-	-	-	-	-	-	-	-	-	-
Reclassification of lapsed share options	-	1,109	-	-	(1,109)	-	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	53,374	-	-	-	-	-	-	-	53,374	-	53,374
Share Award Scheme arrangements	-	-	-	32,902	-	-	-	-	-	-	-	-	32,902	-	32,902
Reclassification of vested awarded shares	-	(2,591)	12,084	(9,493)	-	-	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(614)	(614)
Transfer from retained profits	-	-	-	-	-	-	-	17,550	-	-	-	(17,550)	-	-	-
2013 final dividend proposed	-	-	-	-	-	-	-	-	-	-	117,141	(117,141)	-	-	-
At 31 December 2013	1,162,460	417,664*	(65,786)	38,137*	115,744*	(17,435)*	232,555*	293,075*	(130,232)*	362,349*	117,141	383,725*	2,909,397	3,657	2,913,054

* These reserve accounts comprise the consolidated reserves of HK$1,695,582,000 (31 December 2012: HK$1,270,691,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**298,380**	(188,477)
Adjustments for:			
Share of loss of associates		**1,581**	1,753
Interest income	8	**(112,991)**	(213,389)
Dividend income from available-for-sale investments	8	**(179)**	(4,016)
Gain on disposal of prepaid land lease payments and affiliated buildings	8	**–**	(56,114)
Depreciation	9	**147,302**	120,557
Prepaid land lease recognised	9	**2,513**	3,469
Amortisation of computer software, intellectual property and ALCATEL brand license	9	**43,929**	40,244
Amortisation of deferred development costs	9	**944,471**	628,321
Gain on disposal of items of property, plant and equipment	9	**(816)**	(660)
Loss on retirement and disposal of other intangible assets	9	**–**	297
Equity-settled share options expenses	9	**35,024**	36,504
Equity-settled Share Award Scheme expenses	9	**19,180**	25,639
Impairment loss of trade receivables	9	**47,029**	884
Impairment loss of other receivables	9	**2,512**	1,192
Finance costs	10	**104,983**	166,009
Loss/(gain) on changes in fair value of derivative financial instruments	30	**4,216**	(6,118)
		1,537,134	556,095
Increase in inventories		**(1,353,700)**	(283,807)
Increase in trade receivables		**(2,816,628)**	(243,975)
Increase in factored trade receivables		**(52,522)**	(122,374)
Decrease in notes receivable		**4,976**	14,250
Decrease/(increase) in prepayments, deposits and other receivables		**40,704**	(369,801)
Decrease in derivative financial instruments, net		**14,139**	12,820
Increase in amounts due from related companies		**(9,535)**	(10,162)
Increase in trade and notes payables		**1,562,406**	651,965
Increase in other payables and accruals		**1,505,995**	251,152
Increase in provision for warranties		**114,626**	48,273
Increase/(decrease) in amounts due to related companies		**225,095**	(52,384)
Increase in retirement indemnities	32	**1,771**	1,399
Increase in long service medals		**514**	471
Cash generated from operations		**774,975**	453,922
Tax paid		**(16,353)**	(52,356)
Interest paid		**(118,812)**	(177,419)
Net cash flows from operating activities		**639,810**	224,147

continued/...

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Net cash flows from operating activities		**639,810**	224,147
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(483,830)**	(246,385)
Addition of prepaid land lease payments		**(330)**	–
Acquisition of other intangible assets		**(1,004,728)**	(1,041,757)
Proceeds from disposal of prepaid land lease payments and affiliated buildings		**78,294**	27,094
Proceeds from disposal of items of property, plant and equipment		**5,971**	2,467
Proceeds from retirement and disposal of other intangible assets		**317**	–
Purchase of available-for-sale investments		**(50,872)**	–
Investment in an associate		**(3,140)**	(2,298)
Decrease in pledged deposits		**–**	1,023
Dividends received from available-for-sale investments		**179**	1,996
Interest received		**195,354**	206,250
Net cash flows used in investing activities		**(1,262,785)**	(1,051,610)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of new shares by exercise of share options		**78,038**	26,452
Addition of non-controlling interests		**–**	9,254
Decrease in pledged deposits		**2,523,097**	1,870,263
Increase in bank advances on factored trade receivables		**52,522**	122,374
New bank loans		**7,332,703**	7,996,358
New loans from related companies	42(a)	**1,062,578**	116,382
Repayments of bank loans		**(10,851,876)**	(9,298,324)
Repayments of loans from related companies		**(427,197)**	–
Dividends paid		**–**	(202,263)
Net cash flows (used in)/from financing activities		**(230,135)**	640,496
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(853,110)**	(186,967)
Cash and cash equivalents at beginning of year		**969,789**	1,186,637
Effect of foreign exchange rate changes, net		**25,329**	(29,881)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**142,008**	969,789
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	27	**142,008**	969,789

Statement of Financial Position

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Other intangible assets	18	**267,366**	–
Investments in subsidiaries	20	**1,740,522**	1,053,679
Total non-current assets		**2,007,888**	1,053,679
CURRENT ASSETS			
Due from subsidiaries	20	**1,595,257**	1,476,352
Other receivables	26	**10,141**	5,682
Cash and cash equivalents	27	**2,318**	3,444
Total current assets		**1,607,716**	1,485,478
CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**193,777**	–
Due to subsidiaries	20	**336,344**	198,717
Other payables and accruals		**7,932**	8,900
Total current liabilities		**538,053**	207,617
NET CURRENT ASSETS		**1,069,663**	1,277,861
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,077,551**	2,331,540
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**193,933**	193,790
Total non-current liabilities		**193,933**	193,790
Net assets		**2,883,618**	2,137,750
EQUITY			
Issued capital	35	**1,162,460**	1,128,290
Shares held for Share Award Scheme	37	**(65,786)**	(77,870)
Reserves	38(b)	**1,669,803**	1,087,330
Proposed final dividend	14	**117,141**	–
Total equity		**2,883,618**	2,137,750

LI Dongsheng
Director

GUO Aiping
Director

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively, the "Group") was principally engaged in the research and development, manufacture and sale of mobile phones and other products.

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

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries and a trust ("the Share Award Scheme Trust"), a controlled special purpose entity, are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 12, HKFRS 13, HKAS 1 Amendments, HKAS 19 (2011) and HKAS 36 Amendments, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 12 sets out 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. Details of the disclosures for subsidiaries and associates are included in notes 20 and 21 to the financial statements.

(b) 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 rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.

(c) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified to profit or loss at a future point in time are presented separately from items which will never be reclassified. The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

(d) 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. As the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period, the adoption of the revised standard has had no effect on the financial position or performance of the Group.

(e) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no significant impact on the financial position or performance of the Group.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The principal effects of adopting these new and revised HKFRSs are as follows: (continued)

(f) Annual Improvement 2009-2011 Cycle issued in June 2012 sets out amendments to a number of standards. 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 have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

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

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

- 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.

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

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

HKFRS 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[3]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption

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

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

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

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

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

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

Investments in associates

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The results of associates are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

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

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Business combinations of entities under common control

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

Fair value measurement

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

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

Impairment of non-financial assets

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

or

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

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

Property, plant and equipment and depreciation

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

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

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

Buildings	2.6% to 9.0%
Plant and machinery	9.0% to 18.0%
Furniture, fixtures, office equipment and research and development equipment	18.0% to 50.0%
Motor vehicles	15.0% to 22.5%

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

Intangible assets (other than goodwill)

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

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

Research and development costs

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

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

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

Computer software

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

Intellectual property

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Golf club membership

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

ALCATEL brand license

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

Leases

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

Fair value hedges

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges

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

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

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

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

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
(c) value-added service income, upon provision of the relevant services; and
(d) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payments

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

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

The dilutive effect of outstanding options and awarded shares through new issue of shares is reflected as additional share dilution in the computation of earnings per share.

Shares held for the Share Award Scheme

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

Central pension scheme

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

Mandatory Provident Fund

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement indemnities

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

- using the projected unit credit method, with the projected final salary, which takes into consideration each period of service giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Actuarial assumptions comprise mortality, rates of employee turnover and projection of future salary levels; and
- actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for the pension plan at the end of the previous period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining service periods of the employees participating in the pension plan.

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

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

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of property, plant and equipment

The Group determines whether property, plant and equipment are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment at 31 December 2013 was HK$940,599,000 (31 December 2012: HK$597,287,000). More details are set out in note 16 to the financial statements.

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

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

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Warranty claims

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

As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years. As at 31 December 2013, the carrying amount of warranty provisions was HK$306,663,000 (31 December 2012: HK$187,975,000). Further details are included in note 31 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 and 2012 was HK$253,954,000. More details are given in note 19 to the financial statements.

Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying amount of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed. The carrying amounts of trade receivables and other receivables at 31 December 2013 were HK$5,550,714,000 (31 December 2012: HK$2,842,494,000) and HK$1,039,444,000 (31 December 2012: HK$1,134,037,000) respectively. Further details are given in note 24 and note 26 to the financial statements.

Provision against obsolete and slow-moving inventories

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

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories at 31 December 2013 was HK$2,649,306,000 (31 December 2012: HK$1,263,038,000). Further details are given in note 23 to the financial statements.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2013 was HK$195,340,000 (31 December 2012: HK$130,659,000). The amount of unrecognised tax losses at 31 December 2013 was HK$2,606,320,000 (31 December 2012: HK$2,316,941,000). Further details are included in note 34 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 5 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2013, the best estimate of the carrying amount of capitalised development costs was HK$617,981,000 (31 December 2012: HK$565,107,000). Further details are included in note 18 to the financial statements.

7. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) *Revenue from external customers*

	Group	
	2013	2012
	HK$'000	HK$'000
Europe, the Middle East and Africa	**7,758,698**	4,481,499
Americas	**8,715,197**	5,117,254
Asia pacific	**1,476,303**	816,902
China	**1,411,863**	1,615,557
Total	**19,362,061**	12,031,212

The revenue information 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 years ended 31 December 2013 and 2012, no revenue from a single customer accounted for 10% or more of the total revenue of the Group.

8. REVENUE, OTHER INCOME AND GAINS

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

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

		Group	
	Notes	**2013 HK$'000**	2012 HK$'000
Revenue			
Sale of mobile phones and other products		**19,362,061**	12,031,212
Other income and gains			
Interest income		**112,991**	213,389
Subsidy income*		**69,048**	70,148
Value-added tax ("VAT") refunds**		**253,857**	172,383
Value-added service income		**56,038**	11,685
Gain on disposal of items of property, plant and equipment	9	**816**	660
Gain on disposal of prepaid land lease payments and affiliated buildings	9	**–**	56,114
Dividend income from available-for-sale investments		**179**	4,016
Others		**19,814**	14,446
		512,743	542,841

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

** During the years ended 31 December 2013 and 2012, several subsidiaries of the Company in the PRC, 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%.

9. PROFIT/(LOSS) BEFORE TAX

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

		Group	
		2013	2012
	Notes	**HK$'000**	HK$'000
Cost of inventories sold		**15,689,908**	9,934,637
Depreciation	16	**147,302**	120,557
Prepaid land lease recognised	17	**2,513**	3,469
Amortisation of computer software, intellectual property and ALCATEL brand license	18	**43,929**	40,244
Research and development costs:			
Deferred expenditure amortised	18	**944,471**	628,321
Current year expenditure		**119,683**	111,333
		1,064,154	739,654
Brand management fee/TCL Brand Common Fund		**9,515**	18,119
Minimum lease payments under operating leases in respect of land and buildings		**80,486**	71,898
Auditors' remuneration		**6,509**	7,737
Employee benefit expense (including directors' and chief executive's remuneration (note 11))*:			
Salaries and wages		**1,412,948**	1,027,958
Equity-settled expenses:			
Share options		**35,024**	36,504
Share Award Scheme		**19,180**	25,639
Pension scheme contributions:			
The contribution plan		**154,979**	119,322
The pension plan	32	**1,771**	1,399
		1,623,902	1,210,822
Exchange loss, net**		**137,435**	88,195
Including: Exchange loss on derivative financial instruments		**8,257**	61,649
Ineffectiveness of cash flow hedges		**65,633**	16,438
Finance costs of loans hedged by interest rate swaps	30	**26,377**	47,534
Impairment loss of trade receivables	24	**47,029**	884
Impairment loss of other receivables	26	**2,512**	1,192
Product warranty provisions	31	**374,953**	214,275
Gain on disposal of items of property, plant and equipment	8	**(816)**	(660)
Gain on disposal of prepaid land lease payments and affiliated buildings	8	**–**	(56,114)
Loss on retirement and disposal of other intangible assets		**–**	297
Write-down of inventories to net realisable value		**86,829**	83,608

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

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

** Included in "other operating expenses" in the consolidated statement of profit or loss.

10. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Interest on loans wholly repayable within three years	**96,329**	165,146
Interest on discounted notes and factored trade receivables*	**8,654**	4,799
	104,983	169,945
Less: interest capitalised	**–**	3,936
Total finance costs	**104,983**	166,009

* The effective interest rate of factored trade receivables is 0.15% (2012: 0.17%) per month.

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

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

	Group	
	2013	2012
	HK$'000	HK$'000
Fees	**1,290**	1,290
Other emoluments:		
Salaries, allowances and benefits in kind	**3,233**	3,034
Equity-settled share options and Share Award Scheme expenses	**14,344**	24,350
Pension scheme contributions	**179**	155
	19,046	28,829

During the years ended 31 December 2013 and 2012, certain directors and the chief executive were granted share options and awarded shares. The grant of share options and awarded shares was in respect of their services to the Group, under the Share Option Scheme and the Share Award Scheme of the Company, further details are set out in notes 36 and 37 respectively to the financial statements. The fair value of such share options and awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

(a) Independent Non-Executive Directors

2013	**Fees HK$'000**	**Equity-settled share options expense HK$'000**	**Total remuneration HK$'000**
Mr. LAU Siu Ki	**180**	**80**	**260**
Mr. LOOK Andrew	**180**	**80**	**260**
Mr. KWOK Hoi Sing	**180**	**190**	**370**
	540	**350**	**890**

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

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

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

2013	**Fees HK$'000**	**Salaries, allowances and benefits in kind HK$'000**	**Equity-settled share options and Share Award Scheme expenses HK$'000**	**Pension scheme contributions HK$'000**	**Total remuneration HK$'000**
Executive directors:					
Mr. LI Dongsheng	**130**	**–**	**2,827**	**7**	**2,964**
Mr. GUO Aiping					
(dual appointment as chief executive)	**130**	**1,950**	**5,240**	**61**	**7,381**
Mr. WANG Jiyang	**130**	**1,283**	**4,036**	**111**	**5,560**
Non-executive directors:					
Mr. BO Lianming					
(retired on 22 April 2013)	**37**	**–**	**478**	**–**	**515**
Mr. HUANG Xubin	**120**	**–**	**695**	**–**	**815**
Mr. YAN Xiaolin					
(appointed on 24 April 2013)	**83**	**–**	**89**	**–**	**172**
Ms. XU Fang	**120**	**–**	**629**	**–**	**749**
	750	**3,233**	**13,994**	**179**	**18,156**

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

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

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

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

During the year, two (2012: three) directors including the chief executive were counted in the five highest paid employees, details of whose remuneration are set out above.

Details of the remuneration for the year of the remaining three (2012: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries, allowances and benefits in kind	**9,692**	5,315
Equity-settled share option and Share Award Scheme expenses	**8,909**	4,391
Pension scheme contributions	**2,587**	317
	21,188	10,023

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

	Number of employees	
	2013	2012
HK$4,000,001 to HK$4,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,500,001 to HK$6,000,000	**–**	1
HK$7,500,001 to HK$8,000,000	**1**	–
HK$8,500,001 to HK$9,000,000	**1**	–
	3	2

During the year, share options and awarded shares were granted to three (2012: two) non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in disclosures in notes 36 and 37 respectively to the financial statements. The fair values of such options and awarded shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-directors and non-chief executive remuneration disclosures.

12. INCOME TAX

	Group	
	2013	2012
	HK$'000	HK$'000
Current		
Charge for the year:		
The PRC	**9,862**	8,293
France	**9,838**	2,291
Mexico	**5,839**	–
Russia	**7,802**	6,935
Brazil	**1,657**	–
The United States	**2,512**	185
Overprovision in prior years	**(1,791)**	(88)
	35,719	17,616
Deferred (note 34)	**(53,517)**	13,935
Tax (credit)/charge for the year	**(17,798)**	31,551

No Hong Kong profits tax has been provided (2012: Nil) since no assessable profit arose in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

Huizhou TCL Mobile Communication Co., Limited ("Huizhou TCL Mobile") and TCL Communication (Ningbo) Limited ("Ningbo R&D"), subsidiaries of the Company in the PRC, were entitled high technology enterprise accreditation in 2012 and 2013 and hence are subject to a corporate income tax rate of 15% for the years 2013 and 2012.

JRD Communication (Shenzhen) Limited ("JRD Shenzhen"), a subsidiary of the Company in the PRC, was entitled national key software enterprise accreditation in 2013 and 2014 which were effective for the fiscal years from 2011 to 2014, and hence is subject to a corporate income tax rate of 10% for the years 2013 and 2012.

According to the Corporate Income Tax Law of the PRC on the newly established high technology software enterprises, JRD Communication Technology (Shanghai) Limited ("JRD Shanghai") and TCL Communication Technology (Chengdu) Limited, subsidiaries of the Company in the PRC, were eligible for a "two-year exemption and three-year half reduction" tax holiday starting from their first profit-making year being a newly established high technology software enterprise.

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

TCT SAS, a subsidiary of the Company in France, is subject to a normal 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.

12. INCOME TAX (continued)

TCT Mobile SA DE CV, a subsidiary of the Company in Mexico, is subject to Flat Rate Business Tax ("IETU") and income tax ("ISR"). Revenue, deductions and certain tax credits for calculation of IETU are determined based on cash flows generated, and net tax income for calculation of ISR is determined based on all revenues minus expenses (deductions) as defined by Income Tax Law. For the years 2013 and 2012, the tax rate of IETU and ISR is 17.5% and 30%, respectively. 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 a corporate income tax rate of 20% 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.

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 the California State tax rate of 8.84% for the years 2013 and 2012.

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

Group

	2013 HK$'000	**%**	2012 HK$'000	%
Profit/(loss) before tax	**298,380**		(188,477)	
Tax at the statutory tax rates	**160,388**	**53.7**	15,087	8.0
Lower tax rates for specific provinces or enacted by local authorities	**(289,976)**	**(97.2)**	(192,803)	(102.4)
Adjustment in respect of current tax of previous periods	**(1,791)**	**(0.6)**	(88)	–
Income not subject to tax	**(38,889)**	**(13.0)**	(24,968)	(13.2)
Expenses not deductible for tax	**102,532**	**34.4**	50,665	26.9
Tax effect of expenses that are entitled to additional deduction	**(28,784)**	**(9.6)**	(25,044)	(13.3)
Tax losses utilised from previous periods	**(18,238)**	**(6.1)**	(20,783)	(11.0)
Tax losses not recognised	**114,140**	**38.2**	244,284	129.6
Others*	**(17,180)**	**(5.8)**	(14,799)	(7.9)
Tax (credit)/charge at the Group's effective rate	**(17,798)**	**(6.0)**	31,551	16.7

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

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

The consolidated profit/(loss) attributable to owners of the parent for the year ended 31 December 2013 includes a profit of HK$581,554,000 (2012: loss of HK$319,785,000) which has been dealt with in the financial statements of the Company (note 38(b)).

14. DIVIDENDS

	2013 HK$'000	2012 HK$'000
Interim – Nil (2012: 3.0 HK cents per ordinary share)	**–**	33,849
Proposed final – 10.0 HK cents (2012: Nil) per ordinary share	**117,141**	–
	117,141	33,849

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM").

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

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

	2013 HK$'000	2012 HK$'000
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculations	**313,422**	(207,840)

Shares	**Number of shares 2013**	2012 (Restated)
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculations	**1,139,549,419**	1,124,135,436
Effect of dilution – weighted average number of ordinary shares:		
Share options	**27,829,170**	–
Awarded shares	**12,658,120**	–
Weighted average number of ordinary shares in issue during the year used in the diluted earnings/(loss) per share calculations	**1,180,036,709**	1,124,135,436

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

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

The calculations of the diluted earnings/(loss) per share are based on the profit/(loss) attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculations is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculations, 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 year ended 31 December 2012, potential ordinary shares had an antidilutive effect on loss per share as their conversion to ordinary shares decreased loss per share. Thus, no dilutive adjustment has been made to the basic loss per share in 2012.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and research and development equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	81,070	913,770	334,580	14,181	77,025	1,420,626
Accumulated depreciation and impairment	(18,361)	(593,838)	(203,190)	(7,950)	–	(823,339)
Net carrying amount	62,709	319,932	131,390	6,231	77,025	597,287
At 1 January 2013, net of accumulated depreciation and impairment	62,709	319,932	131,390	6,231	77,025	597,287
Additions	71	107,510	20,656	2,801	380,010	511,048
Disposals	(38,229)	(3,161)	(1,428)	(176)	–	(42,994)
Depreciation provided during the year (note 9)	(4,176)	(90,746)	(49,704)	(2,676)	–	(147,302)
Transfers	212,765	55,540	19,877	–	(288,182)	–
Exchange realignment	4,478	11,257	2,965	100	3,760	22,560
At 31 December 2013, net of accumulated depreciation and impairment	237,618	400,332	123,756	6,280	172,613	940,599
At 31 December 2013:						
Cost	260,843	1,012,775	366,274	16,410	172,613	1,828,915
Accumulated depreciation and impairment	(23,225)	(612,443)	(242,518)	(10,130)	–	(888,316)
Net carrying amount	237,618	400,332	123,756	6,280	172,613	940,599

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

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

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying amount of HK$178,695,000 (31 December 2012: HK$21,614,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining these certificates.

At 31 December 2013, certain of the Group's machinery with a net carrying amount of HK$3,512,000 (31 December 2012: Nil) were pledged for interest-bearing bank borrowings (note 28).

17. PREPAID LAND LEASE PAYMENTS

	Group 2013 HK$'000	2012 HK$'000
Carrying amount at 1 January	**176,656**	185,444
Additions	**330**	–
Disposals	**(50,279)**	(5,330)
Recognised during the year (note 9)	**(2,513)**	(3,469)
Exchange realignment	**4,739**	11
Carrying amount at 31 December	**128,933**	176,656

As at 31 December 2013 and 2012, the Group's leasehold land situated in Mainland China was held under long term leases.

18. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000	Computer software HK$'000	Intellectual property HK$'000	Golf club membership HK$'000	ALCATEL brand license HK$'000	Total HK$'000
31 December 2013						
Cost at 31 December 2012 and 1 January 2013, net of accumulated amortisation	**565,107**	**25,731**	**47,835**	**4,545**	**277,318**	**920,536**
Additions	**979,740**	**10,279**	**13,800**	**909**	**–**	**1,004,728**
Retirements and disposals	**–**	**(318)**	**–**	**–**	**–**	**(318)**
Amortisation provided during the year	**(944,471)**	**(7,919)***	**(13,025)***	**–***	**(22,985)***	**(988,400)**
Exchange realignment	**17,605**	**621**	**952**	**97**	**–**	**19,275**
At 31 December 2013	**617,981**	**28,394**	**49,562**	**5,551**	**254,333**	**955,821**
At 31 December 2013:						
Cost	**2,608,600**	**71,545**	**81,194**	**5,551**	**311,824**	**3,078,714**
Accumulated amortisation	**(1,990,619)**	**(43,151)**	**(31,632)**	**–**	**(57,491)**	**(2,122,893)**
Net carrying amount	**617,981**	**28,394**	**49,562**	**5,551**	**254,333**	**955,821**

18. OTHER INTANGIBLE ASSETS (continued)

Group

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

* Being the amortisation of computer software, intellectual property and ALCATEL brand license charged to the statement of profit or loss of HK$43,929,000 (2012: HK$40,244,000) (note 9) during the year.

Company

	Intellectual property HK$'000	**ALCATEL brand license HK$'000**	**Total HK$'000**
31 December 2013			
Cost at 31 December 2012 and 1 January 2013, net of accumulated amortisation	**–**	**–**	**–**
Additions	**13,800**	**254,333**	**268,133**
Amortisation provided during the year	**(767)**	**–**	**(767)**
At 31 December 2013	**13,033**	**254,333**	**267,366**
At 31 December 2013:			
Cost	**13,800**	**254,333**	**268,133**
Accumulated amortisation	**(767)**	**–**	**(767)**
Net carrying amount	**13,033**	**254,333**	**267,366**

19. GOODWILL

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January and 31 December:		
Cost and net carrying amount	**253,954**	253,954

Impairment testing of goodwill

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

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

Research and development of mobile handsets cash-generating unit

The recoverable amount of the research and development of mobile handsets cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18% (2012: 17%) and cash flows within the five-year period are extrapolated using growth rates of sales volume of 9%-21% from 2014 to 2018.

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

The recoverable amount of the research, development, manufacture and sale of mobile handsets and other products cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18% (2012: 17%) and cash flows within the five-year period are extrapolated using growth rates of sales volume of 9%-21% from 2014 to 2018.

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

19. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

Group

	Research and development of mobile handsets		Research, development, manufacture and sale of mobile handsets and other products	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**146,927**	146,927	**107,027**	107,027

Assumptions were used in the value in use calculation of the research and development of the mobile handsets cash-generating unit and the research, development, manufacture and sale of mobile handsets and other products cash-generating unit for 31 December 2013 and 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

20. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	HK$'000	HK$'000
Unlisted shares, at cost	**1,661,641**	1,661,641
Capital contribution in respect of employee share-based compensation	**104,334**	68,749
Impairment	**(25,453)**	(676,711)
	1,740,522	1,053,679

At the end of the reporting period, the amounts due from and due to subsidiaries included in the Company's current assets and current liabilities of HK$1,595,257,000 (31 December 2012: HK$1,476,352,000) and HK$336,344,000 (31 December 2012: HK$198,717,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

20. INVESTMENTS IN SUBSIDIARIES (continued)

The movements in the impairment are as follows:

	Company 2013 HK$'000	Company 2012 HK$'000
At 1 January	**676,711**	402,902
Impairment loss (reversed)/recognised	**(651,258)**	273,809
At 31 December	**25,453**	676,711

Impairment loss of investments in subsidiaries is provided based on the recoverable amount of the subsidiaries. Since the subsidiaries' recoverable amount increased, the Company reversed an impairment loss of HK$651,258,000 (2012: recognised loss of HK$273,809,000) on investments in subsidiaries.

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
TCL Mobile Communication (HK) Company Limited	Hong Kong 21 April 1999	HK$5,000,000	–	100%	Distribution of mobile phone components and mobile handsets
Huizhou TCL Mobile (note (i))	The PRC/ Mainland China 29 March 1999	US$199,600,000	–	100%	Manufacture and distribution of mobile handsets
TCT Mobile Limited	Hong Kong 17 May 2004	HK$10,000,000	100%	–	Distribution of mobile handsets
TCT SAS	France 12 August 2004	EUR23,031,072	–	100%	Development and distribution of mobile handsets
TCT Mobile SA DE CV	Mexico 24 May 2004	MXP116,594,000	–	100%	Distribution of mobile handsets
TCL Communication Technology (Suzhou) Limited (note (i))	The PRC/ Mainland China 14 December 1998	US$28,000,000	–	100%	Development and distribution of mobile handsets
TCT Mobile International Limited	Hong Kong 11 May 2005	HK$5,000,000	–	100%	Development and distribution of mobile handsets

20. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
JRD Shenzhen (note (i))	The PRC/ Mainland China 14 February 2006	US$10,000,000	–	100%	Software development for mobile handsets
"TMC Rus" Limited Liability Company	Russia 8 April 2010	RUB10,000	–	100%	Distribution of mobile handsets
TCT Mobile Multinational Limited	Hong Kong 16 April 2010	HK$1	–	100%	Distribution of mobile handsets
JRD Shanghai (note (i))	The PRC/ Mainland China 18 October 2010	US$10,000,000	–	100%	Software development for mobile handsets
TCL Communication Technology (Chengdu) Limited (note (i))	The PRC/ Mainland China 21 January 2011	US$12,000,000	–	100%	Software development for mobile handsets
Ningbo R&D (note (i))	The PRC/ Mainland China 15 December 2005	US$3,000,000	–	100%	Software development for mobile handsets
TCT Mobile-Telefones LTDA.	Brazil 21 November 2006	BRL104,088,757	–	100%	Distribution of mobile handsets
TCT Mobile (US) Inc.	United States 19 December 2011	US$1	–	100%	Distribution of mobile handsets
Huizhou TCL Communication Electronic Limited	The PRC/ Mainland China 9 April 2012	RMB30,000,000	–	100%	Development and distribution of fixed line telephone products
TCT Mobile Overseas Limited	Hong Kong 31 October 2011	HK$1	–	100%	Distribution of mobile handsets

Note:

(i) These are wholly-foreign-owned enterprises under the PRC law.

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

21. INVESTMENTS IN ASSOCIATES

	Group 2013 HK$'000	2012 HK$'000
Share of net assets	**5,143**	3,502
Goodwill on acquisition	**1,674**	1,674
	6,817	5,176
Impairment	**(1,674)**	(1,674)
	5,143	3,502

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Nature Information Science and Technology Ltd.*	One ordinary share of RMB1	The PRC/ Mainland China	37.6%	Sale of financial software and provision of related services
T2Mobile Limited*	One ordinary share of US$1	Hong Kong	25.0%	Software development for mobile handsets

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

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

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2013 HK$'000	2012 HK$'000
Assets	**18,594**	9,315
Liabilities	**(707)**	(1)
Revenue	**121**	76
Loss for the year	**(4,217)**	(4,662)

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2013	2012
	HK$'000	HK$'000
Unlisted equity investments, at cost	**77,144**	26,272

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

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

23. INVENTORIES

	Group	
	2013	2012
	HK$'000	HK$'000
Raw materials	**1,373,288**	862,809
Work in progress	**35,621**	9,723
Finished goods	**1,376,126**	503,277
	2,785,035	1,375,809
Provision against inventory obsolescence and net realisable value	**(135,729)**	(112,771)
	2,649,306	1,263,038

24. TRADE RECEIVABLES

	Group	
	2013	2012
	HK$'000	HK$'000
Trade receivables	**5,573,794**	2,861,404
Impairment	**(23,080)**	(18,910)
	5,550,714	2,842,494

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

24. TRADE RECEIVABLES (continued)

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

	Group	
	2013	2012
	HK$'000	HK$'000
Within 3 months	**5,068,121**	2,413,735
4 to 12 months	**478,147**	414,531
Over 12 months	**27,526**	33,138
	5,573,794	2,861,404
Impairment	**(23,080)**	(18,910)
	5,550,714	2,842,494

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

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**18,910**	12,570
Impairment loss recognised (note 9)	**47,029**	884
Amount written off as uncollectible	**(42,968)**	(1,085)
Derecognition of amount written off in previous year	**–**	6,368
Exchange realignment	**109**	173
At 31 December	**23,080**	18,910

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$23,080,000 (31 December 2012: HK$18,910,000) with a carrying amount before provision of HK$33,004,000 (31 December 2012: HK$49,224,000). The individually impaired trade receivables relate to customers that were in financial difficulties.

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

	Group	
	2013	2012
	HK$'000	HK$'000
Neither past due nor impaired	**4,464,782**	2,054,431
Less than 1 month past due	**749,462**	499,427
1 to 3 months past due	**285,879**	223,103
4 to 12 months past due	**39,477**	32,236
Over 12 months past due	**1,190**	2,983
	5,540,790	2,812,180

24. TRADE RECEIVABLES (continued)

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

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

The illustrative disclosures for transfers of financial assets relating to trade receivables factoring agreements are provided in note 44.

25. FACTORED TRADE RECEIVABLES

At 31 December 2013, the Group factored trade receivables to various banks on a recourse basis for cash. As the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated statement of financial position. Maturity dates of the related trade receivables range from 30 to 180 days. No impairment is made on the factored trade receivables.

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

	Group	
	2013	2012
	HK$'000	HK$'000
Current	**380,612**	300,177
Within 3 months	**102,588**	132,157
4 to 12 months	**1,656**	–
	484,856	432,334

As at 31 December 2013, the Group factored trade receivables to various banks for cash on a recourse basis which have not fulfilled the financial asset derecognition conditions as stipulated in HKAS 39. Accordingly, bank advances from the factoring of the Group's trade receivables of HK$484,856,000 (31 December 2012: HK$432,334,000) have been accounted for as liabilities in the consolidated statement of financial position.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	Group		Company	
		2013	2012	**2013**	2012
		HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments		**111,673**	112,288	**2,148**	2,669
Deposits and other receivables	(a)	**1,050,217**	1,142,012	**7,993**	3,013
		1,161,890	1,254,300	**10,141**	5,682
Impairment of other receivables	(a)	**(10,773)**	(7,975)	**–**	–
		1,151,117	1,246,325	**10,141**	5,682

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

Notes:

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

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**7,975**	6,777
Impairment loss recognised (note 9)	**2,512**	1,192
Exchange realignment	**286**	6
At 31 December	**10,773**	7,975

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

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**1,018,693**	1,129,482	**7,993**	3,013

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

27. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**142,008**	969,789	**2,318**	3,444
Pledged deposits	**1,698,028**	4,221,125	**–**	–
	1,840,036	5,190,914	**2,318**	3,444
Less: Pledged deposits				
– for factored trade receivables	**59,531**	33,566	**–**	–
– for interest-bearing bank borrowings, banking facilities and other financial instruments	**1,638,497**	4,187,559	**–**	–
Cash and cash equivalents	**142,008**	969,789	**2,318**	3,444

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to HK$1,505,684,000 (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 and pledged deposits are deposits of HK$191,771,000 (31 December 2012: HK$74,478,000) placed with TCL Finance Company Limited ("Finance Company", a fellow subsidiary of the Group), which is a financial institution approved by the People's Bank of China. The effective interest rate for these deposits was 0.15% – 1.27% (2012: 0.10% – 1.31%) per annum, being the savings rate offered by the People's Bank of China.

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

	Group				Company			
	2013		2012		**2013**		2012	
	Maturity (Year)	**HK$'000**	Maturity (Year)	HK$'000 (Restated)	**Maturity (Year)**	**HK$'000**	Maturity (Year)	HK$'000
Current								
Bank borrowings- unsecured	**2014**	**429,937**	2013	730,092		**–**		–
Bank borrowings- secured*	**2014**	**1,774,986**	2013	4,996,298	**2014**	**193,777**		–
		2,204,923		5,726,390		**193,777**		–
Loan from a related company**	**2014**	**763,080**		–		**–**		–
		2,968,003		5,726,390		**193,777**		–
Non-current								
Bank borrowings- secured*	**2015**	**196,120**	2014-2015	193,790	**2015**	**193,933**	2014-2015	193,790
Loan from a related company**		**–**	2015	116,274		**–**		–
		196,120		310,064		**193,933**		193,790
		3,164,123		6,036,454		**387,710**		193,790

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Analysed into:				
Bank borrowings:				
Within one year or on demand	**2,204,923**	5,726,390	**193,777**	–
In the second year	**196,120**	96,856	**193,933**	96,856
In the third to fifth years, inclusive	**–**	96,934	**–**	96,934
	2,401,043	5,920,180	**387,710**	193,790
Loan from a related company:				
Within one year or on demand	**763,080**	–	**–**	–
In the third to fifth years, inclusive	**–**	116,274	**–**	–
	763,080	116,274	**–**	–
	3,164,123	6,036,454	**387,710**	193,790

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

* The Group's secured interest-bearing bank borrowings are bank advances comprising (i) bank borrowings of HK$1,423,492,000 (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$1,458,476,000 (31 December 2012: HK$4,187,559,000); (ii) bank borrowings of HK$506,567,000 (31 December 2012: HK$1,134,817,000) which are guaranteed by the ultimate holding company; (iii) bank borrowings of HK$2,188,000 (31 December 2012: Nil) which are secured by certain of the Group's machinery amounting to HK$3,512,000 (31 December 2012: Nil) (note 16); and (iv) bank borrowings of HK$38,859,000 (31 December 2012: Nil) which are secured by letter of credit amounting to HK$38,859,000 (31 December 2012: Nil).

The Company's secured interest-bearing bank borrowings of HK$387,710,000 (31 December 2012: HK$193,790,000) are guaranteed by the ultimate holding company.

** The Group's loan from a related company is an unsecured, interest-bearing loan with an effective contractual interest rate of 6.44% (2012: 5.00%) per annum and with a payment term of less than one year (31 December 2012: three years).

The effective contractual interest rates for the bank borrowings ranged from 0.66% to 6.00% (2012: 0.74% to 5.48%) per annum.

HK$765,268,000 (31 December 2012: HK$324,975,000) and HK$22,209,000 (31 December 2012: HK$41,228,000) of the Group's interest-bearing bank borrowings are denominated in RMB and Euro respectively, and others are denominated in United States dollars. The Company's interest-bearing bank borrowings are all denominated in United States dollars.

29. TRADE AND NOTES PAYABLES

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

	Group	
	2013	2012
	HK$'000	HK$'000
Within 6 months	**3,853,181**	2,410,050
7 to 12 months	**9,654**	6,578
Over 12 months	**11,828**	12,033
	3,874,663	2,428,661

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

30. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2013		2012	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Forward currency contracts – Euro	**–**	**82,711**	–	36,599
Forward currency contracts – GBP	**–**	**1,186**	–	350
Forward currency contracts – RUB	**4,968**	**681**	–	10,720
Forward currency contracts – BRL	**15,535**	**–**	–	680
Forward currency contracts – RMB:				
Deliverable and non-deliverable forward currency contracts	**71,288**	**7,472**	124,387	45,634
Interest rate swaps – cash flow hedges	**1,442**	**346**	21,507	2,299
	93,233	**92,396**	145,894	96,282

Forward currency contracts – cash flow hedges

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

The terms of the Euro, GBP, Russian ruble and Brazil real forward currency contracts and RMB deliverable forward currency contracts match the terms of the commitments. The cash flow hedges relating to expected future sales monthly from January to December of 2014 were assessed to be highly effective and net losses of HK$31,344,000 (2012: HK$33,599,000) were included in the hedging reserve as follows:

	Group	
	2013 HK$'000	2012 HK$'000
Total fair value gains included in the hedging reserve*	**96,070**	46,435
Deferred tax on fair value gains**	**(23,300)**	(14,780)
Reclassification from other comprehensive income and recognised in the statement of profit or loss***	**(126,042)**	(76,187)
Deferred tax on reclassification to profit or loss**	**21,928**	10,933
Net losses on cash flow hedges	**(31,344)**	(33,599)

30. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swaps – cash flow hedges

At 31 December 2013, the Group held interest rate swaps designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

	Group	
	2013	2012
	HK$'000	HK$'000
Total fair value losses included in the hedging reserve*	**(27,718)**	(56,707)
Reclassification from other comprehensive income and recognised in the statement of profit or loss (note 9)***	**26,377**	47,534
Net losses on cash flow hedges	**(1,341)**	(9,173)

* The net effective portion of changes in fair value of hedging instruments arising during the year amounted to a credit of HK$68,352,000 (2012: a debit of HK$10,272,000).

** The net deferred tax on fair value gains amounted to HK$1,372,000 (2012: HK$3,847,000) during the year.

*** The total net gain on cash flow hedges reclassified from other comprehensive income amounted to HK$99,665,000 (2012: HK$28,653,000) during the year.

For non-hedging currency derivatives

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Loss on changes in the fair value of non-hedging currency derivatives amounting to HK$4,216,000 (2012: gain of HK$6,118,000) was recognised in the statement of profit or loss during the year. The maturity dates of derivative financial instruments are within one year.

31. PROVISION FOR WARRANTIES

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

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**187,975**	137,574
Additional provision (note 9)	**374,953**	214,275
Amount utilised during the year	**(260,327)**	(166,002)
Exchange realignment	**4,062**	2,128
At 31 December	**306,663**	187,975

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

32. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the pension plan at 31 December 2013 are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Retirement indemnities:		
Present value of fund obligation	**5,740**	3,738

Movements in retirement indemnities are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**3,738**	2,263
Recognised in the statement of profit or loss (note 9)	**1,771**	1,399
Exchange realignment	**231**	76
At 31 December	**5,740**	3,738

The Group does not have any unfunded obligations.

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

	Group	
	2013	2012
Discount rate	**3.0%**	2.8%
Future salary increase rate per annum	**5.0%**	3.0%

33. LONG SERVICE MEDALS

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

34. DEFERRED TAX

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

Deferred tax assets

Group

	Tax losses HK$'000	Promotion and accruals HK$'000	Product warranty HK$'000	Bad debt provision HK$'000	Provision against inventories HK$'000	Unrealised profit HK$'000	Impairment of non-current assets HK$'000	Amortisation in excess of amortisation allowance HK$'000	Total HK$'000
At 1 January 2013	64,799	5,288	7,071	1,106	13,014	2,630	1,178	35,573	130,659
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	17,180	2,576	(2,306)	79	7,871	17,292	-	16,780	59,472*
Exchange realignment	4,564	5	71	36	496	-	37	-	5,209
Gross deferred tax assets at 31 December 2013	86,543	7,869	4,836	1,221	21,381	19,922	1,215	52,353	195,340

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

34. DEFERRED TAX (continued)

Deferred tax assets (continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of HK$179,289,000 (31 December 2012: HK$43,043,000), expiring in five years after occurrence, which were related to the subsidiaries in Mainland China and HK$2,427,031,000 (31 December 2012: HK$2,273,898,000) with infinite expiration, which were related to overseas subsidiaries as at 31 December 2013 carried forward for offsetting against future taxable profits of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

Deferred tax liabilities

Group

	Deferred development costs HK$'000	Income not subject to tax HK$'000	Cash flow hedges HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Changes in fair value of derivative financial instruments HK$'000	Total HK$'000
At 1 January 2013	**53,567**	**9,971**	**9,148**	**1,512**	**2,760**	**76,958**
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year	**9,584**	**(1,533)**	**–**	**–**	**(2,096)**	**5,955***
Deferred tax charged to the consolidated statement of comprehensive income during the year	**–**	**–**	**1,372**	**–**	**–**	**1,372**
Exchange realignment	**–**	**149**	**–**	**1**	**409**	**559**
Gross deferred tax liabilities at 31 December 2013	**63,151**	**8,587**	**10,520**	**1,513**	**1,073**	**84,844**

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

* Being the total deferred tax credit of HK$53,517,000 (2012: charge of HK$13,935,000) (note 12) to the consolidated statement of profit or loss during the year.

34. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

As at 31 December 2013, the Group had not recognised any deferred tax liabilities in respect of tax obligations arising from the future distribution of unremitted earnings that are subject to withholding taxes of the Group's subsidiaries in Mainland China, as the Group was exercising control over the dividend policy of such subsidiaries and was in the opinion that distribution in the foreseeable future of profits generated during the relevant period would not be probable. As at 31 December 2013, the total amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was HK$3,099,754,000 (31 December 2012: HK$2,048,061,000).

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

35. SHARE CAPITAL

	Number of shares	Issued capital HK$'000	Share premium account HK$'000
Authorised:			
Ordinary shares of par value of HK$1 each at 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
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
At 31 December 2012 and 1 January 2013	1,128,290,105	1,128,290	321,330
Share options exercised* (note 36)	26,916,339	26,916	82,285
Issue of new shares under Share Award Scheme**	7,253,783	7,254	15,531
Reclassification of lapsed share options	–	–	1,109
Reclassification of vested awarded shares	–	–	(2,591)
At 31 December 2013	1,162,460,227	1,162,460	417,664

* During the year, 26,916,339 share options were exercised at subscription prices ranging from HK$2.423 to HK$7.614 per share, resulting in the issue of 26,916,339 ordinary shares of par value of HK$1 each for a total cash consideration of HK$78,038,000.

** During the year, 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 of HK$1 each at no consideration.

36. SHARE OPTION SCHEME

The Company has adopted a share option scheme for the purpose of providing incentive rewards to 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 Stock Exchange closing price of the Company's shares on the date of grant of the share options, (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant, and (iii) the nominal value of a share.

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

On 12 July 2013, share options to subscribe for a maximum of 48,503,700 shares under the Share Option Scheme were offered to certain eligible participants by the Company, of which share options to subscribe for a total of 42,286,000 shares were accepted by the grantees. Further details of the said share options were set out in the announcement of the Company dated 12 July 2013.

36. SHARE OPTION SCHEME (continued)

As at 31 December 2013, the Company had 124,272,716 share options outstanding under the Share Option Scheme. Further details of the Share Option Scheme are as follows:

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

	Number of share options						
Date of grant	At 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2013	Exercise period (both dates inclusive) *(Note a)*	Exercise price per share *(HK$)*
5 July 2007	17,734,997	–	(8,095,690)	(109,304)	9,530,003	5 April 2008 to 4 July 2014	2.423
11 March 2010	17,256,336	–	(5,992,002)	(227,000)	11,037,334	11 December 2010 to 10 March 2016	3.020
25 May 2010	12,730,000	–	(3,541,333)	–	9,188,667	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	–	(45,000)	(349,006)	7,787,093	3 February 2012 to 2 May 2017	7.614
9 August 2011	5,317,937	–	(445,732)	–	4,872,205	9 May 2012 to 8 August 2017	6.472
4 June 2012	48,692,000	–	(8,396,582)	(704,004)	39,591,414	4 March 2013 to 3 June 2018	2.740
12 July 2013	–	42,286,000	–	(20,000)	42,266,000	12 April 2014 to 11 July 2019	3.790
Total	110,312,369	42,286,000	(26,916,339)	(1,409,314)	124,272,716		

36. SHARE OPTION SCHEME (continued)

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

	Number of share options								
	At 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified	At 31 December 2013	Date of grant	Exercise period (both dates inclusive) *(Note a)*	Exercise price per share *(HK$)*
Executive Directors									
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
	–	840,000	–	–	–	840,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
	12,416,165	840,000	–	–	–	13,256,165			
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	–	(1,980,000)	–	–	–	11 March 2010	11 December 2010 to 10 March 2016	3.020
	3,094,737	–	–	–	–	3,094,737	3 May 2011	3 February 2012 to 2 May 2017	7.614
	8,909,091	–	(4,939,000)	–	–	3,970,091	4 June 2012	4 March 2013 to 3 June 2018	2.740
	–	1,680,000	–	–	–	1,680,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
	15,218,086	1,680,000	(8,153,000)	–	–	8,745,086			
Mr. WANG Jiyang	1,320,000	–	–	–	–	1,320,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
	7,256,498	–	–	–	–	7,256,498	4 June 2012	4 March 2013 to 3 June 2018	2.740
	–	1,680,000	–	–	–	1,680,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
	8,576,498	1,680,000	–	–	–	10,256,498			
Non-Executive Directors									
Mr. BO Lianming	719,987	–	–	–	(719,987)	–	5 July 2007	5 April 2008 to 4 July 2014	2.423
(Note c)	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	–	(333,333)	–	–	666,667	25 May 2010	25 February 2011 to 24 May 2016	3.462
	418,100	–	(278,732)	–	–	139,368	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
	–	210,000	–	–	–	210,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
	2,767,906	210,000	(961,871)	–	–	2,016,035			
Mr. YAN Xiaolin	–	–	–	–	45,000	45,000	5 July 2007	5 April 2008 to 4 July 2014	2.423
(Note d)	–	–	–	–	167,200	167,200	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	210,000	–	–	–	210,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
	–	210,000	–	–	212,200	422,200			
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
	–	210,000	–	–	–	210,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
	2,511,467	210,000	(93,367)	–	–	2,628,100			

36. SHARE OPTION SCHEME (continued)

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

	Number of share options								
	At 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified	At 31 December 2013	Date of grant	Exercise period (both dates inclusive) *(Note a)*	Exercise price per share *(HK$)*
Independent Non-Executive Directors									
Mr. LAU Siu Ki	300,000	–	–	–	–	300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	200,000	–	–	–	–	200,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	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	–	(66,000)	–	–	134,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	600,000	–	(466,000)	–	–	134,000			
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	–	(1,677,173)	–	(674,987)	1,459,510	5 July 2007	5 April 2008 to 4 July 2014	2.423
	3,300,000	–	(1,980,000)	–	–	1,320,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
	8,300,000	–	(333,333)	–	(1,000,000)	6,966,667	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	–	(278,732)	–	(501,800)	1,024,668	9 August 2011	9 May 2012 to 8 August 2017	6.472
	24,220,134	–	(5,005,000)	–	(1,000,000)	18,215,134	4 June 2012	4 March 2013 to 3 June 2018	2.740
	–	4,830,000	–	–	–	4,830,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
Sub-total	46,479,109	4,830,000	(9,674,238)	–	(3,176,787)	38,458,084			
Employees and those who have contributed or may contribute to the Group	13,923,327	–	(6,418,517)	(109,304)	674,987	8,070,493	5 July 2007	5 April 2008 to 4 July 2014	2.423
	13,956,336	–	(4,012,002)	(227,000)	–	9,717,334	11 March 2010	11 December 2010 to 10 March 2016	3.020
	4,430,000	–	(3,208,000)	–	1,000,000	2,222,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	3,538,994	–	(45,000)	(349,006)	–	3,144,988	3 May 2011	3 February 2012 to 2 May 2017	7.614
	3,512,737	–	(167,000)	–	501,800	3,847,537	9 August 2011	9 May 2012 to 8 August 2017	6.472
	24,471,866	–	(3,391,582)	(704,004)	1,000,000	21,376,280	4 June 2012	4 March 2013 to 3 June 2018	2.740
	–	37,456,000	–	(20,000)	–	37,436,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
Sub-total	63,833,260	37,456,000	(17,242,101)	(1,409,314)	3,176,787	85,814,632			
Total	110,312,369	42,286,000	(26,916,339)	(1,409,314)	–	124,272,716			

36. SHARE OPTION SCHEME (continued)

Notes:

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

	Date of grant	Exercise price per share (HK$)	Exercise period	Remark
(i)	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 year under review, 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.	
(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.	

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

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

	Date of grant	Exercise price per share *(HK$)*	Exercise period	Remark
(vi)	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.
(viii)	12 July 2013	3.790	12 April 2014 to 11 July 2019; 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 48,503,700 share options under the Share Option Scheme were offered by the Company, subject to acceptance of the grantees. A total of 42,286,000 share options were accepted by and granted to the grantees, among which a total of 4,830,000 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 12 July 2013.

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

b. The weighted average share price at the date of exercise for share options exercised during the year was HK$6.30 (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".

e. The fair value of the options granted during the year ended 31 December 2013 was HK$62,301,000 (HK$1.47 each) (2012: HK$50,960,000 in total, HK$1.04 each), of which the Group recognised a share options expense of HK$23,783,000 (2012: HK$23,648,000) during the year.

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

Options granted on 5 July 2007

	At grant date	Modification on 11 March 2010	Modification on 22 February 2013
(i) Exercise period	5 April 2008 to 4 July 2012	5 April 2008 to 4 July 2013	5 April 2008 to 4 July 2014
(ii) Expected volatility	41% per annum	77.56% per annum	66.98% per annum
(iii) Estimated average life	1.16 years	3.32 years	1.411 years
(iv) Average risk-free interest rate	4.60% per annum	1.08% per annum	0.185% per annum
(v) Early exercise assumption	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 180% of the exercise price
(vi) Expected dividend yield	1% per annum	0% per annum	9.22% per annum
(vii) Estimated rate of leaving service	30% per annum for the first year after the grant date and 25% per annum thereafter	N/A	N/A

Options granted on 11 March 2010

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

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

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

Options granted on 25 May 2010

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

Options granted on 20 September 2010

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

Options granted on 3 May 2011

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

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

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

Options granted on 9 August 2011

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

Options granted on 4 June 2012

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

Options granted on 12 July 2013

		At grant date
(i)	Exercise period	12 April 2014 to 11 July 2019
(ii)	Expected volatility	72.30% per annum
(iii)	Estimated average life	6 years
(iv)	Average risk-free interest rate	1.468% per annum
(v)	Early exercise assumption	When the share price is at least 180% of the exercise price
(vi)	Expected dividend yield	8.06% per annum
(vii)	Estimated rate of leaving service	0% per annum

36. SHARE OPTION SCHEME (continued)

Notes: (continued)

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

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

BMI Appraisals Limited has been appointed to perform the valuations of the share options newly granted on 12 July 2013 and the share options granted on 5 July 2007 which were extended one year on 22 February 2013.

As at 31 December 2013, the Company had 124,272,716 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 124,272,716 additional ordinary shares of the Company. Total funds raised from exercise of the outstanding share options would be HK$447,728,000 which represents additional share capital of HK$124,273,000 and share premium of HK$323,455,000 (before issue expenses).

37. SHARE AWARD SCHEMES

The Share Award Scheme A adopted by the Company on 3 July 2007 was terminated on 23 October 2009, and the Board on 11 March 2008 resolved to adopt another share award scheme, the Share Award Scheme B. The Share Award Scheme B aims at providing 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 has the discretion to decide whether the awarded shares are to be purchased or subscribed.

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

Under the Share Award Scheme B of the Company, shares of the Company would be transferred to the employees by the trustee or through allotment and issuance of shares at nil consideration upon vesting. During the year under review, the trustee transferred a total of 10,183,698 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$12,084,000. As at 31 December 2013, the carrying amount of shares held for Share Award Scheme was HK$65,786,000 (31 December 2012: HK$77,870,000).

37. SHARE AWARD SCHEMES (continued)

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

Date of grant	At 1 January 2013	Granted during the year	Vested during the year *(Note a)*	Lapsed during the year	At 31 December 2013	Remaining vesting period (both dates inclusive) *(Note b)*	Fair value per share *(HK$)*
	Number of awarded shares						
3 May 2011	1,129,005	–	(547,812)	(39,669)	541,524	1 January 2014 to 3 May 2014	7.10
9 August 2011	397,653	–	(198,826)	–	198,827	1 January 2014 to 9 August 2014	5.75
29 August 2011	1,476,699	–	(738,301)	(16,002)	722,396	1 January 2014 to 1 May 2014	4.62
4 June 2012	26,622,000	–	(8,698,759)	(999,009)	16,924,232	1 January 2014 to 4 June 2015	2.74
Total	29,625,357	–	(10,183,698)	(1,054,680)	18,386,979		

37.2 During the year under review, outstanding awarded shares of the directors of the Company, employees and those who have contributed or may contribute to the Group are as follows:

	At 1 January 2013	Granted during the year	Vested during the year *(Note a)*	Lapsed during the year	At 31 December 2013	Date of grant	Remaining vesting period (both dates inclusive) *(Note b)*	Fair value per share *(HK$)*
	Number of awarded shares							
Executive Directors								
Mr. WANG Jiyang	397,653	–	(198,826)	–	198,827	9 August 2011	1 January 2014 to 9 August 2014	5.75
Sub-total	397,653	–	(198,826)	–	198,827			
Employees and those who have contributed or may contribute to the Group	1,129,005	–	(547,812)	(39,669)	541,524	3 May 2011	1 January 2014 to 3 May 2014	7.10
	1,476,699	–	(738,301)	(16,002)	722,396	29 August 2011	1 January 2014 to 1 May 2014	4.62
	26,622,000	–	(8,698,759)	(999,009)	16,924,232	4 June 2012	1 January 2014 to 4 June 2015	2.74
Sub-total	29,227,704	–	(9,984,872)	(1,054,680)	18,188,152			
Total	29,625,357	–	(10,183,698)	(1,054,680)	18,386,979			

37. SHARE AWARD SCHEMES (continued)

Notes:

a. During the year under review, a total of 10,183,698 awarded shares vested, in which a total of 7,253,783 awarded shares were vested through new issuance of shares and the remaining 2,929,915 awarded shares were vested through purchased shares by the trustee on the market.

b. During the year, the following awarded shares were effective under the Share Award Scheme 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.

38. RESERVES

(a) Group

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

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

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

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

(b) Company

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

38. RESERVES (continued)

(b) Company (continued)

	Notes	Contributed surplus HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded share reserve HK$'000	Share option reserve HK$'000	Proposed final dividend HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2013		669,907	315,139	(77,870)	37,513	94,642	-	(29,871)	1,009,460
Profit for the year	13	-	-	-	-	-	-	581,554	581,554
Total comprehensive income for the year		-	-	-	-	-	-	581,554	581,554
Exercise of share options		-	82,285	-	-	(31,163)	-	-	51,122
Issue of new shares under Share Award Scheme		-	15,531	-	(22,785)	-	-	-	(7,254)
Reclassification of lapsed share options		-	1,109	-	-	(1,109)	-	-	-
Equity-settled share option arrangements		-	-	-	-	53,374	-	-	53,374
Share Award Scheme arrangements		-	-	-	32,902	-	-	-	32,902
Reclassification of vested awarded shares		-	(2,591)	12,084	(9,493)	-	-	-	-
2013 final dividend proposed	14	-	-	-	-	-	117,141	(117,141)	-
At 31 December 2013		669,907*	411,473*	(65,786)	38,137*	115,744*	117,141	434,542*	1,721,158

* These reserve accounts comprise the reserves of HK$1,669,803,000 (31 December 2012: HK$1,087,330,000) in the statement of financial position.

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

39. CONTINGENT LIABILITIES

As at 31 December 2013, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**18,306,538**	16,907,624

As at 31 December 2013, the banking facilities granted to the subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of HK$9,660,260,000 (31 December 2012: HK$11,993,964,000).

40. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Within one year	**93,900**	25,186
In the second to fifth years, inclusive	**45,335**	25,004
	139,235	50,190

41. CAPITAL COMMITMENTS

As at 31 December 2013, the Group had the following capital commitments:

	Group	
	2013	2012
	HK$'000	HK$'000
Property, plant and equipment:		
Contracted, but not provided for	**106,946**	106,885

42. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	Group	
	2013	2012
	HK$'000	HK$'000
Transactions with the ultimate holding company:		
Brand management fee/TCL Brand Common Fund*	**9,515**	18,119
Fees and commission	**–**	2,447
Interest expenses***	**1,292**	–
Purchases of raw materials**	**155,592**	883,847
Administration fee for purchases of raw materials**	**672**	3,775
Loans obtained***	**829,685**	–
Technology service expense	**840**	521
Sales of products**	**–**	14
Rental charges**	**1**	–
Research and development expenses**	**17,658**	–
Transactions with the immediate holding company:		
Loans obtained****	**232,893**	116,382
Interest expenses****	**1,549**	3,845
Transactions with fellow subsidiaries:		
Purchases of raw materials**	**1,152,570**	577,484
Administration fee for purchases of raw materials**	**3,049**	–
Interest income	**6,529**	2,594
Rental charges**	**24,178**	24,142
Fees and commission	**762**	11
Sales of raw materials**	**4,007**	2,434
Sales of products and spare parts**	**17,629**	8,466
Purchases of products**	**3,949**	57
Purchases of property, plant and equipment**	**–**	328
Transportation expenses	**–**	1,884
Service expenses**	**13,218**	4,863
Service income**	**2,690**	–
Research and development expenses**	**3,879**	–

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

** The sales, purchases, administration fee for purchases of raw materials, leasehold transactions, research and development expenses, service expenses and service income with the related parties 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 loans obtained from the ultimate holding company were unsecured, interest-bearing with an effective contractual interest rate of 6.44% to 6.72% (2012: Nil) per annum and with a payment term of less than one year (31 December 2012: Nil).

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

42. RELATED PARTY TRANSACTIONS (continued)

(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$506,567,000 (31 December 2012: HK$1,134,817,000) (note 28) as at the end of the reporting period.

ii. On 26 June 2013, Huizhou TCL Mobile, a wholly-owned subsidiary of the Company, entered into transfer agreements with two fellow subsidiaries of the Group, TCL King Electrical Appliances (Huizhou) Co., Ltd. ("TCL King") and TCL Technoly Electronics (Huizhou) Co., Ltd. ("TCL Technoly") respectively, to transfer a land together with affiliated buildings. The total consideration of the transfer was RMB72,918,000 (equivalent to HK$90,761,000). During the year, TCL King and TCL Technoly paid RMB42,175,000 (equivalent to HK$53,638,000) and RMB20,000,000 (equivalent to HK$25,436,000) respectively under the transfer agreements.

iii. On 15 November 2013, JRD Shenzhen, a wholly-owned subsidiary of the Company, entered into an agreement with Finance Company (a fellow subsidiary of the Group), TCL Corporation and TCL King Electrical Appliances (Chengdu) Company Limited ("TCL King (Chengdu)", a fellow subsidiary of the Group), pursuant to which JRD Shenzhen, TCL Corporation and TCL King (Chengdu), all being shareholders of Finance Company with respective equity interests of 4%, 82%, and 14%, agreed to inject a total of RMB1,000,000,000 (equivalent to HK$1,260,000,000) into Finance Company on a pro rata basis. The amount of capital injection made by JRD Shenzhen was RMB40,000,000 (equivalent to HK$50,872,000). After the capital injection on a pro rata basis, the equity interest of JRD Shenzhen in Finance Company remained as 4%.

iiii. On 31 December 2013, the Group discounted certain notes receivable accepted by banks in Mainland China with Finance Company, a fellow subsidiary of the Group, on a non-recourse basis with a carrying amount in aggregate of RMB41,407,000 (equivalent to HK$52,662,000) (31 December 2012: Nil). Further details are included in note 44 to the financial statements.

(c) Commitments with related parties

i. On 9 August 2012, 17 December 2012 and 26 March 2013, Huizhou TCL Mobile, a wholly-owned subsidiary of the Company, 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 Mobile appointed TCL Real Estate to provide construction management services for its two construction projects. During the year, the amount of service fees under the construction management agreements was RMB8,161,000 (equivalent to HK$10,228,000). The total amount of service fees under the construction management agreements in future is estimated not to exceed RMB29,639,000 (equivalent to HK$37,147,000). 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 is 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 year, the amount of research and development service fees under the agreement was RMB17,184,000 (equivalent to HK$21,537,000). The total consideration under the agreement is estimated not to exceed RMB62,000,000 (equivalent to HK$77,171,000) for 2014 and RMB93,000,000 (equivalent to HK$115,757,000) for 2015 respectively. The service fees are determined on normal commercial terms and are reached after arm's length negotiation.

42. 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	Expected rental expenses within one year
			HK$'000
12 December 2013	Shenzhen TCL Industrial Institute Limited	31 December 2014	307
6 November 2013	Shenzhen TCL Industrial Institute Limited	31 December 2014	366
31 December 2013	TTE Technology, Inc.	31 December 2014	101
12 December 2013	Shenzhen TCL Industrial Institute Limited	31 December 2014	21,119
28 November 2013	Shenzhen TCL Industrial Institute Limited	31 December 2014	1,006
			22,899

(d) Outstanding balances with related parties

Group

	Due from related companies		Due to related companies	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current:				
The ultimate holding company	**27,238**	14,599	**764,393**	9,008
Fellow subsidiaries	**21,415**	14,913	**332,048**	103,818
	48,653	29,512	**1,096,441**	112,826
Non-current:				
The immediate holding company	**–**	–	**–**	116,274
	48,653	29,512	**1,096,441**	229,100

The balances are mainly trading balances which are unsecured, interest-free and have no fixed terms of repayment, except for loans from the related companies amounting to HK$763,080,000 (31 December 2012: HK$116,274,000) which is unsecured, interest-bearing at the effective contractual interest rate of 6.44% per annum and with a payment term of less than one year.

42. RELATED PARTY TRANSACTIONS (continued)

(e) Compensation of key management personnel of the Group

	2013 HK$'000	2012 HK$'000
Short-term employee benefits	**15,650**	13,135
Post-employment benefits	**2,814**	1,922
Equity-settled share option and Share Award Scheme expenses	**21,161**	22,312
Total compensation paid to key management personnel	**39,625**	37,369

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

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

43. FINANCIAL INSTRUMENTS BY CATEGORY

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

2013

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments (note 22)	–	–	77,144	77,144
Trade receivables (note 24)	–	5,550,714	–	5,550,714
Factored trade receivables (note 25)	–	484,856	–	484,856
Notes receivable	–	34,244	–	34,244
Financial assets included in prepayments, deposits and other receivables	–	494,335	–	494,335
Due from related companies (note 42(d))	–	48,653	–	48,653
Derivative financial instruments (note 30)	93,233	–	–	93,233
Pledged deposits (note 27)	–	1,698,028	–	1,698,028
Cash and cash equivalents (note 27)	–	142,008	–	142,008
	93,233	8,452,838	77,144	8,623,215

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2013

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	**Financial liabilities at amortised cost HK$'000**	**Total HK$'000**
Interest-bearing bank borrowings (note 28)	**–**	**2,401,043**	**2,401,043**
Trade and notes payables (note 29)	**–**	**3,874,663**	**3,874,663**
Bank advances on factored trade receivables (note 25)	**–**	**484,856**	**484,856**
Derivative financial instruments (note 30)	**92,396**	**–**	**92,396**
Financial liabilities included in other payables and accruals	**–**	**1,088,945**	**1,088,945**
Loan from a related company (note 42(d))	**–**	**763,080**	**763,080**
Due to related companies (note 42(d))	**–**	**333,361**	**333,361**
	92,396	**8,945,948**	**9,038,344**

2012

Financial assets

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

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2012

Financial liabilities

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

Financial assets

	Company	
	2013 Loans and receivables HK$'000	2012 Loans and receivables HK$'000
Due from subsidiaries (note 20)	**1,595,257**	1,476,352
Financial assets include in other receivables	**7,993**	5,682
Cash and cash equivalents (note 27)	**2,318**	3,444
	1,605,568	1,485,478

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Financial liabilities

	Company	
	2013	2012
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	HK$'000
Due to subsidiaries (note 20)	**336,344**	198,717
Financial liabilities include in other payables and accruals	**4,117**	8,900
Interest-bearing bank borrowings (note 28)	**387,710**	193,790
	728,171	401,407

44. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are not derecognised in their entirety

As part of its normal business, the Group factored trade receivables to banks on a recourse basis for cash. In the opinion of the directors, as the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. The Group continued to recognise the full carrying amounts of the factored trade receivables, and accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated statement of financial position. The aggregate carrying amount of trade receivables factored as at 31 December 2013 amounted to HK$915,448,000 (31 December 2012: HK$470,324,000) and the carrying amount of bank advances on factored trade receivables as at 31 December 2013 was HK$484,856,000 (31 December 2012: HK$432,334,000) (note 25).

Financial assets that are derecognised in their entirety

i. At 31 December 2013, the Group discounted certain notes receivable accepted by banks in Mainland China (the "Derecognised Notes Receivable") with Finance Company, a fellow subsidiary of the Group, on a non-recourse basis with a carrying amount in aggregate of RMB41,407,000 (equivalent to HK$52,662,000) (31 December 2012: Nil). The Derecognised Notes Receivable had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Notes Receivable have a right of recourse against the Group if banks in Mainland China default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Notes Receivable. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Notes Receivable. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes Receivable and the undiscounted cash flows to repurchase these Derecognised Notes Receivable is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes Receivable are not significant.

   During the year ended 31 December 2013, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes Receivable. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

44. TRANSFERS OF FINANCIAL ASSETS (continued)

Financial assets that are derecognised in their entirety (continued)

ii. As part of its normal business, the Group factored trade receivables to a bank on a non-recourse basis for cash. In the opinion of the directors, as the Group has transferred substantially all risks and rewards associated with the factored trade receivables, the financial asset derecognition conditions as stipulated in HKAS 39 have been fulfilled. Accordingly, the Group has derecognised the full carrying amounts of the trade receivables. The aggregate carrying amount of trade receivables transferred as at 31 December 2013 amounted to HK$397,918,000 (31 December 2012: Nil).

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, notes receivables, factored trade receivables, trade and notes payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies, current interest bearing bank borrowings, bank advances on factored trade receivables and current loan from a related company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the management. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the management. The valuation results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current interest-bearing bank borrowings and loan from a related company have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

At 31 December 2013, the available-for-sale investments of HK$77,144,000 (31 December 2012: HK$26,272,000) (note 22) were unlisted equity investments and stated at cost less any impairment losses as the fair value cannot be reliably measured because the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

The Group enters into Euro, GBP, RUB, MYR and BRL forward currency contracts, RMB non-deliverable forward currency contracts and interest rate swaps transactions with international banks with A and B credit ratings with Moody's. The RMB deliverable forward currency contracts involving derivative financial instruments are mainly with the biggest national banks in Mainland China. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

As at 31 December 2013, the financial instruments measured at fair value held by the Group only include the derivative financial instruments which belong to hierarchy Level 2 as disclosed in accounting policy.

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, loan from a related company and cash and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate risk and foreign currency risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 5 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with a combination of fixed and floating rate debts. The Group also held interest rate swap contracts designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

The following table demonstrates the sensitivity to a reasonably possible change in the United States dollar interest rate of the Group's bank loans and interest rate swaps, with all other variables held constant, of the Group's profit/(loss) before tax and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit/(loss) before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2013			
United States dollar	**25**	**862**	**315**
United States dollar	**(25)**	**(862)**	**(311)**
2012			
United States dollar	25	1,148	2,096
United States dollar	(25)	(1,148)	(1,915)

* Excluding retained profits

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in Euro, United States dollars, Brazil real, Russian ruble, Pound Sterling, Malaysian Ringgit and RMB. The Group uses forward currency contracts to reduce the foreign currency exposures.

It is the Group's policy to negotiate the terms of the hedging instruments to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Euro and RMB exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities and non-hedging forward currency contracts) and the Group's equity (due to changes in the fair value of hedging forward currency contracts).

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit/(loss) before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2013			
If the Hong Kong dollar weakens against Euro	**(5%)**	**(8,275)**	**(368,483)**
If the Hong Kong dollar strengthens against Euro	**5%**	**8,275**	**368,483**
If RMB weakens against the United States dollar	**(5%)**	**225,007**	**(146,958)**
If RMB strengthens against the United States dollar	**5%**	**(225,007)**	**146,958**
2012			
If the Hong Kong dollar weakens against Euro	(5%)	(6,633)	(58,841)
If the Hong Kong dollar strengthens against Euro	5%	6,633	58,841
If RMB weakens against the United States dollar	(5%)	197,922	(187,450)
If RMB strengthens against the United States dollar	5%	(197,922)	187,450

* Excluding retained profits

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables, amounts due from related companies, and trade receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 39 to the financial statements.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Besides, the Group also utilises factoring facilities and credit insurance to minimise credit risk. In this regard, the directors of the Company consider that the Group's credit risk is minimal.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Concentration of credit risk is analysed by customer/counterparty and by geographical region. There is no significant concentration of credit risk with the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in note 24 and note 26 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. The maturity profiles of the Group's borrowings and derivative financial instruments are disclosed in notes 28 and 30 to the financial statements.

As at 31 December 2013, other financial liabilities excluding interest-bearing bank borrowings, derivative financial instruments and loan from a related company of HK$21,482,000 (31 December 2012: HK$18,611,000) and HK$5,760,343,000 (31 December 2012: HK$3,864,582,000) would be on demand and would mature within one year respectively.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio at an appropriate level. Net debt includes interest-bearing bank borrowings, trade and notes payables, bank advances on factored trade receivables, other payables and accruals, amounts due to related companies and loan from a related company, less cash and cash equivalents and pledged deposits. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

Group

	2013 HK$'000	2012 HK$'000
Interest-bearing bank borrowings	**2,401,043**	5,920,180
Trade and notes payables	**3,874,663**	2,428,661
Bank advances on factored trade receivables	**484,856**	432,334
Other payables and accruals	**3,148,245**	1,620,401
Due to related companies	**333,361**	112,826
Loan from a related company	**763,080**	116,274
Less: Cash and cash equivalents	**142,008**	969,789
Pledged deposits	**1,698,028**	4,221,125
Net debt	**9,165,212**	5,439,762
Equity attributable to owners of the parent	**2,909,397**	2,321,111
Equity attributable to owners of the parent and net debt	**12,074,609**	7,760,873
Gearing ratio	**76%**	70%

47. EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the approval date of the financial statements.

48. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation for better presentation of the financial statements.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 24 February 2014.

Five Years Financial Summary

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**19,362,061**	12,031,212	10,653,020	8,700,694	4,360,886
Cost of sales	**(15,689,908)**	(9,934,637)	(8,324,789)	(6,752,342)	(3,412,196)
Gross profit	**3,672,153**	2,096,575	2,328,231	1,948,352	948,690
Other income and gains	**512,743**	542,841	508,225	278,179	169,964
Research and development costs	**(1,064,154)**	(739,654)	(459,223)	(357,179)	(247,113)
Selling and distribution expenses	**(1,611,218)**	(1,153,653)	(866,262)	(619,627)	(366,084)
Administrative expenses	**(946,351)**	(657,535)	(558,074)	(436,299)	(340,366)
Other operating expenses	**(158,229)**	(109,289)	(28,116)	(5,317)	(25,601)
Finance costs excluding interest on convertible bonds	**(104,983)**	(166,009)	(140,051)	(62,976)	(39,139)
Share of losses of associates	**(1,581)**	(1,753)	(1,381)	(1,388)	(1,455)
Share of profit of a joint venture	**–**	–	–	1,130	59
	298,380	(188,477)	783,349	744,875	98,955
Changes in fair value of the derivative component of convertible bonds	**–**	–	–	–	(58,037)
Interest on convertible bonds	**–**	–	–	–	(6,839)
Profit/(loss) before tax	**298,380**	(188,477)	783,349	744,875	34,079
Income tax	**17,798**	(31,551)	17,296	(43,105)	(11,074)
Profit/(loss) for the year	**316,178**	(220,028)	800,645	701,770	23,005
ATTRIBUTABLE TO:					
Owners of the parent	**313,422**	(207,840)	799,934	701,884	23,005
Non-controlling interests	**2,756**	(12,188)	711	(114)	–
	316,178	(220,028)	800,645	701,770	23,005

	As at 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**14,423,024**	13,320,833	14,026,819	12,253,648	6,765,926
Total liabilities	**(11,509,970)**	(10,998,207)	(11,353,748)	(10,031,464)	(5,671,225)
Non-controlling interests	**(3,657)**	(1,515)	(4,449)	(3,738)	–
	2,909,397	2,321,111	2,668,622	2,218,446	1,094,701

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
4-4A Des Voeux Road
Central
Hong Kong

Societe Generale
Level 38, 3 Pacific Place
1 Queen's Road East
Hong Kong

SOLICITORS

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

AUDITORS

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

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust
Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong
(which will be relocated to
Level 22, Hopewell Centre,
183 Queen's Road East, Hong Kong
with effect from 31 March 2014)

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1910-12A, 19/F, Tower 3
China Hong Kong City
33 Canton Road
Tsimshatsui, Kowloon
Hong Kong

INVESTOR AND MEDIA RELATIONS

iPR Ogilvy & Mather
Units 2008-12, 20/F, The Center
99 Queen's Road Central
Central
Hong Kong

TICKER SYMBOL

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

WEBSITE

http://tclcom.tcl.com

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