TCL

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The Creative Life

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

Stock code: 01070

INTERIM REPORT 2014

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

INTERIM REPORT 2014

CONTENTS

2
Corporate Information

3
Interim Results

34
Management Discussion & Analysis

46
Other Information

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng (Chairman)
Mr. HAO Yi (Chief executive officer)
Mr. YAN Xiaolin

Non-Executive Directors

Mr. Albert Thomas DA ROSA, Junior
Mr. BO Lianming
Mr. HUANG Xubin
Mr. SHI Wanwen

Independent Non-Executive Directors

Mr. TANG Guliang
Mr. Robert Maarten WESTERHOF
Ms. WU Shihong
Dr. TSENG Shieng-chang Carter

COMPANY SECRETARY

Ms. PANG Siu Yin, Solicitor, Hong Kong

AUDITOR

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Certified Public Accountants
22/F, CITIC Tower
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Central, Hong Kong

LEGAL ADVISOR

Cheung Tong & Rosa Solicitors
Room 501, 5/F
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INTERIM RESULTS

The board of directors (the "Board") of TCL Multimedia Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2014 with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended 30 June 2014 (unaudited) HK$'000	Six months ended 30 June 2013 (unaudited) HK$'000	Three months ended 30 June 2014 (unaudited) HK$'000	Three months ended 30 June 2013 (unaudited) HK$'000
CONTINUING OPERATIONS					
TURNOVER	4	**15,202,818**	18,077,295	**7,314,227**	8,692,606
Cost of sales		**(12,820,640)**	(15,236,969)	**(5,957,960)**	(7,399,519)
Gross profit		**2,382,178**	2,840,326	**1,356,267**	1,293,087
Other revenue and gains		**407,128**	280,527	**325,915**	181,611
Selling and distribution expenses		**(1,776,490)**	(2,121,320)	**(971,195)**	(989,255)
Administrative expenses		**(440,701)**	(510,219)	**(247,119)**	(302,948)
Research and development costs		**(212,514)**	(154,316)	**(135,035)**	(128,994)
Other operating expenses		**(50,292)**	(3,617)	**(50,212)**	(3,416)
		309,309	331,381	**278,621**	50,085
Finance costs	5	**(98,918)**	(69,578)	**(53,735)**	(37,103)
Share of profits and losses of:					
Joint ventures		**(5,205)**	(1,398)	**(4,238)**	(503)
Associates		**(1,253)**	11,336	**(34,221)**	8,675
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**203,933**	271,741	**186,427**	21,154
Income tax credit/(expense)	6	**(36,073)**	(77,105)	**(30,293)**	192
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**167,860**	194,636	**156,134**	21,346
DISCONTINUED OPERATION					
Profit for the period from a discontinued operation	8	**–**	76,449	**–**	41,897
PROFIT FOR THE PERIOD		**167,860**	271,085	**156,134**	63,243

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

		Six months ended 30 June		Three months ended 30 June	
		2014	2013	**2014**	2013
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Cash flow hedge:					
Effective portion of change in fair value of the hedging instruments arising during the period		**765**	94	**2,576**	(21,130)
Reclassification adjustments for losses included in the condensed consolidated statement of profit or loss		**21**	–	**44**	–
		786	94	**2,620**	(21,130)
Exchange fluctuation reserve:					
Translation of foreign operations		**(39,979)**	84,790	**(5,500)**	66,182
Release upon liquidation of subsidiaries		**(158,931)**	–	**(150,937)**	–
Release upon derecognition and deemed partial disposal of associates		**275**	–	**275**	–
		(198,635)	84,790	**(156,162)**	66,182
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(197,849)**	84,884	**(153,542)**	45,052
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(29,989)**	355,969	**2,592**	108,295

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	Notes	Six months ended 30 June		Three months ended 30 June	
		2014	2013	**2014**	2013
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit attributable to:					
Owners of the parent		**168,874**	253,596	**153,686**	58,714
Non-controlling interests		**(1,014)**	17,489	**2,448**	4,529
		167,860	271,085	**156,134**	63,243
Total comprehensive income/(loss) attributable to:					
Owners of the parent		**(27,730)**	334,299	**284**	100,338
Non-controlling interests		**(2,259)**	21,670	**2,308**	7,957
		(29,989)	355,969	**2,592**	108,295
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10				
Basic					
– For profit for the period		**HK12.78 cents**	HK19.11 cents		
– For profit from continuing operations		**HK12.78 cents**	HK14.51 cents		
Diluted					
– For profit for the period		**HK12.78 cents**	HK18.84 cents		
– For profit from continuing operations		**HK12.78 cents**	HK14.30 cents		

Details of the dividends are disclosed in note 9.

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2014 (unaudited) *HK$'000***	31 December 2013 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,362,291**	2,407,598
Prepaid land lease payments		**152,921**	156,306
Goodwill		**140,887**	119,638
Other intangible assets		**202**	280
Investments in joint ventures		**14,529**	8,333
Investments in associates		**558,390**	512,871
Available-for-sale investments		**107,458**	6,677
Deferred tax assets		**20,986**	18,485
Total non-current assets		**3,357,664**	3,230,188
CURRENT ASSETS			
Inventories		**3,415,802**	4,971,680
Trade receivables	11	**3,455,834**	3,797,379
Bills receivable		**3,927,571**	5,158,738
Other receivables		**2,027,038**	1,920,027
Tax recoverable		**29,384**	29,969
Cash and bank balances		**3,242,532**	3,047,524
Total current assets		**16,098,161**	18,925,317
CURRENT LIABILITIES			
Trade payables	12	**4,086,201**	5,472,647
Bills payable		**4,099,951**	5,108,314
Other payables and accruals		**3,352,682**	4,067,483
Interest-bearing bank and other borrowings	13	**1,324,438**	870,343
Due to TCL Corporation	14	**–**	24,933
Due to T.C.L. Industries	14	**387,565**	387,710
Tax payable		**116,612**	142,551
Provisions		**391,386**	436,629
Total current liabilities		**13,758,835**	16,510,610
NET CURRENT ASSETS		**2,339,326**	2,414,707
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,696,990**	5,644,895

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	**30 June 2014 (unaudited) HK$'000**	31 December 2013 (audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,696,990**	5,644,895
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	**1,138,004**	1,132,012
Deferred tax liabilities		**28,202**	30,502
Total non-current liabilities		**1,166,206**	1,162,514
Net assets		**4,530,784**	4,482,381
EQUITY			
Equity attributable to owners of the parent			
Issued capital	15	**1,333,599**	1,333,599
Reserves		**3,081,367**	3,024,687
		4,414,966	4,358,286
Non-controlling interests		**115,818**	124,095
Total equity		**4,530,784**	4,482,381

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent												
	Issued capital (unaudited) *HK$'000*	Share premium account (unaudited) *HK$'000*	Share option reserve (unaudited) *HK$'000*	Capital reserve (unaudited) *HK$'000*	Reserve funds (unaudited) *HK$'000*	Hedging reserve (unaudited) *HK$'000*	Exchange fluctuation reserve (unaudited) *HK$'000*	Accumulated losses (unaudited) *HK$'000*	Shares held for the Award Scheme (unaudited) *HK$'000*	Awarded share reserve (unaudited) *HK$'000*	Total (unaudited) *HK$'000*	Non-controlling interests (unaudited) *HK$'000*	Total equity (unaudited) *HK$'000*
At 1 January 2013	1,321,003	3,280,788	42,502	50,994	996,851	(94)	466,804	(1,271,426)	(125,531)	3,356	4,765,247	226,598	4,991,845
Profit for the period	–	–	–	–	–	–	–	253,596	–	–	253,596	17,489	271,085
Other comprehensive income for the period:													
Cash flow hedge	–	–	–	–	–	94	–	–	–	–	94	–	94
Exchange differences on translation of foreign operations	–	–	–	–	–	–	80,609	–	–	–	80,609	4,181	84,790
Total comprehensive income for the period	–	–	–	–	–	94	80,609	253,596	–	–	334,299	21,670	355,969
2012 final dividend paid	–	(192,470)	–	–	–	–	–	–	–	–	(192,470)	–	(192,470)
Deemed distribution to non-controlling interests	–	–	–	(4,314)	–	–	–	–	–	–	(4,314)	4,314	–
Equity-settled share option arrangements	–	–	8,409	–	–	–	–	–	–	–	8,409	–	8,409
Issue of shares upon exercise of share options	10,081	27,206	(10,106)	–	–	–	–	–	–	–	27,181	–	27,181
Purchase of shares for the Award Scheme	–	–	–	–	–	–	–	–	(9,260)	–	(9,260)	–	(9,260)
Vesting of shares under the Award Scheme	–	–	–	–	–	–	–	–	43,826	(3,132)	40,694	–	40,694
At 30 June 2013	1,331,084	3,115,524	40,805	46,680	996,851	–	547,413	(1,017,830)	(90,965)	224	4,969,786	252,582	5,222,368

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the parent												
	Issued capital (unaudited) *HK$'000*	Share premium account (unaudited) *HK$'000*	Share option reserve (unaudited) *HK$'000*	Capital reserve (unaudited) *HK$'000*	Reserve funds (unaudited) *HK$'000*	Hedging reserve (unaudited) *HK$'000*	Exchange fluctuation reserve (unaudited) *HK$'000*	Accumulated losses (unaudited) *HK$'000*	Shares held for the Award Scheme (unaudited) *HK$'000*	Awarded share reserve (unaudited) *HK$'000*	Total (unaudited) *HK$'000*	Non-controlling interests (unaudited) *HK$'000*	Total equity (unaudited) *HK$'000*
At 1 January 2014	1,333,599	2,745,480	46,147	57,332	936,927	(21)	548,175	(1,219,099)	(90,619)	365	4,358,286	124,095	4,482,381
Profit/(loss) for the period	-	-	-	-	-	-	-	168,874	-	-	168,874	(1,014)	167,860
Other comprehensive income/(loss) for the period:													
Cash flow hedge	-	-	-	-	-	786	-	-	-	-	786	-	786
Exchange differences on:													
Translation of foreign operations	-	-	-	-	-	-	(38,734)	-	-	-	(38,734)	(1,245)	(39,979)
Release upon liquidation of subsidiaries	-	-	-	-	-	-	(158,931)	-	-	-	(158,931)	-	(158,931)
Release upon derecognition and deemed partial disposal of associates	-	-	-	-	-	-	275	-	-	-	275	-	275
Total comprehensive income/(loss) for the period	-	-	-	-	-	786	(197,390)	168,874	-	-	(27,730)	(2,259)	(29,989)
Release upon liquidation of subsidiaries	-	-	-	-	(145,380)	-	-	145,380	-	-	-	-	-
Business combinations, net	-	-	-	-	-	-	-	-	-	-	-	(28,679)	(28,679)
Capital injection from a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	-	22,661	22,661
Equity-settled share option arrangements	-	-	4,579	-	-	-	-	-	-	-	4,579	-	4,579
Share options lapsed during the period	-	-	(533)	-	-	-	-	533	-	-	-	-	-
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	-	57,962	21,869	79,831	-	79,831
Transfer from retained profits	-	-	-	-	366	-	-	(366)	-	-	-	-	-
At 30 June 2014	1,333,599	2,745,480*	50,193*	57,332*	791,913*	765*	350,785*	(904,678)*	(32,657)*	22,234*	4,414,966	115,818	4,530,784

* These reserve accounts comprise the consolidated reserves of HK$3,081,367,000 (31 December 2013: HK$3,024,687,000) in the condensed consolidated statement of financial position.

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months ended 30 June 2014 (unaudited) HK$'000	2013 (unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations		**177,895**	3,197,814
Interest paid		**(98,918)**	(75,485)
Income taxes paid		**(64,670)**	(73,436)
Net cash flows from operating activities		**14,307**	3,048,893
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(123,891)**	(319,193)
Business combinations, net	16	**(95,591)**	–
Purchases of available-for-sale investment		**(100,781)**	–
Decrease in pledged deposits		**–**	355,970
Other investing cash flows, net		**61,855**	62,139
Net cash flows from/(used in) investing activities		**(258,408)**	98,916
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other loans		**2,435,712**	4,203,421
Repayment of bank loans		**(1,974,765)**	(5,330,513)
Dividends paid		**–**	(192,470)
Increase in loans from T.C.L. Industries		**–**	387,850
Other financing cash flows, net		**(2,137)**	17,922
Net cash flows from/(used in) financing activities		**458,810**	(913,790)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**214,709**	2,234,019
Cash and cash equivalents at beginning of period		**3,047,524**	3,431,337
Effect of foreign exchange rate changes, net		**(19,701)**	39,253
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**3,242,532**	5,704,609
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the condensed consolidated statement of financial position		**3,242,532**	4,740,091
Cash and bank balances attributable to a disposal group classified as held for distribution		**–**	964,518
Cash and bank balances as stated in the condensed consolidated statement of cash flows		**3,242,532**	5,704,609

INTERIM RESULTS

Notes:

1. BASIS OF PREPARATION

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

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

The accounting policies and the basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the new and revised HKFRSs as disclosed in note 2 below.

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

INTERIM RESULTS

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC) – Int 21	*Levies*

The adoption of these new and revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

INTERIM RESULTS

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 9	*Financial Instruments* [4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39* [4]
HKFRS 11 Amendments	Amendments to HKFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* [2]
HKFRS 14	*Regulatory Deferral Accounts* [2]
HKFRS 15	*Revenue from Contracts with Customers* [3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* [1]
HKAS 16 and HKAS 38 Amendments	Amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation* [2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014 [1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014 [1]

[1] Effective for annual periods beginning on or after 1 July 2014
[2] Effective for annual periods beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] No mandatory effective date yet determined but is available for adoption

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

In addition, the new Hong Kong Companies Ordinance (Chapter 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

INTERIM RESULTS

4. OPERATING SEGMENT INFORMATION

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

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

- the People's Republic of China ("PRC") market
- the Overseas markets

(b) AV segment – manufacture and sale of audio-visual ("AV") products (discontinued during the year ended 31 December 2013 (note 8)); and

(c) Others segment – comprises information technology and other businesses, including manufacture and sale of television related components, sale of white goods, mobile phones and air conditioners, etc..

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

INTERIM RESULTS

4. OPERATING SEGMENT INFORMATION (continued)

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

	Six months ended 30 June											
	Continuing operations								Discontinued operation			
	Television – PRC market		Television – Overseas markets		Others		Total continuing operations		AV		Consolidated	
	2014 (unaudited) HK$'000	2013 (unaudited) HK$'000	**2014 (unaudited) HK$'000**	2013 (unaudited) HK$'000	**2014 (unaudited) HK$'000**	2013 (unaudited) HK$'000	**2014 (unaudited) HK$'000**	2013 (unaudited) HK$'000	**2014 (unaudited) HK$'000**	2013 (unaudited) HK$'000	**2014 (unaudited) HK$'000**	2013 (unaudited) HK$'000
Sales to external customers	**8,586,643**	12,161,943	**6,003,586**	5,545,925	**612,589**	369,427	**15,202,818**	18,077,295	**-**	1,895,161	**15,202,818**	19,972,456
Segment results	**198,420**	439,215	**41,121**	(113,365)	**(23,876)**	(16,437)	**215,665**	309,413	**-**	75,279	**215,665**	384,692
Bank interest income							**42,526**	31,940	**-**	22,058	**42,526**	53,998
Corporate income/ (expenses), net							**51,118**	(9,972)	**-**	–	**51,118**	(9,972)
Finance costs							**(98,918)**	(69,578)	**-**	(5,907)	**(98,918)**	(75,485)
Share of profits and losses of:												
Joint ventures	**-**	–	**(891)**	(1,398)	**(4,314)**	–	**(5,205)**	(1,398)	**-**	–	**(5,205)**	(1,398)
Associates	**(14,958)**	4,425	**-**	–	**13,705**	6,911	**(1,253)**	11,336	**-**	(30)	**(1,253)**	11,306
Profit before tax							**203,933**	271,741	**-**	91,400	**203,933**	363,141
Income tax expense							**(36,073)**	(77,105)	**-**	(14,951)	**(36,073)**	(92,056)
Profit for the period							**167,860**	194,636	**-**	76,449	**167,860**	271,085

INTERIM RESULTS

5. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts	**95,109**	66,645
Loans from TCL Corporation	**702**	213
Loans from T.C.L. Industries	**2,804**	881
Loans from an associate	**303**	1,839
Total finance costs for the period from continuing operations	**98,918**	69,578

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**11,219**	–
Current – Elsewhere	**28,804**	40,796
Deferred	**(3,950)**	36,309
Total tax charge for the period from continuing operations	**36,073**	77,105

INTERIM RESULTS

7. DEPRECIATION AND AMORTIZATION

During the period, depreciation from continuing operations of HK$137,372,000 (30 June 2013: HK$141,685,000) was charged to the condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's property, plant and equipment; and amortization from continuing operations of HK$76,000 (30 June 2013: HK$75,000) and HK$2,109,000 (30 June 2013: HK$1,931,000) were charged to the condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's other intangible assets and prepaid land lease payments, respectively.

8. DISCONTINUED OPERATION

On 15 August 2013, the Company completed the spin-off (the "AV Spin-off") of its business in relation to the manufacture and sale of AV products through a separate listing of its wholly-owned subsidiary, Tonly Electronics Holdings Limited ("Tonly Holdings") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). Further details of the AV Spin-off are set out in the listing document of Tonly Holdings dated 17 July 2013. Upon the completion of the AV Spin-off, the Company distributed its entire interest in Tonly Holdings as a special interim dividend by way of distribution in specie to the Company's qualifying shareholders and Tonly Holdings ceased to be a subsidiary of the Company thereafter.

INTERIM RESULTS

8. DISCONTINUED OPERATION (continued)

The results of Tonly Holdings and its subsidiaries attributable to the Group for the six months ended 30 June 2013 which have been included in the condensed consolidated statement of profit or loss and other comprehensive income as discontinued operation are presented below:

	Six months ended 30 June 2013 (unaudited) *HK$'000*
Turnover	1,895,161
Cost of sales	(1,642,294)
Gross profit	252,867
Other revenue and gains	61,154
Selling and distribution expenses	(68,669)
Administrative expenses	(76,103)
Research and development costs	(71,895)
Other operating expenses	(17)
	97,337
Finance costs	(5,907)
Share of loss of an associate	(30)
Profit before tax from the discontinued operation	91,400
Income tax expense	(14,951)
Profit for the period from the discontinued operation	76,449
Profit attributable to:	
Owners of the parent	61,050
Non-controlling interests	15,399
	76,449

8. DISCONTINUED OPERATION (continued)

The net cash flows incurred by the discontinued operation are as follows:

	Six months ended 30 June 2013 (unaudited) *HK'000*
Operating activities	83,598
Investing activities	(87,697)
Financing activities	(40,764)
Net cash outflow	(44,863)

	Six months ended 30 June 2013 (unaudited)
Earnings per share from the discontinued operation:	
Basic	HK4.60 cents
Diluted	HK4.54 cents

INTERIM RESULTS

8. DISCONTINUED OPERATION (continued)

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

	Six months ended 30 June 2013 (unaudited) *HK$'000*
Earnings	
Profit attributable to ordinary equity holders of the parent from the discontinued operation, used in the basic and diluted earnings per share calculation	61,050

	Number of shares Six months ended 30 June 2013 (unaudited)
Shares	
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation *(note 10)*	1,326,935,467
Effect of dilution – weighted average number of ordinary shares: Assumed issue at no consideration on deemed exercise of all share options outstanding during the period *(note 10)*	19,291,680
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation *(note 10)*	1,346,227,147

9. DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

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

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

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation:		
From continuing operations	**168,874**	192,546
From a discontinued operation *(note 8)*	**–**	61,050
	168,874	253,596

	Number of shares	
	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,321,620,235**	1,326,935,467
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	**–**	19,291,680
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**1,321,620,235**	1,346,227,147

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2014 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during the period.

INTERIM RESULTS

11. TRADE RECEIVABLES

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

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

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

	30 June 2014 (unaudited) ***HK$'000***	31 December 2013 (audited) *HK$'000*
Current to 90 days	**3,105,246**	3,278,385
91 to 180 days	**297,752**	376,613
181 to 365 days	**19,180**	127,681
Over 365 days	**33,656**	14,700
	3,455,834	3,797,379

Certain subsidiaries of the Group have entered into receivables purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 30 June 2014, trade receivables factored to banks aggregated to HK$85,018,000 (31 December 2013: HK$9,331,000) were fully derecognised from the condensed consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

12. TRADE PAYABLES

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

	30 June 2014 (unaudited) ***HK$'000***	31 December 2013 (audited) *HK$'000*
Current to 90 days	**3,926,014**	5,326,876
91 to 180 days	**42,950**	15,798
181 to 365 days	**49,477**	44,262
Over 365 days	**67,760**	85,711
	4,086,201	5,472,647

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

INTERIM RESULTS

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2014 (unaudited) *HK$'000*	31 December 2013 (audited) *HK$'000*
Current		
Bank loans – unsecured	**1,037,488**	825,343
Trust receipt loans – unsecured	**128,571**	–
Loans from an associate – unsecured	**158,379**	45,000
	1,324,438	870,343
Non-current		
Bank loans – unsecured	**1,138,004**	1,132,012
	2,462,442	2,002,355
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**1,166,059**	825,343
In the second year	**441,856**	207,385
In the third to fifth years, inclusive	**696,148**	924,627
	2,304,063	1,957,355
Loans from an associate repayable:		
Within one year	**158,379**	45,000
	2,462,442	2,002,355

13. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

(a) As at 30 June 2014, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(b) TCL Corporation ("TCL Corporation", the ultimate holding company of the Company), has guaranteed certain of the Group's bank loans up to HK$623,279,000 (31 December 2013: HK$302,207,000) as at the end of the reporting period.

14. DUE TO TCL CORPORATION/T.C.L. INDUSTRIES

T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries") is the immediate holding company of the Company. The amount due to T.C.L. Industries is unsecured, repayable within one year and bears interest at a fixed rate of 1.485% per annum (31 December 2013: an aggregate amount of HK$24,933,000 due to TCL Corporation and an aggregate amount of HK$387,710,000 due to T.C.L. Industries bore interest at fixed rates of 6.60% and 1.485% per annum, respectively).

15. SHARE CAPITAL

	30 June 2014 (unaudited) ***HK$'000***	31 December 2013 (audited) *HK$'000*
Authorised:		
2,200,000,000 shares of HK$1.00 each	**2,200,000**	2,200,000
Issued and fully paid:		
1,333,598,514 shares of HK$1.00 each	**1,333,599**	1,333,599

INTERIM RESULTS

16. BUSINESS COMBINATIONS

(i) On 31 March 2014, US Moka Limited ("US Moka", a wholly-owned subsidiary of the Company) and Sanyo Manufacturing Corporation ("SMC", an independent third party) entered into two agreements, namely: (i) the asset purchase agreement pursuant to which SMC agreed to sell and US Moka agreed to acquire the assets comprising certain pieces of land (the "Land") located at the Industrial Development Zone known as Ciudad Industrial Nueva Tijuana in Baja California Mexico, with a total area of about 79,131.79 square meters; all the buildings erected on the Land; and the machinery and any other supplementary tools (collectively, the "Sanyo Assets") operated in Sanyo Manufacturing, S.A. de C.V. ("SMSA", a non-wholly owned subsidiary of SMC) at a consideration of US$13,200,000 (equivalent to approximately HK$102,339,000); and (ii) the stock purchase agreement pursuant to which SMC agreed to sell and US Moka agreed to acquire 45,000 shares in SMSA, representing 90% of the equity interest of SMSA at a consideration of US$1,950,000 (equivalent to approximately HK$15,119,000), subject to certain consideration adjustments. The total consideration was US$15,150,000 (equivalent to approximately HK$117,458,000), subject to certain consideration adjustments. SMSA is principally engaged in the manufacture and sale of a wide range of electronic consumer products including television sets. The acquisition was completed on 30 April 2014.

The Sanyo Assets are an integral part of the operation of SMSA and therefore the above two acquisitions are linked transactions and considered as a single business combination.

The Group has elected to measure the non-controlling interest in SMSA at the non-controlling interest's proportionate share of SMSA's identifiable net assets.

16. BUSINESS COMBINATIONS (continued)

(i) (continued)

The aggregate provisional fair values of the Sanyo Assets and the identifiable assets and liabilities of SMSA as at the date of acquisition are as follows:

	Provisional fair value recognised on acquisition *HK$'000*
Property, plant and equipment	**102,339**
Trade receivables	**9,498**
Deferred tax assets	**572**
Other receivables and prepayments	**6,586**
Cash and bank balances	**4,445**
Tax payable	**(417)**
Other payables and accruals	**(3,889)**
Total identifiable net assets at fair value	**119,134**
Non-controlling interests	**(1,676)**
Satisfied by cash	**117,458**

The fair values of the above acquisition are determined on a provisional basis as the Group is in the process of completing the independent valuation. They may be adjusted upon the completion of initial accounting year which shall not exceed one year from the acquisition date.

The provisional fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$9,498,000 and HK$4,947,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$9,498,000 and HK$4,947,000, respectively.

INTERIM RESULTS

16. BUSINESS COMBINATIONS (continued)

(i) (continued)

An analysis of the cash flows in respect of the acquisition of Sanyo Assets and SMSA is as follows:

	HK$'000
Cash consideration	**(117,458)**
Cash and bank balances acquired	**4,445**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(113,013)**

Since the completion of the acquisition, SMSA had not contributed to the Group's turnover but incurred a loss of approximately HK$3,408,000 to the consolidated profit for the period ended 30 June 2014.

Had the acquisition taken place at the beginning of the period, the turnover and profit of the Group for the period ended 30 June 2014 would have been HK$15,202,818,000 and HK$167,860,000, respectively.

(ii) On 2 December 2013, TCL Electrical Appliance Sales Co., Ltd. ("Sales Co", a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with Toshiba Corporation, an independent third party, pursuant to which Sales Co agreed to acquire an additional 21% equity interest in Toshiba Visual Products (China) Co., Ltd. ("Toshiba Visual", a former 49% owned associate of Sales Co) at nil consideration. Toshiba Visual is mainly engaged in the trading of television products and components. The equity transfer was completed on 9 May 2014 and Toshiba Visual became a subsidiary of the Group since then.

The equity transfer was regarded as a business combination achieved in stages. The Group accordingly remeasured the fair value of its previously held equity interest in Toshiba Visual at the equity transfer date and recognised the resulting gain of HK$49,307,000 in the condensed consolidated statement of profit or loss and other comprehensive income.

The Group has elected to measure the non-controlling interest in Toshiba Visual at the non-controlling interest's proportionate share of Toshiba Visual's identifiable net liabilities.

16. BUSINESS COMBINATIONS (continued)

(ii) (continued)

The aggregate provisional fair values of the identifiable assets and liabilities of Toshiba Visual as at the date of equity transfer are as follows:

	Provisional fair value recognised on equity transfer *HK$'000*
Property, plant and equipment	**345**
Inventories	**141,543**
Trade receivables	**144,979**
Other receivables	**4,493**
Cash and bank balances	**17,422**
Trade payables	**(239,148)**
Other payables and accruals	**(170,819)**
Total identifiable net liabilities at fair value	**(101,185)**
Non-controlling interests	**30,355**
	(70,830)
Provisional goodwill arising on equity transfer	**70,830**
	–
Satisfied by:	
Cash	**–**
Fair value of investment in the associate held before the equity transfer	**–**
	–

INTERIM RESULTS

16. BUSINESS COMBINATIONS (continued)

(ii) (continued)

The fair values of the above equity transfer and the goodwill then arising are determined on a provisional basis as the Group is in the process of completing the independent valuation. They may be adjusted upon the completion of initial accounting year which shall not exceed one year from the equity transfer date.

The provisional fair values of the trade receivables and other receivables as at the date of equity transfer amounted to HK$144,979,000 and HK$4,493,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$144,979,000 and HK$61,541,000, respectively, of which other receivables of HK$57,048,000 are expected to be uncollectible.

An analysis of the cash flows in respect of the equity transfer of Toshiba Visual is as follows:

	HK$'000
Cash consideration	–
Cash and bank balances acquired	**17,422**
Net inflow of cash and cash equivalents included in cash flows from investing activities	**17,422**

Since the completion of the equity transfer, Toshiba Visual contributed approximately HK$115,632,000 and HK$27,666,000 to the Group's turnover and consolidated profit for the period ended 30 June 2014, respectively.

Had the equity transfer taken place at the beginning of the period, the turnover and profit of the Group for the period ended 30 June 2014 would have been HK$15,456,236,000 and HK$157,857,000, respectively.

INTERIM RESULTS

17. LIQUIDATION OF SUBSIDIARIES

TCL International Electronics (Huizhou) Co., Ltd., Inner Mongolia TCL Electrical Appliance Company Limited and TCL King Electrical Appliances (Huhehaote) Company Limited, all were wholly-owned subsidiaries of the Group, were wound-up voluntarily during the period ended 30 June 2014.

	HK$'000
Release of exchange fluctuation reserve upon liquidation	**(158,931)**
Gain on liquidation of subsidiaries	**158,931**
	–
Net inflow of cash and cash equivalents in respect of the liquidation of subsidiaries	**–**

INTERIM RESULTS

18. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
A joint venture:		
Sales of finished goods	**70,510**	57,962
TCL Corporation:		
Interest expense	**702**	213
Other finance service fees	**485**	3,141
T.C.L. Industries:		
Interest expense	**2,804**	881
Associates:		
Interest income	**37,146**	6,824
Interest expense	**303**	1,839
Other finance service fees	**2,610**	620
Sales of finished goods	**93,769**	249,045
Sales of raw materials	**705**	614
Subcontracting fee expense	**15,409**	33,176
Companies controlled by TCL Corporation:		
Sales of raw materials	**554,496**	71,683
Sales of finished goods	**501,152**	678,293
Purchases of raw materials	**4,125,991**	4,282,357
Purchases of finished goods	**49,311**	913,646
Subcontracting fee expense	**–**	15,384
Subcontracting income	**22,788**	69,572
Rental, maintenance fees and facilities usage fees	**1,534**	550
Rental expense	**1,368**	13,085
Reimbursement of brand advertising costs	**92,688**	57,719
Logistics service fee expense	**158,539**	84,020
Call centre service fee expense	**12,864**	12,074
Reimbursement of research and development and rental expenses	**43,426**	25,878
Construction management fee expense	**–**	1,867
After-sales service income	**37,542**	4,749
Associates of TCL Corporation:		
Rental expense	**–**	1,960
Service fee expenses	**24,835**	42,938
A joint venture of TCL Corporation:		
Purchases of raw materials	**–**	7,579
Rental income	**–**	455

18. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	30 June 2014 (unaudited) *HK$'000*	31 December 2013 (audited) *HK$'000*	**30 June 2014 (unaudited) *HK$'000***	31 December 2013 (audited) *HK$'000*
A joint venture	**42,751**	42,500	**–**	–
Associates	**32**	399,669	**9,057**	8,613
TCL Corporation and its affiliates	**492,507**	913,570	**1,435,882**	2,271,504

19. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2014, the Group recorded a turnover of approximately HK$15,203 million, down by 15.9% year-on-year. Gross profit amounted to approximately HK$2,382 million, down by 16.1% year-on-year. Gross profit margin remained flat year-on-year, gross profit margin of the second quarter increased to 18.5% from 13.0% of the first quarter. Expense ratio remained flat year-on-year. Operating profit was approximately HK$309 million, down by 6.6% year-on-year. Net profit after tax from continuing operations was approximately HK$168 million, down by 13.8% year-on-year. Profit attributable to owners of the parent from continuing operations was approximately HK$169 million, down by 12.4% year-on-year. The Group's basic earnings per share and basic earnings per share from continuing operations were HK12.78 cents and HK12.78 cents, respectively (Basic earnings per share and basic earnings per share from continuing operations in the same period of 2013: HK19.11 cents and HK14.51 cents, respectively).

In the first half of 2014, the overall LCD TV market was still in doldrums. According to the latest statistics issued by DisplaySearch, sales volume of LCD TVs in the PRC Market was 22.12 million sets in the first half of 2014, down by 11.3% year-on-year. This was mainly attributable to the withdrawal of energy saving home appliances subsidy policy, which had affected the subsequent market demand. Also, competition was intensified by the cross-industry entry of internet IT enterprises into TV industry, and the transformation of the TV industry in the PRC has been speeding up in response to cross-industry convergence in the consumer electronics industry. The traditional TV industry has been faced with changing industry landscapes and competition has shifted to one among product ecosystems rather than one among terminal products.

In view of the above, the Group announced in February 2014 its "double +" strategy which focuses on "intelligence + internet" and "products + services" as the main direction of its future transformation. "Intelligence + internet" refers to the development of smart products and services evolved from internet-oriented thinking, offering ultimate experiences for smart products and services and driving a major transformation in the areas of technologies and operations. Meanwhile, "products + services" refers to the establishment of a new business model, realizing strategic transformation breakthroughs in the internet era and progressing towards the goal of becoming a global entertainment technology enterprise. In addition, the Group officially completed capital injection into Huizhou Kuyu Network Technology Co., Ltd. ("Kuyu") in June 2014, which is an important initiative of its strategic transformation. The injection amount was RMB80 million (equivalent to approximately HK$101 million), accounting for 16% of its enlarged registered capital. The Group, by operating through Kuyu's electronic commerce platform, will gain an immediate access to the online-to-offline ("O2O") platform, which ensures rapid development of electronic commerce business. Meanwhile, the Group continued to carry out organizational reforms, launch organizational structure of sub-channel and move some of the functions upwards, further streamline the workforce and shorten the value chain.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group sold a total of 7.56 million sets of LCD TVs in the first half of 2014, down by 2.0% year-on-year as the sales volume in the PRC Market was below expectations. Due to the continuing weak market demand, delays in launches of new products in the first quarter as well as the withdrawal of energy saving home appliances subsidy policy in the end of May last year, the Group sold 3.56 million sets of LCD TVs in the PRC Market, down 21.7% year-on-year; 4.00 million sets of LCD TVs were sold in the Overseas Markets, up 26.1% year-on-year, of which the sales volume of LCD TVs in the Strategic OEM business grew by 109.1% year-on-year to 1.38 million sets. According to the latest DisplaySearch report, in the first quarter of 2014, the Group ranked No.5 in the global LCD TV market with a market share of 5.4%. Meanwhile the Group ranked No.3 in the PRC LCD TV market with a market share of 16.0%.

The Group had sped up its organizational transformation, which primarily focused on improving the operation in the PRC Market, enhancing operational capabilities and leveraging its advantages of having a vertically-integrated industry chain to beef its product competitiveness up. Meanwhile, it also improved its capabilities in supply chain management, lowered production costs and tightly controlled its expense ratios.

The Group's sales volume of TVs by regions during the period under review is as follows:

	1H 2014 ***('000 sets)***	1H 2013 *('000 sets)*	**Change**
LCD TVs	**7,557**	7,715	**(2.0%)**
of which: LED backlights LCD TVs	**7,558**	7,328	**+3.1%**
Smart TVs	**1,412**	1,138	**+24.1%**
3D TVs	**837**	1,335	**(37.3%)**
– PRC Market	**3,557**	4,542	**(21.7%)**
– Overseas Markets	**4,000**	3,173	**+26.1%**
CRT TVs	**112**	669	**(83.3%)**
– PRC Market	**–**	9	**(100.0%)**
– Overseas Markets	**112**	660	**(83.0%)**
Total TV sales volume	**7,669**	8,384	**(8.5%)**

MANAGEMENT DISCUSSION AND ANALYSIS

The PRC Market

Due to the continuing weak market demand, delays in launches of new products in the first quarter as well as the withdrawal of energy saving home appliances subsidy policy in the end of May last year, the Group sold 3.56 million sets of LCD TVs in the PRC Market, down by 21.7% year-on-year. Although turnover in the PRC Market dropped 29.4% year-on-year to HK$8,587 million, gross profit margin increased by 0.9 percentage points year-on-year. The Group continued to optimize its product mix with the launch of a series of large-sized and high-end new products, resulting in an improvement in its results for the second quarter. The gross profit margin for the second quarter in the PRC Market increased to 24.0% from 18.9% of the same period last year, up by 5.1 percentage points year-on-year.

In the first half of 2014, the Group launched a total of 26 new products in 8 series, including 13 models of 4K ultra high-definition TVs, covering medium-sized, large-sized and extra-large-sized screen products ranging from 40 inches to 65 inches. These products contributed to 50% of total number of new products launched. During the period under review, the Group extended the "TCL-iQIYI TV+" ("TV+") product line and completed product enrichment of the large-sized 4K ultra high-definition TVs and smart TVs. Among which, new products including the "A71" series and Game TV, etc. became the top seller within a short period after launch and was highly appreciated by the market, while proportion of sales volume of large-sized products also increased gradually. The sales volume of the smart TVs increased to 1.28 million sets from 1.04 million sets for the same period of last year, contributing to 36.0% of the total LCD TV sales volume in the PRC Market.

In March 2014, the Group, in a cross-industry move, jointly established a "TCL Game TV Ecosystem Strategic Alliance" with China Unicom Broadband, ATET, JD.com and Gameloft to develop a double-screen integrated game platform. Game TVs E5700, E6700 and TCL game console T^2 were well received by the market after their launch. The Game TV series comprises of 6 models sized from 40 inches to 65 inches, equipped with powerful dual-core CPUs and quad-core GPUs. The series pioneered the application of 3M picture quality enhancement optical films that greatly enhance 4K quality, bringing to users with ultra-high-speed game experiences on large-size ultra high-definition screens. In addition, TCL game console T^2 is equipped with a quad-core CPU, an octa-core GPU and 16GB of on-board memory that supports 1080P full high-definition HDMI output, offering users exquisite audio and video experiences. As an important step of entering into the game industry by the Group, the Group expects the game product series will become a new business growth driver, and will coordinate with the Group's internet-oriented and entertainment-oriented transformation, exploring the blue ocean in the game entertainment market.

MANAGEMENT DISCUSSION AND ANALYSIS

Moreover, the Group and IMAX Corporation ("IMAX") jointly signed with Wasu in April 2014 an agreement in relation to the content distribution for premium home theatres. Wasu is authorised to distribute premium digital audio-visual contents of the PRC and Hollywood movie titles on the system platform of premium home theatres of TCL-IMAX Entertainment Co., Limited, a joint venture set up by TCL and IMAX. This cooperation is one of the key moves by the Group for its transformation into a user-centric global entertainment technology enterprise. It will bring about a brand-new high quality home theatre experience to users.

Overseas Markets

The Group proactively adjusted its product mix focusing on large-sized products, 4K ultra high-definition TVs and smart TVs. In the first half of 2014, the Group's Overseas Markets achieved steady growths both in turnover and operating results. Turnover in the Overseas Markets increased by 8.2% year-on-year to HK$6,003 million and gross profit margin increased to 10.7% from 8.0% of the same period last year, up by 2.7 percentage points year-on-year. The overall sales volume and the contribution from middle- to large-sized products to the total sales volume fell short of expectations, resulting in an operating loss of approximately HK$12 million for the second quarter, significantly lower than approximately HK$60 million loss for the same period last year.

During the first half of 2014, the sales volume of LCD TVs increased by 26.1% year-on-year to 4.00 million sets. Sales volume of LCD TVs reached 2.07 million sets in the Emerging Markets during the period under review, which remained flat compared to the same period last year. The sales volume of the LCD TVs in the Strategic OEM business increased by 109.1% year-on-year, while the sales volume of LCD TVs in European and North American Markets recorded growths of 11.3% and 203.4%, respectively.

During the period under review, the Group hosted intensively various launching events for new products in the Emerging Markets. These, together with its global entertainment marketing activities with the movie "X-Men: Days of Future Past" and the full rollout of social media marketing initiatives, facilitated product marketing and enhanced the TCL brand. The Group launched an array of 4K ultra high-definition TVs of screen sizes 40 inches to 85 inches in Australian Market since March 2014 that drew enthusiastic responses from the market, strengthening the Group's confidence in promoting high-end products in the Overseas Markets.

MANAGEMENT DISCUSSION AND ANALYSIS

In the European Markets, the Group actively cooperated with major retail chains comprehensively, resulting in a higher proportion of sales volume of large-sized smart TVs. Also, the Group ranked No.3 in the ultra high-definition TVs market in France, according to GfK figure with a market share of 11.6%. In the North American Market, the Group has not only reinforced its strategic cooperation with Amazon, but has also actively explored other sales channels, including leading US retailers such as Sam's Club, etc., driving a significant increase in LCD TV sales volume in that market. Meanwhile, the Group launched TCL Roku smart TVs through cooperation with Roku, an internet content provider during the period under review, which offers streaming media resources from over 1,000 channels in the North American Market, thereby exploring smart TV market in North America and pioneering a new model of cross-industry cooperation between a TV manufacturer and an internet content provider in North America.

Furthermore, the Group completed the acquisition of SMC's assets (including production plant), in Mexico during the period under review. This acquisition enables the Group to enhance efficiency of its supply chain and strengthen its future business development in the Overseas Markets, especially in the Northern and Southern American Markets.

R&D

During the first half of 2014, the Group sought to enhance its core competences comprehensively by integrating visionary product technologies with technological innovations. At the 47th Consumer Electronics Show ("CES") held in Las Vegas, the United States of America in January 2014, TCL had been included in leagues of "Top 50 Global Consumer Electronics Brands" and "Top 10 Chinese Consumer Electronics Brands" for sixth consecutive year. TV+ also received the "Global Innovative Smart TV of the Year" award at the CES, demonstrating the industry's recognition of the Group's product innovation capability.

In the CES, the Group exhibited its industry-leading 4K ultra high-definition large-screen product series. TCL Curved Ultra High-definition TVs, which were simultaneously launched, perfectly assimilate the 4K ultra high-definition resolution advanced technology standard on curved screens. Equipped with an ultra high-definition TV screen with wide-gamut, this product not only brings to users unprecedented visual enjoyment, but also creates an exquisite viewing experience.

MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, in April 2014, the Group hosted a grand show for spring "TCL 2014 Spring Product Show ALL 4 U" in Shenzhen, the PRC. The Group launched new smart internet products and service platforms for the spring season, including a specialized game platform, a game console, a high-resolution video conferencing system, etc. Among which, the most eye-catching was the world's first double-screen specialized game platform and TCL game console T^2. The platform is also the world's first specialized game console platform based on an Android operating system, seamlessly matched with TV+ products series A71, E5700, and E6700. Other new products of the Group were also showcased at the fair, such as QLED TVs, curved-screen TVs and 4K ultra high-definition naked eye 3D TVs.

During the period under review, the Group continued to develop the second generation TV+ series which, on the top of ultra high-definition LCD screens, multi-core chip processor and full voice control technology, also features the first-ever Weekend Cinema function. By using encrypted algorithmic technologies, the system automatically pushes to users two high-definition quality cinema movies weekly. The Group has submitted a total of 158 applications for patent rights from January to May 2014, of which 107 applications had been successfully approved by the PRC Government.

Outlook

Looking ahead to the second half of 2014, the global economy is expected to continue its moderate recovery. The TV industry in the PRC, after having experienced a rapid growth, is expected to slowdown its market growth. On the other hand, the cross-industry participation of internet companies in the TV industry intensifies market competition, inflicting pressure on product prices and posing more challenges to the TV industry outlook.

Nevertheless, as the pillar theme of striving to grow with stability for the economy in the PRC remains intact, urbanization development and demand from domestic consumption are expected to be the drivers of steady development of the TV industry continuously. Meanwhile, increasing popularity of the smart-oriented transformation of the TV industry will bring about a new development landscape. As such, the ability in creating the ultimate experiences in product and services for users will become the profit growth drivers for TV enterprises. The Group will solidly enhance its fundamental capabilities and accelerate improvements in its operational efficiency. The Group will proactively implement "double +" transformation strategy, which comprises "intelligence + internet" and "products + services", shifting from the product-oriented approach to a product-and-user-oriented approach, seeking to develop smart products and services that deliver exquisite experience and providing users an all-round entertainment solution, with an aim of gradually transforming the Group from a conventional TV manufacturing enterprise to a global entertainment technology enterprise.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will persistently enrich the product line for the PRC Market in the second half of the year, and continue to deepen sales channel and organizational reforms to flatten its enterprise structure further in order to boost its terminal sales capability and agility to changes in the market. For the Overseas Markets, the Group will seek to drive sales growth with a combination of product resources, screen strategies and pricing, achieve breakthroughs for the TCL brand in key market and proactively exploit synergies with other businesses of TCL Corporation. Products like TCL branded mobile phones and air conditioners, etc. will be introduced in markets like Southeast Asia, etc., to raise the overall influence of TCL brand in overseas.

The Group joined forces with "The Voice of China", the hottest professional music show in the PRC, to host a major press conference in July 2014 for the announcement of TCL as the "exclusive collaborative partner from the TV industry for The Voice of China – Season 3". TV+ debuted officially at "The Voice of China", accelerating the rapid rise of its popularity. It was only a solid step forward through the collaboration with "The Voice of China" for TCL in transforming into an entertainment enterprise, and TCL will continue to strengthen its foothold in the entertainment fields like music, etc., after videos and games.

In addition, in the same month, the Group participated in the 12th China Digital Entertainment Expo & Conference ("China Joy") in Shanghai, the PRC. The Group joined forces with China Unicom Broadband and ATET again and announced the establishment of the largest Game TV ecosystem in the PRC, with renowned game developers including Gameloft, JJ International Company, Rovio, Marmalade, Cyberfront Korea, J-FLOW, etc. to be enrolled to "TCL Game TV Ecosystem Strategic Alliance", as a move to further facilitate the all-round development of the ecosystem. Meanwhile, the Group debuted the new product, 7V Box in China Joy. Unparalleled edges, with its ultimate premium appearance and control experience, the innovative cross-screen interactive function, as well as the vast volume of video game content, etc. raised the eyebrows of industry peers and consumers.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect to the "intelligence + internet" strategy, with the prevailing popularity in application of internet technologies, the Group will on one hand apply an internet-oriented thinking in R&D, manufacturing and marketing, while on the other hand step up the establishment of an internet ecosystem by cementing its hardware business development and enhancing its horizontal alliances, deepening cross-industry strategic cooperations with iQIYI and IMAX, etc. with an aim to developing cross-industry smart terminal products which will embody the integration of "platform, content, terminal and application" on a single cross-industry terminal product. Also, the Group will roll out its electronic commerce business development via an O2O platform with better cost advantages that helps implement a marketing strategy that combines traditional media with new media, which not only reinforces the existing distribution channels, but also enhances sales efficiency by bringing consumers closer through internet applications. Furthermore, the Group consolidated its product lines of the existing new internet business, such as games and OTT, etc., through setting up an internet business unit which forms a development framework for strategic transformation of the new businesses. In the future, the Group will further enhance its product capabilities for the new businesses, creating exquisite products and user experiences and achieving new growth drivers based on internet-based operations.

In respect of the "product + services" strategy, the Group will endeavor its best efforts in establishing a mechanism that identifies consumer insight and user experiences and continue to improve its product competitiveness. The Group will proactively develop smart TVs, game consoles, OTT set-top boxes to be operated on smart service platforms, IMAX premium private theatre systems, etc. and will cooperate with TCL Communication Technology Holdings Limited ("TCL Communication") to jointly launch high-resolution video conferencing systems. The Group will organize its business layout along the 4 smart service platforms including video platforms, game platforms, education platforms and living platforms. The Group will reinforce horizontal alliances and core industry cooperation in video platforms and game platforms, promote implementation of education platforms and living platforms so as to provide users a comprehensive entertainment solution and strive to achieve further breakthroughs in establishing recurring income streams and revenue-sharing model for its businesses.

Meanwhile, the Group will persistently implement its internationalized branding strategy, consolidate its resources all over the world and continue to strengthen its business in the Overseas Markets, enhancing synergies in the industry and develop TCL into a leading global brand and strive to increase the global market share and awareness of the TCL brand. The Group will fully implement its own strategic transformation with the "double +" strategy, namely the combination of "intelligence + internet" and "products + services", by fully capitalizing on TCL Corporation's resource advantages. It will establish a new organizational structure and enhance its capability for implementing the strategic transformation with an aim of gradually transforming into a global entertainment technology enterprise and creating long-term enterprise value and returns to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

On 31 March 2014, US Moka and SMC entered into two agreements, namely: (i) the asset purchase agreement pursuant to which SMC agreed to sell and US Moka agreed to acquire Sanyo Assets at a consideration of US$13,200,000 (equivalent to approximately HK$102,339,000); and (ii) the stock purchase agreement pursuant to which SMC agreed to sell and US Moka agreed to acquire 45,000 shares in SMSA, representing 90% of the equity interest of SMSA at a consideration of US$1,950,000 (equivalent to approximately HK$15,119,000), subject to certain consideration adjustments. The total consideration was US$15,150,000 (equivalent to approximately HK$117,458,000), subject to certain consideration adjustments. The acquisition was completed on 30 April 2014.

On 24 April 2014, TCL Optoelectronics Technology (Huizhou) Co., Ltd. ("TOT", a wholly-owned subsidiary of the Company) and CPT Display Technology (Shenzhen) Limited ("CPT Display", a non wholly-owned subsidiary of TCL Corporation) entered into two agreements, namely: (i) the acquisition agreement pursuant to which CPT Display agreed to sell and TOT agreed to purchase production lines owned by CPT Display for aging in manufacture of backlight module at a consideration of RMB45,000,000 (equivalent to approximately HK$56,700,000); and (ii) the disposal agreement pursuant to which TOT agreed to sell and CPT Display agreed to purchase production lines owned by TOT for bonding in manufacture of backlight module at a consideration of RMB116,514,000 (equivalent to approximately HK$146,800,000). The transaction was completed on 30 April 2014 and no gain/loss was recorded.

MANAGEMENT DISCUSSION AND ANALYSIS

On 24 April 2014, TCL King Electrical Appliances (Huizhou) Company Limited ("TCL King", a wholly-owned subsidiary of the Company) entered into a capital increase agreement with TCL Corporation, Huizhou TCL Mobile Communication Co., Ltd. (a wholly-owned subsidiary of TCL Communication), TCL Air-conditioner (Zhongshan) Co., Ltd. (a non wholly-owned subsidiary of TCL Corporation), TCL Home Appliance (Hefei) Co., Ltd. (a wholly-owned subsidiary of TCL Corporation), Foshan TCL Household Appliances (Nanhai) Co., Ltd. (a wholly-owned subsidiary of TCL Corporation), Huizhou TCL Light Electrical Appliances Co., Ltd. (a non wholly-owned subsidiary of TCL Corporation), Huizhou Pengpeng Keji Investment Partnership (Limited Partnership)("Pengpeng Keji") (46.20% equity interest owned by Mr. Shi Wanwen, a non-executive director of the Company), Huizhou Wuheshen Keji Investment Partnership (Limited Partnership) (60%, 20% and 20% equity interest owned by Mr. Yang Bin (a director of three subsidiaries of the Company), Mr. Liu Wenwu and Mr. Wen Aijin (the senior management of Kuyu), respectively) and Kuyu, pursuant to which TCL King agreed to inject RMB80,000,000 (equivalent to approximately HK$100,781,000) in cash to Kuyu as its registered capital and therefore held 16% equity interest in the enlarged registered capital of Kuyu. The transaction was completed on 27 June 2014.

On 2 December 2013, Sales Co entered into an equity transfer agreement with an independent third party, pursuant to which Sales Co agreed to acquire an additional 21% equity interest in Toshiba Visual at nil consideration. The equity transfer was completed on 9 May 2014 and Toshiba Visual became a subsidiary of the Group since then. The equity transfer was regarded as a business combination achieved in stages. The Group accordingly remeasured the fair value of its previously held equity interest in Toshiba Visual at the equity transfer date and recognised the resulting gain of HK$49,307,000 in the condensed consolidated statement of profit or loss and other comprehensive income.

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 30 June 2014 amounted to HK$3,242,532,000, of which 2.2% was maintained in Hong Kong dollars, 34.5% in US dollars, 59.8% in Renminbi, 1.7% in Euro and 1.8% was held in other currencies for the overseas operation.

MANAGEMENT DISCUSSION AND ANALYSIS

There was no material change in the available credit facilities when compared with those for the year ended 31 December 2013 and there was no asset held under finance lease as at 30 June 2014.

As at 30 June 2014, the Group's gearing ratio was 0% since the Group's total pledged deposits and cash and bank balances of HK$3,242,532,000 were higher than the total interest-bearing borrowings of HK$2,850,007,000. The maturity profile of the borrowings ranged from one to three years.

Pledge of Assets

As at 30 June 2014, no assets of the Group were pledged.

Capital Commitments and Contingent Liabilities

As at 30 June 2014, the Group had capital commitments of approximately HK$180,649,000 (31 December 2013: HK$175,256,000) and HK$291,336,000 (31 December 2013: HK$385,484,000) which were contracted but not provided for and authorized but not contracted for, respectively. There was no significant change in contingent liabilities of the Group compared to the position outlined in the Company's 2013 annual report.

Foreign Exchange Exposure

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

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

Employee and Remuneration Policy

The Group had a total of 25,892 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. Options for subscribing a total of 33,730,214 shares remained outstanding at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

A restricted share award scheme (the "Award Scheme") was also adopted by the Company on 6 February 2008 pursuant to which existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held on trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Award Scheme.

OTHER INFORMATION

CHANGES OF PARTICULARS OF THE DIRECTORS

No particulars of the Directors have been changed since the published date of annual report 2013 of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

As at 30 June 2014, 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 Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("Model Code"), were as follows:

(A) Interests in the Company – Long Positions

	Number of ordinary shares held					
Name of Director	Personal interests	Family interests	Other interests *(Note 1)*	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of the Company
LI Dongsheng	39,205,526	4,000,000	275,205	3,535,289	47,016,020	3.526%
HAO Yi	979,366	–	144,573	1,649,778	2,773,717	0.208%
YAN Xiaolin	34,600	–	–	283,467	318,067	0.024%
Albert Thomas DA ROSA, Junior	63,333	–	–	266,667	330,000	0.025%
BO Lianming	218,727	–	–	1,155,700	1,374,427	0.103%
HUANG Xubin	60,560	–	–	708,711	769,271	0.058%
SHI Wanwen	566,692	–	-	141,778	708,470	0.053%
TANG Guliang	63,333	–	–	266,667	330,000	0.025%
Robert Maarten WESTERHOF	30,000	–	–	300,000	330,000	0.025%
WU Shihong	63,333	–	–	266,667	330,000	0.025%

OTHER INFORMATION

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

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

TCL Corporation *(Note 2)*

Name of Director	Number of ordinary shares held		Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Corporation
	Personal interests	Family interests			
LI Dongsheng	638,273,688	–	–	638,273,688	6.752%
HAO Yi	–	201,600	–	201,600	0.002%
YAN Xiaolin	793,000	–	1,522,400	2,315,400	0.024%
BO Lianming	1,997,381	–	2,061,420	4,058,801	0.043%
HUANG Xubin	1,933,360	–	1,450,020	3,383,380	0.036%
SHI Wanwen	5,799,518	–	1,780,740	7,580,258	0.080%

OTHER INFORMATION

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

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

TCL Communication *(Note 3)*

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	Total	Approximate percentage of issued share capital of TCL Communication
LI Dongsheng	39,771,008	–	11,841,913	51,612,921	4.279%
HAO Yi	133	–	–	133	0.00001%
YAN Xiaolin	22,000	–	377,200	399,200	0.033%
BO Lianming	65,700	–	2,879,000	2,944,700	0.244%
HUANG Xubin	–	–	1,016,035	1,016,035	0.084%
SHI Wanwen	83,715	–	293,600	377,315	0.031%

OTHER INFORMATION

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

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

Tonly Holdings *(Note 4)*

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 Holdings
LI Dongsheng	3,537,979	253,800	–	3,791,779	2.284%
HAO Yi	116	–	–	116	0.0001%
Albert Thomas DA ROSA, Junior	5,476	–	–	5,476	0.003%
BO Lianming	19,103	–	–	19,103	0.012%
HUANG Xubin	4,325	–	–	4,325	0.003%
SHI Wanwen	54,937	–	–	54,937	0.033%
TANG Guliang	5,476	–	–	5,476	0.003%
Robert Maarten WESTERHOF	2,142	–	–	2,142	0.001%
WU Shihong	5,476	–	–	5,476	0.003%

OTHER INFORMATION

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

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

Huizhou Techne *(Note 5)*

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	Total	Approximate percentage of issued share capital of Huizhou Techne
WU Shihong	802,700	–	–	802,700	0.349%

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

CSOT *(Note 6)*

Name of Director	Registered capital *(Note 7)*	Approximate percentage of registered capital of CSOT
BO Lianming	RMB15,160,000	0.146%

OTHER INFORMATION

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

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

Kuyu *(Note 8)*

Name of Director	Registered capital *(Note 9)*	Approximate percentage of registered capital of Kuyu
SHI Wanwen	RMB35,500,000	7.100%

Notes:

1. The shares are restricted shares granted to the relevant directors under the Award Scheme of the Company and were not vested as at 30 June 2014.

2. TCL Corporation, a joint stock company established under the laws of the PRC, is the ultimate controlling shareholder of the Company.

3. TCL Communication is a subsidiary of TCL Corporation.

4. Tonly Holdings is a subsidiary of TCL Corporation.

5. Huizhou Techne Corporation ("Huizhou Techne") is a subsidiary of TCL Corporation.

6. Shenzhen China Star Optoelectronics Technology Co., Ltd.("CSOT") is a subsidiary of TCL Corporation.

7. As at 30 June 2014, Mr. BO Lianming was deemed to be interested in CSOT since he owned Tibet Shannan Star Ripple Venture Capital Partnership (Limited Partnership) ("Star Ripple ") as to approximately 64.68% and Star Ripple in turn held 0.146% of the registered capital of CSOT.

8. Kuyu is a subsidiary of TCL Corporation.

9. As at 30 June 2014, Mr. SHI Wanwen was deemed to be interested in Kuyu since he owned Pengpeng Keji as to approximately 46.20% and Pengpeng Keji in turn held 7.100% of the registered capital of Kuyu.

OTHER INFORMATION

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

Save as disclosed above, as at 30 June 2014, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, the interests and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in shares of the Company

Shareholder	Capacity	Number of shares held	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	832,196,475 *(Note)*	62.40%

Note:

TCL Corporation was deemed to be interested in 832,196,475 shares held by T.C.L. Industries, its direct wholly-owned subsidiary, for the purpose of the SFO.

Save as disclosed above, as at 30 June 2014, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

OTHER INFORMATION

SHARE OPTIONS SCHEMES

The directors have estimated the values of the share options granted, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

The following share options were outstanding under the share option schemes during the period:

Name or category of participant	Number of share options				Date of grant of share options	Exercise price of share options	Exercise period of share options	Price of Company's shares	
	At 1 January 2014	Exercised during the period	Lapsed during the period	At 30 June 2014		*HK$*		At grant date *HK$*	At exercise date *HK$*
Directors									
Executive directors									
LI Dongsheng	3,535,289	–	–	3,535,289	5-Jul-11	3.17	Note 2	3.17	N/A
HAO Yi	1,649,778	–	–	1,649,778	5-Jul-11	3.17	Note 2	3.17	N/A
YAN Xiaolin	283,467	–	–	283,467	5-Jul-11	3.17	Note 2	3.17	N/A
	5,468,534	–	–	5,468,534					

OTHER INFORMATION

SHARE OPTIONS SCHEMES (continued)

	Number of share options							Price of Company's shares	
Name or category of participant	At 1 January 2014	Exercised during the period	Lapsed during the period	At 30 June 2014	Date of grant of share options	Exercise price of share options *HK$*	Exercise period of share options	At grant date *HK$*	At exercise date *HK$*
Non-Executive directors									
Albert Thomas DA ROSA, Junior	266,667	–	–	266,667	5-Jul-11	3.17	Note 2	3.17	N/A
BO Lianming	1,155,700		–	1,155,700	5-Jul-11	3.17	Note 2	3.17	N/A
HUANG Xubin	708,711	–	–	708,711	5-Jul-11	3.17	Note 2	3.17	N/A
SHI Wanwen	141,778	–	–	141,778	5-Jul-11	3.17	Note 2	3.17	N/A
TANG Guliang	266,667	–	–	266,667	5-Jul-11	3.17	Note 2	3.17	N/A
Robert Maarten WESTERHOF	300,000	–	–	300,000	5-Jul-11	3.17	Note 2	3.17	N/A
WU Shihong	266,667	–	–	266,667	5-Jul-11	3.17	Note 2	3.17	N/A
	3,106,190	–	–	3,106,190					
Other employees and those who have contributed or may contribute to the Group	2,128,800	–	–	2,128,800	8-Nov-10	3.60	Note 1	3.60	N/A
	23,478,134	–	(451,444)	23,026,690	5-Jul-11	3.17	Note 2	3.17	N/A
	25,606,934	–	(451,444)	25,155,490					
	34,181,658	–	(451,444)	33,730,214					

Note 1 50% of such share options are exercisable after the expiry of 6 months from the date of grant, and the remaining 50% are exercisable after the expiry of 18 months from the date of grant, up to 7 November 2015.

Note 2 One-ninth of such share options are exercisable after the expiry of 18 months from the date of grant, a further three-ninth are exercisable after the expiry of 30 months from the date of grant, and the remaining five-ninths are exercisable after the expiry of 42 months from the date of grant, up to 4 July 2017.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SHARES

Pursuant to the rules of the Award Scheme adopted by the Company on 6 February 2008, 19,462,225 awarded shares had been vested for the period ended 30 June 2014.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the period ended 30 June 2014, complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules, except for the deviation from the Code Provisions A.6.7, D.1.4, E.1.2 and F.1.1. The reasons for the deviation from the Code Provisions D.1.4 and F.1.1 remain the same as those stated in the Company's 2013 annual report.

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 other pre-arranged business commitments which must be attended to by each of them, Mr. BO Lianming, Mr. HUANG Xubin and Mr. SHI Wanwen, being non-executive directors of the Company; and Mr. Robert Maarten WESTERHOF and Dr. TSENG Shieng-chang Carter, both of whom being independent non-executive directors of the Company, were not present at the annual general meeting of the Company held on 28 April 2014 and the extraordinary general meeting of the Company held on 16 June 2014. However, Mr. TANG Guliang and Ms. WU Shihong, both of whom being independent non-executive directors of the Company, were present at the annual general meeting and the extraordinary general meeting to ensure an effective communication with the shareholders thereat.

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 of the Board, was not present at the annual general meeting held on 28 April 2014. However, as mentioned above, two independent non-executive directors of the Company were present at the annual general meeting and Mr. HAO Yi, being an executive director and the chief executive officer of the Company, was elected the chairman thereof pursuant to the articles of association of the Company to ensure an effective communication with the shareholders thereat.

OTHER INFORMATION

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2014, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee comprises four members including Mr. TANG Guliang (Chairman), Ms. WU Shihong and Dr. TSENG Shieng-chang Carter, all being independent non-executive directors of the Company, and Mr. HUANG Xubin, a non-executive director of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

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

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 14 August 2014

As at the date of this report, the Board comprises LI Dongsheng, HAO Yi and YAN Xiaolin as executive directors, Albert Thomas DA ROSA, Junior, BO Lianming, HUANG Xubin and SHI Wanwen as non-executive directors and TANG Guliang, Robert Maarten WESTERHOF, WU Shihong and TSENG Shieng-chang Carter as independent non-executive directors.