TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED
TCL多媒體科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2014

FINANCIAL HIGHLIGHTS
Unaudited results for the three months ended 31 March

	2014 ***(HK$M)***	2013 *(HK$M)*	**Change**
Turnover	**7,889**	9,385	(15.9%)
Gross profit	**1,026**	1,547	(33.7%)
Operating profit	**31**	281	(89.0%)
Net profit after tax			
– For the period	**12**	208	(94.2%)
– From continuing operations	**12**	173	(93.1%)
Profit attributable to owners of the parent			
– For the period	**15**	195	(92.3%)
– From continuing operations	**15**	167	(91.0%)
Basic earnings per share *(HK cents)*			
– For the period	**1.14**	14.73	(92.3%)
– From continuing operations	**1.14**	12.64	(91.0%)

HIGHLIGHTS

- For the three months ended 31 March 2014, the Group recorded a turnover of approximately HK$7,889 million, down by 15.9% year-on-year. Gross profit amounted to approximately HK$1,026 million, down by 33.7% year-on-year. Operating profit was approximately HK$31 million, down by 89.0% year-on-year. Net profit after tax from continuing operations was approximately HK$12 million, down by 93.1% year-on-year. Profit attributable to owners of the parent from continuing operations was approximately HK$15 million, down by 91.0% year-on-year.

- During the period under review, the Group sold a total of 3.83 million sets of LCD TVs, down by 2.2% year-on-year. The sales volume of the LCD TVs in the PRC Market declined by 29.0% year-on-year to 1.80 million sets while the sales volume of the LCD TVs in the Overseas Markets increased by 47.1% year-on-year to 2.03 million sets, of which the sales volume of LCD TVs in the Emerging Markets grew by 5.4% to 0.96 million sets. The product mix has continuously been optimized, with a high proportion of sales volume of high-end products; sales volume of smart TVs and 3D TVs accounted for 37.2% and 27.6% of the LCD TV sales volume in the PRC market in the first quarter of this year, respectively.

- The Group announced its new operational transformation strategy by adopting the "double +" strategy as the main direction of future transformation, namely the combination of "intelligence + internet" and "products + services", which is user-oriented. Coupled with internet thinking, planning for smart products and services with ultimate experiences to consumers, and to gradually transform to a global entertainment technology enterprise.

- The Group continued its efforts to establish an industry ecosystem. Its new game products were showcased for the first time at the Ninth Global Mobile Game and Channel Conference ("TFC"), and announced the cross-industry co-initiation of "TCL Game TV Ecosystem Strategic Alliance" with China Unicom Broadband, ATET, JD.com and Gameloft.

The board of directors (the "Board") of TCL Multimedia Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2014 with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Three months ended 31 March	
		2014	2013
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
CONTINUING OPERATIONS			
TURNOVER	3	**7,888,591**	9,384,689
Cost of sales		**(6,862,680)**	(7,837,450)
Gross profit		**1,025,911**	1,547,239
Other revenue and gains		**81,213**	98,916
Selling and distribution expenses		**(805,295)**	(1,132,065)
Administrative expenses		**(193,582)**	(207,271)
Research and development costs		**(77,479)**	(25,322)
Other operating expenses		**(80)**	(201)
		30,688	281,296
Finance costs		**(45,183)**	(32,475)
Share of profits and losses of:			
A joint venture		**(967)**	(895)
Associates		**32,968**	2,661
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**17,506**	250,587
Income tax expense	4	**(5,780)**	(77,297)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**11,726**	173,290
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	5	**–**	34,552
PROFIT FOR THE PERIOD		**11,726**	207,842
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Cash flow hedge:			
Effective portion of changes in fair value of the hedging instruments arising during the period		**(1,811)**	21,224
Reclassification adjustments for gains included in the consolidated statement of profit or loss		**(23)**	–
		(1,834)	21,224
Exchange fluctuation reserve:			
Translation of foreign operations		**(34,479)**	18,608
Release upon liquidation of a subsidiary		**(7,994)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(44,307)**	39,832
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(32,581)**	247,674

	Notes	Three months ended 31 March **2014** **(unaudited)** ***HK$'000***	2013 (unaudited) *HK$'000*
Profit/(loss) attributable to:			
Owners of the parent		**15,188**	194,882
Non-controlling interests		**(3,462)**	12,960
		11,726	207,842
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**(28,014)**	233,961
Non-controlling interests		**(4,567)**	13,713
		(32,581)	247,674
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic			
– For profit for the period		**HK1.14 cents**	HK14.73 cents
– For profit from continuing operations		**HK1.14 cents**	HK12.64 cents
Diluted			
– For profit for the period		**HK1.14 cents**	HK14.51 cents
– For profit from continuing operations		**HK1.14 cents**	HK12.45 cents

Details of the dividends are disclosed in note 6.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 March 2014 (unaudited) HK$'000	31 December 2013 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,367,612**	2,407,598
Prepaid land lease payments		**154,089**	156,306
Goodwill		**119,638**	119,638
Other intangible assets		**240**	280
Investment in a joint venture		**7,297**	8,333
Investments in associates		**538,475**	512,871
Available-for-sale investments		**6,677**	6,677
Deferred tax assets		**20,323**	18,485
Total non-current assets		**3,214,351**	3,230,188
CURRENT ASSETS			
Inventories		**3,564,603**	4,971,680
Trade receivables		**3,136,800**	3,797,379
Bills receivable		**5,193,151**	5,158,738
Other receivables		**1,844,485**	1,920,027
Tax recoverable		**32,209**	29,969
Pledged deposits		**32,233**	–
Cash and bank balances		**4,546,227**	3,047,524
Total current assets		**18,349,708**	18,925,317
CURRENT LIABILITIES			
Trade payables		**4,624,577**	5,472,647
Bills payable		**5,674,287**	5,108,314
Other payables and accruals		**3,293,136**	4,067,483
Interest-bearing bank and other borrowings	8	**1,340,674**	870,343
Due to TCL Corporation	9	**–**	24,933
Due to T.C.L. Industries	9	**387,890**	387,710
Tax payable		**111,208**	142,551
Provisions		**443,674**	436,629
Total current liabilities		**15,875,446**	16,510,610
NET CURRENT ASSETS		**2,474,262**	2,414,707
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,688,613**	5,644,895

	Notes	**31 March 2014 (unaudited)** *HK$'000*	31 December 2013 (audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,688,613**	5,644,895
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	8	**1,135,748**	1,132,012
Deferred tax liabilities		**29,329**	30,502
Total non-current liabilities		**1,165,077**	1,162,514
Net assets		**4,523,536**	4,482,381
EQUITY			
Equity attributable to owners of the parent			
Issued capital	10	**1,333,599**	1,333,599
Reserves		**3,070,409**	3,024,687
		4,404,008	4,358,286
Non-controlling interests		**119,528**	124,095
Total equity		**4,523,536**	4,482,381

Notes:

1. BASIS OF PREPARATION

The accounting policies and the basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2013, which 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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, except for the adoption of the new and revised HKFRSs as disclosed in note 2 below. These condensed consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These condensed consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as further explained below, the adoption of these new and revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

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

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

3. OPERATING SEGMENT INFORMATION

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

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

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

(b) AV segment – manufacture and sale of audio-visual ("AV") products (discontinued during the year ended 31 December 2013 (note 5)); and

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

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

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

	Three months ended 31 March											
	Continuing operations								**Discontinued operation**			
	Television – PRC market		**Television – Overseas markets**		**Others**		**Total continuing operations**		**AV**		**Consolidated**	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**4,347,565**	6,683,175	**2,981,815**	2,561,205	**559,211**	140,309	**7,888,591**	9,384,689	**–**	887,925	**7,888,591**	10,272,614
Segment results	**(25,199)**	362,782	**52,612**	(52,578)	**19,255**	(10,631)	**46,668**	299,573	**–**	28,292	**46,668**	327,865
Bank interest income							**7,454**	10,988	**–**	13,807	**7,454**	24,795
Corporate expenses, net							**(23,434)**	(29,265)	**–**	–	**(23,434)**	(29,265)
Finance costs							**(45,183)**	(32,475)	**–**	(2,133)	**(45,183)**	(34,608)
Share of profits and losses of:												
A joint venture	**–**	–	**(967)**	(895)	**–**	–	**(967)**	(895)	**–**	–	**(967)**	(895)
Associates	**25,786**	(404)	**–**	–	**7,182**	3,065	**32,968**	2,661	**–**	(38)	**32,968**	2,623
Profit before tax							**17,506**	250,587	**–**	39,928	**17,506**	290,515
Income tax expense							**(5,780)**	(77,297)	**–**	(5,376)	**(5,780)**	(82,673)
Profit for the period							**11,726**	173,290	**–**	34,552	**11,726**	207,842

4. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (31 March 2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Three months ended 31 March	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**8,790**	–
Current – Elsewhere	**(174)**	44,607
Deferred	**(2,836)**	32,690
Total tax charge for the period	**5,780**	77,297

5. DISCONTINUED OPERATION

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

The results of Tonly Holdings and its subsidiaries attributable to the Group for the three months ended 31 March 2013 which have been included in the condensed consolidated statement of profit or loss and other comprehensive income as discontinued operation are presented below:

	Three months ended 31 March 2013 (unaudited) *HK$'000*
Turnover	887,925
Cost of sales	(777,968)
Gross profit	109,957
Other revenue and gains	35,975
Selling and distribution expenses	(36,852)
Administrative expenses	(39,025)
Research and development costs	(27,570)
Other operating expenses	(386)
	42,099
Finance costs	(2,133)
Share of loss of an associate	(38)
Profit before tax from the discontinued operation	39,928
Income tax expense	(5,376)
Profit for the period from the discontinued operation	34,552
Profit attributable to:	
Owners of the parent	27,667
Non-controlling interests	6,885
	34,552
Earnings per share from the discontinued operation:	
Basic	HK2.09 cents
Diluted	HK2.06 cents

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

	Three months ended 31 March 2013 (unaudited) *HK$'000*
Earnings	
Profit attributable to ordinary equity holders of the parent from the discontinued operation, used in the basic and diluted earnings per share calculation	27,667

	Number of shares Three months ended 31 March 2013 (unaudited)
Shares	
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation *(note 7)*	1,323,172,865
Effect of dilution – weighted average number of ordinary shares: Assumed issue at no consideration on deemed exercise of all share options outstanding during the period *(note 7)*	20,330,229
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation *(note 7)*	1,343,503,094

6. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2014 (31 March 2013: Nil).

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

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

	Three months ended 31 March	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation		
From continuing operations	**15,188**	167,215
From the discontinued operation	**–**	27,667
	15,188	194,882

	Number of shares Three months ended 31 March	
	2014	2013
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,333,598,514**	1,323,172,865
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	**1,521,348**	20,330,229
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**1,335,119,862**	1,343,503,094

8. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 March 2014 (unaudited) *HK$'000*	31 December 2013 (audited) *HK$'000*
Current		
Bank loans – unsecured	**1,182,181**	825,343
Loan from an associate – unsecured	**158,493**	45,000
	1,340,674	870,343
Non-current		
Bank loans – unsecured	**1,135,748**	1,132,012
	2,476,422	2,002,355
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**1,182,181**	825,343
In the second year	**324,854**	207,385
In the third to fifth years, inclusive	**810,894**	924,627
	2,317,929	1,957,355
Loans from an associate repayable:		
Within one year	**158,493**	45,000
	2,476,422	2,002,355

Notes:

(a) As at 31 March 2014, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(b) TCL Corporation ("TCL Corporation", the ultimate holding company of the Company) has guaranteed certain of the Group's bank loans up to HK$794,713,000 (31 December 2013: HK$302,207,000) as at the end of the reporting period.

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

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

10. SHARE CAPITAL

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

11. COMPARATIVE AMOUNTS

The comparative condensed consolidated statement of profit or loss and other comprehensive income has been re-presented as if the operation classified as discontinued operation during prior year had been discontinued at the beginning of the comparative period (note 5). In addition, certain comparative amounts have been reclassified to conform with the current period's presentation.

BUSINESS REVIEW

For the three months ended 31 March 2014, the Group recorded a turnover of approximately HK$7,889 million, down by 15.9% year-on-year. Gross profit amounted to approximately HK$1,026 million, down by 33.7% year-on-year. Gross profit margin dropped to 13.0% from 16.5% for the same period last year while expense ratio decreased to 12.7% from 14.3% for the same period last year. Operating profit was approximately HK$31 million, down by 89.0% year-on-year. Net profit after tax from continuing operations was approximately HK$12 million, down by 93.1% year-on-year. Profit attributable to owners of the parent from continuing operations was approximately HK$15 million, down by 91.0% year-on-year. The Group's basic earnings per share and basic earnings per share from continuing operations were HK1.14 cents and HK1.14 cents, respectively (Basic earnings per share and basic earnings per share from continuing operations in the same period of 2013: HK14.73 cents and HK12.64 cents, respectively).

In the first quarter of 2014, growth in the overall LCD TV market continued to decelerate. However, the transformation of the PRC's TV industry was speeding up because of the rapid development of smart and internet cloud technologies, etc. against the backdrop of the major trend of consumer electronics' cross-industry integration. The traditional TV industry has been undergoing radical changes and now the competition is among product ecosystems rather than the terminal products.

In view of the above, on 24 February 2014, the Group announced "double +" strategy which focuses on "intelligence + internet" and "products + services" as the main direction of future transformation. "Intelligence + internet" refers to the development of smart products and services evolved from internet thinking, offering ultimate experiences for smart products and services and driving a major transformation in the areas of technologies and operations. Meanwhile, "products + services" refers to the establishment of a new business model, realising strategic transformation breakthroughs in the internet era.

However, the Group's TV sales volume in the PRC Market was below its expectations due to the continuing weak market demand and the inadequate selling capabilities at the sales terminals. In addition, due to delays in launches of new products, proportion of sales volume of new products fell short of expectations and gross profit margin declined year-on-year, contributing to the loss in the PRC Market.

The Group had sped up its organizational transformation, seeking to primarily improve the operation in the PRC Market and operational capabilities and leveraging its advantages of having a vertically-integrated industry chain to beef up its product competitiveness. It also improved its capabilities in supply chain management, lowered production costs and tightly controlled its expense ratio. Through these measures, the Group sought to enhance its overall competitiveness, laying a solid foundation for fully-fledged implementation of its "double +" transformation strategy.

TV Business

During the period, the Group sold a total of 3.83 million sets of LCD TVs, down by 2.2% year-on-year. The sales volume of the LCD TVs in the PRC Market declined by 29.0% year-on-year to 1.80 million sets while the sales volume of its LCD TVs in the Overseas Markets increased by 47.1% year-on-year to 2.03 million sets, of which the sales volume of LCD TVs in the Emerging Markets grew by 5.4% to 0.96 million sets. The Emerging Markets remained the most important contributor to the Group within the Overseas Markets. According to the latest DisplaySearch report, the Group ranked No.3 in the global LCD TV market in 2013 with a market share of 6.5%. Meanwhile, the Group ranked No.1 in the PRC LCD TV market with a market share of 18.1%.

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

	2014 First Quarter ***('000 sets)***	2013 First Quarter *('000 sets)*	**Change**
LCD TVs	**3,826**	3,912	(2.2%)
of which: LED backlight LCD TVs	**3,825**	3,541	+8.0%
Smart TVs	**720**	591	+21.8%
3D TVs	**500**	772	(35.2%)
– PRC Market	**1,801**	2,535	(29.0%)
– Overseas Markets	**2,025**	1,377	+47.1%
CRT TVs	**45**	343	(86.9%)
– PRC Market	**–**	–	N/A
– Overseas Markets	**45**	343	(86.9%)
Total TV sales volume	**3,871**	4,255	(9.0%)

The PRC Market

During the period under review, due to the continuing weak market demand, delays in launches of new products and indequate selling capabilities at the sales terminals, the sales volume of the Group's LCD TVs was 1.80 million sets, down by 29.0% from the same period of last year. Turnover in the PRC Market dropped 35.0% year-on-year to HK$4,347 million. Due to delays in launches of new products, proportion of sales volume of new products fell short of expectations and gross profit margin declined by 3.1 percentage points year-on-year, contributing to the loss in the PRC Market.

In the first quarter of 2014, the Group launched a total of 20 new products in 8 series, including 9 products of 4K ultra high-definition TVs. The sales volume of the smart TVs increased from 0.55 million sets in the same period of last year to 0.67 million sets, and its proportion to the total LCD TV sales volume in the PRC Market increased to 37.2%. Meanwhile, following its co-launch of "TCL-iQIYI TV+" ("TV+") with iQIYI under Baidu, Inc. in September last year, the Group introduced a total of 9 new products of TV+, namely "A71S-UD", "A71S", "A71C", etc. in February 2014, with full coverage of 32 inches to 55 inches mainstream products and full range of display technology from 2D to 4K.

In addition, it has been an important move for the Group to diversify its business into game industry as the Group has been gearing its transformation towards internet and entertainment orientations. In March 2014, the Group jointly established a "TCL Game TV Ecosystem Strategic Alliance" with China Unicom Broadband, ATET, JD.com and Gameloft to develop a double-screen integrated game platform. New TV models E5700, E6700 and TCL game console T^2, etc. were unveiled in TFC, and comprises 6 models with panels of 40 inches to 65 inches, equipped with powerful dual-core CPU and quad-core GPU. The series, which also pioneered an application of 3M picture quality enhancement optical films that enhanced 4K quality, bring ultra-high-speed game experiences on large and ultra high-definition panels. In addition, TCL game console T^2 was equipped with quad-core CPU, eight-core GPU and an internal memory capacity of 16GB, supporting 1080P full high-definition HDMI output, offering users with exquisite audio and video experiences. As an important step of entering into game industry by the Group, the Group expects the game product series will become a new business growth driver, exploring the blue ocean in the game entertainment market.

Overseas Markets

During the period under review, the Group's Overseas Markets achieved encouraging growth and an improvement in results. The sales volume of the LCD TVs in the Overseas Markets increased by 47.1% year-on-year to 2.03 million sets. Turnover in the Overseas Markets increased by 16.4% year-on-year to HK$2,982 million. Gross profit margin increased by 1.8 percentage points year-on-year, contributing to a turnaround in Overseas Markets in the first quarter of 2014. In the first quarter of 2014, the sales volume of the LCD TVs in the Emerging Markets reached 0.96 million sets, increased by 5.4% compared to the same period last year. Sales volume of the LCD TVs in the Strategic OEM business increased by 208.9% year-on-year.

The Group fully capitalized on the transition to high-end products by enhancing its product mix with focus on large-sized products, 4K ultra high-definition TVs and smart TVs. The Group comprehensively developed its marketing campaign through social media to promote TCL brand to the world, and frequently launched new product shows. The Group fully introduced 4K ultra high-definition TVs in the Overseas Markets, which actively benefited its brand enhancement and product marketing. The Group started to introduce various 4K ultra high-definition TVs with panels of 40 inches to 85 inches in the Australian Market since March 2014 and gained initial enthusiastic feedback from the market, strengthening the Group's confidence in promoting high-end products in the Overseas Markets.

In the European Markets, the Group actively cooperated with large retail chains comprehensively, resulting in significantly increase in the proportion of large-sized smart TVs. In the North American Market, the Group not only reinforced its strategic cooperations with Amazon, but also expanded other sales channels actively, and cooperated with leading retailers of the United States of America, leading to significant increase in sales volume of that market. At the same time, the Group introduced TCL Roku smart TVs during the period, making its first foray into the North American Market for internet smart TVs. Through cooperations with an internet content provider, Roku, the Group launched a high-definition smart TV which enabled its users to tap streaming media resources in over 1,000 channels in the North American Market, thereby pioneering a new mode and a new form of cross-industry cooperation between a TV manufacturer and an internet content provider in North America.

Furthermore, the Group announced the acquisition of Sanyo's production plant in Mexico during the period. This acquisition will enable the Group to enhance efficiency of its supply chain, secure stable orders, and strengthen its future business development in the Overseas Markets, especially in North and South American Markets.

R&D

At the 47th Consumer Electronics Show ("CES") held in Las Vegas, the United States of America in January 2014, TCL has been included in the leagues of "Top 50 Global Consumer Electronics Brands" and "Top 10 Chinese Consumer Electronics Brands" for sixth consecutive year. TV+ also received the "Global Innovative Smart TV of the Year" award at the CES, demonstrating the industry's recognition of the Group's product innovation capability.

In the CES, the Group exhibited its industry-leading ultra high-definition large-panel product series, which includes the 110-inch 4K ultra high-definition 3D LCD TVs, the latest 55-inch OLED TVs and the 85-inch large panel Ultimate TVs, etc. TCL Curved ultra high-definition TVs, which were simultaneously launched, perfectly assimilate the 4K ultra high-definition resolution advanced technology standard on curved panels, equipped with an ultra high-definition panel with wide-gamut, that not only bring to users brand-new visual enjoyment, but also create an exquisite viewing experience.

Furthermore, in March 2014, TCL Corporation, TCL Communication Technology Holdings Limited ("TCL Communication") and the Group jointly announced their partnership with Hong Kong Science and Technology Parks Corporation to set up an international R&D base in Phase 3 of Hong Kong Science Park, which will bring a total of over 600 engineers, technical specialists and R&D personnel. The cooperation will effectively utilize the R&D resources and strengths in Hong Kong and worldwide to further enhance the Group's R&D capabilities and the competitiveness of its products, with focus on consumer electronic products such as smart TVs, etc.

Outlook

Looking forward, the global economy is expected to continue its moderate recovery, together with political tension in the Eastern Europe, which brings uncertainties to the global economic environment. On the other hand, overall growth in the global TV industry remains slow and problems associated with homogenization in products resulting from the matured development in hardware become prominent. Furthermore, the competition is intensifying due to the involvement of internet companies in the TV industry.

Nevertheless, the theme for the PRC economic development maintains as striving growth with stability, the urbanization development and domestic consumption demand are expected to remain the driving force behind the steady development of the TV industry. Meanwhile, smart-oriented transformation of the industry will bring about new opportunities. The Group will steadily improve its fundamental capabilities and accelerate improvements in its operational efficiency. The Group will proactively implement "double +" transformation strategy, which comprises "intelligence + internet" and "products + services". The strategy marks a shift from the previous product-oriented approach to a product-and-user-oriented approach, seeking to develop smart products and services that deliver exquisite experience and providing users an all-round entertainment solution, with an aim of gradually transforming the Group from a conventional TV manufacturing enterprise to a global entertainment technology enterprise.

In view of "intelligence + internet", with the currently advent usage of internet and its applications, the Group on one hand will apply internet thinking in R&D, manufacturing and marketing. On the other hand, it will step up the establishment of an internet ecosystem by cementing its hardware business and enhancing its horizontal alliances, deepening cross-industry strategic cooperations with iQIYI and IMAX Corporation with an aim of developing cross-industry smart terminal products which embody the integration of "platform, content, terminal and application". Also, the Group has come up with an online-to-offline (O2O) plan which reflects a marketing strategy of combining traditional media with new media. The plan will reinforce its existing distribution channels and at the same time will enhance the sales efficiency by bringing closer to consumers through internet applications.

In terms of "products + services", the Group will endeavor its best efforts in establishing a mechanism that identifies consumer needs and user experiences and continue to improve its product competitiveness. The Group will develop smart TVs, game consoles, OTT set-top boxes to be operated on smart service platforms, IMAX premium private theatre systems and will cooperate with TCL Communication to jointly launch high-resolution video conferencing systems. The Group will organize its business layout along the 4 smart service platforms including video platforms, game platforms, education platforms and living platforms. The Group will strengthen establishment of horizontal alliances and cross-industry cooperation in video and game platforms and promote applications of education platforms and living platforms, so as to provide users with a comprehensive entertainment solution and strive to achieve breakthroughs in establishing a revenue-sharing model for its businesses.

On 9 April 2014, the Group held a grand spring show "TCL 2014 Spring Product Show ALL 4 U" in Shenzhen, In the show, the Group launched a wide range of new smart internet products and service platforms for spring, including specialized game platform, game console, high-resolution video conferencing system, etc. Of which, the most eye-catching were the world's first specialized game platform with double-screen integrated and TCL game console T^2, that platform is also the first specialized game console platform based on an Android operating system in the world. In the future, the game platform will be fully installed in TV+ products series including A71, E5700 and E6700. Other new products of the Group were also showcased at the show such as QLED TVs, curved-panel TVs and 4K ultra high-definition naked eye 3D TVs. Meanwhile, TCL Corporation announced its official plan to start an O2O platform and to strengthen its content development with an aim of establishing a smart industry ecosystem as part of its strategic transformation.

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

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

On 31 March 2014, US Moka Limited (the "Purchaser", a wholly-owned subsidiary of the Company) and Sanyo Manufacturing Corporation (the "Vendor", an independent third party) entered into two agreements (the "Agreements"), namely: (i) the asset purchase agreement pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire the assets comprising certain pieces of land (the "Land") located at the Industrial Development Zone known as Ciudad Industrial Nueva Tijuana, Baja California Mexico which is designated to industrial use, with a total area of about 79,131.79 square meters; all the buildings erected on the Land; and machinery and any other supplementary tools operated in Sanyo Manufacturing, S.A. de C.V. ("SMSA", a non-wholly owned subsidiary of the Vendor) at a consideration of US$13,270,000 (equivalent to approximately HK$103,510,000); and (ii) the stock purchase agreement pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire 45,000 shares in SMSA, representing 90% of the capital stock of SMSA at a consideration of US$1,950,000 (equivalent to approximately HK$15,210,000). The total consideration of US$15,220,000 (equivalent to approximately HK$118,720,000) will be paid in cash and payable in accordance with the terms of the Agreements at the completion of the Agreements which is expected to take place on 30 April 2014 or on such other date as shall be agreed in writing between the Purchaser and the Vendor.

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 31 March 2014 amounted to HK$4,546,227,000, of which 1.7% was maintained in Hong Kong dollars, 22.1% in US dollars, 73.6% in Renminbi, 1.3% in Euro and 1.3% was held in other currencies for its overseas operation.

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

As at 31 March 2014, the Group's gearing ratio was 0% since the Group's total pledged deposits and cash and bank balances of HK$4,578,460,000 were higher than the total interest-bearing borrowings of HK$2,864,312,000. The maturity profile of the borrowings ranged from one to three years.

Pledge of Assets

As at 31 March 2014, saved as disclosed in note 8, certain pledged deposits and bills receivable of the Group amounting to HK$32,233,000 and HK$539,027,000 were pledged for certain bills payable amounting to HK$567,465,000 (31 December 2013: certain bills receivable of the Group amounting to HK$639,949,000 were pledged for certain bills payable amounting to HK$635,890,000).

Capital Commitments and Contingent Liabilities

As at 31 March 2014, the Group had capital commitments of approximately HK$257,260,000 (31 December 2013: HK$175,256,000) and HK$379,556,000 (31 December 2013: HK$385,484,000) which were contracted but not provided for and authorized but not contracted for, respectively. There was no significant change in contingent liabilities of the Group compared to the position outlined in the Company's 2013 annual report.

Foreign Exchange Exposure

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

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

Employee and Remuneration Policy

As at 31 March 2014, the Group had a total of 27,330 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. Options for subscribing a total of 33,730,214 shares remained outstanding at the end of the reporting period.

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

PURCHASES, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of shares for the three months ended 31 March 2014.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the three months ended 31 March 2014, complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, except for the deviation from the Code Provisions D.1.4 and F.1.1. The reasons for the deviation remain the same as those stated in the Company's 2013 annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2014, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee comprises four members including Mr. TANG Guliang (Chairman), Ms. WU Shihong and Dr. TSENG Shieng-chang Carter, all being independent non-executive directors of the Company, and Mr. HUANG Xubin, a non-executive director of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

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

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 24 April 2014

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