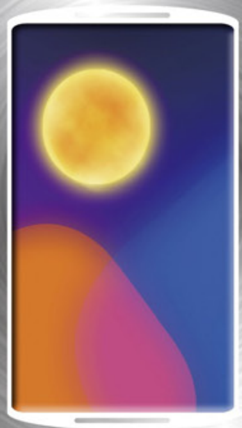
TCL Communication Technology Holdings Limited
Stock Code: 02618

ANNUAL REPORT 2014



创意感动生活
The Creative Life

TCL


10:10
Google
10:10AM
Thur Mar 2
Paris
75°F
Video
Music
File Manager
Playstore
Google

ALCATEL onetouch.
WORLDWIDE MARKETS

TCL CORPORATION
(SHENZHEN STOCK EXCHANGE, STOCK CODE: 000100)

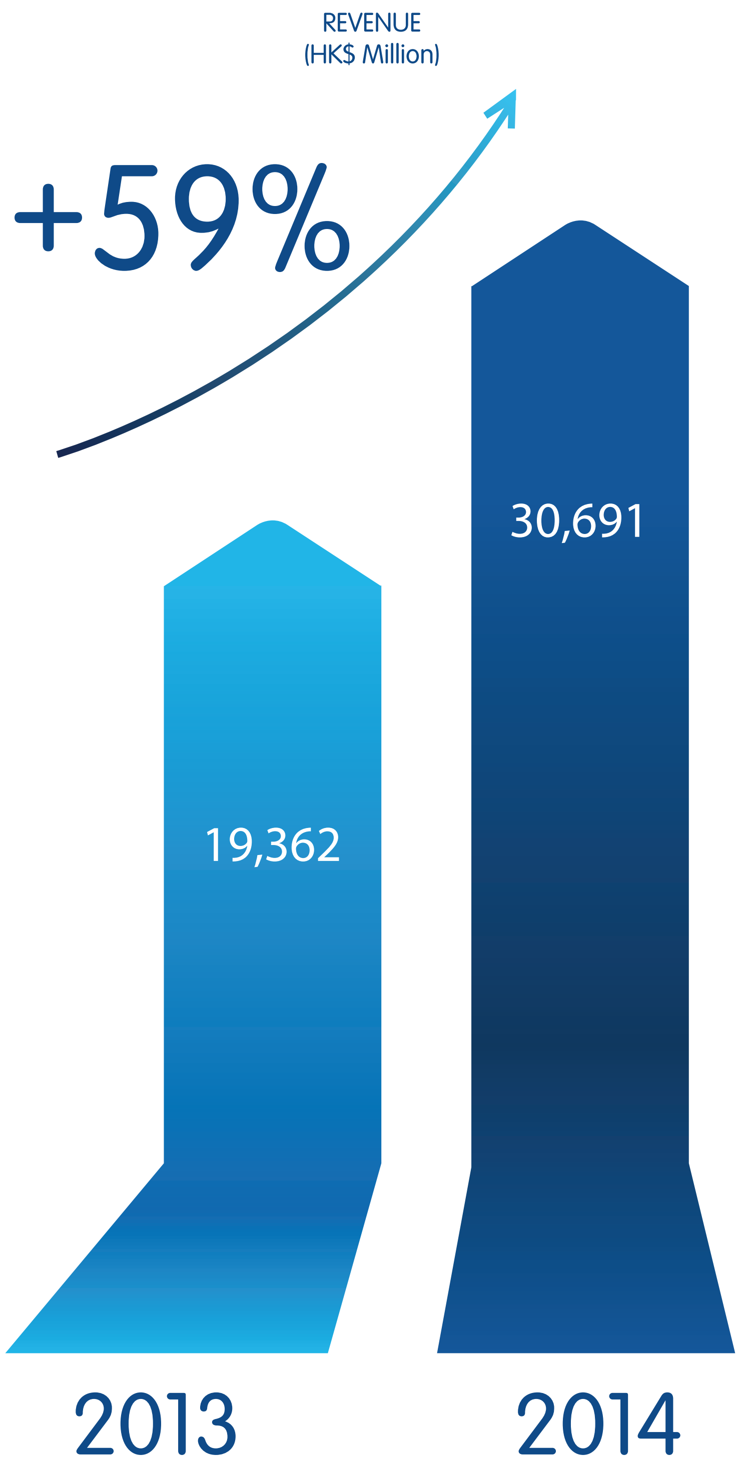
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
(HONG KONG STOCK EXCHANGE, STOCK CODE: 02618)

PUBLIC (INCLUDING THE DIRECTORS OF THE COMPANY)

TCL
PRC MARKET

TCL Communication Technology Holdings Limited ("TCL Communication" or the "Company"; HKSE 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 170 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific. Headquartered in Shenzhen, China, the Group operates its highly efficient manufacturing plant and research and development centres in various provinces of the PRC. It employs over 14,000 people in China, Hong Kong and overseas. The Group 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


REVENUE
(HK$ Million)
+59%
30,691
19,362
2013
2014

FINANCIAL SUMMARY

(HK$'000)	2014	2013	CHANGE (%)
REVENUE	30,691,054	19,362,061	+59%
GROSS PROFIT	5,917,552	3,672,153	+61%
GROSS PROFIT MARGIN (%)	19.3%	19.0%	+0.3%
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	1,092,507	313,422	+249%
BASIC EARNING PER SHARE (HK CENTS)	91.58	27.50	+233%

FINANCIAL POSITION

(HK$'000)	2014	2013	CHANGE (%)
PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND PREPAID LAND LEASE PAYMENTS	1,598,232	1,069,532	+49%
CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS	2,387,771	1,840,036	+30%
NET CURRENT ASSETS	597,548	645,276	–7%
TOTAL LIABILITIES	15,517,074	11,509,970	+35%
INTEREST BEARING BORROWINGS	4,312,171	3,648,979	+18%
NET ASSETS	4,179,082	2,913,054	+43%

KEY FINANCIAL INDICATORS

	2014	2013	CHANGE (%)
INVENTORY TURNOVER (DAYS)*	37	39	–5%
TRADE RECEIVABLE TURNOVER (DAYS) **	72	63	+14%
CURRENT RATIO (TIMES) ***	1.04	1.06	–2%

* ONLY INCLUDING FACTORY MATERIALS AND GOODS
** EXCLUDING FACTORED TRADE RECEIVABLES
*** EXCLUDING RENMINBI ("RMB") FOREIGN EXCHANGE PROGRAM

JANUARY

Launched **ONETOUCH IDOL X+**, the world's first True Octa-Core smart-phone and finalist for "Best of CES 2014", at *CES* in Las Vegas

FEBRUARY

Launched debut 4G smartphones **ONETOUCH IDOL 2S**, **ONETOUCH IDOL 2 MINI S** and 4G tablet **ONETOUCH POP 7S** at *MWC* in Barcelona

MARCH

Partnered with China Mobile's online store and Suning.com to launch iconic smart-phone **TCL S720T (麼麼噠)** in China; Launched **ONETOUCH HERO** in Hong Kong

JULY

Launched 4G smartphone **TCL P728M (Momoda 4G)** in China; Completed the construction of Global Manufacturing Facility with maximum annual capacity of 120 million units

AUGUST

Sponsored The *Color Run*, in Houston, U.S.

APRIL

Sponsored British band *One Direction's "Where We Are Tour 2014"* concert tour in Latin America

SEPTEMBER

Announced *DJ AVICII* to be brand ambassador for the **HERO** and **IDOL** lines, and showcased **ONETOUCH HERO 2** and **ONETOUCH HERO 8** at *IFA Berlin*; In the third quarter, **TCL-ALCATEL** became the world's fifth largest mobile brand and ranked eighth among the global smartphone brands for the first time (Source: Strategy Analytics and company data)

OCTOBER

Sponsored *The First Utility Super League Grand Final* in England; **TCL HERO 2** won 2014 " Best 4G Phone of the Year" and "Best Mobile Phone Design" in China

NOVEMBER

Partnered with TCL Corp. and CISCO for enterprise cloud services platform; **ALCATEL ONETOUCH** ranked fourth in terms of market share in the U.S. handset market (Source: November data of Handset Market KPI Report by ITG)

DECEMBER

Sponsored *APAC Innovation Summit 2014* in Hong Kong; Participated in *China Mobile Worldwide Partner Conference* and launched **TCL Momoda 3N** in China

Chairman's Statement

MR. LI DONGSHENG

Dear Shareholders,

On behalf of TCL Communication, I am pleased to present to you the annual results of the Group for the year ended 31 December 2014.

2014 marked the 10th anniversary of the first step on TCL Corp.'s aspirational journey to expand beyond the national boundaries to make acquisitions in key markets around the world. **TCL-ALCATEL**, one of the two major overseas acquisitions TCL Corp. made in the last decade, achieved promising sales results and made a significant contribution to the Group's financial performance in the best year of its history. The Group is proud to have successfully completed the transformation from an ordinary, local mobile handset maker into a developer and manufacturer of smart devices, with over 90% of sales derived from overseas. On top of the existing terminal–based mobile internet applications and services business, the Group committed to develop smart cloud services and smart home services, constant progression of the "Smart + Internet" strategic transformation, establishing a new business model of "Products + Services" and remaining devoted to a strategic transformation of focusing on hardware products as well as customer services.

Sales Revenue Increased

+59%

Over 2013

Encouraging Business Performance in 2014

In 2014, although the global economic environment remained unstable, the growth momentum of demand for handsets in emerging markets was strong, which raised the overall demand for handsets globally. Thanks to great numbers of customers replacing their feature phones with smartphones, the penetration rate of smartphones of the Group continued to grow in 2014. Adhering to the "Step-Up" product strategy, the Group continued to implement the "Double +" transformation strategy, increase the investment in research and development ("R&D") of new products and production processes to improve productivity, and promote marketing and brand-building. The Group not only maintained its competitive advantage in the Latin American market, but also achieved a breakthrough in exploring the North American market and maintained a steady increase in its sales in the European market. As a result, the Group achieved very promising results in 2014.

The Group continued the turnaround achieved in the previous year with a strong growth in its business results. Sales volume of smart devices for 2014 surged by 136% to 41.5 million units, accounting for 56% of the Group's total shipments (2013: 32%). The overall average selling price ("ASP") increased from US$45.0 in 2013 to US$53.5 in 2014, up by 19% year-on-year ("y-o-y"). As a result, the Group's total revenue increased by 59% y-o-y to HK$30.7 billion, and the revenue contributed by smart devices reached 85% of the Group's total revenue (2013: 63%).

Smart Devices Sales Volume Increased

+136%

Over 2013

Encouraging Business Performance in 2014 (continued)

In 2014, the Group reported a net profit of HK$1,108 million and basic earnings per share of 91.58 HK cents, up from HK$316 million and 27.50 HK cents per share in 2013. The Board is glad to propose a final dividend of 26.00 HK cents per ordinary share. Taking into account the interim dividend of 12.80 HK cents per share already paid, this represents a full-year dividend payout of 38.80 HK cents per share.

Market share ranking reached new height

According to Gartner and company data, the Group's sales volume of mobile phones ranked fourth among global phone manufacturers in the fourth quarter of 2014. Even better, the Group rose to the top among PRC phone manufacturers and ranked seventh among global smartphone manufacturers in the same period.

Innovative Smart Devices Enriching Product Portfolio

Thanks to our continuous investment in R&D and our "Step-Up" product strategy, the Group was able to enrich its product portfolio in 2014 by launching a number of new smart devices equipped with the latest technologies and functionalities, which effectively enhanced the global awareness of our brands **ALCATEL ONETOUCH** and **TCL**. It also marked the successful stepping-up of the Group's product from entry-level smartphones to advanced smartphones.

Innovative Smart Devices Enriching Product Portfolio (continued)

Over the years, our efforts in upgrading our products from feature phones to mainstream smartphones were first succeeded in the European market. The Group achieved significant growth in Latin America and successfully entered into the highly competitive North American market subsequently in recent years. Our smart devices have been recognised by the major international telecom operators.

The Group's new flagship smartphone **HERO 2** was praised as "The Best 4G Phone of the Year" and "The Best Mobile Phone Design" in the 2014 China Handset Innovation Week and the Second China Handset Design Contest. In addition, the Group debuted the **ALCATEL ONETOUCH WATCH** at the *Consumer Electronics Show (CES) 2015* and received various accolades including the "Wearable Tech Award" and "CES Editors' Choice Award" from *Stuff Magazine* and *Reviewed.com* respectively, and was a "2015 CES Best of Wearable Finalist" on *Engadget.com*.

The sales volume of our tablets was approximately 2 million in 2014, and it is expected that sales will maintain a strong growth in this year. The Group will continue its efforts in developing wearable devices that reflect market needs.

"Double +" Transformation Strategy

While concluding our accomplishment in transformation over the last decade, 2014 also marked the year in which the Group launched the "Double +" transformation strategy, which stands for "Smart + Internet" and "Products + Services", representing our determination in migrating from a product-oriented culture to a customer-oriented culture. The strategy also reflects our capability in providing mobile internet applications and services, and our confidence in providing the best smart cloud services. Products in the pipeline include video conferencing, smart home and related services.

TCL Communication participated in a joint venture with TCL Corp. and TCL Multimedia Technology Holdings Limited ("TCL Multimedia") to develop the TCL Smart Home business by capitalising on the smart integration of mobile internet, big data and cloud computing, looking forward to capturing and developing the Internet of Things, which has good prospects. The Group has also teamed up TCL Corp. and Cisco to develop an enterprise cloud services platform, as well as conducting in-depth exploration and development in cloud computing, the next generation of video communications and interaction technologies.

Furthermore, the Group cooperated with its parent company to develop a new internet financial services platform (third-party mobile payment) to explore new business opportunities in future. This business has commenced and recognised a settlement amount of RMB 440 million in the fourth quarter of 2014. It is expected that the relevant qualification for providing such financial service platform will be obtained in 2015.

As of the end of 2014, the Group's mobile internet business had obtained 6.7 million mobile terminal end users with revenue of US$2.13 million. It is expected that the number of active end users will increase significantly in this year and the related service revenue will increase significantly. In accordance with the aims of the "Double +" transformation strategy, the Group expects to gradually develop and accumulate 100 million mobile terminal end users with ARPU (Average Revenue Per User) contribution.

Growth Drivers for the Future

As the pace of growth in emerging markets slows down, global economic growth remains modest. The political instability in some emerging markets poses some risks to monetary and financial stability. The Group has been closely monitoring political developments in its existing and potential markets, actively adopting credit control methods to hedge exchange rate risks, and utilising export credit insurance to control overseas operation risks, in order to maintain the continuing growth of the international business.

Despite uncertainties over the global economy, accelerating network deployments across the world continue to drive growth for sales volume of smart devices, in particular 4G smartphones and tablets will be the main growth drivers in 2015. However, due to a glut in the market, the prices and profit margins of handset products were impacted and it is expected that some domestic and international competitors will be squeezed out from the market. In order to response to market competition, the Group will continue to achieve its innovation of products and improvement of operational efficiency to maintain business growth. In this crucial moment of global handset market players reshuffling, the Group has set further sales volume growth and market share acquisition as the primary goals for the year and has formulated a corresponding business plan.

Despite the fact that the Group sold 7.6 million phones in the domestic market last year, representing a 58% increase, its small domestic market share has always been a weakness in the Group's business development. The management is formulating and implementing a restructuring plan for the PRC business in order to centralise the Group's strengths and resources to achieve a breakthrough in this year.

With a presence in over 170 countries and one of the world's largest handset vendors, TCL Communication makes a genuine difference for its customers, from locals to multinationals. The solid execution of the "Step-up" product strategy has established a firm foundation, as has the Group's commitment to product innovation and quality. By leveraging its strengths in product development, supply chain management, production, distribution and marketing, the Group aims to maintain sustainable growth and improve business capability by implementing the "Double +" transformation strategy. The management is confident in achieving a 30% y-o-y revenue growth in 2015, with a healthy growth in profit.

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

LI Dongsheng
Chairman

2 March 2015


15:03
Google
Sun

Management Discussion and Analysis

INDUSTRY OVERVIEW

In 2014, the global economy was struggling with a slower-than-expected recovery amid difficulties, primarily stemming from the sluggish Eurozone employment markets, strong US dollar and plunging oil prices. Nevertheless, the momentum of emerging market economies remained resilient in general given strong prevailing domestic demand.

Despite the unstable macro-economic environment, the global handset shipments continued to grow in 2014 as consumers remained their enthusiasm in replacing their older handsets with smartphones featuring the latest technologies and functionalities. Gartner, a telecommunications research firm, reported that the emerging markets exhibited some of the fastest growth in Eastern Europe as well as the Middle East and Africa, achieving the largest increments in history during the third quarter of 2014.

International Data Corporation ("IDC"), another telecommunications research firm, reported that worldwide smartphone shipments reached a total of nearly 1.3 billion units in 2014, representing an increase of 26.3% from 2013. Looking ahead, IDC expects some 1.4 billion smartphones will be shipped globally in 2015, representing a 12.2% y-o-y growth. The strong growth momentum of smartphone is expected to continue in the years ahead.

Furthermore, another study conducted by IDC, predicts that global shipments of wearable computing devices will surge to 111.9 million units in 2018, translating into a CAGR of 78.4%. This underscores the huge demand for wearable smart devices and preludes a promising growth trend in coming years. Strong demand will help smart wearables sustain the persisting growth momentum. Smartwatches are set to lead an increasingly crucial role in the wearable offerings.

BUSINESS REVIEW

The Group has been striving to step-up its product portfolio from feature phones in the past years which made **ALCATEL ONETOUCH** and **TCL** mainstream smartphone industry brands winning market recognition for good value for the money. The Group has successfully gained its foothold in the Europe market, later in the North American market where competition is exceptionally fierce, and subsequently achieved significate increment in market share in Latin America. In 2014, the Group delivered a set of promising results despite fierce competition in the consumer market in the mobile communications sector. The sales of the Group's handsets remained strong across various markets. Total sales volume of handsets and other products reached 73.5 million units, representing a y-o-y increase of 33%, with 65.9 million units sold in overseas markets and 7.6 million units sold in China.

During the year, sales volume of smart devices increased by 136% y-o-y to 41.5 million units, and accounted for 56% of the Group's total shipments. As a result, the overall ASP of the Group's products increased from US$45.0 in 2013 to US$53.5 in 2014, thereby boosting its overall revenue to HK$30.7 billion, up by 59% y-o-y. In 2014, the Group's overall gross profit margin remained at a healthy level of 19.3%, up from 19.0% from 2013. Thanks to swift replacement of feature phones by entry-level smartphones, the Americas remained a major growing market, reporting a significant 82% increase in revenue, whilst Eurpoe, the Middle East and Africa ("EMEA"), Asia Pacific ("APAC") and China recorded revenue increases of 25%, 49% and 105% respectively.

According to Gartner's total shipment rankings and company data in the fourth quarter of 2014, the Group climbed to fourth among global phone manufacturers and ranked seventh among global smartphone manufacturers. Also, the Group achieved breakthrough in tablet sales and ranked no.7 among global tablet manufacturers in the same period.

With sustainable increases in smartphone sales and efficient implementation of strategies across all businesses, the Group achieved an encouraging net profit of HK$1,108 million in 2014. Basic earnings per share increased to 91.58 HK cents from 27.50 HK cents from the previous year.

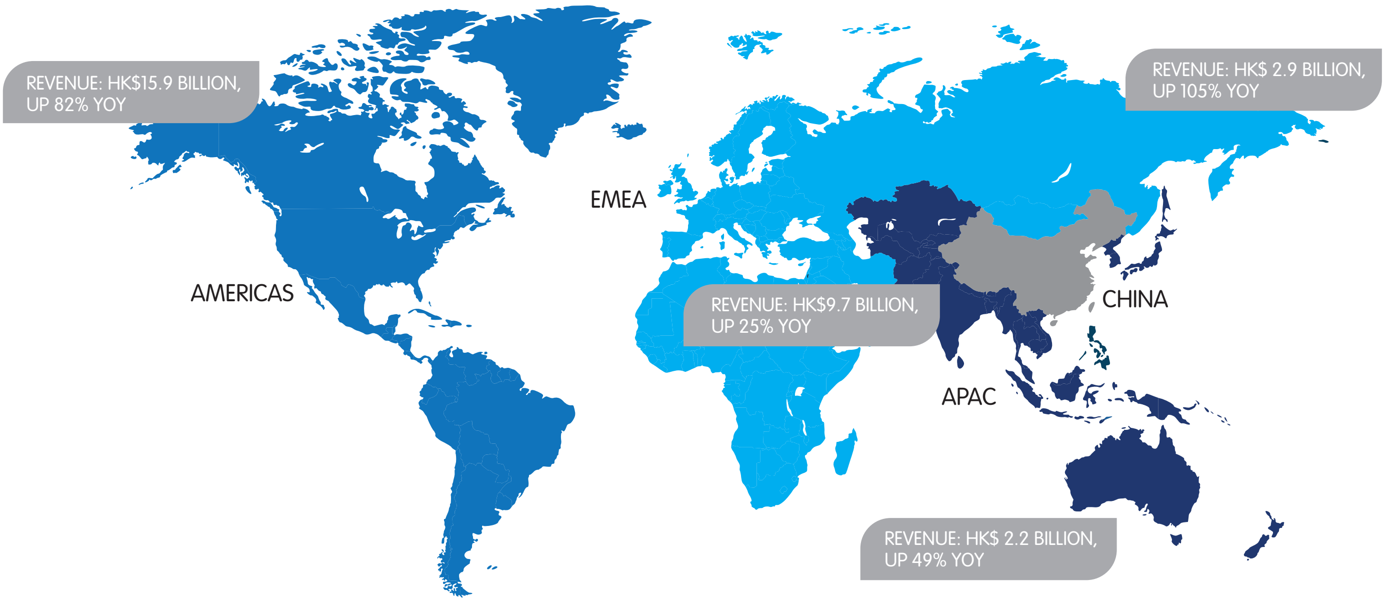
Due to the strong growth in revenue of 2014, significant operating leverage was attained. The Group's expenses ratio to sales, consisting of Selling and Marketing expenses, Research and Development expenses and Administrative expenses, significantly improved to 16.8% from 18.7% in 2013. This improved operational efficiency further enhanced the profitability of the Group.

The Board has recommended payment of a final dividend of 26.00 HK cents per ordinary share. After taking into account of interim dividend of 12.80 HK cents, it represents a payout ratio of 42% of the profit attributable to owners of the parent for the year.

Geographical Breakdown of Revenue

Sales of Handsets and Other Products	**For the year ended 31 December**		
(HK$ Million)	**2014**	2013	Change (%)
Americas	**15,869**	8,715	+82%
EMEA	**9,732**	7,759	+25%
APAC	**2,200**	1,476	+49%
China	**2,890**	1,412	+105%
Total	**30,691**	19,362	+59%
Including: smart devices	**25,991**	12,251	+112%

BUSINESS REVIEW (continued)
Geographical Breakdown of Revenue (continued)



Americas

During the year under review, sales volume of handsets and other products to the Americas increased by 41% y-o-y to 36.9 million units, while revenue rose by 82% y-o-y to HK$15.9 billion which accounted for 52% of the Group's total revenue. Sales volume of smart devices increased two-fold y-o-y to 20.1 million units for 2014, accounting for 54% of the total shipment to the region.

Thanks to the right pricing strategy, an extensive product range and good relationships with operators, the Group delivered outstanding performance in all markets within the region. During the year, the Group successfully expanded its market presence in more countries with the adoption of 3G and 4G entry-level smartphones which increased market shares. Moreover, the Group has successfully launched tablets in major markets including United States and Latin America ("LATAM") through cooperation with telecom operators and major retailers. With new products ramp up gradually, the momentum of growth will be extended to 2015.

During the year, the Group participated in various events and campaigns, including the *One Direction* concert sponsorship in LATAM, *the Color Run* sponsorship in United States and the *CPL Champion League*, the famous cricket competition, sponsorship in the Caribbean region. These activities helped raise the brand recognition of the Group among the public. In fourth quarter, **ALCATEL ONETOUCH** ranked No.4 (total phones) and No.5 (smartphones) in North America and ranked No.1 (total phones) and No.2 (smartphones) in LATAM (excluding Brazil) (Source: Gartner & Company data).

Europe, the Middle East and Africa

Sales volume of handsets and other products to the EMEA region for the year under review totaled 24.6 million units, up 20% y-o-y, with revenue increasing by 25% to HK$9.7 billion, accounting for 32% of the Group's total revenue. Smart devices sales volume reached 13.4 million units with a 90% y-o-y growth, accounting for 55% of the total shipment to EMEA.

During the year, the Group continued to enhance and strengthen sales in the open channels and via telecom operator channels. The demand for smartphones in the region remained strong and is expected to grow further in 2015. Along with the better 4G networks being constructed in the region, mobile phone users gradually upgraded their phones to mid to high end smartphones. Tablets were well received with demand growth primarily from the operator channels. It is expected that the growth momentum will continue. The Group continued to expand its presence into new markets in 2014, particularly in the Middle East and Africa. Sales volume in the Middle East and Africa recorded significant growth of 126% y-o-y mainly due to deepening market penetration and the increase in number of first-time users.

BUSINESS REVIEW (continued)

Geographical Breakdown of Revenue (continued)

Europe, the Middle East and Africa (continued)

According to Gartner and company data, **ALCATEL ONETOUCH** ranked No.4 (total phones) in EMEA, and ranked No.4 (total phones and smartphones) in Middle East and Africa markets in terms of sales volume in Q4 2014. Besides, the Group performed well in various emerging markets and secured a significant position. According to IDC and company data, the Group ranked No.3 (total phones) & No.2 (smartphones) in Egypt, No.3 (total phones) & No.4 (smartphones) in South Africa during the same period.

Showcasing its latest Firefox OS mobile phones at the *17th AfricaCom* in mid-November the Group demonstrated to the world its strong capability in diverse OS adoption and 4G smart device development. The Group expects the Middle East and Africa market will gradually emerge as a key growth driver in the years ahead.

Asia Pacific

In 2014, sales volume of handsets and other products across the APAC region increased by 18% y-o-y to 4.4 million while revenue increased by 49% y-o-y to HK$ 2.2 billion, accounting for 7% of the Group's total revenue. Sales volume of smart devices grew by 75% y-o-y to 3.1 million units.

The Group achieved satisfactory results despite fierce price competition across the region. During the year, the demand for feature phones across the region was gradually replaced by demand for smartphones. It is expected entry-level smartphones will be the key growth driver in 2015, particularly in the new markets such as Bangladesh and Thailand.

In addition, the Group worked hard on market expansion and spared no effort in developing online sales channels in search of new growth drivers. Online sales was implemented in India, Indonesia, Malaysia and Vietnam since late 2014 and made significant contributions to the Group's sales.

China

Sales volume of handsets and other products in China increased by 58% to 7.6 million units and revenue rose by 105% to HK$2.9 billion, accounting for 9% of the Group's total revenue for 2014. Sales volume of smart devices grew by 197% y-o-y to 4.9 million units.

During the year under review, the Group maintained close and stable relationships with major operators capitalised on the development of 4G networks in the country. The Group became one of China Mobile's first-tier strategic cooperation partners at the *China Mobile Global Partner Conference 2014*, an achievement that helped secure the Group's telecom operators channel and successfully tapped into markets in the provinces of Sichuan, Zhejiang, Jiangsu, Hunan, Guizhou and Heilongjiang. The Group's cooperation with other operators such as China Telecom also achieved important progress in the fourth quarter of 2014, deepening the penetration into Jiangsu and Zhejiang.

To grasp opportunities from the rapidly emerging online sales channels, in the fourth quarter of 2014 the Group launched its **TCL Momoda** exclusive online mall "mmd.cn" that offers a more convenient shopping channel and provides one-stop services for **Momoda** users. The Group also unveiled its new iconic smartphone model **TCL Momoda 3N** in the mall and successfully established itself as a popular brand of 4G smartphone that are good value for money. In 2015, more **Momoda** products will be launched through both traditional and online sales channels.

R&D

In 2014, the Group took significant steps to strengthen and enhance its R&D capabilities and product competitiveness, such as the partnership with Hong Kong Science and Technology Parks Corporation to set up an international research and development base in Phase Three of Hong Kong Science Park.

Adhering to its "Step-up" product strategy, the Group launched a series of innovative, advanced and well-designed smart devices throughout the year. These new products were well-received in the markets and they secured the Group's position as a key player in the smart device industry. For example, the Group unveiled 4G smartphones **IDOL 2S** and **IDOL 2 MINI S** and the first True Octa-Core smartphone in the market, **IDOL X+**, marking another development milestone in the Group's technology standards. New products in the **HERO** series were also introduced. The two new flagship models of smartphone and tablet, namely **HERO 2** and **HERO 8**, are designed to be compact and lightweight with high-resolution display panels.

BUSINESS REVIEW (continued)

R&D (continued)

In 2014, products of TCL Communication received numerous international awards from renowned top-notch assessment institutions. The Group's flagship model **HERO 2**, has not only received iF Design Award, the most authoritative award in the design profession, it was also named "The Best 4G Phone of the Year" and "The Best Mobile Phone Design" in the *2014 China Handset Innovation Week and the Second China Handset Design Contest* respectively. **IDOL 2** was named as "Best Budget Smartphone in *MWC 2014* by *Android Authority* and **IDOL X+** was received ten awards from industry magazines including *Digital Trends, Laptop Magazines* and *Android Authority*. Also, **TCL Momoda 4G** handset was awarded "Best Phone for Youth" by in the first Good Handset for China event jointly hosted by *CCID* and *China Electronics Post*.

Working in parallel, the Group's focused efforts in developing wearable smart devices also won praises from different parties. Of particular note, **ALCATE ONETOUCH WATCH**, a smartwatch that puts a premium on elegant design at a very accessible price, debuted at the *Consumer Electronics Show (CES) 2015* and garnered six accolades including: "Wearable Tech Award" of *Stuff* Magazine, "CES Editors' Choice Award" of *Review.com*, "Best of Wearable Finalist" of *Engadget.com*, "CES 2015 Top Pick" of *Tom's Guide*, "Best wearable accessories" of *CSMARENA* and the internationally renowned "iF Design Award".

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 smartphones and tablets 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 smartphones and tablets.

Manufacturing Facility

The two phases of the global manufacturing facilities with world-class technologies, automation and product quality, commenced operation in Huizhou in the third quarter of 2014. With the expected maximum annual production capacity reaching 120 million units, this new facility will give the Group extra muscle to support growth in the future, and establish a firm footing for development of the Group's smartphone and tablet business.

Marketing and Brand Building

As part of its **SMART MOVE** philosophy, the Group continued to engage different forms of marketing and brand building events in 2014, including being the sponsor of *"Where We Are Tour 2014"* of the British band *One Direction* across Latin America and charity race named as *the Color Run* in United States. In addition, the Group participated in major consumer electronics exhibitions, such as *CES 2014*, *MWC 2014*, and *IFA 2014*. They received an enthusiastic response from the market. The establishment of community projects, concept stores and an online mall have been effected within the period. Different and diverse campaigns and formats facilitated the Group's efforts in reaching various potential customers and has successfully helped deepen its market penetration.

Of particular note, TCL Corp. partnered with Twentieth Century Fox as the presenting sponsor of eight premieres of the movie *"X-Men: Days of Future Past"* around the world. Through influential international blockbusters like the *X-Men series*, TCL has successfully showcased its innovation and projected a youthful, dynamic and international brand image. On the other hand, **ALCATEL ONETOUCH** partnered with *AVICII*, the legendary DJ producer and a twice-Grammy-nominated artist, as the ambassador for the **HERO** and **IDOL** lines, starred in his new capacity in an exclusive *#WECREATE party* at *IFA Berlin* in September 2014.

In the fourth quarter of the year 2014, **ALCATEL ONETOUCH** sponsored *The First Utility Super League Grand Final*, a top-notch professional rugby league club competition in Europe, which helped promote **ALCATEL ONETOUCH**'s brand image and market awareness with the sports team's spirit and popularity. **ALCATEL ONETOUCH** also partnered with Bank Mandiri, one of the largest banks in Indonesia, to co-host the *Mandiri Run Bandung* in Bandung, Indonesia. These events successfully drew overwhelming responses and enhanced **ALCATEL ONETOUCH**'s coverage in markets.

BUSINESS REVIEW (continued)

Marketing and Brand Building (continued)

Working in parallel, **ALCATEL ONETOUCH** participated in a series of regional exhibitions, such as *Thailand Mobile Expo 2014*, showcasing various latest smartphone, and the *17th AfricaCom*, showcasing its Firefox OS devices, **Fire C** and **Fire E** as the first brand introducing mobile devices running on Firefox OS into the Africa market. These further strengthened the Group's global brand recognition.

"Double +" Transformation Strategy

Riding on the transformation efforts in the past decade, 2014 the Group's first year of launching the "Double +" transformation strategy (namely the "Intelligent + Internet" and "Product + Services"). The "Double +" transformation strategy that we put in fully reflect our commitment from product-oriented to customer-oriented. We strived to build up ability of mobile internet application and smart cloud services in 2014 with the following accomplishments.

TCL Communication, TCL Corp. and TCL Multimedia formed a joint venture and jointly promote the TCL smart home project, via integration of mobile internet, big data and cloud computing in order to tap the Internet of Things market with a bright outlook. In addition, the Group participated in the joint venture of TCL Corp. and Cisco, jointly invest in enterprise cloud services platform to the in-depth exploration and development in cloud computing, next-generation video communications and interaction technologies.

Besides, the Group and the parent company jointly developed a new online financial service platform (a third-party mobile payment gateway) to capture new business opportunities in future. The related businesses has been commenced and processed payment amounting to RMB440 million in the fourth quarter. It is expected the platform will be certified with relevant financial qualifications during 2015.

The Group established the Mobile Internet Business Centre during the period under review. The cumulated number of activated users from around the world has already reached 6.7 million at end of December 2014, generating service revenue of US$2.13 million. It is expected that the service revenue will grow significantly with the growth in number of active mobile device users in 2015. In-line with the target of "Double +" transformation strategies, the Group will progressively exploit in this field and target to accumulate approximately 100 million mobile device users with ARPU (Average Revenue Per User) contribution in the coming years.

OUTLOOK

As growth in emerging market slows down, global economic growth remains modest. The political instability in some emerging markets poses some risks to monetary and financial stability. The Group has been closely monitoring the political development in its existing and potential markets. Credit control, export credit insurance and hedging policies have been consistently in place to tackle market fluctuations.

Despite uncertainties over global economy, accelerating construction of network infrastructure across the world continues to drive growth of smart devices. Emergence of more competitors in the market intensified the competition and inflicted pressure on prices and margins of handset products. However, the Group has been cautious about the market environment. The Group will continue its differentiated propositions in terms of focusing on its strengths such as offering high cost-performance value products with quality and tailor made customer services in order to capture more market share. While gaining market share is the Group's priority objective, the Group continues to exercise stringent cost and expenses control to optimise its operational efficiency. Comparatively lean and mean organisation structure helps the Group adapt to the market changes in a timely manner.

With a presence in over 170 countries and being one of the world's largest handset vendors, TCL Communication is able to offer tailor-made services for its customers, from locals to multinationals. The solid execution of "Step-up" product strategy has established a firm foundation and its commitment to product innovation and quality. By leveraging its strengths in product development, supply chain management, production, distribution, marketing, with establishing mobile internet application and service, the Group is confidence to deliver consistent results and sustainable growth, increase the market shares in China as well as overseas markets and to achieve a 30% y-o-y revenue growth in 2015.

FINANCIAL REVIEW

Results

For the year ended 31 December 2014, the Group's audited consolidated revenue amounted to HK$30,691 million (2013: HK$19,362 million), representing a y-o-y increase of 59% as compared to that of last year.

The Group's gross profit margin increased slightly to 19.3% from 19.0% in last year.

EBITDA and profit attributable to owners of the parent were HK$1,417 million (2013: HK$484 million) and HK$1,093 million respectively (2013: HK$313 million). Basic earnings per share were 91.58 HK cents (2013: 27.50 HK cents).

Inventory

The Group's inventory (including factory inventory only) turnover period was 37 days (2013: 39 days) for the year under review.

Trade Receivables

Credit period ranged from 30 to 180 days on average and the trade receivable (excluding factored trade receivables) turnover period was 72 days (2013: 63 days) for the year under review.

Significant Investments and Acquisitions

The Group has the following significant investments during the year and up to the date of this announcement:

On 24 April 2014, Huizhou TCL Mobile Communication Co., Ltd. (a wholly-owned subsidiary of the Company) entered into an investment agreement to inject a total amount of RMB50 million (equivalent to approximately HK$63 million) to Huizhou Kuyu Network Technology Co., Ltd. (a fellow subsidiary of the Company, which is engaged in the on-line business of e-commerce) for acquisition of 10% of its equity interests. The injection has been fully paid in form of cash during the year.

On 9 October 2014, Best Status Enterprises Limited (a wholly-owned subsidiary of the Company) entered into a shareholder agreement to inject a total amount of US$16 million (equivalent to approximately HK$124 million) to Reachfull Investment Limited (a fellow subsidiary of the Company, which is for the purpose of developing the public enterprise cloud services platform with Cisco Systems (Switzerland) GmbH) for subscription of 25% of its equity interests by 3 tranches. The first tranche subscription of US$6 million (equivalent to approximately HK$47 million) has been fully paid in form of cash during the year. The remaining 2 tranches subscription of US$10 million (equivalent to approximately HK$77 million) will be paid in form of cash in the near future.

FINANCIAL REVIEW (continued)

Fund Raising

There had been no fund raising during the year ended 31 December 2014 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 and bank advances on factored trade receivables. The cash and cash equivalents balance as at 31 December 2014 amounted to HK$473 million, of which 33% were in Renminbi ("RMB"), 38% in United States dollars ("USD"), 12% in Euro and 17% in Hong Kong dollars and other currencies for the operations. The Group's total interest-bearing borrowings as at 31 December 2014 were HK$4,312 million, in which the interest-bearing bank borrowings were HK$3,941 million and bank advances on factored trade receivables were HK$371 million. The Group's financial position remained healthy with equity attributable to owners of the parent of HK$4,089 million as at 31 December 2014 (31 December 2013: HK$2,909 million). The Group had a gearing ratio of 22% as at the end of the year under review (31 December 2013: 25%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge of Deposits

Deposit balance of HK$1,914 million (31 December 2013: HK$1,698 million) represented the pledged deposit for interest-bearing bank borrowings, banking facilities and other financial instruments of HK$1,858 million (31 December 2013: HK$1,638 million) and retention guarantee for factored trade receivables of HK$56 million (31 December 2013: HK$60 million).

Capital Commitments and Contingent Liabilities

As at 31 December, the capital commitments were as follows:

	Group	
	2014	2013
	(HK$'000)	(HK$'000)
Contracted, but not provided for:		
Property, plant and equipment	**7,103**	106,946
Capital contributions payable to associates	**123,217**	–
	130,320	106,946

The Group had no significant contingent liabilities as at 31 December 2014 (31 December 2013: Nil).

Foreign Exchange Exposure

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in Euro, Brazilian real, 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 14,000 employees as at 31 December 2014. Total staff costs for the year under review were HK$2,139 million (2013: HK$1,624 million). The remuneration policy was reviewed in accordance with current legislation, market conditions and both individual and company performance.


onetouch

Directors, Senior Management and Executives

EXECUTIVE DIRECTORS

Mr. LI Dongsheng
aged 57, is the Chairman of the Board and an Executive Director of the Company. Mr. LI is also the chairman of the board, an executive director, the chief executive officer and founder of TCL Corp. and the chairman of the board and an executive director of TCL Multimedia. He is one of the most recognized business leaders in China.

In 1982, Mr. LI as an engineer's identity began his career in TTK Home Electronic Appliances Co. Ltd, the predecessor of TCL. In 1985, he was appointed as general manager of the newly established Telephone Communication Limited. In 2003, Mr. LI was appointed as the chairman and chief executive officer 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 approximately 75,000 employees in 80 countries and areas. In the fourth quarter of 2014, TCL ranked No. 4 globally in terms of LCD TV market share and ranked No. 4 globally in terms of TCL handset market share. In 2014, the operating income of TCL Corp. was over RMB100 billion for the first time.

In 2014, Mr. LI was rated as the "Most Popular Economic Figure in China" by China Business Journal. In 2013, Mr. LI was awarded as the "Best CEOs of Chinese Listed Companies" by Forbes magazine. Mr. LI was also 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'HONEUR (French national honor) from former President of France, Mr. Jacques Chirac in the same year.

Mr. LI has been elected as "National Model Worker" and was the winner of "May 1 Labor Medal". He was also elected as a representative of the 16th National Congress of Communist Party of China, 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 the All–China Federation of Industry & Commerce, member of National Advisory Committee on IC Industry Development, vice chairman of Guangdong Federation of Industry & Commerce, chairman of Guangdong Household Electrical Appliances Chamber of Commerce and chairman of Shenzhen Flat Panel Display Industry Association.

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 with a Bachelor degree in Radio Technology.

EXECUTIVE DIRECTORS

Mr. GUO Aiping

aged 52, is the Chief Executive Officer and an Executive Director of the Company. Mr. GUO joined the Group in July 2001 and was appointed successively as the Chief Operating Officer, Vice President, Senior Vice President and President. Mr. GUO is currently an executive director and a senior vice president of TCL Corp. He was also a vice president of TCL Corp. He has extensive experience in overall management of multinational companies, strategic planning and development, and mergers and acquisitions in the worldwide wireless industry. Prior to joining TCL Corp., Mr. GUO was a 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 Ph.D. degree in Management Science and a Master's degree in Engineering Economics and System.

Mr. WANG Jiyang

aged 45, is an Executive Director, the Chief Operating Officer and President of Sales & Marketing China of the Company, and holds certain management positions in certain wholly owned subsidiaries of the Company. Mr. WANG is also a vice president of TCL Corp. He has over 21 years of experience in research, development and operation management in electronics industry. Prior to joining the Company in 2001, he took the positions of engineer, project manager, deputy chief technology officer, general manager of Development Centre and senior vice president of R&D. Mr. WANG graduated from the University of Electronic Science and Technology of China with a Ph.D. in Electrocircuit & Systems. He also holds an MBA degree from China Europe International Business School.

NON-EXECUTIVE DIRECTORS

Mr. HUANG Xubin

aged 49, is a Non-executive Director and a member of the Audit Committee of the Company. Mr. HUANG is also an executive director, chief financial officer and a member of the executive committee of TCL Corp., and a non-executive director and a member of the audit committee of TCL Multimedia. Mr. HUANG joined TCL Corp. in March 2001 and served as an officer of the Financial Settlement Centre of TCL Corp., the chief economist, financial director and vice president of TCL Corp., and general manager of TCL Finance Company Limited ("Finance Company"). Currently he is also the chairman of Finance Company, and a 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 the credit facilities department of the China Construction Bank, Guangdong Branch, and the deputy manager and manager of the fund management division and securities division of Guotai Junan Securities Co. Ltd., Guangdong Branch. Mr. HUANG is a senior economist, graduated from Hunan University, and obtained a Master's degree in Economics at the 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 48, is a Non-executive Director of the Company. Mr. YAN is also the chief technology officer and senior vice president of TCL Corp., the president of TCL corporate research, and an executive director and a member of the strategy committee of TCL Multimedia. Mr. YAN joined TCL Corp. in 2001 and served as project manager, director of Research Institute and deputy general manager of the R&D Centre and non-executive director of TCL Multimedia, chief technology officer of components strategic business unit, deputy principal and acting principal of TCL Corporate Research and vice president 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, 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"), a director of the display technology committee of the Chinese Vacuum Society, a director of the Engineering Research Centre of Digital Family Life of the PRC, an executive director 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 a Doctoral degree and worked as post-doctoral fellow in the Chinese Academy of Science.

Ms. XU FANG

aged 52, is a Non-executive Director, a member of the Remuneration Committee and Nomination Committee of the Company. Ms. XU is also the 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 also 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, she concurrently held the position of chief human resources officer of the TCL Multimedia. From July 2009 to April 2013, Ms. XU was also an executive director and a member of the remuneration committee of TCL Multimedia. Since October 2014, Ms. XU has been the position of chief human resources officer of the TCL Multimedia. Ms. XU is also a part-time lecturer at Shenzhen Graduate School of Peking University, a distinguished professor at Shantou University and a distinguished research fellow at Sun Yat-Sen University. Ms. XU graduated from Nanjing Normal University in English Linguistics, and has a Master's degree in Business Administration from New York Institute of Technology.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Siu Ki

aged 56, is an Independent Non-executive Director, the chairman of Audit Committee and Remuneration Committee, and a member of Nomination Committee of the Company. Mr. LAU joined the Company in 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 ("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 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, Binhai Investment Company Limited and UKF (Holdings) Limited, all being listed on the Hong Kong Stock Exchange, and an independent supervisor of Beijing Capital International Airport Co. Ltd., a company listed on the Hong Kong Stock Exchange.

Mr. LOOK Andrew

aged 50, is an Independent Non-executive Director, a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. LOOK joined the Company in 2009 and save for his directorship in the Company, he does not hold any directorship in any member of the Group. Mr. LOOK is also an independent non-executive director of Man Sang Jewellery Holdings Limited, Hung Fook Tong Group Holdings Limited and Ka Shui International Holdings Limited, all of which are listed on Hong Kong Stock Exchange. 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 the Union Bank of Switzerland ("UBS") as the head of Hong Kong research, strategy and product. Prior to joining UBS, Mr. LOOK was a 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. 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 holds a Bachelor of commerce degree from the University of Toronto.

Mr. KWOK Hoi Sing

aged 64, is an Independent Non-executive Director, the chairman of Nomination Committee and a member of Audit Committee and Remuneration Committee of the Company. Mr. KWOK is also the Chair Professor of the Department of Electronic & Computer Engineering, a Dr. William Mong Chair Professor of Nanotechnology, Director of Display Research Centre and Director of the State Key Lab on Advanced Displays and Optoelectronics at the Hong Kong University of Science and Technology ("HKUST"). He joined the Company in 2011 and save for his directorship in the Company, he does not hold any directorship in any member of the Group. He worked at the Lawrence Berkeley Laboratory from 1978 to 1980, taught in the Department of Electrical and Computer Engineering at the State University of NY in Buffalo from 1980 to 1992, and became tenured Full Professor in 1985. He joined HKUST in 1992, researching display technologies and light emitting thin film materials. He was a member of program committees and chairman at 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 a fellow of the Optical Society of America, Institute of Electrical and Electronics Engineers and SID. He holds a Bachelor of science degree in Electrical Engineering from Northwestern University in the US and MSc and Ph.D. degrees in Applied Physics from Harvard University with over 700 publications in renowned academic journals and more than 75 patents. He published 3 books on display technology in the past 10 years.

SENIOR MANAGEMENT

Mr. GUO Aiping

aged 52, is the Chief Executive Officer and an Executive Director of the Company. Mr. GUO joined the Group in July 2001 and was appointed successively as the Chief Operating Officer, Vice President, Senior Vice President and President. Mr. GUO is currently an executive director and a senior vice president of TCL Corp. He was also a vice president of TCL Corp. He has extensive experience in overall management of multinational companies, strategic planning and development, and mergers and acquisitions in the worldwide wireless industry. Prior to joining TCL Corp., Mr. GUO was a 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 Ph.D. degree in Management Science and a Master's degree in Engineering Economics and System.

Mr. WANG Jiyang

aged 45, is an Executive Director, the Chief Operating Officer and President of Sales & Marketing China of the Company, and holds certain management positions in certain wholly owned subsidiaries of the Company. Mr. WANG is also a vice president of TCL Corp. He has over 21 years of experience in research, development and operation management in electronics industry. Prior to joining the Company in 2001, he took the positions of engineer, project manager, deputy chief technology officer, general manager of Development Centre and senior vice president of R&D. Mr. WANG graduated from the University of Electronic Science and Technology of China with a Ph.D. in Electrocircuit & Systems. He also holds an MBA degree from China Europe International Business School.

SENIOR MANAGEMENT

Mr. LIU Yuk Tung, Thomas

aged 52, is the Chief Financial Officer and a Senior Vice President of the Business Strategy of the Company, and a director of TCL Finance Company Limited since February 2013. Mr. LIU has about 30 years of experience in auditing, 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 listed company on the Hong Kong Stock Exchange, with extensive auditing experience from working at Arthur Andersen. He is also a CPA of HKICPA, Charted Accountant of ICAEW and fellow of ACCA. Mr. LIU holds a Bachelor's degree in Economics from the University of Hong Kong, an MBA from the University of New South Wales, Australia and a Master's Degree in Accounting from Jinan University, PRC.

Mr. Nicolas ZIBELL

aged 47, is a Senior Vice President of the Company and International business, responsible for overseeing the ALCATEL ONETOUCH business throughout the Americas and Europe. He has over 24 years' of experience in sales, marketing, product strategy and supply chain in the automotive and telecommunications industries in both Europe and the Americas. He graduated from the École Superieure de Commerce de Lyon and ESADE Business School with an MBA degree in 1990.

Mr. WONG Kwok Chung, Albert

aged 43, is an Executive Vice President and General Manager of Sales & Marketing (APAC) of the Company. Mr. WONG joined the Company in 2005. He has 17 years' experience in the computers and electronics industry in Hong Kong, Canada and Mainland China. Prior to joining the Company, he was a Senior Software Engineer of KEGO Technology Limited, Chief Information Officer of Inmobo Limited, and Chief Executive Officer 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.

SENIOR MANAGEMENT

Mr. LV Xiaobin

aged 44, is a Senior Vice President of the Company and the General Manager of Global Manufacturing Centre. Mr. LV joined TCL Communication Equipment Co., Ltd. in July 1993 and joined the Company in March 2002 and holding the positions of Department Head, Factory Director, Vice General Manager of Manufacturing Centre, Production Director and Vice President of the Company successively. Mr. LV has 21 years' experience in the 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, and supply chain management. He also has 10 years of international experience. Mr. LV graduated from the University of Electronic Science and Technology of China with a Bachelor's degree in Science, majoring in computing, minoring in applied mathematics, and also holds an EMBA degree from the China Europe International Business School.

Mr. Yves MOREL

aged 54, is a Senior Vice President of the Company. Mr. MOREL has 30 years' experience in sales and marketing in the telecommunications industry. Mr. MOREL was a Sales Area Director for ALCATEL mobile phones from 2001 to 2005. He contributed to develop sales areas such as Russia, Central Europe, the Middle East, Africa and Western Europe. Prior to that, he held several positions in sales in the Private Mobile Radio division of ALCATEL.

EXECUTIVES

Mr. Dan DERY

aged 43, 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, and served at the Director or higher level in the last 10 years. With experience spanning two continents and four of the world's largest electronic brands, he has brought his unique background and expertise in new product creation and marketing strategy to the Company. Since taking up the position, he has actively led the Company to achieve a significant development in the smartphone market. Mr. DERY obtained a Master's degree in Advanced Computer Science at the Supélec in France.

Mr. Alain LEJEUNE

aged 51, 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 the Alcatel-Lucent Group. Graduating in 1987 from the École Centrale de Paris, Mr. LEJEUNE has more than 21 years of senior management experience in the telecommunication industry, in multi-cultural organisations, and cross-border merger and acquisition situations.

Mr. Vittorio DI MAURO

aged 49, is a Vice President of the Company and General Manager of the Smart Connectivity Business Division. Mr. DI MAURO has been working for the Company for over 11 years as Marketing Director, Business Unit Director and Vice President successively. Prior to joining the Company, Mr. DI MAURO worked as Product and Marketing Manager for the Consumer Electronics Division of Texas Instruments in France, Germany and the U.S.. He Graduated from the Department of Economics of Bocconi Universiy in Milan in 1992 and attended the Advanced Management Program at INSEAD France in 2002.

EXECUTIVES

Mr. Laurent LABBE

aged 52, is a Vice President and General Manager of Global Quality & Global Customer Care of the Company. Prior to joining the Company in 2004, Mr. LABBE worked for Alcatel Mobile Company for more than 15 years. He worked as a hardware engineer, software engineer, project manager, then as manufacturing technical support and later industrial project manager at the main Alcatel handset factory in Laval, France. Mr. LABBE moved to China to manage the industrial transfer from France to Asia. Over the last 11 years, he has been in charge of global quality control, and in order to have better close-loop quality management, his responsibility was extended to customer care management 7 years ago. Mr. LABBE holds a degree from the Ecole Superieure Ingenieur Genie Electrique in Rouen, majoring in Electronics. He received management training provided by ESSEC in 2004. Mr. LABBE has lived in China for more than 12 years, with a good understanding of both of French and Chinese culture. He has more than 27 years' experience in telecommunication industry, and has professional skills in various fields including R&D, manufacturing, quality control, and customer care.

Mr. Eric VALLET

aged 52, is a Vice President of Global Accounts & Partnerships of the Company. Mr. VALLET has extensive experience in management of multicultural teams, product planning, and sales and marketing in the worldwide wireless industry. Mr. VALLET is proud to maintain good and close relationships with key persons of global operator group organisations at different levels. Since 2013, he has also been in charge of Partnerships and Open Innovation, in particular with 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 from the French engineering school EUDIL with an Engineering degree in Microwaves in 1985 and from the ESCP Europe business school with an Executive MBA degree in 2000.


Google
10:10AM
Thur, Sep 29
Barcelona
75°F
Camera
Peel
Kobo
Playsto

Corporate Governance Report

INTRODUCTION

The Board of Directors of the Company ("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 relations with its employees, business partners, shareholders and investors.

On 13 August 2013, the Company has adopted a corporate governance code prepared based on the code provisions (the "Code Provisions") of the latest revised code on corporate governance (the "Code") as 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 governance of the Company, and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2014, the Company has fully complied with the Code Provisions with the following exceptions.

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.

CORPORATE GOVERNANCE PRACTICES (continued)

Due to respective pre-arranged business commitments which must be attended to by certain directors, Mr. HUANG Xubin, Mr. YAN Xiaolin and Ms. XU Fang, all being 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 December 2014 whereat resolutions relating to the renewal of certain continuing connected transactions were considered and passed by the shareholders. However, Mr. LAU Siu Ki, Mr. LOOK Andrew and Mr. KWOK Hoi Sing, all of whom being Independent Non-executive Directors of the Company, were present at the said annual general meeting and extraordinary general meeting to ensure an effective communication with the shareholders thereat.

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 memorandum and articles of association of the Company (the "Articles") and retirement by rotation at least once every three years in accordance with Code Provision A.4.2, 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 28 April 2014. However, Mr. GUO Aiping, being an Executive Director and the Chief Executive Officer of the Company, was present at the said annual general meeting and was elected chairman thereof pursuant to the Articles of the Company 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 ("Ms. PANG") 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 general manager of global financial control centre and vice president of investor relations 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 with the relevant board procedures, applicable laws, rules and regulations.

DIRECTORS

The Board

The Board, led by the chairman, steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

DIRECTORS (continued)

The Board (continued)

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.

Board Composition

There are currently 9 directors, all being industry veterans, 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 Board of the Company currently comprises the following directors:

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

An updated list of the Company's directors is at all times available on the respective websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The list specifies whether the director is an independent non-executive director and expresses the respective roles and functions of each director.

Details of the biographies of the directors are given under the section "Directors, Senior Management and Executives" of this annual report on pages 28 to 39.

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

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 of the Company and the Group as a whole. Throughout the year of 2014, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications on accounting or related financial management expertise. The number of independent non-executive directors has represented one-third of the Board.

Number of meetings attended/eligible to attend in 2014

During the year of 2014, the Board held 4 regular meetings at about quarterly intervals and 11 additional meetings. As regards general meetings, the Company held the annual general meeting on 28 April 2014 and the extraordinary general meeting on 16 December 2014 to consider the matters regarding the renewal of certain continuing connected transactions of the Company. Attendance of individual directors at the Board meetings and general meetings in 2014 is as follows:

DIRECTORS (continued)

Number of meetings attended/eligible to attend in 2014 (continued)

	Regular Board Meetings	Additional Board Meetings concerning Special Matters requiring the Board's Decisions	General Meetings
Executive Directors			
Mr. LI Dongsheng	4/4	2/11	0/2
Mr. GUO Aiping	4/4	11/11	2/2
Mr. WANG Jiyang	4/4	10/11	0/2
Non-executive Directors			
Mr. HUANG Xubin	3/4	9/11	0/2
Mr. YAN Xiaolin	4/4	7/11	0/2
Ms. XU Fang	4/4	7/11	0/2
Independent Non-executive Directors			
Mr. LAU Siu Ki	4/4	9/11	2/2
Mr. LOOK Andrew	4/4	10/11	2/2
Mr. KWOK Hoi Sing	4/4	11/11	2/2

Notice of regular Board meetings are served to all directors at least 14 days before the meeting while a reasonable notice is generally given for other board meetings.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the members, to ensure that they have sufficient time to review the board papers, adequately prepare for the meeting, are kept apprised of the latest developments and financial position of the Company and to enable them to include any matter in the agenda and to make informed decisions.

The Board and each director, upon reasonable request, have access to independent professional advice to assist them in performing their duties to the Company, at the Company's expense.

Minutes of all Board meetings and Audit Committee and Remuneration Committee and Nomination Committee meetings are kept by the company secretary. All of the above minutes record the discussions and decisions reached by the relevant members in sufficient detail the matters considered and decisions reached, including any concern raised by directors or dissenting views expressed. Any director may inspect the minutes at any reasonable time on a reasonable notice.

Draft minutes are normally circulated to directors or members of the relevant committee for comments within a reasonable time after each meeting and the final version is sent to all directors or committee members for their record.

According to the current Board's practice, any transaction, which involves a conflict of interests between a substantial shareholder or a director and the Company, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the independent non-executive directors who have no material interest in the said transaction. Directors are abstained from voting and not be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

The Company has maintained appropriate insurance cover in respect of legal action against its directors and officers arising out of corporate activities.

DIRECTORS (continued)

Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority, and has adopted a set of consolidated memorandum of duties setting out its division of responsibilities between the Chairman and the Chief Executive Officer on 24 February 2012. The position of the Chairman is held by Mr. LI Dongsheng while the position of Chief Executive Officer is held by Mr. GUO Aiping during the year ended 31 December 2014. 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 Company.

The core duties of the Chairman include:

- ensuring with the assistance of the management, that the directors receive adequate, accurate, clear, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings;
- providing leadership for the Board;
- ensuring that the Board works effectively, performs its responsibilities, discuss all key and appropriate issues in a timely manner, with good corporate governance practices and procedures;
- ensuring that the agenda for each Board meeting are drawn up and approving the same, taking into account matters proposed by other directors;.
- encouraging all directors to fully and actively contribute to the Board's affairs and express different views and discuss issues in sufficient depth before reaching any consensus in board decisions;
- facilitating the effective contribution of directors, in particular, non-executive directors, and promote the constructive relations between executive and non-executive directors;
- holding meetings at least annually with the non-executive directors (including independent non-executive directors) without the executive directors present. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters were openly discussed; and
- ensuring the effective communication between the Board and the shareholders as a whole through different channels.

Appointments, re-election and removal of members of the Board

Under article 87 of the Company's Articles, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every 3 years while those retiring directors shall be eligible for re-election. Any director who has not been subject to retirement by rotation in the 3 years preceding the annual general meeting shall retire by rotation at such annual general meeting.

Independent Non-executive Directors

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive director of his/her independence to the Company. The Company has assessed the independence and considers all of the independent non-executive directors to be independent based on the independence criteria in accordance with the requirements in Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationships which will interfere with the exercise of their independent judgment.

Mr. LAU Siu Ki has served the Company for about 11 years, since his appointment in 2004. However, the Company believes that Mr. Lau is still independent. The Company confirms that except Mr. LAU Siu Ki, the service period of all other Independent Non-executive Directors is less than 9 years. He was re-elected subject to a separate resolution approved by shareholders at the annual general meeting held on 22 April 2013.

DIRECTORS (continued)

Appointments, re-election and removal of members of the Board (continued)

Non-executive Directors

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

In accordance with the said provision of the Articles and the Code Provision A.4.1, in the last annual general meeting ("AGM") held on 28 April 2014, one-third of the directors (namely Ms. XU Fang, Mr. HUANG Xubin and Mr. KWOK Hoi Sing) were subject to retirement by rotation and were re-elected. Mr. YAN Xiaolin who was appointed to fill a casual vacancy on 24 April 2013, was subject to election by shareholders at the first general meeting after appointment, which was held on 28 April 2014, and he was elected thereat. These aforesaid directors will hold office until conclusion of the AGM to be held in 2017. All the other Non-executive Directors (namely Mr. LAU Siu Ki and Mr. LOOK Andrew) were elected to hold office for a specific term until the next AGM to be held in 2016.

Nomination of Directors

The Board has established a nomination committee (the "Nomination Committee") to provide a framework and set the standards for the appointment of high quality directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of director(s).

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

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 advisers 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 package also includes information relating to the operations and business of the Group. The directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time. Guidelines for directors issued by the Companies Registry of Hong Kong and The Hong Kong Institute of Directors have been forwarded to each director for his/her information and ready reference.

The Board is of the view that the non-executive directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at the Board meetings, taking the lead where potential conflicts of interest arise, scrutinizing the Company's performance and providing 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.

DIRECTORS (continued)

Responsibilities of Directors (continued)

The directors have disclosed to the Company at the time of their appointment, and in a timely manner for 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 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 and ensures the better understanding of the views of shareholders by all directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

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 further inquiries where necessary during the Board meetings and board committee meetings. The queries raised by directors have received a prompt and full response.

Induction and Continuous Professional Development

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 2014:

Directors	Read materials	Attend seminars/briefings
Executive Directors		
Mr. LI Dongsheng	✓	✓
Mr. GUO Aiping	✓	✓
Mr. WANG Jiyang	✓	✓
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	✓	✓

Securities Transactions Guidelines

The Board has adopted a code of conduct regarding directors' securities transactions 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 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.

The directors' interests in shares of the Company as at 31 December 2014 are set out on pages 69 to 70 of this annual report.

DIRECTORS (continued)

Securities Transactions Guidelines (continued)

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employee, including any employee or a director or employee of a subsidiary or holding company who, because of his office or employment, is likely to be in possession of inside information in relation to the issuer or its securities, in respect of their dealings in the Company's securities.

DELEGATION BY THE BOARD

Management Functions

The Board delegates its powers and authorities from time to time to the Board Committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. All Board Committees are provided with accurate and sufficient information in timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

On 24 February 2012, the Board has adopted a set of consolidated memorandum of duties setting out its delegation policy. The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the Company.

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 Company as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by 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.

DELEGATION BY THE BOARD (continued)

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. WONG Kwok Chung, Albert
Mr. LV Xiaobin
Mr. Yves MOREL

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.

Board Committees

In 2014, the Board had four Board Committees. The four committees under the Board are the Nomination Committee, the Remuneration Committee, the Audit Committee and Executive Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

Attendance of the relevant members of the Board Committee (other than the operation executive committee) at the meetings of the committees in 2014 is as follows:

	Nomination Committee Meetings	Remuneration Committee Meetings	Audit Committee Meetings	Executive Committee Meetings
Executive Directors				
Mr. LI Dongsheng	N/A	N/A	N/A	14/22
Mr. GUO Aiping	N/A	N/A	N/A	22/22
Mr. WANG Jiyang	N/A	N/A	N/A	22/22
Non-executive Directors				
Mr. HUANG Xubin	N/A	N/A	3/4	N/A
Ms. XU Fang	1/1	1/1	N/A	N/A
Independent Non-executive Directors				
Mr. LAU Siu Ki	1/1	1/1	4/4	1/1
Mr. LOOK Andrew	1/1	1/1	4/4	1/1
Mr. KWOK Hoi Sing	1/1	1/1	4/4	1/1

DELEGATION BY THE BOARD (continued)

Nomination Committee

The Nomination Committee was established on 24 February 2012 in compliance with the Code, currently comprises 4 members, the majority of whom are Independent Non-executive Directors, including Mr. KWOK Hoi Sing, Mr. LAU Siu Ki and Mr. LOOK Andrew, all being independent non-executive directors, and Ms. XU Fang, a non-executive director, with Mr. KWOK Hoi Sing as the chairman of the Nomination Committee. The Committee has held one meeting during 2014.

The Nomination Committee is governed by its terms of reference, which were revised on 13 August 2013 pursuant to the relevant Code Provisions requirements and are available on the website of the Company at http://tclcom.tcl.com and the website of Hong Kong Exchanges and Clearing Limited (the "HKEx") at http://www.hkexnews.hk.

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 independent non-executive directors;
- make recommendations to the Board on the appointment, re-appointment and succession planning of directors, and any proposed change to the Board to implement the Company's corporate strategy;
- review the Board Diversity Policy; and
- review the sufficiency of time commitment of directors to perform their responsibilities.

The Nomination Committee has performed all these main duties in 2014.

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.

Board Diversity Policy

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 recognizes 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. 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, skills and experience) 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 after taking into account its own business model and specific needs whether considered in terms of gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

DELEGATION BY THE BOARD (continued)

Remuneration Committee

The Remuneration Committee currently comprises 4 members, the majority of whom are Independent Non-executive Directors, including Mr. LAU Siu Ki, Mr. LOOK Andrew and Mr. KWOK Hoi Sing, all being independent non-executive directors, and Ms. XU Fang, a non-executive director, with Mr. LAU Siu Ki as the chairman of the Remuneration Committee.

The Remuneration Committee is governed by its terms of reference, which are revised by the Board on 24 February 2012. The terms of reference are made available on the website of the Company at http://tclcom.tcl.com and the website of the HKEx at http://www.hkexnews.hk.

The Remuneration Committee was established on 16 April 2005 pursuant to Rule 3.25 of the Listing Rules. It 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 and time, and determines, with delegated responsibility, the remuneration packages of individual executive directors and senior management.

During 2014, the Remuneration Committee accomplished the following:

- assessing the performance of executive directors;
- discussing and approving the adoption of a new share option scheme adopted by the Company on 28 April 2014 (the "New Share Option Scheme") and the submission of the same to the Board for its approval;
- reviewing and approving the salary incentive adjustments of the various members of the executive committee; and
- reviewing and approving the incentive plan for the employees in the year of 2014.

The Human Resource Department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

DELEGATION BY THE BOARD (continued)

Remuneration Committee (continued)

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 adopted and terminated by the Company on 13 September 2004 and 28 April 2014 respectively (the "Old Share Option Scheme"), the New Share Option Scheme and share award schemes. 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 by band and senior management are set out in note 11 to the financial statements.

Audit Committee

The Audit Committee currently comprises 4 members, the majority of whom are Independent Non-executive Directors, including Mr. LAU Siu Ki, Mr. LOOK Andrew and Mr. KWOK Hoi Sing, all being independent non-executive directors and Mr. HUANG Xubin, a non-executive director. Mr. LAU Siu Ki is the chairman of the Audit Committee, and a professional accountant with profound financial and accounting expertise.

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

The Audit Committee is governed by its terms of reference. The terms of reference are made available on the Group's website of the Company at http://tclcom.tcl.com and the website of the HKEx at http://www.hkexnews.hk.

The work performed by the Audit Committee during 2014 included consideration of the following matters:

- the completeness and accuracy of the 2013 annual, 2014 interim and quarterly financial statements;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- review of the effectiveness of the system of internal control of the Group;
- the internal control reports submitted by the internal audit department of the Company;
- the management letter prepared by the external auditors;
- the audit fees payable to external auditors; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors, which the Board agreed and accepted.

DELEGATION BY THE BOARD (continued)

Audit Committee (continued)

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Committee is also supported by the staff of internal audit department and the external auditor.

Executive Committee

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required under the Listing Rules and other regulatory requirements.

The directors have acknowledged 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.

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditors' Report" on page 80.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the financial statements set out on pages 82 to 90 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "Management Discussion and Analysis" set out in pages 18 to 27 in this report.

ACCOUNTABILITY AND AUDIT (continued)

Financial Reporting (continued)

The Management provides the Board with sufficient explanation and information, such as the Group's major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company put before the Board for approval.

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.

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, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

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 internal control team of the Company. 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.

The internal control team of the Company independently reviewed the effectiveness of the internal controls, including financial, operational and compliance, in the key activities of the Company's business. The head of the internal control team of the Company reports to the Audit Committee and the Board chairman, and submits regular reports for its/his/her review in accordance with the approved review and audit mechanisms. The department submits a detailed report at least once a year to the Board for its review and monitors the effectiveness of the system of internal control of the Group.

External auditors will also report on the weakness in the Group's internal control and accounting procedure which have come to their attention during the course of audit.

For the year of 2014, no critical internal control issues have been identified.

Connected Transactions

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the independent shareholders in accordance with Listing Rules. The connected persons will be required to abstain from voting in the general meetings. Details of the connected transactions of the Company during the year are set out in the Directors' Report.

ACCOUNTABILITY AND AUDIT (continued)

Auditor's Remuneration

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

The below non-audit services included professional advisory on taxation, professional services in relation to the Company's announcements, interim results and continuing connected transactions.

Audit services	HK$7,374,000
Non-audit services (which include taxation compliance and agreed upon procedures)	HK$1,094,000

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 general manager of global finance control center and vice president of investor relations of the Company, Mr. WANG Pui, Janus. The Company Secretary is responsible to the Board and reports 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 2014. She has fulfilled the requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

Investor Relations

To promote open, transparent, efficient and consistent communications with the capital market, the Company has established a professional investor relations team, which is committed to proactively providing shareholders, investors and other capital market participants with the necessary information, data and services in a timely manner, to allow them to fully understand the strategy, operations and latest developments of the Group.

Apart from monthly press releases on sales of core products and operations, the Group's senior management team presented its annual and quarterly earnings results through telephone and physical conferences in 2014. Meanwhile, the Group communicated with investors and analysts on the Group's latest strategy and developments via various investor relations activities including analyst briefings, press conferences, site visits, global investor telephone conferences and roadshows.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (continued)

Investor Relations (continued)

In addition, the Group maintains proactive communications with global investors by participating in the following investor conferences held by international investment banks.

Major investor relations activities in 2014

Date	Event	Location
January 2014	DBS Vickers Pulse of Asia Conference 2014	Singapore
	CIMB 4G Corporate Day 2014	Hong Kong
	Credit Suisse Asia Technology and Taiwan Corporate Days	Hong Kong
March 2014	Nomura Non-Deal Roadshow	Hong Kong
	J.P. Morgan Non-Deal Roadshow	Hong Kong
	DBS Vickers Non-Deal Roadshow	Hong Kong
	China Merchants Non-Deal Roadshow	Hong Kong
	HSBC Non-Deal Roadshow	Taipei, Taiwan
	BAML Taiwan, Technology & Beyond Conference 2014	Taipei, Taiwan
	Morgan Stanley 2nd Annual Asia TMT & Internet Conference	Hong Kong
	Credit Suisse 17th Asian Investment Conference	Hong Kong
April 2014	J.P. Morgan Non-Deal Roadshow	Hong Kong
	CIMB Non-Deal Roadshow	Hong Kong
	Maybank Kim Eng Non-Deal Roadshow	Taipei, Taiwan
May 2014	Macquarie Greater China Conference 2014	Hong Kong
	J.P. Morgan Asia Rising Dragons 1x1 Forum	Hong Kong; Tokyo, Japan
	Nomura Non-Deal Roadshow	Tokyo, Japan
	DBS Vickers Pulse of Asia Conference 2014	Hong Kong
	BNP Paribas 5th Asia Pacific TMT Conference	Hong Kong
	Plant visit	Huizhou, China
	Nomura Pan-Asia Technology Forum 2014	Hong Kong
	Plant visit	Huizhou, China
	DBS Vickers Non-Deal Roadshow	Singapore; Kuala Lumpur, Malaysia
June 2014	J.P. Morgan Global China Summit 2014	Beijing, China
	Guosen HK/China Access Day	Hong Kong
	UBS Asian Consumer Conference 2014	Hong Kong
	GF Overseas China Concepts Stock Summer Investor Conference	Shenzhen, China
	Haitong Interim Investment Strategy Conference 2014	Qingdao, China
July 2014	DBS Vickers Non-Deal Roadshow	Hong Kong
August 2014	Credit Suisse Non-Deal Roadshow	Hong Kong
	UBS Non-Deal Roadshow	Taipei, Taiwan
	J.P. Morgan Non-Deal Roadshow	Hong Kong
	Haitong Non-Deal Roadshow	Hong Kong
	Maybank Kim Eng Non-Deal Roadshow	Singapore
September 2014	BNP Paribas Non-Deal Roadshow	London, the United Kingdom; Amsterdam, the Netherlands; Paris, France
	UBS Non-Deal Roadshow	Frankfurt, Germany
	Nomura China Investor Forum 2014	Shanghai, China
	Credit Suisse 15th Annual Asian Technology Conference	Taipei, Taiwan
	CIMB China TMT Corporate Day	Hong Kong
	Plant visit	Huizhou, China

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (continued)

Major investor relations activities in 2014 (continued)

Date	Event	Location
October 2014	Morgan Stanley Non-Deal Roadshow	Hong Kong
	CCB International Non-Deal Roadshow	Hong Kong
	Haitong Non-Deal Roadshow	Hong Kong
	Citi Non-Deal Roadshow	Taipei, Taiwan
November 2014	Goldman Sachs Non-Deal Roadshow	Beijing, China
	BAML China Conference 2014	Beijing, China
	Maybank Kim Eng Non-Deal Roadshow	Kuala Lumpur, Malaysia
	Morgan Stanley 13th Annual Asia Pacific Summit	Singapore
	DBS Vickers Non-Deal Roadshow	New York/Boston/San Francisco, the United States
	HSBC 6th Annual Asia Investor Forum	New York, the United States
	J.P. Morgan 2nd Annual Global TMT Conference	Hong Kong
	Plant visit	Huizhou, China
December 2014	Haitong Annual Investment Strategy Conference 2015	Shanghai, China
	Haitong Non-Deal Roadshow	Shanghai, China
	Barclays Asia TMT Conference 2014	Hong Kong
	Societe Generale/Ji Asia HK Conference 2014	Hong Kong
	Nomura Non-Deal Roadshow	Tokyo, Japan

To further enhance the efficiency of communication, the Group disseminates all the published corporate information, including announcements, press releases and event calendars, via the website of the Company at http://tclcom.tcl.com in a timely manner.

Market Recognition

The Group's continuous effort in investor relations has been widely recognized by the investment community and was given a number of awards in 2014, as shown below.

Date	Award	Organiser
March 2014	Capital Outstanding Enterprise Award	Capital Magazine
September 2014	International ARC Awards: Grand Award – Printing & Production (Hong Kong Traditional)	MerComm, Inc.
	Gold Award – Printing & Production (Telecommunications: Asia)	
	Bronze Award – Illustrations (Telecommunications: Asia)	
October 2014	Hong Kong Outstanding Enterprises Award 2014	Economic Digest
	Galaxy Awards: Honours Awards – Design – Annual Reports (Traditional: Hong Kong)	MerComm, Inc.
	Silver Awards – Annual Reports – Overall Presentation (Telecommunications)	
November 2014	IFAPC Outstanding Listed Company Award 2014	IFAPC* & Metro Finance Radio
	Best Investor Relations Campaign (Silver)	Marketing Magazine
	The Excellence of Listed Enterprise Award 2014	Capital Weekly
December 2014	Gold Corporate Award	The Asset

* The Hong Kong Institute of Financial Analysts and Professional Commentators Limited ("IFAPC")

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (continued)

Market Recognition (continued)

The Company has been selected as a constituent of the following indexes: Hang Seng Global Composite Index ("HSGCI"), Hang Seng Broad Consumption Index ("HSBCI"), Hang Seng Composite Index ("HSCI"), Hang Seng Composite Industry Index – Information Technology ("HSCIIT") and Hang Seng Composite SmallCap Index ("HSSI"). The investor relations team will continue to devote their best efforts to delivering ever better investor relations services.

Voting by Poll

The Company expresses in each relevant corporate communication that the shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the meeting would explain the voting procedure and answer any questions from the shareholders regarding voting in poll in the general meetings. The poll voting results of the general meetings were published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings were held.

Shareholders' Rights to Convene an Extraordinary General Meeting

Pursuant to Article 58 of the Company's Articles, 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.

Communication with Shareholders and Procedures for Putting Forward Proposals at General Meetings

A Shareholders Communication Policy was formulated and adopted on 24 February 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with shareholders.

All published information, including all the statutory announcements, press releases and event calendars, is promptly posted on the website of the Company 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.

The Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

Constitutional Documents

In 2014, no amendment had been made to the Articles of the Company.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency possible. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the website of the Company at http://tclcom.tcl.com. Enquiries and proposals to be put forward at shareholder meetings can also be sent to the board or senior management by contactin g the Investor Relations Department via e-mail to ir.tclcomm&tcl.com, or directly through the questions and answers session at shareholder meetings or press conference.


15:03
Google
15:03
Tuesday, December 30
Barcelona
26° C
Camera
Music
Play Store
Google

Corporate Social Responsibility Report

TCL Communication has long been publishing information about its corporate social responsibility activities. This year the Group initiates the first corporate social responsibility report to support the growth of the Group and its corporate governance initiatives.

The report covers the Group's operation from 1 January 2014 to 31 December 2014 unless otherwise stated. The report focuses the Group's continuous sustainable practices around the world, from supply chain to customers, employees to community and to the environment.

Supply Chain Management

The Group has stringent internal controls and holds the laws and regulations of each country in the highest regard. Since 2002 and 2012, the Group has obtained ISO9001 and TL9000 certifications respectively by implementing a structured quality management system. To maintain a sustainable relationship with our suppliers, the Group adheres strictly to the agreed payment terms and provides reasonable raw materials forecast. In addition, the Group also engages in regular meetings with suppliers to communicate the product strategy and demand plan. Any problems or concerns raised by suppliers are discussed in order to achieve a mutually beneficial and sustainable partnership.

Customers

The Group always strives to ensure that its products meet all applicable legal requirements by complying with the corporate strategies, policies and guidelines. Through a sound quality management system which has earned ISO9001 certification, the Group endeavors to deliver superior products, solutions, and services for its customers.

The Group works hand-in-hand with its customers in respect to both business operations and corporate social activities. In 2014, the Group participated in Deutsche Telekom Corporate Responsibility Dialogue Day and became one of the vendor pilots in China. Through this cooperation, The Group has committed to several new initiatives in energy conservation and workplace quality, including reducing fuel usage, lowering wastes, improvements to the working environment, employees' career development and remuneration, which will help the Group to make even greater progress in its corporate social responsibility.

Employees

Talent has always been one of the most important resources for the Group. By the end of 2014, there were over 14,000 employees at the Group. The Group is committed to nurturing its employees at all levels. Each year, the Group recruits outstanding university graduates from around the world, including Stanford University, Shenzhen Institute of Information Technology, Harbin Institute of Technology and South China University of Technology. To further the personal and career development of its employees, the Group runs the "Eagle Series" mentorship programme, with experienced employees providing training and sharing their invaluable experience with employees at different levels.

Throughout the years, the Group has ensured that all departments undertake team building and development activities in order to build employees' motivation, happiness and teamwork. In addition, "Human Resources Consultation Day" was established as a channel to understand employees' learning needs and ambitions. The Group also hosts "Family Open Day" so that employees' family members can get first-hand knowledge about the working environment.

The Group cares about its employees, especially when it comes to issues of health, wellness and accidents. Since 2014, the Group's "Love Fund" has provided financial assistance to employees in needs during difficult times.

The Group believes that a safe, effective and congenial work environment is crucial to the long-term sustainability of the Group. The Group has adhered strictly to OHSAS18001 (Occupational Health and Safety Management Systems) and SA8000 (Social Accountability) since 2008 and 2009 respectively. These certifications set the guidelines that the Group must treat employees with respect and fairness, as well as providing them a pleasant working environment. In addition, the Group operates in strict accordance with the labour laws of each country in which it has a presence. During the past five years, the Group has been received seven awards for being a good employer in China.

Community

The Group takes pride in giving back to the community and is committed to doing so on a continuing basis. The Group aims to support communities through projects and activities that focus on achieving communal wellbeing. Below are some examples of community activities that the Group was involved in during the year.

Community (continued)

1. Sports

   The Group sponsored and participated in various sports events during the year, including *The Color Run* in Houston, the United States; *Mandiri Run Bandung* in Bandung, Indonesia; *CPL Championship League*, the famous cricket competition in the Caribbean region; and various charity running events in China.

2. Social Services

   The Group views communities as one of important partners and acts as an active participant in the wellbeing of local communities. The Group partnered with Haven Foundation to support building sustainable community facilities in Haiti, including shelter, education, water and sanitation. Meanwhile, the Group also donated to various charity organisations in China to provide monetary assistance to underprivileged families and students.

3. Medical and Healthcare

   Raising healthcare awareness is crucial to the wellbeing of any community. That is why the Group, partnered with the Movember Foundation, ran a social media campaign across Facebook in the United States and Canada to promote awareness for prostate and testicular cancer and supported the campaign via product sponsorship.

   Furthermore, through collaboration with Aide et Action International, Orange Africa and UNICEF, the Group assisted in the production of a short video to encourage African citizens on birth registration with mobile phones in Africa in order to promote acquiring citizenship and protecting the rights of their newborn babies. The video was premiered at the 25th anniversary of the Convention on Children's Rights.

4. Education

   The Group actively promotes and explores the integration of technology and education to create more information technology education opportunities for disadvantaged groups. The Group donated tablets to selected secondary schools and primary schools with insufficient funding in Hong Kong which enabled students to enjoy information technology education and further equip them to grow in information economy.

Environmental Protection

To improve operational efficiency while reducing the impact on the environment from production, the Group complies with the following regulations and certifications to improve its production processes:

1. ISO14001 since 2005;

2. Restriction of Hazardous Substances (RoHS) since 2006;

3. QC080000 (Hazardous Substance Process Management (HSPM) system for electrical and electronic products and components manufacturers) since 2006;

4. Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) since 2011.


Jin
Want to have dinner tonight?
10:07 AM
12
80
Oct 20 Normal
Start
6

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 2014.

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

The Group's profit for the year ended 31 December 2014 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 82 to 179.

FINAL DIVIDENDS

The Board has proposed the payment of a final dividend of 26 HK cents (2013: 10 HK cents) in cash per ordinary share for the year ended 31 December 2014. Subject to the approval of the relevant resolution at the forthcoming annual general meeting to be held on 28 April 2015, the final dividend will be paid to the shareholders whose names appear on the register of members of the Company on 6 May 2015, Wednesday. The final dividend will be paid on or about 22 May 2015, Friday.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 April 2015, Monday, to 28 April 2015, Tuesday (both dates inclusive), for the purpose of determining the entitlement of the Shareholders to attend and vote at the AGM. No transfer of the Shares may be registered during the said period. In order to qualify to attend and vote at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 24 April 2015, Friday.

The register of members of the Company will be closed from 5 May 2015, Tuesday, to 6 May 2015, Wednesday (both dates inclusive), for the purpose of determining the entitlement of the Shareholders to the proposed final dividend upon passing of relevant resolution at the AGM. No transfer of the Shares may be registered during the said period. In order to qualify for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 4 May 2015, Monday.

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 180. 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 36 and 37 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 memorandum and 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 39 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, before payment of the proposed final dividend for the year ended 31 December 2014, the Company had distributable reserves of HK$624,785,000 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 the proposed final dividend out of its retained earnings and share premium account, the amount of the share premium account would be HK$540,081,000 while contributed surplus account would remain the same as aforesaid after the payment of the proposed final dividend.

MAJOR CUSTOMERS AND SUPPLIER

In the year under review, sales to the Group's five largest customers accounted for 31% of the total sales for the year and sales to the largest customer included therein amounted to 13%. Purchases from the Group's five largest suppliers accounted for 26% of the total purchases for the year and purchase from the largest supplier included therein amounted to 11%.

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 43(a) to the financial statements.

DIRECTORS

The Directors during the year 2014 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. HUANG Xubin
Mr. YAN Xiaolin
Ms. XU Fang

INDEPENDENT NON-EXECUTIVE DIRECTORS:
Mr. LAU Siu Ki
Mr. LOOK Andrew
Mr. KWOK Hoi Sing

In accordance with article 87(1) of the Articles, Mr. LI Dongsheng, Mr. GUO Aiping and Mr. WANG Jiyang will retire by rotation at the conclusion of the forthcoming AGM of the Company. All of them, being eligible, will offer themselves for re-election at the AGM.

DIRECTORS (continued)

If re-elected at the AGM, Mr. LI Dongsheng, Mr. GUO Aiping and Mr. WANG Jiyang, 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.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2014 Interim Report of the Company are set out below:

Name of Directors	Details of the Changes
GUO Aiping	Appointed as an executive director of TCL Corp. on 1 September 2014
XU Fang	Appointed as the chief human resources officer of TCL Multimedia on October 2014
LAU Siu Ki	Appointed as an independent non-executive director, the chairman of the audit committee, and a member of each of the remuneration committee and nomination committee of UKF (Holdings) Limited (Stock Exchange Main Board stock code: 01468, GEM stock code: 08168) on 16 March 2015
LOOK Andrew	Appointed as an independent non-executive director of Man Sang Jewellery Holdings Limited (Stock Exchange Main Board stock code: 01466) on 26 September 2014

DIRECTORS, SENIOR MANAGEMENT AND EXECUTIVES' BIOGRAPHIES

Biographical details of the Directors, senior management and executives of the Group are set out on pages 28 to 39 of this annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2014, 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 terminable 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 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 SCHEMES

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 43 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 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 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 Directors	Number of ordinary shares held: Personal interests	Family interests	Other interests	Number of underlying shares held under equity derivatives (Note i)	Total	Approximate percentage of issued share capital of the Company
LI Dongsheng	42,371,008	1,600,000	–	9,241,913	53,212,921	4.36%
GUO Aiping	2,213,293	–	–	8,744,828	10,958,121	0.90%
WANG Jiyang	2,052,944	–	–	3,260,498	5,313,442	0.44%
HUANG Xubin	–	–	–	1,016,035	1,016,035	0.08%
YAN Xiaolin	22,000	–	–	377,200	399,200	0.03%
XU Fang	–	–	–	2,628,100	2,628,100	0.22%
LAU Siu Ki	144,177	–	–	500,000	644,177	0.05%
KWOK Hoi Sing	–	–	–	500,000	500,000	0.04%

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

TCL Corp. (Note ii)

Name of Directors	Number of ordinary shares held: Personal interests	Family interests	Other interests (Note iii)	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Corp
LI Dongsheng	638,273,688	–	408,899,521	–	1,047,173,209	11.08%
WANG Jiyang	–	–	–	517,120	517,120	0.005%
HUANG Xubin	1,933,360	–	–	1,450,020	3,383,380	0.04%
YAN Xiaolin	793,000	–	–	1,522,400	2,315,400	0.02%
XU Fang	–	–	–	1,015,020	1,015,020	0.01%

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

TCL Multimedia (Note iv)

Name of Directors	Number of ordinary shares held: Personal interests	Family interests	Other interests (Note v & vi)	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Multimedia
LI Dongsheng	39,205,526	4,000,000	275,205	1,325,733	44,806,464	3.36%
WANG Jiyang	4,900,000	–	–	–	4,900,000	0.37%
HUANG Xubin	1,060,560	–	–	265,767	1,326,327	0.10%
YAN Xiaolin	390,600	–	–	106,300	496,900	0.04%
XU Fang	108,760	–	–	606,067	714,827	0.05%
LOOK Andrew	–	–	1,000,000	–	1,000,000	0.07%

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 Electronics (Note vii)

Name of Directors	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 Tonly Electronics
LI Dongsheng	5,306,968	380,700	–	5,687,668	2.28%
HUANG Xubin	4,325	–	–	4,325	0.002%
XU Fang	7,768	–	–	7,768	0.003%

Notes:

i. These equity derivatives were the share options granted to the Directors under the Old Share Option Scheme of the Company. Further details of the share options during the year under review were set out in note 37 to the financial statements.

ii. 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.

iii. Under the SFO, as at 31 December 2014, Mr. LI Dongsheng was deemed to be interested in 408,899,521 shares in TCL Corp. held by partnership enterprises ultimately controlled by him.

iv. 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.

v. The shares are awarded shares granted to the Mr. LI Dongsheng under the restricted share award scheme of TCL Multimedia and were not vested as at 31 December 2014.

vi. Under the SFO, as at 31 December 2014, Mr. LOOK Andrew was deemed to be interested in 1,000,000 shares in TCL Multimedia through a company ultimately controlled by him.

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 2014, 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 Schemes" and "Share Award Schemes" disclosed in notes 37 and 38 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 2014, the interests and short positions of the persons other than a Director or chief executive of the Company in shares and underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Type of interest	Interest in shares and underlying shares held	Approximate percentage of the issued shares capital of the Company	Notes
TCL Corp.	Interest of controlled corporation	733,251,000	60.06%	i
BNP Paribas Jersey Nominee Company Limited	Interest of nominee for another person (other than a bare trustee)	85,124,000	6.97%	ii
BNP Paribas Jersey Trust Corporation Limited	Interest of trustee (other than a bare trustee)	85,124,000	6.97%	ii
Cheah Capital Management Limited	Interest of controlled corporation	85,124,000	6.97%	ii
CHEAH Cheng Hye	Interest of founder of a discretionary trust	85,124,000	6.97%	ii
Cheah Company Limited	Interest of controlled corporation	85,124,000	6.97%	ii
TO Hau Yin	Interest of child under 18 or spouse	85,124,000	6.97%	ii
Value Partners Group Limited	Interest of controlled corporation	85,124,000	6.97%	ii

Notes:

i. Under the SFO, as at 31 December 2014, TCL Corp. was deemed to be interested in 733,251,000 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a direct wholly-owned subsidiary of TCL Corp. Such percentage is calculated based on aforesaid amount disclosed on the website of Stock Exchange, and the issued share capital of the Company as at 31 December 2014. The Company has been notified by TCL Corp. that the holding of T.C.L. Industries as at 31 December 2014 was 739,425,000 shares of the Company. However, the increase of such holding did not give rise to any disclosure obligation under the SFO.

ii. Under the SFO, as at 31 December 2014, aforesaid shareholders were interested/were deemed to be interested in aforesaid amount of shares of the Company. Their respective shareholding percentages are calculated based on their respective interest in the shares of the Company as disclosed on the website of Stock Exchange and the total number of issued shares of the Company as at 31 December 2014.

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 2014, 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 2014, 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.73 of the Listing Rules) during the year ended 31 December 2014:

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, 26 October 2011 and 11 November 2014 respectively. The terms of the said renewal agreements are substantially the same as their predecessors with some minor modifications.

CONNECTED TRANSACTIONS (continued)

The current master financial services (2014 renewal) agreement was entered into on 11 November 2014 commencing from 1 January 2015 to 31 December 2017. Further details of the said agreement were set out in the announcement of the Company dated 11 November 2014 and the circular of the Company dated 1 December 2014.

The deposit services under the said agreement and the proposed caps thereof were duly approved by the shareholders of the Company at the extraordinary general meeting held on 16 December 2014.

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$982,625,000 and a fee and commission of HK$203,000 in respect of other financial services has been paid by the Group.

b. On 13 September 2004, a brand promotion agreement was entered into between the Company and TCL Corp., pursuant to which the Group agreed to contribute a certain percentage of the Group's net sales (before value added tax) from the sale of mobile communication products bearing the "TCL" name and products sold for each of our financial quarters for a period of thirty-six calendar months to the TCL Brand Common Fund. As it wishes to continue the continuing connected transactions contemplated thereunder, the Company renewed the said agreement on 29 December 2006, 25 November 2009 and 17 December 2012 respectively. 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 was entered into on 17 December 2012 commencing from 1 January 2013 to 31 December 2015. Further details of the said 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.

CONNECTED TRANSACTIONS (continued)

During the year under review, the Group incurred an amount of HK$43,415,000 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 respectively. 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 was entered into on 17 December 2012 commencing from 1 January 2013 to 31 December 2015. Further details of the said 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$1,223,628,000 and HK$604,964,000 for the Overseas Goods and the PRC Goods respectively, of which the amount of HK$1,223,628,000 for the Overseas Goods comprised the consideration for the purchase of Overseas Goods amounting to HK$1,218,753,000 and the administration fee amounting to HK$4,875,000.

d. On 8 August 2011, a 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 commencing from 1 January 2014 to 31 December 2016. The terms of the said renewal agreement are substantially the same as its predecessors with some minor modifications.

   Further details regarding the said renewal agreement were set out in the announcements of the Company dated 22 October 2013. During the year under review, the consideration received by the Group for the transactions under the said renewal agreement was HK$151,564,000.

e. On 8 August 2011, a master lease agreement was entered into between Company and TCL Corp. commencing 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 said renewal agreement were set out in the announcement of the Company dated 22 October 2013. During the year under review, the total rental borne by the Company under the said renewal agreement (including all existing leases) amounted to HK$34,267,000.

f. On 26 June 2013, a 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 said 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 said agreement amounted to HK$52,882,000, 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$5,427,000 and HK$47,455,000 respectively.

CONNECTED TRANSACTIONS (continued)

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.) commencing 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 said agreement were set out in the announcement of the Company dated 26 March 2013.

   On 6 January 2014, a supplemental agreement was entered into among Huizhou TCL Mobile, TCL Real Estate (Huizhou) and TCL Industrial Park Property Management (Huizhou) Ltd. ("TCL Property Management (Huizhou)", a non-wholly owned subsidiary of TCL Corp.), pursuant to which the parties agreed, with effective from 6 January 2014, TCL Property Management (Huizhou) will replace TCL Real Estate (Huizhou) and become one of the contract parties of the Master Construction Management Agreement, continue to fulfill the responsibilities and obligations, also be entitled to enjoy relevant rights and interests.

   During the year under review, the service fee paid by Huizhou TCL Mobile under the said agreement amounted to HK$1,136,000.

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 management of the Company has decided not to renew the agreement after its expiry of term on 31 December 2014.

i. On 11 November 2014, a master payment services agreement was entered into between the Company and TCL Corp. commencing from 11 November 2014 and 10 November 2017, pursuant to which the relevant members of TCL Corp. would engage the relevant members of the Group to provide them with payment services, in consideration of the service fee for such services to be paid by the relevant members of TCL Corp.. Further details of the said agreement were set out in the announcement of the Company dated 11 November 2014.

   During the year under review, the service fee received by the Group under the said agreement amounted to HK$45,000.

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.73 of the Listing Rules) during the year ended 31 December 2014:

a. On 24 April 2014, a capital increase agreement of Kuyu (the "Kuyu Capital Increase Agreement") was entered into among Huizhou TCL Mobile; TCL Corp.; TCL King Electrical Appliances (Huizhou) Company Limited, TCL Air-conditioner (Zhongshan) Co., Ltd., TCL Home Appliance (Hefei) Co., Ltd., Foshan TCL Household Appliances (Nanhai) Co., Ltd., Huizhou TCL Light Electrical Appliances Co., Ltd., and Huizhou Kuyu Network Technology Co., Ltd. ("Kuyu"), all being associates of TCL Corp and connected persons of the Company; and Huizhou Pengpeng Keji Investment Partnership (Limited Partnership) and Huizhou Wuheshen Keji Investment Partnership (Limited Partnership), both being associates of TCL Multimedia; pursuant to which Huizhou TCL Mobile agreed to inject RMB50,000,000 in cash to Kuyu as its registered capital, to subscribe 10% interest in the enlarged registered capital of Kuyu, upon all of the conditions precedent of the Kuyu Capital Increase Agreement have been satisfied, in order to develop its online-to-offline business by taking advantage of the established e-commerce platform of Kuyu. Further details of the said agreement were set out in the announcement of the Company dated 24 April 2014.

CONNECTED TRANSACTIONS (continued)

As disclosed in the supplement announcement of the Company dated 20 June 2014, all conditions precedent under the Kuyu Capital Increase Agreement had been satisfied and fulfilled and abovementioned amount had been injected by Huizhou TCL Mobile on 20 June 2014 as Kuyu's enlarged registered capital and therefore would hold 10% interest in the enlarged registered capital of Kuyu after the completion of the relevant registration procedure in the PRC.

b. On 25 June 2014, a capital injection agreement (the "Capital Injection Agreement") was entered into among Shenzhen Quanhuifeng Technology Limited ("SZ Quanhuifeng", an indirect non-wholly owned subsidiary of the Company), Huizhou Cellutel Communication Co., Ltd. ("Cellutel", a non-wholly owned subsidiary of the Company) and TCL Corp., pursuant to which TCL Corp. agreed to inject a total amount of RMB60,000,000 (equivalent to approximately HK$75,600,000 calculated based the exchange rate on transaction date) in cash to Cellutel ("the Capital Injection"), of which (i) RMB33,330,000 (equivalent to approximately HK$42,000,000 calculated based the exchange rate on transaction date) would be contributed as its registered share capital; and (ii) the remaining RMB 26,670,000 (equivalent to approximately HK$33,600,000 calculated based the exchange rate on transaction date) would be used as the additional paid-in capital as share premium of Cellutel. After completion of the Capital Injection, the equity interest held by SZ Quanhuifeng in Cellutel was diluted from 100% to 60% of enlarged registered capital of Cellutel. Further details of the said agreement were set out in the announcement of the Company dated 25 June 2014.

During the year under review, the abovementioned amount of capital has been received.

c. On 9 October 2014, a shareholders agreement (the "Shareholders Agreement (Reachfull)") was entered into among Best Status Enterprises Limited ("Best Status", a directly wholly-owned subsidiary of the Company); T.C.L. Industries; Reachfull Investment Limited ("Reachfull", a wholly owned subsidiary of TCL Industries as of 9 October 2014); and Canaan Capital Limited and Right Dynamic Limited, both being independent third parties; pursuant to which Best Status subscribed 25% of the issued share capital of Reachfull, in order to develop the public enterprise cloud services platform. The parties to the Shareholders Agreement (Reachfull) agreed to inject a total amount of US$64,000,000 to Reachfull by three tranches, and the total amount of capital injection to be made by Best Status would be US$16,000,000.

Further details of the Shareholders Agreement (Reachfull) were set out in the announcement of the Company dated 9 October 2014.

During the year under review, the amount of capital injected by Best Status under Shareholders Agreement (Reachfull) was US$6,000,000.

CONNECTED TRANSACTIONS (continued)

d. On 11 November 2014, Prosper Fortune Enterprises Limited ("Prosper Fortune"), a wholly owned subsidiary of the Company, entered into a joint venture agreement (the "Joint Venture Agreement") with Sino Leader (Hong Kong) Limited, a wholly-owned subsidiary of TCL Multimedia, Crown Capital Enterprises Limited, an indirect wholly-owned subsidiary of TCL Corp., and the joint venture company (now named as TCL Smart Home Technologies Co., Limited, the "Joint Venture Company"), pursuant to which the parties thereto would jointly develop the relevant business comprising the provision of (i) the smart home appliances and integrated systems to end users, (ii) the smart home related applications and services to end users, (iii) the advertisement and consultancy services to smart appliance manufacturers, and (iv) the total solution of smart appliances and services provided to smart communities and smart cities. The parties to the Joint Venture Agreement agreed to inject a total of RMB90,000,000 into the Joint Venture Company by two tranches, with RMB30,000,000 as initial contribution and further injection of RMB60,000,000 upon request by the board of directors of the Joint Venture Company. The total capital committed by Prosper Fortune totally amounted to RMB36,000,000.

   During the year under review, no amount of capital was injected by Prosper Fortune under the Joint Venture Agreement.

The Group has finalized the forms of the following agreements which constitute connected transactions/continuing connected transactions (other than transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2014:

On 9 October 2014, the terms of the following VIE structure contracts (the "Structure Contracts (VIE (A)"), collectively (1) a powers of attorney; (2) an exclusive purchase right agreement; (3) an equity interest pledge agreement; and (4) an exclusive business cooperation agreement (Cellutel) (the "Exclusive Business Cooperation Agreement (Cellutel)") to be entered into by Cellutel and Qianhai Huiyintong Technology Services ("Qianhai Huiyintong") with each of SZ Quanhuifeng and TCL Corp. were finalized. The purpose of the Structure Contracts (VIE (A)) was to facilitate the development of the transaction payment services and its related value-added services. Through Structure Contracts (VIE(A)), Qianhai Huiyintong would have effective control over the finance, operation strategies and decision making of Cellutel; and the entire economic risks and benefits in Cellutel (other than those related to the online collaboration business) would in effect be transferred to Qianhai Huiyintong.

The Exclusive Business Cooperation Agreement (Cellutel) constitutes continuing connected transactions of the Company with a term of 3 years, pursuant to which Qianhai Huiyintong would provide Cellutel with technological support, consultancy and other services in respect of the business of Cellutel, and Cellutel would grant to Qianhai Huiyintong the exclusive right to purchase any or all assets and/or businesses of Cellutel (other than the online collaboration business and its related assets) at the minimum price allowed under PRC laws. During the year under review, no consideration was paid by Cellutel under the Exclusive Business Cooperation Agreement (Cellutel).

Further details of the Structure Contracts (VIE (A)) were set out in the announcement of the Company dated 9 October 2014.

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 better 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.

CONNECTED TRANSACTIONS (continued)

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 all material respects 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 all material respects, in accordance with the terms of the relevant agreements governing the transactions; and

(iv) have not exceeded the relevant caps.

CORPORATE GOVERNANCE

Details of the Group's governance practices can be found in the Corporate Governance Report contained on pages 40 to 59 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 48 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 2014 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
2 March 2015


15:03
Google
15:03
Mon 2 March
26°c
Barcelona
Sun
Apps
Shop
Games
Mix
Camera
Gallery
Play Store
Google
Pixi
ALCATEL
onetouch
Pixi
ALCATEL
onetouch

Independent Auditors' Report

安永

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

We have audited the consolidated financial statements of TCL Communication Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 82 to 179, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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' judgement, 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 2014, 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

2 March 2015

Consolidated Statement of Profit or Loss

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
REVENUE	8	**30,691,054**	19,362,061
Cost of sales		**(24,773,502)**	(15,689,908)
Gross profit		**5,917,552**	3,672,153
Other income and gains	8	**582,122**	512,743
Research and development costs	9	**(1,479,149)**	(1,064,154)
Selling and distribution expenses		**(2,420,176)**	(1,611,218)
Administrative expenses		**(1,246,383)**	(946,351)
Other operating expenses		**(105,073)**	(158,229)
Finance costs	10	**(99,513)**	(104,983)
Share of loss of associates		**(364)**	(1,581)
PROFIT BEFORE TAX	9	**1,149,016**	298,380
Income tax	12	**(41,476)**	17,798
PROFIT FOR THE YEAR		**1,107,540**	316,178
Attributable to:			
Owners of the parent	13	**1,092,507**	313,422
Non-controlling interests		**15,033**	2,756
		1,107,540	316,178
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	15		
Basic		**91.58 HK cents**	27.50 HK cents
Diluted		**88.25 HK cents**	26.56 HK cents

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 2014

	Notes	2014 HK$'000	2013 HK$'000
PROFIT FOR THE YEAR		**1,107,540**	316,178
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
An available-for-sale investment:			
Changes in fair value	23	**(5,938)**	–
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	31	**402,784**	68,352
Reclassification adjustments for gains included in the consolidated statement of profit or loss	31	**(178,280)**	(99,665)
Income tax effect	31	**18,939**	(1,372)
		243,443	(32,685)
Exchange differences on translation of foreign operations		**(155,910)**	143,235
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**81,595**	110,550
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**81,595**	110,550
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,189,135**	426,728
Attributable to:			
Owners of the parent		**1,174,102**	423,972
Non-controlling interests		**15,033**	2,756
		1,189,135	426,728

Consolidated Statement of Financial Position

31 December 2014

	Notes	**2014 HK$'000**	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,439,029**	940,599
Investment properties	17	**43,117**	–
Prepaid land lease payments	18	**116,086**	128,933
Other intangible assets	19	**1,260,093**	955,821
Goodwill	20	**253,954**	253,954
Investments in associates	22	**52,925**	5,143
Available-for-sale investments	23	**227,738**	77,144
Deferred tax assets	35	**297,641**	195,340
Total non-current assets		**3,690,583**	2,556,934
CURRENT ASSETS			
Inventories	24	**3,293,292**	2,649,306
Trade receivables	25	**7,872,681**	5,550,714
Factored trade receivables	26	**371,380**	484,856
Notes receivable		**95,546**	34,244
Prepayments, deposits and other receivables	27	**1,492,170**	1,151,117
Due from related companies	43(d)	**62,382**	48,653
Tax recoverable		**11,111**	13,931
Derivative financial instruments	31	**419,240**	93,233
Pledged deposits	28	**1,914,380**	1,698,028
Cash and cash equivalents	28	**473,391**	142,008
Total current assets		**16,005,573**	11,866,090
CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	**3,940,791**	2,204,923
Trade and notes payables	30	**5,166,744**	3,874,663
Bank advances on factored trade receivables	26	**371,380**	484,856
Other payables and accruals		**4,953,416**	3,148,245
Derivative financial instruments	31	**49,391**	92,396
Provision for warranties	32	**462,500**	306,663
Loan from a related company	29,43(d)	**–**	763,080
Due to related companies	43(d)	**416,086**	333,361
Tax payable		**47,717**	12,627
Total current liabilities		**15,408,025**	11,220,814
NET CURRENT ASSETS		**597,548**	645,276
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,288,131**	3,202,210

continued/...

Consolidated Statement of Financial Position

31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,288,131**	3,202,210
NON-CURRENT LIABILITIES			
Retirement indemnities	33	**4,827**	5,740
Long service medals	34	**2,017**	2,452
Interest-bearing bank borrowings	29	**–**	196,120
Deferred tax liabilities	35	**102,205**	84,844
Total non-current liabilities		**109,049**	289,156
Net assets		**4,179,082**	2,913,054
EQUITY			
Equity attributable to owners of the parent			
Issued capital	36	**1,220,766**	1,162,460
Shares held for Share Award Scheme	38	**(9,629)**	(65,786)
Reserves	39(a)	**2,559,353**	1,695,582
Proposed final dividend	14	**318,358**	117,141
		4,088,848	2,909,397
Non-controlling interests		**90,234**	3,657
Total equity		**4,179,082**	2,913,054

LI Dongsheng
Director

GUO Aiping
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to owners of the parent														
	Issued capital HK$'000 (note 36)	Share premium account HK$'000 (note 36)	Shares held for Share Award Scheme HK$'000 (note 38)	Awarded shares reserve HK$'000 (note 38)	Share option reserve HK$'000 (note 37)	Hedging reserve HK$'000 (note 31)	Contributed surplus HK$'000 (note 39(a))	Statutory reserve HK$'000 (note 39(a))	Other reserve HK$'000 (note 39(a))	Exchange fluctuation reserve HK$'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

continued/...

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to owners of the parent														Non-controlling interests	Total equity
	Issued capital	Share premium account	Shares held for Share Award Scheme	Awarded shares reserve	Share option reserve	Hedging reserve	Contributed surplus	Statutory reserve	Available-for-sale investment revaluation reserve	Other reserve	Exchange fluctuation reserve	Proposed final dividend	Retained profits	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(note 36)	(note 36)	(note 38)	(note 38)	(note 37)	(note 31)	(note 39(a))	(note 39(a))	(note 23)	(note 39(a))						
At 1 January 2014	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
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	1,092,507	1,092,507	15,033	1,107,540
Other comprehensive income for the year:																
Changes in fair value of available-for-sale investment, net of tax	-	-	-	-	-	-	-	-	(5,938)	-	-	-	-	(5,938)	-	(5,938)
Cash flow hedges, net of tax	-	-	-	-	-	243,443	-	-	-	-	-	-	-	243,443	-	243,443
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	(155,910)	-	-	(155,910)	-	(155,910)
Total comprehensive income for the year	-	-	-	-	-	243,443	-	-	(5,938)	-	(155,910)	-	1,092,507	1,174,102	15,033	1,189,135
Exercise of share options	51,440	173,433	-	-	(63,687)	-	-	-	-	-	-	-	-	161,186	-	161,186
Issue of new shares under Share Award Scheme	6,866	14,749	-	(21,615)	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of lapsed share options	-	636	-	-	(636)	-	-	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	35,499	-	-	-	-	-	-	-	-	35,499	-	35,499
Share Award Scheme arrangements	-	-	-	82,583	-	-	-	-	-	-	-	-	-	82,583	-	82,583
Reclassification of vested awarded shares	-	24,494	56,157	(80,651)	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,846)	(26,846)
Addition of non-controlling interests	-	-	-	-	-	-	-	-	-	244	-	-	-	244	98,390	98,634
Transfer from retained profits	-	-	-	-	-	-	-	69,574	-	-	-	-	(69,574)	-	-	-
2013 final dividend declared	-	-	-	-	-	-	-	-	-	-	-	(117,141)	(2,042)	(119,183)	-	(119,183)
2014 interim dividend declared	-	-	-	-	-	-	-	-	-	-	-	-	(154,980)	(154,980)	-	(154,980)
2014 final dividend proposed	-	(84,704)	-	-	-	-	-	-	-	-	-	318,358	(233,654)	-	-	-
At 31 December 2014	1,220,766	546,272*	(9,629)	18,454*	86,920*	226,008*	232,555*	362,649*	(5,938)*	(129,988)*	206,439*	318,358	1,015,982*	4,088,848	90,234	4,179,082

* These reserve accounts comprise the consolidated reserves of HK$2,559,353,000 (31 December 2013: HK$1,695,582,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,149,016**	298,380
Adjustments for:			
Share of loss of associates		**364**	1,581
Interest income	8	**(68,833)**	(112,991)
Dividend income from available-for-sale investments	8	**(9,149)**	(179)
Depreciation of property, plant and equipment	9	**185,218**	147,302
Depreciation of investment properties	9	**1,677**	–
Prepaid land lease recognised	9	**2,106**	2,513
Amortisation of computer software, intellectual property and ALCATEL brand license	9	**48,437**	43,929
Amortisation of deferred development costs	9	**1,117,146**	944,471
Loss/(gain) on disposal of items of property, plant and equipment	9	**589**	(816)
Equity-settled share option expenses	9	**17,808**	35,024
Equity-settled Share Award Scheme expenses	9	**32,367**	19,180
Impairment loss of trade receivables	9	**12,516**	47,029
(Reversal of)/provision for impairment loss of other receivables	9	**(1,985)**	2,512
Gain on deemed disposal of an investment in an associate	9	**(1,755)**	–
Finance costs	10	**99,513**	104,983
(Gain)/loss on changes in fair value of derivative financial instruments	31	**(144,857)**	4,216
		2,440,178	1,537,134
Increase in inventories		**(749,957)**	(1,353,700)
Increase in trade receivables		**(2,922,577)**	(2,816,628)
Decrease/(increase) in factored trade receivables		**113,476**	(52,522)
(Increase)/decrease in notes receivable		**(61,302)**	4,976
(Increase)/decrease in prepayments, deposits and other receivables		**(264,188)**	40,704
Decrease in derivative financial instruments, net		**901**	14,139
Increase in amounts due from related companies		**(10,861)**	(9,535)
Increase in trade and notes payables		**1,710,849**	1,562,406
Increase in other payables and accruals		**1,735,431**	1,505,995
Increase in provision for warranties		**184,022**	114,626
Increase in amounts due to related companies		**80,838**	225,095
(Decrease)/increase in retirement indemnities	33	**(254)**	1,771
(Decrease)/increase in long service medals		**(158)**	514
Cash generated from operations		**2,256,398**	774,975
Tax paid		**(83,027)**	(16,353)
Interest paid		**(90,146)**	(118,812)
Net cash flows from operating activities		**2,083,225**	639,810

continued/...

Consolidated Statement of Cash Flows

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Net cash flows from operating activities		**2,083,225**	639,810
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(683,958)**	(483,830)
Additions to prepaid land lease payments		**–**	(330)
Additions to other intangible assets		**(1,470,579)**	(1,004,728)
Proceeds from disposal of prepaid land lease payments and affiliated buildings		**1,306**	78,294
Proceeds from disposal of items of property, plant and equipment		**590**	5,971
Proceeds from retirement and disposal of other intangible assets		**309**	317
Purchase of available-for-sale investments		**(131,364)**	(50,872)
Investment in an associate		**(46,532)**	(3,140)
Dividends received from available-for-sale investments		**4,975**	179
Interest received		**60,976**	195,354
Net cash flows used in investing activities		**(2,264,277)**	(1,262,785)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of new shares by exercise of share options		**161,186**	78,038
Addition of non-controlling interests		**98,634**	–
Acquisition of non-controlling interests		**(636)**	–
(Increase)/decrease in pledged deposits		**(216,352)**	2,523,097
(Decrease)/increase in bank advances on factored trade receivables		**(113,476)**	52,522
New bank loans		**10,356,809**	7,332,703
New loans from related companies	43(a)	**–**	1,062,578
Repayments of bank loans		**(8,817,058)**	(10,851,876)
Repayments of loans from related companies		**(761,193)**	(427,197)
Dividends paid		**(274,161)**	–
Net cash flows from/(used in) financing activities		**433,753**	(230,135)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**252,701**	(853,110)
Cash and cash equivalents at beginning of year		**142,008**	969,789
Effect of foreign exchange rate changes, net		**78,682**	25,329
CASH AND CASH EQUIVALENTS AT END OF YEAR		**473,391**	142,008
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	28	**473,391**	142,008

Statement of Financial Position

31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Other intangible assets	19	**241,668**	267,366
Investments in subsidiaries	21	**1,840,070**	1,740,522
Total non-current assets		**2,081,738**	2,007,888
CURRENT ASSETS			
Due from subsidiaries	21	**1,606,646**	1,595,257
Prepayment, deposits and other receivables	27	**1,407**	10,141
Cash and cash equivalents	28	**558**	2,318
Total current assets		**1,608,611**	1,607,716
CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	**194,018**	193,777
Due to subsidiaries	21	**643,179**	336,344
Other payables and accruals		**8,295**	7,932
Total current liabilities		**845,492**	538,053
NET CURRENT ASSETS		**763,119**	1,069,663
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,844,857**	3,077,551
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	**–**	193,933
Total non-current liabilities		**–**	193,933
Net assets		**2,844,857**	2,883,618
EQUITY			
Issued capital	36	**1,220,766**	1,162,460
Shares held for Share Award Scheme	38	**(9,629)**	(65,786)
Reserves	39(b)	**1,315,362**	1,669,803
Proposed final dividend	14	**318,358**	117,141
Total equity		**2,844,857**	2,883,618

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") were principally engaged in the research and development, manufacture and sale of mobile phones and other products and provision of services.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company are T.C.L. Industries Holdings (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") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for the forward contracts, interest rate swaps and a listed equity investment 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 2014. 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.

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

The Board has approved share award schemes ("Share Award Scheme") to provide incentives to employees of the Group and to retain and encourage employees for the continual operation and development of the Group. Pursuant to the rules of Share Award Scheme, the Group has set up the Share Award Scheme Trust for the purpose of administering Share Award Scheme 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 consolidates the Share Award Scheme Trust under the requirement of HKAS 27 (Revised) *Separate Financial Statements*.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK (IFRIC)-Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included *in Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective HKFRSs*

[1] Effective from 1 July 2014

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Except for the amendment to HKFRS 1 which is only relevant to an entity's first HKFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

(a) 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 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 amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

(b) 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 have had no impact on the Group as the Group does not have any changes on offsetting policy as a result of the clarification of the amendments.

(c) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

(d) HK (IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of HK (IFRIC)-Int 21.

(e) The HKFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Except for the amendment to HKFRS 1 which is only relevant to an entity's first HKFRS financial statements, the nature and the impact of each amendment and interpretation is described below: (continued)

(f) The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact on the Group.

(g) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

4. NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKFRS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[2]

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 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 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.

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

4. NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

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

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 3, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments:* Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

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 that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* 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.

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 of 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 and listed equity investment 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, investment properties 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.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured and stated at cost, including transaction costs, less any impairment losses.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

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 useful 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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

Purchased intellectual property with indefinite useful life is stated at cost, less any identified impairment losses.

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 lessor, assets leased by the Group under operating leases are included in non-financial assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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.

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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, amounts due to related companies, derivative financial instruments, interest-bearing bank borrowings and a loan from a related company.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

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.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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) service income, upon provision of the relevant services;
(d) dividend income, when the shareholders' right to receive payment has been established; and
(e) gross rental income, on a time proportion basis over the lease terms.

Employee benefits

Share-based payments

The Company currently operates the New Share Option Scheme and the Share Award Scheme B 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 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 37 and note 38 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

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

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

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

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

Shares held for the Share Award Scheme

As disclosed in note 38 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 expenses 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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).

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.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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 2014 was HK$1,439,029,000 (31 December 2013: HK$940,599,000). 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 provisions

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 2014, the carrying amount of warranty provisions was HK$462,500,000 (31 December 2013: HK$306,663,000). Further details are included in note 32 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 2014 and 2013 was HK$253,954,000. More details are given in note 20 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 2014 were HK$7,872,681,000 (31 December 2013: HK$5,550,714,000) and HK$1,305,737,000 (31 December 2013: HK$1,039,444,000) respectively. Further details are given in note 25 and note 27 to the financial statements.

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provisions 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 provisions 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 2014 was HK$3,293,292,000 (31 December 2013: HK$2,649,306,000). Further details are given in note 24 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 amount of deferred tax assets at 31 December 2014 was HK$297,641,000 (31 December 2013: HK$195,340,000). The amount of unrecognised tax losses at 31 December 2014 was HK$2,241,653,000 (31 December 2013: HK$2,606,320,000). Further details are included in note 35 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 2014, the best estimate of the carrying amount of capitalised development costs was HK$885,379,000 (31 December 2013: HK$617,981,000). Further details are included in note 19 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 and provision of services. 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	
	2014	2013
	HK$'000	HK$'000
Americas	**15,870,261**	8,715,197
Europe, the Middle East and Africa	**9,731,503**	7,758,698
China	**2,889,572**	1,411,863
Asia pacific	**2,199,718**	1,476,303
Total	**30,691,054**	19,362,061

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

(b) *Non-current assets*

Because the 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.

Revenue about a major customer

For the year ended 31 December 2014, revenue of HK$3,895,969,000 was derived from a single customer in Americas, which accounted for more than 10% of the total revenue of the Group.

For the year ended 31 December 2013, 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 and services provided 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:

	Note	Group 2014 HK$'000	Group 2013 HK$'000
Revenue			
Sale of mobile phones and other products and provision of services		**30,691,054**	19,362,061
Other income and gains			
Bank interest income		**68,833**	112,991
Gross rental income		**10,068**	–
Subsidy income*		**84,451**	69,048
Value-added tax ("VAT") refunds**		**353,507**	253,857
Processing income		**11,728**	56,038
Gain on deemed disposal of investment in an associate	9	**1,755**	–
Gain on disposal of items of property, plant and equipment		**–**	816
Dividend income from available-for-sale investments		**9,149**	179
Others		**42,631**	19,814
		582,122	512,743

* 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 2014 and 2013, 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 BEFORE TAX

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

		Group	
		2014	2013
	Notes	**HK$'000**	HK$'000
Cost of inventories sold		**24,773,502**	15,689,908
Depreciation of property, plant and equipment	16	**185,218**	147,302
Depreciation of investment properties	17	**1,677**	–
Prepaid land lease recognised	18	**2,106**	2,513
Amortisation of computer software, intellectual property and ALCATEL brand license	19	**48,437**	43,929
Research and development costs:			
Deferred expenditure amortised	19	**1,117,146**	944,471
Current year expenditure		**362,003**	119,683
		1,479,149	1,064,154
Brand management fee/TCL Brand Common Fund		**43,415**	9,515
Minimum lease payments under operating leases in respect of land and buildings		**110,653**	80,486
Auditors' remuneration		**8,468**	6,509
Employee benefit expense (including directors' and chief executive's remuneration (note 11))*:			
Salaries and wages		**1,655,753**	1,412,948
Equity-settled expenses:			
Share options		**17,808**	35,024
Share Award Scheme		**32,367**	19,180
Pension scheme contributions:			
The contribution plan		**433,614**	154,979
The pension plan	33	**(254)**	1,771
		2,139,288	1,623,902
Exchange loss, net**		**23,999**	137,435
Including: Exchange (gain)/loss on derivative financial instruments		**(233,875)**	8,257
Ineffectiveness of cash flow hedges		**(103,675)**	65,633
Finance costs of loans hedged by interest rate swaps	31	**3,607**	26,377
Impairment loss of trade receivables	25	**12,516**	47,029
(Reversal of)/provision for impairment loss of other receivables	27	**(1,985)**	2,512
Product warranty provisions	32	**666,775**	374,953
Loss/(gain) on disposal of items of property, plant and equipment		**589**	(816)
Gain on deemed disposal of an investment in an associate	8	**(1,755)**	–
Write-down of inventories to net realisable value		**41,248**	86,829
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	17	**1,677**	–
Rental income on investment properties less direct operating expenses		**8,391**	–

9. PROFIT 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	
	2014	2013
	HK$'000	HK$'000
Interest on loans wholly repayable within two years	**87,779**	96,329
Interest on discounted notes and factored trade receivables*	**11,734**	8,654
	99,513	104,983

* The effective interest rate of factored trade receivables is 0.15% (2013: 0.15%) 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 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap.622), with reference to Section 161 of the predecessor Hong Kong Companies Ordinance (Cap 32), is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Fees	**1,290**	1,290
Other emoluments:		
Salaries, allowances and benefits in kind	**3,333**	3,233
Equity-settled share option and Share Award Scheme benefits	**4,218**	14,344
Pension scheme contributions	**151**	179
	8,992	19,046

During the years ended 31 December 2014 and 2013, certain Directors and the chief executive were granted share options or awarded shares. The grant of share options and awarded shares was in respect of their services to the Group, under the Old Share Option Scheme and the Share Award Scheme of the Company, further details are set out in notes 37 and 38 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

2014	**Fees HK$'000**	**Equity-settled share options benefits HK$'000**	**Total remuneration HK$'000**
Mr. LAU Siu Ki	**180**	**21**	**201**
Mr. LOOK Andrew	**180**	**21**	**201**
Mr. KWOK Hoi Sing	**180**	**21**	**201**
	540	**63**	**603**

2013	Fees HK$'000	Equity-settled share options benefits HK$'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

There were no other emoluments payable to the Independent Non-executive Directors during the year (2013: Nil).

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

2014

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share options and Share Award Scheme benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:					
Mr. LI Dongsheng	**130**	**–**	**738**	**6**	**874**
Mr. GUO Aiping (dual appointment as Chief Executive)	**130**	**2,060**	**1,476**	**33**	**3,699**
Mr. WANG Jiyang	**130**	**1,273**	**1,530**	**112**	**3,045**
Non-executive Directors:					
Mr. HUANG Xubin	**120**	**–**	**172**	**–**	**292**
Mr. YAN Xiaolin	**120**	**–**	**67**	**–**	**187**
Ms. XU Fang	**120**	**–**	**172**	**–**	**292**
	750	**3,333**	**4,155**	**151**	**8,389**

2013

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share options and Share Award Scheme benefits 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

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 (2013: two) 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 (2013: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2014 **HK$'000**	2013 HK$'000
Salaries, allowances and benefits in kind	**6,362**	9,692
Equity-settled share option and Share Award Scheme benefits	**3,457**	8,909
Pension scheme contributions	**1,276**	2,587
	11,095	21,188

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 **2014**	2013
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	–
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	3

During the year and previous years, share options and awarded shares were granted to two (2013: three) 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 37 and 38 to the financial statements. The fair values of share 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

No Hong Kong profits tax has been provided (2013: 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 jurisdictions in which the Group operates.

	Group	
	2014	2013
	HK$'000	HK$'000
Current		
Charge for the year:		
The PRC	**36,781**	9,862
France	**14,895**	9,838
Mexico	**22,551**	5,839
Russia	**4,115**	7,802
Brazil	**–**	1,657
Italy	**827**	–
The United States	**21,134**	2,512
Underprovision/(overprovision) in prior years	**19,849**	(1,791)
	120,152	35,719
Deferred (note 35)	**(78,676)**	(53,517)
Tax charge/(credit) for the year	**41,476**	(17,798)

12. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit 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

	2014 HK$'000	**%**	2013 HK$'000	%
Profit before tax	**1,149,016**		298,380	
Tax at the statutory tax rates	**331,527**	**28.9**	160,388	53.7
Lower tax rates for specific provinces or enacted by local authorities	**(274,599)**	**(23.9)**	(289,976)	(97.2)
Effect on opening deferred tax of increase in rates	**(16,410)**	**(1.4)**	–	–
Adjustment in respect of current tax of previous periods	**19,849**	**1.7**	(1,791)	(0.6)
Income not subject to tax	**(77,612)**	**(6.8)**	(38,889)	(13.0)
Expenses not deductible for tax	**103,687**	**9.0**	102,532	34.4
Tax effect of expenses that are entitled to additional deduction	**(41,926)**	**(3.6)**	(28,784)	(9.6)
Tax losses utilised from previous periods	**(95,996)**	**(8.4)**	(18,238)	(6.1)
Tax losses not recognised	**101,374**	**8.8**	114,140	38.2
Others*	**(8,418)**	**(0.7)**	(17,180)	(5.8)
Tax charge/(credit) at the Group's effective rate	**41,476**	**3.6**	(17,798)	(6.0)

* 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 ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a loss of HK$43,866,000 (2013: profit of HK$581,554,000) which has been dealt with in the financial statements of the Company (note 39(b)).

14. DIVIDENDS

	2014 HK$'000	2013 HK$'000
Interim – 12.8 HK cents (2013: Nil) per ordinary share	**154,980**	–
Proposed final – 26.0 HK cents (2013: 10.0 HK cents) per ordinary share	**318,358**	117,141
	473,338	117,141

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 PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,192,937,333 (2013: 1,139,549,419) in issue during the year.

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

The calculation of basic and diluted earnings per share is based on:

	2014 HK$'000	2013 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**1,092,507**	313,422

Shares	**Number of shares For the year ended 31 December 2014**	2013
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,192,937,333**	1,139,549,419
Effect of dilution – weighted average number of ordinary shares:		
Share options	**39,437,792**	27,829,170
Awarded shares	**5,646,830**	12,658,120
	45,084,622	40,487,290
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**1,238,021,955**	1,180,036,709

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 2014						
At 31 December 2013 and at 1 January 2014:						
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
At 1 January 2014, net of accumulated depreciation and impairment	237,618	400,332	123,756	6,280	172,613	940,599
Additions	878	393,137	105,859	1,028	222,336	723,238
Disposals	–	(160)	(865)	(154)	–	(1,179)
Depreciation provided during the year (note 9)	(14,079)	(99,661)	(68,935)	(2,543)	–	(185,218)
Transfers	284,813	26,141	21,050	–	(366,324)	(34,320)
Exchange realignment	479	(251)	(3,063)	(63)	(1,193)	(4,091)
At 31 December 2014, net of accumulated depreciation and impairment	509,709	719,538	177,802	4,548	27,432	1,439,029
At 31 December 2014:						
Cost	546,944	1,392,615	471,636	17,042	27,432	2,455,669
Accumulated depreciation and impairment	(37,235)	(673,077)	(293,834)	(12,494)	–	(1,016,640)
Net carrying amount	509,709	719,538	177,802	4,548	27,432	1,439,029

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 2013						
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

At 31 December 2014, certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying amount of HK$417,976,000 (31 December 2013: HK$178,695,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining these certificates.

At 31 December 2014, certain items of the Group's machinery with a net carrying amount of HK$2,179,000 (31 December 2013: HK$3,512,000) were pledged for interest-bearing bank borrowings amounted to HK$654,000 (31 December 2013: HK$2,188,000) (note 29).

17. INVESTMENT PROPERTIES

	Group HK$'000
31 December 2014	
At 31 December 2013 and 1 January 2014, net of accumulated depreciation and impairment	**–**
Transferred from ower-occupied property	**44,601**
Depreciation provided during the year (note 9)	**(1,677)**
Exchange realignment	**193**
At 31 December 2014, net of accumulated depreciation and impairment	**43,117**
At 31 December 2014:	
Cost	**60,254**
Accumulated depreciation and impairment	**(17,137)**
Net carrying amount	**43,117**

The Group's investment properties consist of land and buildings situated in Mainland China, all of which are held under short term leases.

The investment properties are leased to a related company of the Company under operating leases to earn rental, further details of which are included in note 43(a) to the financial statements.

The fair value of the investment property cannot be reliably measured because the probabilities of the various estimates within the range of reasonable fair value estimates cannot be reasonably assessed and used in estimating fair value.

18. PREPAID LAND LEASE PAYMENTS

	Group	
	2014 HK$'000	2013 HK$'000
Carrying amount at 1 January	**128,933**	176,656
Additions	**–**	330
Disposals	**–**	(50,279)
Transfers	**(10,281)**	–
Recognised during the year (note 9)	**(2,106)**	(2,513)
Exchange realignment	**(460)**	4,739
Carrying amount at 31 December	**116,086**	128,933

As at 31 December 2014 and 31 December 2013, the Group's leasehold land situated in Mainland China was held under long term leases.

19. 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 2014						
Cost at 1 January 2014, net of accumulated amortisation	617,981	28,394	49,562	5,551	254,333	955,821
Additions	1,384,777	23,760	62,042	–	–	1,470,579
Retirements and disposals	–	(309)	–	–	–	(309)
Amortisation provided during the year	(1,117,146)	(10,375)*	(14,585)*	–	(23,477)*	(1,165,583)
Exchange realignment	(233)	(48)	(132)	(2)	–	(415)
At 31 December 2014	885,379	41,422	96,887	5,549	230,856	1,260,093
At 31 December 2014:						
Cost	3,993,377	94,490	143,074	5,549	311,824	4,548,314
Accumulated amortisation	(3,107,998)	(53,068)	(46,187)	–	(80,968)	(3,288,221)
Net carrying amount	885,379	41,422	96,887	5,549	230,856	1,260,093

19. 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 2013						
Cost at 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

* Being the amortisation of computer software, intellectual property and ALCATEL brand license charged to the statement of profit or loss of HK$48,437,000 (2013: HK$43,929,000) (note 9) during the year.

19. OTHER INTANGIBLE ASSETS (continued)

Company

	Computer software HK$'000	Intellectual property HK$'000	ALCATEL brand license HK$'000	Total HK$'000
31 December 2014				
Cost at 1 January 2014, net of accumulated amortisation	**–**	**13,033**	**254,333**	**267,366**
Additions	**81**	**–**	**–**	**81**
Amortisation provided during the year	**(2)**	**(2,300)**	**(23,477)**	**(25,779)**
At 31 December 2014	**79**	**10,733**	**230,856**	**241,668**
At 31 December 2014:				
Cost	**81**	**13,800**	**254,333**	**268,214**
Accumulated amortisation	**(2)**	**(3,067)**	**(23,477)**	**(26,546)**
Net carrying amount	**79**	**10,733**	**230,856**	**241,668**

Company

	Intellectual property HK$'000	ALCATEL brand license HK$'000	Total HK$'000
31 December 2013			
Cost at 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

20. GOODWILL

	Group	
	2014	2013
	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 is allocated to the following cash-generating units for impairment testing:

- Research and development of mobile handsets cash-generating unit; and
- Research and development, manufacture and sale of mobile handsets and other products and provision of services 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% (2013: 18%) and cash flows within the five-year period are extrapolated using growth rates of sales volume of 5%-23% from 2015 to 2019.

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

The recoverable amount of the research and development, manufacture and sale of mobile handsets and other products and provision of services 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% (2013: 18%) and cash flows within the five-year period are extrapolated using growth rates of sales volume of 5%-23% from 2015 to 2019.

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.

20. 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 and development, manufacture and sale of mobile handsets and other products and provision of services	
	2014	2013	**2014**	2013
	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 mobile handsets cash-generating unit and the research and development, manufacture and sale of mobile handsets and other products and provision of services cash-generating unit for 31 December 2014 and 2013. 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.

21. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	HK$'000	HK$'000
Unlisted shares, at cost	**1,661,641**	1,661,641
Capital contribution in respect of employee share-based compensation	**178,429**	104,334
Impairment	**–**	(25,453)
	1,840,070	1,740,522

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$1,606,646,000 (31 December 2013: HK$1,595,257,000) and HK$643,179,000 (31 December 2013: HK$336,344,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

21. INVESTMENTS IN SUBSIDIARIES (continued)

The movements in the impairment are as follows:

	Company 2014 HK$'000	Company 2013 HK$'000
At 1 January	**25,453**	676,711
Impairment loss reversed	**(25,453)**	(651,258)
At 31 December	**–**	25,453

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$25,453,000 (2013: HK$651,258,000) on investments in subsidiaries to the extent that the recoverable amount is not higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for investment in subsidiaries in prior years.

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/establishment and operations	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 handsets and components
Huizhou TCL Mobile Communication Co., Limited ("Huizhou TCL Mobile") (note (i))	The PRC/ Mainland China 29 March 1999	US$199,600,000	–	100%	Manufacture and distribution of mobile handsets and provision of services
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	MXP639,646,000	–	100%	Distribution of mobile handsets
TCT Mobile International Limited	Hong Kong 11 May 2005	HK$5,000,000	–	100%	Development and distribution of mobile handsets
JRD Communication (Shenzhen) Limited (note (i))	The PRC/ Mainland China 14 February 2006	US$10,000,000	–	100%	Software development for mobile handsets

21. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Place and date of incorporation/ establishment and operations	Issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
"TMC Rus" Limited Liability Company	Russia 8 April 2010	RUB10,000	–	100%	Distribution of mobile handsets
JRD Communication Technology (Shanghai) Limited (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
TCL Communication (Ningbo) Limited (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
TCL Mobile Communication Technology (Ningbo) Limited (note (i))	The PRC/ Mainland China 17 December 2013	US$5,000,000	–	100%	Software development for mobile handsets
Honpe Technology (Shenzhen) Co. Ltd (note (i))	The PRC/ Mainland China 25 March 2011	HK$7,525,198	–	51%	Development and distribution of mould for mobile handsets and other products

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.

22. INVESTMENTS IN ASSOCIATES

	Group 2014 HK$'000	2013 HK$'000
Share of net assets	**52,925**	5,143
Goodwill on acquisition	**1,188**	1,674
	54,113	6,817
Impairment	**(1,188)**	(1,674)
	52,925	5,143

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	25.6%	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
Reachfull Investment Limited*	One ordinary share of US$1	British Virgin Islands	25.0%	Investment holding

* 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 Group's shareholdings in the associates are held through wholly-owned subsidiaries of the Company.

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

	2014 HK$'000	2013 HK$'000
Assets	**214,863**	18,594
Liabilities	**(3,452)**	(707)
Revenue	**26,891**	121
Loss for the year	**(1,379)**	(4,217)

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2014	2013
	HK$'000	HK$'000
Listed equity investment, at fair value:		
Hong Kong	**17,550**	–
Unlisted equity investment, at cost	**210,188**	77,144
	227,738	77,144

During the year, the gross loss in respect of the Group's listed equity investments recognised in other comprehensive income amounted to HK$5,938,000 (2013: Nil).

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 with a carrying amount of HK$210,188,000 (2013: HK$77,144,000) 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 of reasonable fair value estimates cannot be reasonably assessed and used in estimating fair value. The Group does not intend to dispose of them in the near future.

24. INVENTORIES

	Group	
	2014	2013
	HK$'000	HK$'000
Raw materials	**1,461,551**	1,373,288
Work in progress	**10,816**	35,621
Finished goods	**1,986,898**	1,376,126
	3,459,265	2,785,035
Provision against inventory obsolescence and net realisable value	**(165,973)**	(135,729)
	3,293,292	2,649,306

25. TRADE RECEIVABLES

	Group 2014 HK$'000	2013 HK$'000
Trade receivables	**7,893,040**	5,573,794
Impairment	**(20,359)**	(23,080)
	7,872,681	5,550,714

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.

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

	Group 2014 HK$'000	2013 HK$'000
Within 3 months	**6,497,374**	5,068,121
4 to 12 months	**1,360,026**	478,147
Over 12 months	**35,640**	27,526
	7,893,040	5,573,794
Impairment	**(20,359)**	(23,080)
	7,872,681	5,550,714

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

	Group 2014 HK$'000	2013 HK$'000
At 1 January	**23,080**	18,910
Impairment loss recognised (note 9)	**12,516**	47,029
Amount written off as uncollectible	**(15,120)**	(42,968)
Exchange realignment	**(117)**	109
At 31 December	**20,359**	23,080

25. TRADE RECEIVABLES (continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$20,359,000 (31 December 2013: HK$23,080,000) with a carrying amount before provision of HK$100,361,000 (31 December 2013: HK$33,004,000). The individually impaired trade receivables relate to customers that were in financial difficulties.

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Neither past due nor impaired	**5,423,664**	4,464,782
Less than 1 month past due	**1,709,803**	749,462
1 to 3 months past due	**517,968**	285,879
4 to 12 months past due	**140,874**	39,477
Over 12 months past due	**370**	1,190
	7,792,679	5,540,790

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 45.

26. FACTORED TRADE RECEIVABLES

At 31 December 2014, 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	
	2014	2013
	HK$'000	HK$'000
Current	**278,122**	380,612
Within 3 months	**83,164**	102,588
4 to 12 months	**10,094**	1,656
	371,380	484,856

As at 31 December 2014, 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$371,380,000 (31 December 2013: HK$484,856,000) have been accounted for as liabilities in the consolidated statement of financial position.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	Group		Company	
		2014	2013	**2014**	2013
		HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments		**186,433**	111,673	**728**	2,148
Deposits and other receivables	(a)	**1,312,928**	1,050,217	**679**	7,993
		1,499,361	1,161,890	**1,407**	10,141
Impairment of other receivables	(a)	**(7,191)**	(10,773)	**–**	–
		1,492,170	1,151,117	**1,407**	10,141

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

Note:

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

	Group	
	2014	2013
	HK$'000	HK$'000
At 1 January	**10,773**	7,975
Impairment loss (reversed)/recognised (note 9)	**(1,985)**	2,512
Amount written off as uncollectible	**(1,547)**	–
Exchange realignment	**(50)**	286
At 31 December	**7,191**	10,773

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	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**1,305,737**	1,018,693	**679**	7,993

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.

28. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**473,391**	142,008	**558**	2,318
Pledged deposits	**1,914,380**	1,698,028	**–**	–
	2,387,771	1,840,036	**558**	2,318
Less: Pledged deposits				
– for factored trade receivables	**56,370**	59,531	**–**	–
– for interest-bearing bank borrowings, banking facilities and other financial instruments	**1,858,010**	1,638,497	**–**	–
Cash and cash equivalents	**473,391**	142,008	**558**	2,318

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to HK$2,014,328,000 (31 December 2013: HK$1,505,684,000). 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$311,035,000 (31 December 2013: HK$191,771,000) 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%-3.12% (2013: 0.15%-1.27%) per annum, being the savings rate offered by the People's Bank of China.

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

	Group				Company			
	2014		2013		**2014**		2013	
	Maturity (Year)	**HK$'000**	Maturity (Year)	HK$'000	**Maturity (Year)**	**HK$'000**	Maturity (Year)	HK$'000
Current								
Bank borrowings- unsecured	**2015**	**1,021,391**	2014	429,937		**–**		–
Bank borrowings- secured*	**2015**	**2,919,400**	2014	1,774,986	**2015**	**194,018**	2014	193,777
		3,940,791		2,204,923		**194,018**		193,777
Loan from a related company		**–**	2014	763,080		**–**		–
		3,940,791		2,968,003		**194,018**		193,777
Non-current								
Bank borrowings- secured*		**–**	2015	196,120		**–**	2015	193,933
		3,940,791		3,164,123		**194,018**		387,710

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Bank borrowings:				
Within one year or on demand	**3,940,791**	2,204,923	**194,018**	193,777
In the second year	**–**	196,120	**–**	193,933
	3,940,791	2,401,043	**194,018**	387,710
Loan from a related company:				
Within one year or on demand	**–**	763,080	**–**	–
	3,940,791	3,164,123	**194,018**	387,710

29. 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$1,530,506,000 (31 December 2013: HK$1,423,492,000) which are secured by the pledge of certain of the Group's time deposits amounting to HK$1,689,187,000 (31 December 2013: HK$1,458,476,000); (ii) bank borrowings of HK$1,388,240,000 (31 December 2013: HK$506,567,000) which are guaranteed by the ultimate holding company; (iii) bank borrowings of HK$654,000 (31 December 2013: HK$2,188,000) which are secured by certain items of the Group's machinery amounting to HK$2,179,000 (31 December 2013: HK$3,512,000) (note 16); and (iv) bank borrowings of HK$38,859,000 which were secured by letter of credit amounting to HK$38,859,000 at 31 December 2013. There was no similar secured bank borrowing at 31 December 2014.

The effects of interest rate swap in the Group's secured interest-bearing bank borrowing as further detailed in note 31 to the financial statement.

The Company's secured interest-bearing bank borrowings of HK$194,018,000 (31 December 2013: HK$387,710,000) are guaranteed by the ultimate holding company.

The effective contractual interest rates for the bank borrowings ranged from 0.53% to 6.00% (2013: 0.66% to 6.00%) per annum.

The Group's interest-bearing borrowings of HK$654,000 (31 December 2013: HK$765,268,000), HK$35,035,000 (31 December 2013: HK$22,209,000), HK$321,101,000 (31 December 2013: Nil) and HK$13,667,000 (31 December 2013: Nil) are denominated in RMB, Euro, Brazilian real ("BRL") and Canadian dollars, respectively, and the others are denominated in United States dollars. The Company's interest-bearing bank borrowings are all denominated in United States dollars.

30. 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	
	2014	2013
	HK$'000	HK$'000
Within 6 months	**5,130,897**	3,853,181
7 to 12 months	**20,721**	9,654
Over 12 months	**15,126**	11,828
	5,166,744	3,874,663

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

31. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2014		2013	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Forward currency contracts – Euro	**172,566**	**–**	–	82,711
Forward currency contracts – GBP	**–**	**–**	–	1,186
Forward currency contracts – RUB	**216,219**	**–**	4,968	681
Forward currency contracts – BRL	**13,396**	**–**	15,535	–
Forward currency contracts – RMB: Deliverable and non-deliverable forward currency contracts	**16,263**	**48,917**	71,288	7,472
Interest rate swaps – cash flow hedges	**796**	**474**	1,442	346
	419,240	**49,391**	93,233	92,396

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, Pound sterling ("GBP"), Russian ruble ("RUB") and BRL 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 2015 were assessed to be highly effective and net gains of HK$243,885,000 (2013: net losses of HK$31,344,000) were included in the hedging reserve as follows:

	Group	
	2014 HK$'000	2013 HK$'000
Total fair value gains included in the hedging reserve*	**406,833**	96,070
Deferred tax on changes in fair value**	**13,020**	(23,300)
Reclassification from other comprehensive income and recognised in the statement of profit or loss***	**(181,887)**	(126,042)
Deferred tax on reclassification to profit or loss**	**5,919**	21,928
Net gains/(losses) on cash flow hedges	**243,885**	(31,344)

31. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swaps – cash flow hedges

At 31 December 2014, the Group held interest rate swaps designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

	Group	
	2014	2013
	HK$'000	HK$'000
Total fair value losses included in the hedging reserve*	**(4,049)**	(27,718)
Reclassification from other comprehensive income and recognised in the statement of profit or loss (note 9)***	**3,607**	26,377
Net losses on cash flow hedges	**(442)**	(1,341)

* The net effective portion of changes in fair value of hedging instruments arising during the year amounted to a credit of HK$402,784,000 (2013: HK$68,352,000).

** The net deferred tax on changes in fair value amounted to a credit of HK$18,939,000 (2013: a debit of HK$1,372,000) during the year.

*** The total net gain on cash flow hedges reclassified from other comprehensive income amounted to HK$178,280,000 (2013: HK$99,665,000) 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. Gain on changes in the fair value of non-hedging currency derivatives amounting to HK$144,857,000 (2013: a loss of HK$4,216,000) was recognised in the statement of profit or loss during the year. The maturity dates of derivative financial instruments are within one year.

32. PROVISION FOR WARRANTIES

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

	Group	
	2014	2013
	HK$'000	HK$'000
At 1 January	**306,663**	187,975
Additional provision (note 9)	**666,775**	374,953
Amounts utilised during the year	**(482,753)**	(260,327)
Exchange realignment	**(28,185)**	4,062
At 31 December	**462,500**	306,663

32. PROVISION FOR WARRANTIES (continued)

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 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.

33. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the pension plan at 31 December 2014 are as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Retirement indemnities:		
Present value of fund obligation	**4,827**	5,740

Movements in retirement indemnities are as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
At 1 January	**5,740**	3,738
(Reversed)/recognised in the statement of profit or loss (note 9)	**(254)**	1,771
Exchange realignment	**(659)**	231
At 31 December	**4,827**	5,740

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	
	2014	2013
Discount rate	**2.25%**	3.00%
Future salary increase rate per annum	**3.00%**	5.00%

34. 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.

35. 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	Deferred income 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$'000	Cash flow hedges HK$'000	Total HK$'000
At 1 January 2014	86,543	7,869	-	4,836	1,221	21,381	19,922	1,215	52,353	-	195,340
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	8,418	10,540	33,554	9,089	(834)	12,260	11,067	477	22,289	-	106,860*
Deferred tax credited to the consolidated statement of comprehensive income during the year	-	-	-	-	-	-	-	-	-	8,222	8,222
Exchange realignment	(11,158)	(1,672)	63	(7)	(5)	(44)	-	(3)	-	45	(12,781)
Gross deferred tax assets at 31 December 2014	83,803	16,737	33,617	13,918	382	33,597	30,989	1,689	74,642	8,267	297,641

	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

35. 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$30,275,000 (31 December 2013: HK$179,289,000), expiring in five years after occurrence, which were related to the subsidiaries in Mainland China and HK$2,211,378,000 (31 December 2013: HK$2,427,031,000) with infinite expiration, which were related to overseas subsidiaries as at 31 December 2014 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 they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax loss can be utilised.

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 2014	**63,151**	**8,587**	**10,520**	**1,513**	**1,073**	**84,844**
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year	**31,739**	**(2,785)**	**–**	**–**	**(770)**	**28,184***
Deferred tax credited to the consolidated statement of comprehensive income during the year	**–**	**–**	**(10,717)**	**–**	**–**	**(10,717)**
Exchange realignment	**–**	**–**	**197**	**–**	**(303)**	**(106)**
Gross deferred tax liabilities at 31 December 2014	**94,890**	**5,802**	**–**	**1,513**	**–**	**102,205**

	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

* Being the total deferred tax credit of HK$78,676,000 (2013: HK$53,517,000) (note 12) to the consolidated statement of profit or loss during the year.

35. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

As at 31 December 2014, 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 2014, 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$4,524,032,000 (31 December 2013: HK$3,099,754,000).

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

36. SHARE CAPITAL

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000
Authorised:			
Ordinary shares of par value of HK$1 each at 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
At 1 January 2013	1,128,290,105	1,128,290	321,330
Share options exercised	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 and 1 January 2014	1,162,460,227	1,162,460	417,664
Share options exercised* (note 37)	51,439,915	51,440	173,433
Issue of new shares under Share Award Scheme**	6,866,266	6,866	14,749
Reclassification of lapsed share options	–	–	636
Reclassification of vested awarded shares	–	–	24,494
2014 final dividend proposed	–	–	(84,704)
At 31 December 2014	1,220,766,408	1,220,766	546,272

* During the year, 51,439,915 share options were exercised at subscription prices ranging from HK$2.423 to HK$7.614 per share, resulting in the issue of 51,439,915 ordinary shares of par value of HK$1 each for a total cash consideration of HK$161,186,000.

** During the year, under the Share Award Scheme of the Company, 6,866,266 ordinary shares of par value of HK$1 each were issued at no consideration.

37. SHARE OPTION SCHEMES

The Company has adopted two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include 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 have contributed or may contribute to the Group. The Old Share Option Scheme, which was adopted and became effective on 13 September 2004 would be in force for 10 years from that date, and should expire on 12 September 2014. In order to enable the Company to grant share options to eligible participants, including Directors, as incentives or rewards for their contribution to the Group, as well as to attract and retain the participants, the Directors recommended to the shareholders of the Company at the AGM held on 28 April 2014 to adopt the New Share Option Scheme and to simultaneously terminate the operation of the Old Share Option Scheme in advance, such termination being effective from the conclusion of the AGM held on 28 April 2014. On 28 April 2014, the adoption of the New Share Option Scheme and the termination of the Old Share Option Scheme were both approved by the shareholders of the Company. The share options granted under the Old Share Option Scheme prior to its termination would continue to be valid and exercisable in accordance with the rules of the Old Share Option Scheme. The New Share Option Scheme will remain in force for a period of 10 years commencing from 28 April 2014.

The maximum number of share options currently permitted to be granted under the New Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 28 April 2014 when the New Share Option Scheme was adopted (i.e. up to 119,166,767 shares). The maximum number of shares issuable under share options granted to each eligible participant in the New Share Option Scheme within any 12-month period up to and including the date of such grant 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 at a general meeting.

Share options granted to directors, chief executive or substantial shareholders 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 substantial shareholders or independent non-executive directors 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 up to and including the date of such grant, are subject to shareholders' approval in advance at a general meeting.

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

Share options do not confer rights on the holders to receive dividends or to vote at general meetings of the Company.

37. SHARE OPTION SCHEMES (continued)

As at 31 December 2014, the Company had 71,969,186 share options outstanding under the Old Share Option Scheme. Further details of the Old Share Option Scheme are as follows:

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

	Number of share options							
Date of grant	At 1 January 2014	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	At 31 December 2014	Exercise period (both dates inclusive) *(Note a)*	Exercise price per share *(HK$)*
5 July 2007	9,530,003	–	(8,962,392)	(207)	(567,404)	–	5 April 2008 to 4 July 2014	2.423
11 March 2010	11,037,334	–	(8,124,000)	–	–	2,913,334	11 December 2010 to 10 March 2016	3.020
25 May 2010	9,188,667	–	(4,488,667)	–	–	4,700,000	25 February 2011 to 24 May 2016	3.462
3 May 2011	7,787,093	–	(1,650,329)	(10,000)	–	6,126,764	3 February 2012 to 2 May 2017	7.614
9 August 2011	4,872,205	–	(139,568)	–	–	4,732,637	9 May 2012 to 8 August 2017	6.472
4 June 2012	39,591,414	–	(19,501,641)	(199,337)	–	19,890,436	4 March 2013 to 3 June 2018	2.740
12 July 2013	42,266,000	–	(8,573,318)	(86,667)	–	33,606,015	12 April 2014 to 11 July 2019	3.790
Total	124,272,716	–	(51,439,915)	(296,211)	(567,404)	71,969,186		

37. SHARE OPTION SCHEMES (continued)

37.2 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 2014	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	At 31 December 2014	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	–	(2,600,000)	–	–	2,400,000	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
	13,256,165	–	(4,014,252)	–	–	9,241,913			
Mr. GUO Aiping	258	–	–	–	(258)	–	5 July 2007	5 April 2008 to 4 July 2014	2.423
	3,094,737	–	–	–	–	3,094,737	3 May 2011	3 February 2012 to 2 May 2017	7.614
	3,970,091	–	–	–	–	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
	8,745,086	–	–	–	(258)	8,744,828			
Mr. WANG Jiyang	1,320,000	–	(1,320,000)	–	–	–	11 March 2010	11 December 2010 to 10 March 2016	3.020
	7,256,498	–	(5,120,000)	–	–	2,136,498	4 June 2012	4 March 2013 to 3 June 2018	2.740
	1,680,000	–	(556,000)	–	–	1,124,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
	10,256,498	–	(6,996,000)	–	–	3,260,498			
Non-executive Directors									
Mr. HUANG Xubin	666,667	–	(666,667)	–	–	–	25 May 2010	25 February 2011 to 24 May 2016	3.462
	139,368	–	(139,368)	–	–	–	9 August 2011	9 May 2012 to 8 August 2017	6.472
	1,000,000	–	(193,965)	–	–	806,035	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
	2,016,035	–	(1,000,000)	–	–	1,016,035			
Mr. YAN Xiaolin	45,000	–	(45,000)	–	–	–	5 July 2007	5 April 2008 to 4 July 2014	2.423
	167,200	–	–	–	–	167,200	9 August 2011	9 May 2012 to 8 August 2017	6.472
	210,000	–	–	–	–	210,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
	422,200	–	(45,000)	–	–	377,200			
Ms. XU Fang	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
	2,628,100	–	–	–	–	2,628,100			

37. SHARE OPTION SCHEMES (continued)

37.2 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 2014	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	At 31 December 2014	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	134,000	–	(134,000)	–	–	–	4 June 2012	4 March 2013 to 3 June 2018	2.740
	134,000	–	(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	1,459,510	–	(1,459,252)	–	(258)	–	5 July 2007	5 April 2008 to 4 July 2014	2.423
	1,320,000	–	(1,320,000)	–	–	–	11 March 2010	11 December 2010 to 10 March 2016	3.020
	6,966,667	–	(3,266,667)	–	–	3,700,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	4,642,105	–	–	–	–	4,642,105	3 May 2011	3 February 2012 to 2 May 2017	7.614
	1,024,668	–	(139,368)	–	–	885,300	9 August 2011	9 May 2012 to 8 August 2017	6.472
	18,215,134	–	(5,447,965)	–	–	12,767,169	4 June 2012	4 March 2013 to 3 June 2018	2.740
	4,830,000	–	(556,000)	–	–	4,274,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
Sub-total	38,458,084	–	(12,189,252)	–	(258)	26,268,574			
Employees and those who have contributed or may contribute to the Group	8,070,493	–	(7,503,140)	(207)	(567,146)	–	5 July 2007	5 April 2008 to 4 July 2014	2.423
	9,717,334	–	(6,804,000)	–	–	2,913,334	11 March 2010	11 December 2010 to 10 March 2016	3.020
	2,222,000	–	(1,222,000)	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	3,144,988	–	(1,650,329)	(10,000)	–	1,484,659	3 May 2011	3 February 2012 to 2 May 2017	7.614
	3,847,537	–	(200)	–	–	3,847,337	9 August 2011	9 May 2012 to 8 August 2017	6.472
	21,376,280	–	(14,053,676)	(199,337)	–	7,123,267	4 June 2012	4 March 2013 to 3 June 2018	2.740
	37,436,000	–	(8,017,318)	(86,667)	–	29,332,015	12 July 2013	12 April 2014 to 11 July 2019	3.790
Sub-total	85,814,632	–	(39,250,663)	(296,211)	(567,146)	45,700,612			
Total	124,272,716	–	(51,439,915)	(296,211)	(567,404)	71,969,186			

37. SHARE OPTION SCHEMES (continued)

Notes:

a. During the year under review, the following share options continued to be effective under the Old Share Option Scheme of the Company:

	Date of grant	Exercise price per share (HK$)	Exercise period	Remarks
(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.	In 2013, the directors of the Company 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 was extended, and the new expiry date was 4 July 2014. On 4 July 2014, the said share options expired.
(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)	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.	
(v)	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.	

37. SHARE OPTION SCHEMES (continued)

Notes: (continued)

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

	Date of grant	Exercise price per share (HK$)	Exercise period	Remarks
(vi)	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 Old 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.
(vii)	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 Old 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.

37. SHARE OPTION SCHEMES (continued)

Notes: (continued)

b. The weighted average share price at the date of exercise for share options exercised during the year was HK$8.98 (year ended 31 December 2013: HK$6.30) per share.

c. 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

37. SHARE OPTION SCHEMES (continued)

Notes: (continued)

c. 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 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

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

37. SHARE OPTION SCHEMES (continued)

Notes: (continued)

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

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

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.

As at 31 December 2014, the Company had 71,969,186 share options outstanding under the Old 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 71,969,186 additional ordinary shares of the Company. Total funds raised from the exercise of the outstanding share options would be HK$ 284,215,000 which represents an additional share capital of HK$ 71,969,000 and share premium of HK$ 212,246,000 (before issue expenses).

38. 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, a total of 19,778,712 awarded shares were vested, in which a total of 6,862,266 awarded shares were vested through new issuance of shares and the remaining 12,916,446 awarded shares were vested through purchased shares by the trustee on the market under the Share Award Scheme B. The total cost of the related vested shares was HK$56,157,000. As at 31 December 2014, the carrying amount of shares held for Share Award Scheme was HK$9,629,000 (31 December 2013: HK$65,786,000).

38. SHARE AWARD SCHEMES (continued)

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

	Number of awarded shares						
Date of grant	At 1 January 2014	Granted during the year	Vested during the year *(Note a)*	Lapsed during the year	At 31 December 2014	Remaining vesting period (both dates inclusive) *(Note b)*	Fair value per share *(HK$)*
3 May 2011	541,524	–	(534,188)	(7,336)	–	N/A	7.10
9 August 2011	198,827	–	(198,827)	–	–	N/A	5.75
29 August 2011	722,396	–	(718,062)	(4,334)	–	N/A	4.62
4 June 2012	16,924,232	–	(8,827,635)	(424,023)	7,672,574	1 January 2015 to 4 June 2015	2.74
20 May 2014	–	9,500,000	(9,500,000)	–	–	N/A	7.35
Total	18,386,979	9,500,000	(19,778,712)	(435,693)	7,672,574		

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

	Number of awarded shares							
	At 1 January 2014	Granted during the year	Vested during the year *(Note a)*	Lapsed during the year	At 31 December 2014	Date of grant	Remaining vesting period (both dates inclusive) *(Note b)*	Fair value per share *(HK$)*
Executive Director								
Mr. WANG Jiyang	198,827	–	(198,827)	–	–	9 August 2011	N/A	5.75
Sub-total	198,827	–	(198,827)	–	–			
Employees and those who have contributed or may contribute to the Group	541,524	–	(534,188)	(7,336)	–	3 May 2011	N/A	7.10
	722,396	–	(718,062)	(4,334)	–	29 August 2011	N/A	4.62
	16,924,232	–	(8,827,635)	(424,023)	7,672,574	4 June 2012	1 January 2015 to 4 June 2015	2.74
	–	9,500,000	(9,500,000)	–	–	20 May 2014	N/A	7.35
Sub-total	18,188,152	9,500,000	(19,579,885)	(435,693)	7,672,574			
Total	18,386,979	9,500,000	(19,778,712)	(435,693)	7,672,574			

38. SHARE AWARD SCHEMES (continued)

Notes:

a. During the year under review, a total of 19,778,712 awarded shares were vested, in which a total of 6,862,266 awarded shares were vested through new issuance of shares and the remaining 12,916,446 awarded shares were vested through purchased shares by the trustee on the market.

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

Date of grant	Number of awarded shares granted	Vesting period	Remarks
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.
20 May 2014	The grant of 9,500,000 awarded shares approved by the Board to be awarded to designated employees.	All of the said awarded shares were vested immediately on the date of grant, which was 20 May 2014.	

39. 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 86 and 87 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 and some overseas countries, certain portion of the profits of the Group's subsidiaries established in the PRC and some overseas countries should be transferred to the statutory reserve which is restricted as to use.

The Group's other reserve includes the excess of the consideration over the carrying amount of net assets acquired in business combinations under common control of HK$130,232,000 (31 December 2013: HK$130,232,000) and the gain of changes in ownership of a subsidiary without loss of control of HK$244,000 (31 December 2013: Nil).

(b) Company

	Notes	Contributed surplus HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded shares reserve HK$'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

39. RESERVES (continued)

(b) Company (continued)

	Notes	Contributed surplus HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded shares reserve HK$'000	Share option reserve HK$'000	Proposed final dividend HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2014		669,907	411,473	(65,786)	38,137	115,744	117,141	434,542	1,721,158
Loss for the year	13	-	-	-	-	-	-	(43,866)	(43,866)
Total comprehensive loss for the year		-	-	-	-	-	-	(43,866)	(43,866)
Exercise of share options		-	173,433	-	-	(63,687)	-	-	109,746
Issue of new shares under Share Award Scheme		-	14,749	-	(21,615)	-	-	-	(6,866)
Reclassification of lapsed share options		-	636	-	-	(636)	-	-	-
Equity-settled share option arrangements		-	-	-	-	35,499	-	-	35,499
Share Award Scheme arrangements		-	-	-	82,583	-	-	-	82,583
Reclassification of vested awarded shares		-	24,494	56,157	(80,651)	-	-	-	-
2013 final dividend declared		-	-	-	-	-	(117,141)	(2,042)	(119,183)
2014 interim dividend declared		-	-	-	-	-	-	(154,980)	(154,980)
2014 final dividend proposed	14	-	(84,704)	-	-	-	318,358	(233,654)	-
At 31 December 2014		669,907*	540,081*	(9,629)	18,454*	86,920*	318,358	-*	1,624,091

* These reserve accounts comprise the reserves of HK$1,315,362,000 (31 December 2013: HK$1,669,803,000) 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.

40. CONTINGENT LIABILITIES

As at 31 December 2014, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**26,505,155**	18,306,538

As at 31 December 2014, the banking facilities granted to the subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of HK$10,883,890,000 (31 December 2013: HK$9,660,260,000).

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangement, with lease negotiated for terms ranging from two to six years.

At 31 December 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Within one year	**11,645**	–
In the second to fifth years, inclusive	**4,027**	–
Over five years	**26**	–
	15,698	–

During the year, the Group recognised HK$10,068,000 (2013: Nil) in respect of contingent rental receivables.

(b) As lessee

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 ten years.

At 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Within one year	**122,055**	93,900
In the second to fifth years, inclusive	**133,582**	45,335
Over five years	**130,116**	–
	385,753	139,235

42. CAPITAL COMMITMENTS

As at 31 December 2014, the Group had the following capital commitments:

	Group	
	2014	2013
	HK$'000	HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**7,103**	106,946
Capital contributions payable to associates	**123,217**	–
	130,320	106,946

43. 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	
	2014	2013
	HK$'000	HK$'000
Transactions with the ultimate holding company:		
Brand management fee/TCL Brand Common Fund*	**43,415**	9,515
Interest expenses	**5,791**	1,292
Purchases of raw materials**	**25,632**	155,592
Administration fee for purchases of raw materials**	**103**	672
Loans obtained	**–**	829,685
Technology service expenses	**1,120**	840
Sales of products**	**6**	–
Purchases of products**	**222**	–
Rental charges**	**31**	1
Service expenses**	**3,057**	–
Research and development expenses**	**52,882**	17,658
Transactions with the immediate holding company:		
Loans obtained	**–**	232,893
Interest expenses	**–**	1,549
Transactions with fellow subsidiaries:		
Purchases of raw materials**	**1,798,085**	1,152,570
Administration fee for purchases of raw materials**	**4,772**	3,049
Interest income	**8,352**	6,529
Rental charges**	**34,304**	24,178
Rental income**	**7,535**	–
Fees and commission	**892**	762
Sales of raw materials**	**7,201**	4,007
Sales of products and spare parts**	**144,357**	17,629
Purchases of products**	**7,591**	3,949
Purchases of property, plant and equipment**	**118**	–
Service expenses**	**4,074**	13,218
Service income**	**45**	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.

(b) Other transactions with related parties

i. The Company's ultimate holding company has guaranteed certain bank loans made to the Group of up to HK$1,388,240,000 (31 December 2013: HK$506,567,000) (note 29) as at the end of the reporting period.

43. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

ii. On 24 April 2014, Huizhou TCL Mobile (a wholly-owned subsidiary of the Company) entered into an investment agreement to inject a total amount of RMB50,000,000 (equivalent to HK$62,990,000) to Huizhou Kuyu Network Technology Co., Ltd. ("Kuyu", a fellow subsidiary of the Group, which is engaged in the on-line business of e-commerce) for the acquisition of 10% of its equity interests. The injection has been fully paid in the form of cash during the year.

iii. On 25 June 2014, Huizhou Cellutel Communication Co., Ltd. ("Huizhou Cellutel", a indirect-owned subsidiary of the Company) entered into an agreement with TCL Corporation pursuant to which TCL Corporation injected a total amount of RMB60,000,000 (equivalent to HK$75,396,000) to Huizhou Cellutel for the acquisition of 40% of its equity interests. The injection has been fully received in the form of cash during the year.

(c) Commitments with related parties

i. On 9 August 2012, 17 December 2012 and 26 March 2013, Huizhou TCL Mobile entered into construction management agreements 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. On 6 January 2014, a supplemental agreement was entered into among Huizhou TCL Mobile, TCL Real Estate and TCL Industrial Park Property Management (Huizhou) Ltd. ("TCL Property Management (Huizhou)", a non-wholly owned subsidiary of TCL Corporation), pursuant to which the parties agreed, with effective from 6 January 2014, TCL Property Management (Huizhou) replaced TCL Real Estate and became one of the contract parties of the Master Construction Management Agreement, continued to fulfill the responsibilities and obligations, also was entitled to enjoy relevant rights and interests. During the year, the amount of service fees under the construction management agreements was RMB1,367,000 (equivalent to HK$1,725,000). The total amount of services fees under the construction management agreements in future is estimated not to exceed RMB28,272,000 (equivalent to HK$35,682,000). 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 RMB41,900,000 (equivalent to HK$52,882,000). The total consideration under the agreement is estimated not to exceed RMB93,000,000 (equivalent to HK$117,375,000) for 2015. The service fees are determined on normal commercial terms and are reached after arm's length negotiation.

iii. On 9 October 2014, Best Status Enterprises Limited (a wholly-owned subsidiary of the Company) entered into a shareholder agreement to inject a total amount of US$16,000,000 (equivalent to HK$124,000,000) to Reachfull Investment Limited (a fellow subsidiary of the Group, which is for the purpose of developing the public enterprise cloud services platform with Cisco Systems (Switzerland) GmbH) for subscription of 25% of its equity interests by 3 tranches. The first tranche subscription of US$6,000,000 (equivalent to HK$47,000,000) has been fully paid in form of cash during the year. The remaining 2 tranches subscription of US$10,000,000 (equivalent to HK$77,000,000) will be paid in form of cash in the near future.

iv. On 11 November 2014, Prosper Fortune Enterprises Limited ("Prosper Fortune", a wholly-owned subsidiary of the Company), entered into a joint venture agreement, with two fellow subsidiaries of the Group, Sino Leader (Hong Kong) Limited and Crown Capital Enterprises Limited, to inject a total amount of RMB36,000,000 (equivalent to HK$45,436,000) to a joint venture entity which is for the purpose of developing the business of smart home products and services for subscription of 40% of its equity interests by two tranches. During the year, no amount of capital was injected by Prosper Fortune under the joint venture agreement. The total subscription of RMB36,000,000 (equivalent to HK$45,436,000) will be paid in form of cash in the near future.

43. RELATED PARTY TRANSACTIONS (continued)

(c) Commitments with related parties (continued)

v. A subsidiary of the Group has entered into a leasehold contract with a related party, to lease certain premises for the Group's operation. Details of rental commitment related to the leasehold contract are as follow:

Contract date	Leaser	Ending date of contract	Expected rental expenses within one year HK$'000	Expected rental expenses in the second to fifth years, inclusive HK$'000
1 September 2014	TCL Corporation	31 August 2017	3,146	5,244

(d) Outstanding balances with related parties

Group

	Due from related companies		Due to related companies	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Current:				
The ultimate holding company	**522**	27,238	**345**	764,393
Fellow subsidiaries	**61,860**	21,415	**415,741**	332,048
	62,382	48,653	**416,086**	1,096,441

The balances are mainly trading balances which are unsecured, interest-free and have no fixed terms of repayment, except for loans from a related company amounting to HK$763,080,000 at 31 December 2013 which was unsecured, interest-bearing at the effective contractual interest rate of 6.44% per annum and with a payment term of less than one year.

(e) Compensation of key management personnel of the Group

	2014 HK$'000	2013 HK$'000
Short-term employee benefits	**11,753**	15,650
Post-employment benefits	**2,370**	2,814
Equity-settled share option and Share Award Scheme benefits	**6,989**	21,161
Total compensation paid to key management personnel	**21,112**	39,625

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.

44. 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:

2014

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 23)	–	–	227,738	227,738
Trade receivables (note 25)	–	7,872,681	–	7,872,681
Factored trade receivables (note 26)	–	371,380	–	371,380
Notes receivable	–	95,546	–	95,546
Financial assets included in prepayments, deposits and other receivables	–	591,577	–	591,577
Due from related companies (note 43(d))	–	62,382	–	62,382
Derivative financial instruments (note 31)	419,240	–	–	419,240
Pledged deposits (note 28)	–	1,914,380	–	1,914,380
Cash and cash equivalents (note 28)	–	473,391	–	473,391
	419,240	11,381,337	227,738	12,028,315

2014

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 29)	–	3,940,791	3,940,791
Trade and notes payables (note 30)	–	5,166,744	5,166,744
Bank advances on factored trade receivables (note 26)	–	371,380	371,380
Derivative financial instruments (note 31)	49,391	–	49,391
Financial liabilities included in other payables and accruals	–	1,870,975	1,870,975
Due to related companies (note 43(d))	–	416,086	416,086
	49,391	11,765,976	11,815,367

44. 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 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 23)	–	–	77,144	77,144
Trade receivables (note 25)	–	5,550,714	–	5,550,714
Factored trade receivables (note 26)	–	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 43(d))	–	48,653	–	48,653
Derivative financial instruments (note 31)	93,233	–	–	93,233
Pledged deposits (note 28)	–	1,698,028	–	1,698,028
Cash and cash equivalents (note 28)	–	142,008	–	142,008
	93,233	8,452,838	77,144	8,623,215

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 29)	–	2,401,043	2,401,043
Trade and notes payables (note 30)	–	3,874,663	3,874,663
Bank advances on factored trade receivables (note 26)	–	484,856	484,856
Derivative financial instruments (note 31)	92,396	–	92,396
Financial liabilities included in other payables and accruals	–	1,088,945	1,088,945
Loan from a related company (note 43(d))	–	763,080	763,080
Due to related companies (note 43(d))	–	333,361	333,361
	92,396	8,945,948	9,038,344

44. 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 assets

	Company	
	2014	2013
	Loans and receivables	Loans and receivables
	HK$'000	HK$'000
Due from subsidiaries (note 21)	**1,606,646**	1,595,257
Financial assets included in prepayment, deposits and other receivables	**679**	7,993
Cash and cash equivalents (note 28)	**558**	2,318
	1,607,883	1,605,568

Financial liabilities

	Company	
	2014	2013
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	HK$'000
Due to subsidiaries (note 21)	**643,179**	336,344
Financial liabilities included in other payables and accruals	**1,681**	4,117
Interest-bearing bank borrowings (note 29)	**194,018**	387,710
	838,878	728,171

45. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are not derecognised in their entirety

i. 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 2014 amounted to HK$502,772,000 (31 December 2013: HK$915,448,000) and the carrying amount of bank advances on factored trade receivables as at 31 December 2014 was HK$368,125,000 (31 December 2013: HK$484,856,000).

ii. During the year ended 31 December 2014, the Group entered into a trade receivable factoring arrangement and transferred certain trade receivables to a banks. Under the arrangement, the Group was required to pay interests to the banks during the payment term of trade debtors or a certain period, using the less. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the arrangement that have not been settled as at 31 December 2014 amounted to HK$1,254,722,000 (2013: Nil). The carrying amount of the assets that the Group continued to recognise as at 31 December 2014 amounted to HK$3,255,000 (2013: Nil) and that of the associated liabilities as at 31 December 2014 amounted to HK$3,255,000 (2013: Nil).

Financial assets that are derecognised in their entirety

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 amounts of trade receivables transferred as at 31 December 2014 amounted to HK$765,822,000 (31 December 2013: HK$397,918,000).

46. 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 receivable, factored trade receivables, trade and notes payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies, current interest-bearing bank 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 finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the management. At each reporting date, the finance department 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.

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

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 a 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.

The fair values of listed equity investments are based on quoted market prices.

At 31 December 2014, the unlisted available-for-sale investments of HK$210,188,000 (31 December 2013: HK$77,144,000) (note 23) were 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 of reasonable fair value estimates cannot be reasonably assessed and used in estimating fair value.

The Group enters into Euro, GBP, RUB, Malaysian ringgit ("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.

Fair value hierarchy

As at 31 December 2014, the listed equity investment and the derivative financial instruments measured at fair value held by the Group belongs to hierarchy Level 1 and hierarchy Level 2 as disclosed in the accounting policy, respectively.

During the years ended 31 December 2014 and 2013, there were no transfers 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.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, cash and cash equivalents 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.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 before tax and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2014			
United States dollar	**25**	**(93)**	**(6)**
United States dollar	**(25)**	**93**	**(5)**
2013			
United States dollar	25	(862)	315
United States dollar	(25)	862	(311)

* Excluding retained profits

47. 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, BRL, RUB, GBP, MYR 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 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 before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2014			
If the Euro strengthens against Hong Kong dollar	**5%**	**(5,348)**	**(98,080)**
If the Euro weakens against Hong Kong dollar	**(5%)**	**5,348**	**98,080**
If United States dollar strengthens against the RMB	**5%**	**204,850**	**(258,799)**
If United States dollar weakens against the RMB	**(5%)**	**(204,850)**	**258,799**
2013			
If the Euro strengthens against Hong Kong dollar	5%	(8,275)	(368,483)
If the Euro weakens against Hong Kong dollar	(5%)	8,275	368,483
If United States dollar strengthens against the RMB	5%	225,007	(146,958)
If United States dollar weakens against the RMB	(5%)	(225,007)	146,958

* 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 40 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 approval 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.

47. 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 25 and note 27 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 29 and 31 to the financial statements.

As at 31 December 2014, other financial liabilities excluding interest-bearing bank borrowings, derivative financial instruments and loan from a related company of HK$35,847,000 (31 December 2013: HK$21,482,000) and HK$7,789,338,000 (31 December 2013: HK$5,760,343,000) 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 2014 and 2013.

47. 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

	2014 HK$'000	2013 HK$'000
Interest-bearing bank borrowings	**3,940,791**	2,401,043
Trade and notes payables	**5,166,744**	3,874,663
Bank advances on factored trade receivables	**371,380**	484,856
Other payables and accruals	**4,953,416**	3,148,245
Due to related companies	**416,086**	333,361
Loan from a related company	**–**	763,080
Less: Cash and cash equivalents	**473,391**	142,008
Pledged deposits	**1,914,380**	1,698,028
Net debt	**12,460,646**	9,165,212
Equity attributable to owners of the parent	**4,088,848**	2,909,397
Equity attributable to owners of the parent and net debt	**16,549,494**	12,074,609
Gearing ratio	**75%**	76%

48. 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.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 2 March 2015.

Five Years Financial Summary

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**30,691,054**	19,362,061	12,031,212	10,653,020	8,700,694
Cost of sales	**(24,773,502)**	(15,689,908)	(9,934,637)	(8,324,789)	(6,752,342)
Gross profit	**5,917,552**	3,672,153	2,096,575	2,328,231	1,948,352
Other income and gains	**582,122**	512,743	542,841	508,225	278,179
Research and development costs	**(1,479,149)**	(1,064,154)	(739,654)	(459,223)	(357,179)
Selling and distribution expenses	**(2,420,176)**	(1,611,218)	(1,153,653)	(866,262)	(619,627)
Administrative expenses	**(1,246,383)**	(946,351)	(657,535)	(558,074)	(436,299)
Other operating expenses	**(105,073)**	(158,229)	(109,289)	(28,116)	(5,317)
Finance costs	**(99,513)**	(104,983)	(166,009)	(140,051)	(62,976)
Share of loss of associates	**(364)**	(1,581)	(1,753)	(1,381)	(1,388)
Share of profit of a joint venture	**–**	–	–	–	1,130
Profit/(loss) before tax	**1,149,016**	298,380	(188,477)	783,349	744,875
Income tax	**(41,476)**	17,798	(31,551)	17,296	(43,105)
Profit/(loss) for the year	**1,107,540**	316,178	(220,028)	800,645	701,770
ATTRIBUTABLE TO:					
Owners of the parent	**1,092,507**	313,422	(207,840)	799,934	701,884
Non-controlling interests	**15,033**	2,756	(12,188)	711	(114)
	1,107,540	316,178	(220,028)	800,645	701,770

	As at 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**19,696,156**	14,423,024	13,320,833	14,026,819	12,253,648
Total liabilities	**(15,517,074)**	(11,509,970)	(10,998,207)	(11,353,748)	(10,031,464)
Non-controlling interests	**(90,234)**	(3,657)	(1,515)	(4,449)	(3,738)
	4,088,848	2,909,397	2,321,111	2,668,622	2,218,446

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng *(Chairman)*
Mr. GUO Aiping
Mr. WANG Jiyang

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

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

Industrial and Commercial Bank of China Limited
No.55, FuXingMenNei Street
Xicheng District
Beijing
P.R.C.

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
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1910-12A, 19/F, Tower 3
China Hong Kong City
33 Canton Road
Tsimshatsui, Kowloon
Hong Kong

INVESTOR AND MEDIA RELATIONS

iPR Ogilvy & Mather
Units 2008-12, 20/F, The Center
99 Queen's Road Central
Central
Hong Kong
(Effective until 15 March 2015)

Cornerstones Communications Ltd.
19/F, Oriental Crystal Commercial Building
46 Lyndhurst Terrace
Central
Hong Kong
(Effective from 16 March 2015)

TICKER SYMBOL

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

WEBSITE

http://tclcom.tcl.com

10th

2004 - 2014

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