TCL

创意感动生活
The Creative Life

# TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

Stock code: 01070

ANNUAL REPORT 2012


TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED ANNUAL REPORT 2012

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# COLOR YOUR WORLD

## CORPORATE PROFILE

TCL Multimedia Technology Holdings Limited (the "Company", together with its subsidiaries, the "Group") is one of the largest global TV manufacturers and distributors and its products are sold all over the world. Headquartered in China, the Group operates its manufacturing plants and R&D centres across all major continents. The ultimate holding company of the Company is TCL Corporation.

# CONTENTS



# FINANCIAL HIGHLIGHTS

## FINANCIAL PERFORMANCE

| (HK$ Million) | **2012** | 2011 |
|---|---|---|
| Turnover | **39,685** | 32,932 |
| Gross profit | **6,578** | 5,289 |
| Gross profit margin (%) | **16.6%** | 16.1% |
| Net profit | **911** | 453 |
| Basic EPS (HK cents) | **69.65** | 41.80 |
| Full year dividend per share (HK cents) | **24.80** | 16.00 |
| – Paid interim dividend per share (HK cents) | **10.00** | – |
| – Proposed final dividend per share (HK cents) | **14.80** | 16.00 |

## FINANCIAL POSITION

| (HK$ Million) | **2012** | 2011 |
|---|---|---|
| Property, plant and equipment | **2,484** | 1,342 |
| Cash and bank balances | **3,431** | 4,452 |
| Total assets | **28,020** | 24,132 |
| Total liabilities | **23,028** | 20,479 |
| Interest-bearing borrowings | **3,010** | 4,438 |
| Net assets | **4,992** | 3,653 |

## OPERATION INDICATORS

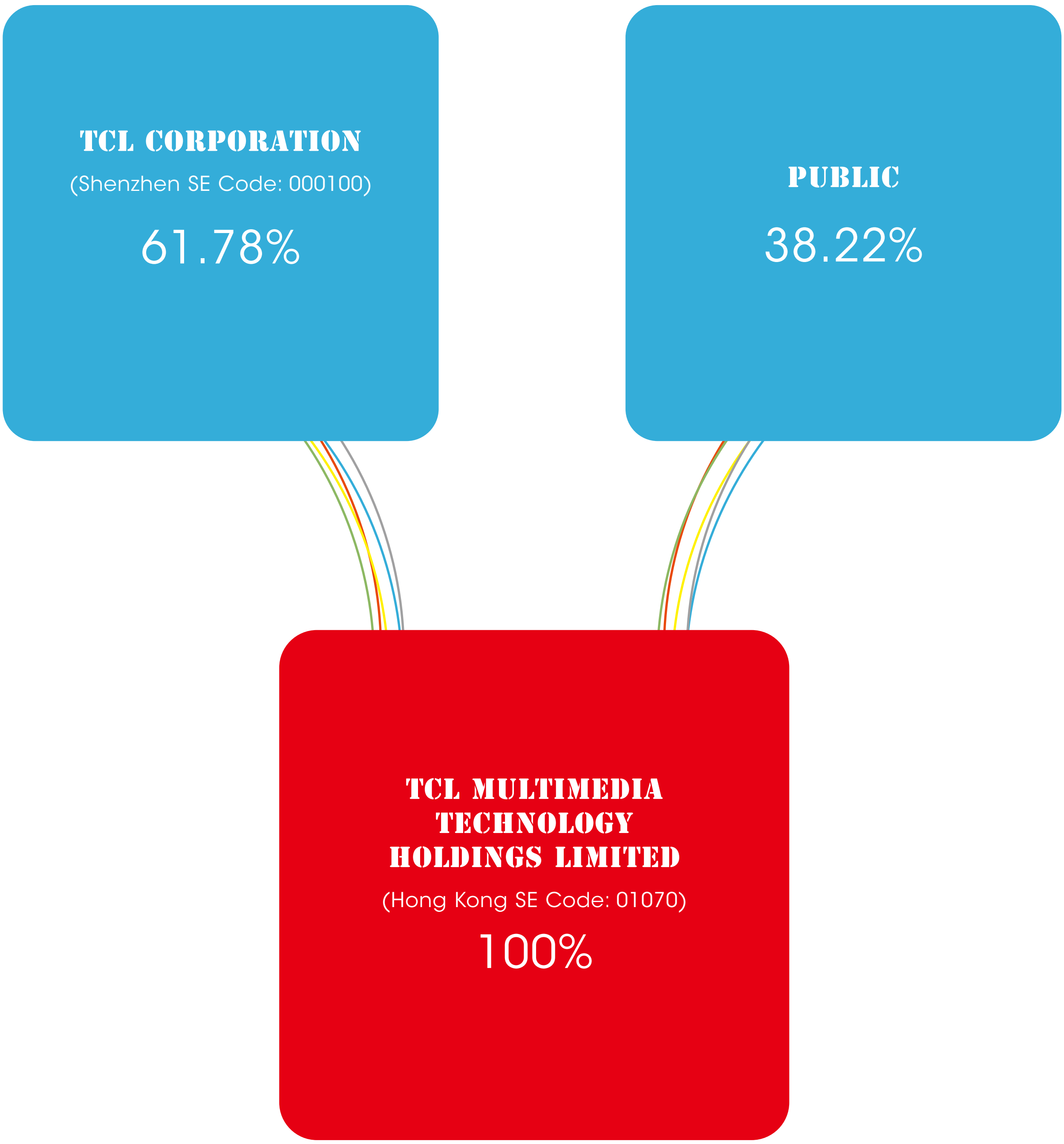
| | **2012** | 2011 |
|---|---|---|
| Return on equity (%) | **19%** | 13% |
| Inventory turnover (days) | **48** | 48 |
| Trade receivables turnover (days) | **36** | 35 |
| Trade payables turnover (days) | **69** | 65 |
| Current ratio | **1.1** | 1.1 |
| Gearing ratio (%) | **–** | – |

Note: The above turnover days are calculated on average balance of the year.


TURNOVER BREAKDOWN BY PRODUCTS

TURNOVER BREAKDOWN BY REGIONAL TV BUSINESS CENTRES

# CORPORATE STRUCTURE




# YEAR IN REVIEW 2012

**JANUARY:** The acquisition of entire equity interest in TCL Optoelectronics Technology (Huizhou) Co., Ltd. ("TOT") and its 60% owned-subsidiary, Huizhou TCL Coretronic Co., Ltd. ("Huizhou Coretronic") (collectively the "TOT Entities") was completed

TCL continued to be listed in "TOP 50 Global Consumer Electronics Brands" and ranked No.6 in global TV brands, as well as being listed in TOP 10 China's Leading Consumer Electronics Brands for the fourth consecutive year. Its Smart Cloud TV was also the first to be awarded the Annual Innovation Prize for Smart Cloud TV in the 45th Consumer Electronics Show held in Las Vegas, the United States

**FEBRUARY:** Became the exclusive partner of CCTV 3D Channel

**APRIL:** Launched world debut of Cloud Strategies and new cloud TV products including the V7500, the first 3D smart "cloud" TV in the world with a smart TV operation system – STV OS system, and the E5390, the first 3D smart "cloud" TV in the world with TV smart point of a reading educational system.

Entered into an agreement with Sweden-based IKEA, the world's largest furniture manufacturer, for the development of its innovative concept of complete TV solutions that includes TV, audio equipment and furniture

**MAY:** The Group surged to Top Five Global LCD TV Market Share according to the DisplaySearch report in the first quarter in 2012

**JUNE:** Raised its 2012 annual sales volume target of LCD TVs from 13.80 million sets to 15.20 million sets

**AUGUST:** TCL and Tencent Holdings Limited, China's leading integrated internet service provider, jointly launched iCE SCREEN, the world's first portable large screen entertainment smart "cloud" product, creating a new form of consumer electronic products

# YEAR IN REVIEW 2012

**SEPTEMBER:** Announced that all of the Group's 3D smart "cloud" TVs are equipped with dual-core CPUs, dual-core GPUs and the Android 4.0+ system, firstly realizing software and hardware enhancements. It also launched the Cloud•Ping$^2$ V6500 series, the first dual-core 4D dual-display smart "cloud" TV in the world, and the Cloud•Chang E4500 series, the first dual-core smart "cloud" TV in the world to feature a KTV function

TCL maintained the top TV brand in the PRC and ranked No.6 among the top 100 Chinese brands according to the "2012 (The 18th) Most Valuable Chinese Brands Evaluation" jointly compiled by R&F Global Ranking Information Group Ltd. and Beijing Famous Brand Evaluation Co. Ltd.. With a brand value of RMB 58,326 million, TCL continues to maintain its industry-leading position


**OCTOBER:** The 8.5-generation LCD panel production line operated by Shenzhen China Star Optoelectronics Technology Co., Ltd. ("CSOT"), a joint venture among the Group's ultimate holding company, TCL Corporation ("TCL Corporation"), the Shenzhen Municipal Government and Samsung (Korea), has reached its target production capacity three months ahead of schedule

The Group's vertically integrated LCD TV plant in Inner Mongolia commenced production

**DECEMBER:** Entered into a subscription agreement with Tonly Electronics Limited ("Tonly Electronics") for restructuring of its AV Business

According to the latest DisplaySearch report, the Group advanced to Top Four Global LCD TV Market Share and maintained its No.1 position in the PRC LCD TV Market. This is the first time a Chinese television manufacturer has been ranked among the top four in the global LCD TV industry by market share

# CHAIRMAN'S STATEMENT

"THE GROUP SOLD A TOTAL OF 15.53 MILLION LCD TV SETS FOR THE FULL YEAR OF 2012, UP BY 43.0% OVER THE PREVIOUS YEAR, THEREBY EXCEEDING ITS FULL-YEAR SALES VOLUME TARGET OF 15.20 MILLION LCD TV SETS, AND BECAME THE FIRST CHINESE TV MANUFACTURING ENTERPRISE TO BREAK THE ANNUAL SALES VOLUME RECORD OF 15.00 MILLION LCD TV SETS."

# CHAIRMAN'S STATEMENT

**Li Dongsheng**
*Chairman*

## DEAR SHAREHOLDERS,

In 2012, the consumer electronics sector experienced intensifying convergence among different industry segments, including increasing integration of manufacturing, information services and digital contents. This development helped push boundaries of innovation in the consumer electronics sector, allowing new industries to emerge. Under the circumstance, the Group exploited synergistic cooperation across different industry segments, integrated relevant resources and launched a number of initiatives to promote multi-segment coordinated development in an effort to bring to consumers brand new user experiences. These not only helped the Group grow its market share and enhance its brand influence, but also enabled it to make breakthroughs in the global consumer electronics industry and market.

The past year marked a time when the Group successfully accomplished its strategic transformation and achieved fruitful results. The Group sold a total of 15.53 million sets of LCD TVs for the full year of 2012, up 43.0% year-on-year, thereby exceeded its annual LCD TV sales volume target of 15.20 million sets, making the Group the first Chinese TV manufacturer that achieved its annual LCD TV sales volume exceeding 15.00 million sets. According to the latest DisplaySearch report, the Group's global LCD TV market share increased from 4.8% in 2011 to 5.8% in 2012, lifting its ranking to No.4, which enabled the Group to make it to the list of the top-tier global TV makers. Meanwhile, the Group ranked No.1 position in the PRC LCD TV market with a market share of 18.0%. These achievements not only established a new milestone for the PRC TV industry, but also showed that the Group is on a good track for internationalization.

# CHAIRMAN'S STATEMENT

# CHAIRMAN'S STATEMENT

The Group firmly adheres to its strategy of "vertical integration, innovation and internationalization" for long term development. It has focused its efforts in improving product portfolio, marketing strategies, sales channels, cost and brand influence with emphasis on speed and efficiency. It has also fully capitalized on its unique advantage of being the only Chinese manufacturer with a full industry chain which spanned the production of LCD panels, modules and TV assembling. With these efforts, it achieved good results. For the year ended 31 December 2012, the Group recorded a turnover of approximately HK$39,685 million, up 20.5% year-on-year. Profit attributable to owners of the parent reached approximately HK$911 million, representing a significant growth of 101.1% year-on-year. The sales volume of LCD TVs in the PRC Market grew by 34.1%, while that in the Overseas Markets rose by 56.8%. In particular, sales volume of LCD TVs in the Emerging Markets grew by 70.4%. Facing the trend of integration of global economy, the Group steadily executed its internationalization strategy to further consolidate its global resources. Thanks to successes achieved over the years in establishing presences in the Overseas Markets, the Group recorded profit even amidst the global economic downturn. This significant achievement is a milestone in the Group's development.

Looking forward, both opportunities and challenges lie ahead. Firstly, despite the challenging operating environment, risk creates opportunity. The Chinese government will stimulate consumption to kick-start the domestic demand. Meanwhile, the overseas consumers amid economic downturn are more attracted to the PRC's products which are value for money, and urbanization in the PRC has been accelerating. These developments will generate opportunities for consumer electronics enterprises such as TCL.

Secondly, the rapid development of products and technologies brings opportunities for enterprises to make significant progresses. In recent years, technological advancements in global electronics, information technology and the internet have accelerated, yielding various new technologies and products. The Group persists with innovative product,strategies and closely monitors the changing trends of the market and consumers' preferences, and actively integrates external resources in order to develop competitive products.

# CHAIRMAN'S STATEMENT

Thirdly, the changes in business models and industry landscapes will generate new opportunities. The global consumer electronics industry is undergoing a new round of reshuffle as many information technology companies and internet firms are entering the TV industry. This will bring a new challenge to the traditional TV manufacturers. The popularity of mobile internet and "cloud" services will bring about a change of business model, blurring the differences between various types of hardware, while the software such as operating systems, application platforms and content services will be the main sources of value added point. A consumer electronics brand will have to seek more opportunities to generate profit by improving its business model, in addition to developing good products. As e-commerce platform is developing fast, the Group will enhance the development of its e-commerce to adapt to the changes in the market and sales channel.

Facing the opportunities and challenges, whoever overcomes challenges will succeed in capitalizing on opportunities. Through years of internationalization, TCL has initially established a global business structure, upgraded its product technologies and proprietary innovation capabilities, enhanced operating efficiency of its cross-border businesses and persistently expanded its brand influence. Leveraging these advantages in international expansion, the Group will continue to strengthen its leading position in the PRC Market, while actively cultivating its businesses in the Emerging Markets including Southeast Asia and Latin America, and steadily developing the North American Markets and European Markets to achieve healthy development. Coupled with consolidating its existing dominance, the Group will achieve balanced development in the PRC and Overseas Markets. TCL will persist in its "vertical integration, innovation and internationalization" strategy in the next decade and continue to deepen its internationalization footprint. Meanwhile, it will seek new opportunities by exploring new business models and taking advantage of its application services.

# CHAIRMAN'S STATEMENT

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With emphasis on "speed and efficiency", the Group is endeavouring to its operating goals for quality-driven growth by increasing market share, raising average selling prices and improving profitability and, streamlined management by implementing rapid turnovers, stringent cost control and lower expense. To achieve these goals, the Group will significantly enhance the competitiveness of its products, develop technologies for the application services of smart devices, expand sales channel and strengthen the development of e-commerce, with an aim to increase its market share and influence in the global and PRC Market. In the Overseas Markets, it will boost its sales volume through capturing the opportunities brought by the shrinking market shares of the Japanese brands. It will also take a full advantage of its vertical integration of the industry chain to evolve into a leading TV and consumer electronics brand and will strive for satisfactory growth performance to maximize the shareholder value and generate long-term return.

On behalf of the Board, I would like to extend my sincerest gratitude to our shareholders, customers and business partners for their ardent support to the Group. I would also like to take this opportunity to thank the management and staff of the Group for their unwavering dedication to hard work and contribution to the Group. We believe that the Group will be able to conquer challenges with ease after having weathered upheavals in its development. With the hard work and contribution of its more than 32,000 staff all over the world, the Group is set on becoming a respectable, innovative and internationalized enterprise.

**LI Dongsheng**
*Chairman*

Hong Kong, 26 February 2013

# MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group had successfully accomplished its strategic transformation in 2012. Due to the influence brought about by the sovereign debt crisis in Europe, uncertainties surrounding the United States fiscal cliff and the moderating pace of economic growth in the PRC, demand in the global TV market continued to slow down, which posed challenges to the operating environment. The Group had been adhering strictly to its principle of "speed and efficiency" and implemented its development strategies of "sales volume growth, transformation and sustainability". It strived to enhance its product competitiveness, optimize sales channels and fully leverage advantages brought by its vertically-integrated operations in order to continue strengthening its core competence and profitability. Meanwhile, the Group focused on strengthening its supply chain management, lowering its costs through resources integration and continuously promoting the proportion of sales volume of high-end products. For the year ended 31 December 2012, the Group recorded a turnover of approximately HK$39,685 million, up 20.5% compared with the same period last year. Gross profit was approximately HK$6,578 million, up 24.4% year-on-year. Operating profit and profit attributable to owners of the parent reached approximately HK$1,286 million and HK$911 million respectively, up 45.6% and 101.1% from the same period of last year respectively. Gross profit margin improved from 16.1% in 2011 to 16.6% in 2012. Expense ratio declined from 14.1% in 2011 to 13.7% in 2012. Basic earnings per share was HK69.65 cents (2011: HK41.80 cents), representing a growth of 66.6% compared to the same period of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors proposed a final dividend of HK14.80 cents per share, together with the interim dividend of HK10.00 cents per share, the total dividend for the year ended 31 December 2012 was HK24.80 cents per share, up 55.0% year-on-year. Dividend payout ratio of the full year was approximately 35.6%.

Looking back at 2012, the Group achieved growth in the sales volume of LCD TVs by optimizing product mix, expanding sales channels as well as implementing proactive marketing strategies. The Group sold a total of 15.53 million sets of LCD TVs for the full year of 2012, up 43.0% year-on-year, thereby exceeded its annual LCD TV sales volume target of 15.20 million sets, making the Group the first Chinese TV manufacturer that achieved its annual LCD TV sales volume exceeding 15.00 million sets, taking the development of TV industry in the PRC. The sales volume of LCD TVs in the PRC Market and the Overseas Markets increased by 34.1% and 56.8% year-on-year respectively. According to the latest DisplaySearch report, the Group's global LCD TV market share increased from 4.8% in 2011 to 5.8% in 2012, thereby lifted its ranking to No.4. The Group has ranked No.1 in the PRC LCD TV market with a market share of 18.0%. In addition, TCL remained the top LCD TV brand in the PRC Market and ranked No.6 among the top 100 Chinese brands according to the "2012 (The 18th) Most Valuable Chinese Brand Evaluation" jointly compiled by R&F Global Ranking Information Group Ltd. and the Beijing Famous Brand Evaluation Co., Ltd.. With a brand value of RMB58,326 million, TCL continued to maintain its industry-leading position, and established a role model of brand building for TV enterprises in the PRC.

In addition, the Group's Tonly Electronics business (formerly known as AV business) made new breakthrough in its product transformation. Despite sales volume of AV products decreased by 26.0% year-on-year to 14.80 million sets, it continued to seek diversification in its products and customer base and proactively drove transformation of its products, resulting in satisfactory growth in the sales volume of both intelligent accessories and new audio products. It also endeavored to optimize its supply chain efficiency and accelerate its inventory turnover in an effort to mitigate pressure from rising production costs.

# MANAGEMENT DISCUSSION AND ANALYSIS

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# MANAGEMENT DISCUSSION AND ANALYSIS

## TV BUSINESS

For the year ended 31 December 2012, the Group sold 15.53 million sets of LCD TVs, up 43.0% from the same period of last year. The sales volume of LCD TVs in the PRC Market and the Overseas Markets increased by 34.1% and 56.8% year-on-year to 8.86 million sets and 6.67 million sets respectively. The sales volume of LCD TVs in the Emerging Markets for the full year of 2012 grew by 70.4% year-on-year to 4.03 million sets. The Emerging Markets remained a major contributor to the Group in the Overseas Markets and continued as a major growth driver alongside the PRC Market. The sales volume of LED backlight LCD TVs increased significantly by 152.6% from 4.68 million sets in 2011 to 11.83 million sets in 2012, accounting for 76.2% of the total LCD TV sales volume, of which the monthly sales volume of LED backlight LCD TVs as a percentage of the total LCD TV sales volume reached 92.2% in December 2012. In addition, the sales volume of smart & internet TVs and 3D TVs accounted for 29.9% and 14.0% of the total LCD TV sales volume for the full year of 2012 respectively.

In 2012, the Group concentrated its R&D efforts on refining the development of 3D TVs and smart "cloud" TVs and launched an array of innovative products. The Group launched a total of 17 product series featuring 38 new products in the PRC Market, including high-end product series featuring large-size 3D "cloud" TVs and edgeless 3D "cloud" TVs. Leveraging its leading edges in technologies, the Group has ushered the TV industry into a new dual-core era. The Group launched the smart "cloud" TV Cloud•Ping$^2$ V6500 series featuring the world's first dual-core 4D dual-display function and smart "cloud" TV Cloud•Chang E4500 series with the world's first KTV-enabled dual-core processor. The Group and the world's leading semiconductor chip manufacturer Marvell jointly launched Google Super-Smart TV MoVo, leading the Group to be the first Chinese television enterprise to launch integrated Google TVs. In addition, the Group and Tencent Holdings jointly launched iCE SCREEN, the world's first portable large-screen entertainment smart "cloud" terminal products. This created a new form of consumer electronic product, promoting the cross-industry integration between the consumer electronics industry and the internet industry while achieving breakthrough in the Group's "full cloud strategies".

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group's enduring efforts in persistently endeavoring to achieve proprietary innovations and strengthening of R&D capabilities received numerous industry accolades. The latest technological achievement V101A-3D ultra high-end television was named "Smart Cloud TV of the Year" at the 46th Consumer Electronics Show held in Las Vegas, the United States. TCL brand also continued to be included in leagues of "Top 50 Global Consumer Electronics Brands" and "Top 10 Chinese Consumer Electronics Brands" for the fifth consecutive year. These recognitions reaffirmed the ascendance of TCL's position in the PRC Market and the global market and enhanced its brand influence.

# MANAGEMENT DISCUSSION AND ANALYSIS

Apart from persistently enhancing R&D capabilities, TCL has been committing to building an international and youthful brand image in the areas of branding culture and entertainment marketing for enhancing its brand influence. Over the past year, TCL has been continuously establishing brand placement, joint promotions and authorized usage of creative elements arrangements with various Hollywood commercial movies such as "Iron Man 3", "Cloud Atlas" and "Batman 3 – The Dark Knight Rises", etc. In addition, TCL has obtained naming right of Grauman's Chinese Theatre, the landmark building on Hollywood Boulevard. The building will be officially renamed "TCL Chinese Theatre" ("the Theatre"). After the renaming, TCL will assist in the overall upgrading of LCD and LED digital displays, electronic posters and advertising panel facilities in the Theatre. This marks the first time the Theatre reached a naming cooperation with an enterprise since its completion 85 years ago. It has not only marked a new era of cooperation between Chinese brands represented by TCL and the international entertainment industries, but also represents a milestone in the globalization development of Chinese enterprises. In addition, the Group has become the new television sponsor of Hong Kong International Airport ("HKIA") during the year, making it the first Chinese television brand with its TV products featured at HKIA, allowing consumers and travelers around the world to experience the technological strengths of TCL products as well as the charisma of the TCL brand.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group's sales volume of TVs and AV products by regions are as follows:

| | 2012 ('000 SETS) | 2011 ('000 sets) | Change |
|---|---|---|---|
| **LCD TVs** | 15,527 | 10,860 | +43.0% |
| of which: LED backlight LCD TVs | 11,828 | 4,682 | +152.6% |
| Smart & internet TVs | 4,637 | 1,492 | +210.8% |
| 3D TVs | 2,179 | 326 | +568.4% |
| – PRC | 8,856 | 6,606 | +34.1% |
| – Overseas | 6,671 | 4,254 | +56.8% |
| **CRT TVs** | 2,030 | 4,185 | (51.5%) |
| – PRC | 176 | 1,006 | (82.5%) |
| – Overseas | 1,854 | 3,179 | (41.7%) |
| **Total TV sales volume** | 17,557 | 15,045 | +16.7% |
| **Total AV products sales volume** | 14,799 | 20,000 | (26.0%) |

## THE PRC MARKET

In 2012, the Group's turnover in the PRC Market recorded a satisfactory growth with ongoing improvement in profitability. Turnover in the PRC Market increased by 18.0% year-on-year to HK$23,146 million and remains the Group's major source of revenue and profit. Sales volume of LCD TVs reached 8.86 million sets, up 34.1% from the same period of last year, well above the industry average, of which the sales volume of LED backlight LCD TVs increased from 3.02 million sets last year to 7.25 million sets of this year, a significant increase of 140.0%. The sales volume of LED backlight LCD TVs in 2012 full year as a percentage of the total LCD TV sales volume in the PRC Market also increased to 81.9%. In December 2012, the monthly sales volume of LED backlight LCD TVs accounted for 99.5% of the total LCD TV sales volume in the PRC Market. According to the latest DisplaySearch report, the Group's LCD TV market share in the PRC Market rose from 14.8% in 2011 to 18.0% in 2012, ranked No.1 in the PRC LCD TV market.

# MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued optimizing its product mix and improving product differentiation, implementing a proactive pricing strategy and intensifying marketing promotion efforts to drive proportion of sales volume of 3D TVs and smart "cloud" TVs. The sales volume of 3D TVs increased from 0.31 million sets in 2011 to 2.14 million sets in 2012, contributing to 24.1% of the total LCD TV sales volume in the PRC Market. The sales volume of smart & internet TVs reached 4.51 million sets, contributing to 50.9% of the total LCD TV sales volume in the PRC Market. Also, the Group continued to strengthen its supply chain management and lower production costs through resources integration, which enhanced product competitiveness and achieved a balanced development in scale, profitability and brand enhancement, as well as successfully consolidated its leading position in the PRC TV market.

# MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group proactively optimized its sales channels. Riding on TV replacement demand in third-tier to sixth-tier markets and rural markets in the PRC, the Group continued to improve network penetration and store efficiency in its rural distribution channels. The number of points of sales as at the end of 2012 increased to approximately 30,000 in third-tier to sixth-tier markets and rural markets in the PRC, an increase of approximately 4,000 points of sales when compared with that at the beginning of 2012. The Group had not only established a comprehensive strategic cooperation with major home appliance retail chains, but also further explored new sales channels such as online stores. The Group had been active in leveraging its dual-brand strategy and leading edges afforded by its sales channels to offer value-for-money products, thereby accomplished overall growths in both sales volume and profitability.

## OVERSEAS MARKETS

The Group implemented prudent operational strategies in the Overseas Markets and stayed adhered to "speed and efficiency" as its core development strategy in order to enhance operational efficiency and profitability. The Group also increased its investment in branding and marketing promotion in the Overseas Markets in order to nurture an international and youthful brand image. Thanks to its continuous improved product mix, enhanced sales channels, effective marketing and promotion strategies and launch of new media market marketing, the Group's business maintained a satisfactory growth in the Overseas Markets. In 2012, turnover in the Overseas Markets of the Group reached HK$11,940 million, up 36.6% from the same period of last year. The sales volume of LCD TVs in the Overseas Markets reached 6.67 million sets, representing a year-on-year increase of 56.8%, of which the sales volume of LED backlight LCD TVs grew significantly to 4.58 million sets from 1.66 million sets in the same period of last year. The sales volume of LED backlight LCD TVs accounted for 68.6% of the total LCD TV sales volume in the Overseas Markets. In December 2012, the monthly sales volume of LED backlight LCD TVs as a percentage of the total sales volume of LCD TVs in the Overseas Markets reached 77.2%.

# MANAGEMENT DISCUSSION AND ANALYSIS


# MANAGEMENT DISCUSSION AND ANALYSIS

In 2012, the Group capitalized on the opportunities brought by demand from TV upgrade and transformation in the Emerging Markets. While proactively expanded its LED backlight LCD TV business in the Emerging Markets, the Group strived to increase the proportion of sales volume of high-end TV products, explored new sales channels and intensified marketing efforts. During the year, the sales volume of LCD TVs in the Emerging Markets reached 4.03 million sets, up 70.4% year-on-year, with strong growths in markets including Latin America, the Middle East and Southeast Asia.

In the European Market, the Group capitalized on the most anticipated events including 2012 UEFA EURO and London Olympic Games and initiated an array of sports marketing and promotional activities. Coupled with the launch of movie and television marketing campaigns through "Batman" movie, the Group actively explored markets in Central and Northern Europe, of which sales performances in Germany, Poland and Sweden achieved significant improvements. Meanwhile, the Group maintained persistent inventory control in its sales channels and speeded up introduction of new products to improve product mix and gross profit margins. In the North American Market, the Group continued to deepen its strategic cooperation with Amazon while proactively exploring cooperation opportunities with other channel suppliers to boost sales volume, thereby established a firm footing for further promotion of the TCL brand. On the other hand, the Group's strategic OEM business showed positive results following completion of restructuring of the clientele and accomplished sustaining growth in LCD TV sales volume.

## TONLY ELECTRONICS BUSINESS

Due to change in industry development and the shrinking traditional DVD player market, the sales volume of AV products declined by 26.0% to 14.80 million sets year-on-year. Nevertheless, anticipating a trend of product transformation, the Group had been initiating diversification of its products and customer base by propagating a product transition in the market. It achieved satisfactory growth in sales volume of intelligent accessories and new audio equipment such as sound bar products which was among the 38 new models of a basic series launched during the year. Meanwhile, the Group improved the supply chain efficiency and shortened the inventory turnover. The Group also continued to intensifying efforts in strengthening its R&D capabilities, developing new products, widening the scope of its supply chain and expanding its production capacity.

# MANAGEMENT DISCUSSION AND ANALYSIS

## R&D

To accommodate the changing needs and preferences of the markets, the Group always attaches importance to improving its proprietary innovation and R&D capabilities. It has been persistently increasing its investments in R&D in order to bring to customers innovative products. In 2012, the Group obtained 145 patents and completed upgrading of its software and hardware simultaneously, a move that enabled applications of dual-core processors and Android 4.0+ operating systems along the whole series of its 3D smart "cloud" TVs. Leveraging the Group's proprietary technology, the Group launched the Cloud•Ping$^2$ V6500 series, the world's first dual-core 4D dual-display smart "cloud" TV, which not only allows users to enjoy two programmes simultaneously, but also offers a unique dual-display mode that allows them to watch multiple videos and use a variety of applications simultaneously. This is a pioneering technology of dual displays on a single panel in the world. Moreover, the Group unveiled the Cloud•Chang E4500 series, which is the world's first KTV-enabled dual-core smart "cloud" TV featuring the premium Cloud•Shang KTV function, leveraging in network connectivity capabilities to cater to strong consumer needs to enjoy KTV entertainment at home.

During the year, the Group and Tencent Holdings jointly launched the world's first large-screen portable entertainment smart "cloud" terminal product, iCE SCREEN, thereby expanded its product range. The Group sold iCE SCREEN via major dual sales channels on the official TCL online store and QQ's online store, breaking new grounds in sharing the usage of sales channels and business models. This innovative cross-industry integration model has also set a new era in innovation of the consumer electronics industry and internet industry in the PRC.

# MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK

The uncertainties surrounding the European sovereign debt crisis, the protracted pace of recovery of the United States economy and the diminishing momentum of the PRC's growth, challenges are expected to pose to the global TV manufacturing industry in 2013. According to the forecast by DisplaySearch, global demand for TV in 2013 will remain at a similar level to that of 2012. Nevertheless, urbanization in the PRC is progressing at a rapid pace, continuous rise of the income per capita and the strong replacement demand from traditional CRT TVs, together with other favourable factors like the increasing popularity of smart TVs, will consistently provide support to the PRC TV market. Furthermore, the forthcoming introduction and refinement of a new energy-saving subsidy program in the first quarter of 2013 which promote five categories of home appliances which are in compliance with energy saving requirements, including flat panel TVs, will instill added momentum to the growth of the Group's TV business.

Facing challenges in the coming year, "speed and efficiency" will remain as the core development strategy of the Group. The Group will boost its sales volume and market share through product innovation, cost optimization and price adjustment, these measures will help bring more value-for-money products to consumers and enhance both the sales channels and the brand development. The Group will also continue to improve the operational efficiency and lower its expense ratio, to fully leverage advantages brought about by its vertically-integrated operations so as to strengthen its core competence. With reference to the current market landscape and demand, the Group has set its annual sales volume target of LCD TV of 18.00 million sets for 2013, an expected increase of approximately 15.9% compared with the total actual sales volume of LCD TVs of 15.53 million sets in 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

For its TV business in the PRC Market, the Group will adjust its product mix to accommodate changes in the market. Specifically, the Group will intensify its efforts in R&D, improve operating efficiency and adhere to its multi-brand strategic operational model to further enhance reputation of its products, as well as to increase its marketing effort in order to be better prepared for the strong consumer demand for high-end products like LED backlight LCD TVs and smart TVs. In addition, the Group will continue to deepen its "full cloud strategies" with a complete range of 3D smart "cloud" TVs with dual-core CPUs, dual-core GPUs and Android 4.0+ operating systems. This aims at raising the proportion of sales volume of the high-end and high value-added products including LED backlight LCD TVs, 3D TVs and smart & internet TVs, enabling the Group to optimize its product mix, maintain the average selling price of its products and increasing the overall gross profit margins. Moreover, the Group will continue to increase the number of points of sales by establishing more specialty stores in cities and rural markets, improve sales efficiency of each of the points of sales and deepen its penetration rate into third-tier to sixth-tier markets and rural markets as part of its effort to accelerate sales volume growth and increase market share. Meanwhile, the Group will implement a full-range exploration into e-commerce opportunities to further expand its share in the PRC Market.

# MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS

In the Overseas Markets, the Group will continue to implement a prudent operational strategy while seizing opportunities from the transition to high-end products in the Emerging Markets. It strives for raising the proportion of sales volume of LED backlight LCD TVs. The Group will continue to implement a two-pronged strategy to enhance its competitiveness. On one hand, speed, efficiency and cost control will remain the core elements of its strategy to establish its core competency in the Overseas Markets. On the other hand, it will intensify efforts in brand development and marketing to establish a globalized and youthful image to enhance the influence of TCL brand in the Overseas Markets. In 2013, the Group will enhance its promotions of smart TVs and launch series of ultra narrow edge products in the Overseas Markets. Smart TVs is expected to become an important growth driver in the Overseas Markets. The Group will continue to drive development in sales channels and improve the overall operational efficiency in the Emerging Markets as part of its effort to enhance overall competitiveness. In the European and North American Markets, the Group will remain committed to improving operational efficiency, speeding up the launch of new products and enhancing sales services standards to intensify sales efforts in North American Market and increase investments in brand development. It will also consolidate its collaboration with clients by participating in international consumer electronics trade fairs and major overseas exhibitions.


For Tonly Electronics business, the Group will step up its investments in R&D of software and electro-acoustic technologies to enhance its capability of designing intelligent ancillary products. Meanwhile, it will put more efforts in development of the Sound Bar product which are closely associated with smart & internet TVs so as to enrich its product portfolio.

Furthermore, the Group's ultimate holding company, TCL Corporation, is one of the few large international enterprises with multimedia business, mobile communication business and 8.5-generation LCD panel business in the world. Therefore, the Group will capitalize on TCL Corporation's resource advantages and cooperate more strategically with TCL Communication Technology Holdings Limited and CSOT in product, R&D as well as management, etc., to derive more strategic synergies, so as to enhance the overall competitive advantages of the Group and TCL brand in the international home appliance industry.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group will continue to adhere to its principle of "speed and efficiency" and to persist in optimizing its product portfolio, enhancing brand influence, optimizing the supply chain management continuously and tightening management of its operating cycles, lowering production costs and expense ratio to fully leverage advantages brought about by its vertically-integrated operations. In the future, the Group will continue to enhance its leading position in the global TV market, achieve better results for 2013 and thus to create more shareholders' value.

## FINANCIAL REVIEW

### SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The acquisition of the TOT Entities was completed on 18 January 2012. The purchase price was settled by the issue of 246,497,191 new shares of the Company at a market price of HK$2.59 per share on the Completion Date. The aggregate fair value of the consideration shares issued is approximately HK$638,428,000 and a gain on bargain purchase of approximately HK$143,749,000 was recognized during the year.

On 20 January 2012, the Group entered into a share transfer agreement with Huizhou Techne Corporation ("Huizhou Techne"), a non-wholly owned subsidiary of TCL Corporation, pursuant to which the Group agreed to acquire and Huizhou Techne agreed to sell the entire equity interest in Huizhou Keda Precision Parts Co., Ltd., a wholly-owned subsidiary of Huizhou Techne, at a cash consideration of approximately RMB6,848,000 (equivalent to approximately HK$8,415,000). The transaction was completed on 27 February 2012.

On 20 July 2012, the Group entered into an acquisition agreement with Coretronic (Suzhou) Co., Ltd. ("Suzhou Coretronic"), pursuant to which the Group agreed to acquire and Suzhou Coretronic agreed to sell 40% equity interest of Huizhou Coretronic, at a cash consideration of approximately RMB13,124,000 (equivalent to approximately HK$16,073,000). The transaction was completed on 22 August 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS


On 20 September 2012, Shenzhen TCL New Technology Company Limited ("TCL New Technology"), a wholly-owned subsidiary of the Company, entered into a club membership acquisition agreement with TCL Optoelectronics Tech (Shenzhen) Company Limited ("Shenzhen TCL Optoelectronics"), a non-wholly owned subsidiary of TCL Corporation, pursuant to which TCL New Technology agreed to acquire and Shenzhen TCL Optoelectronics agreed to sell the entire membership interests in the R&D Elite Club (including but not limited to the exclusive right to occupy and use the premises at Unit 102 (category B of 1st floor), the whole floor of 2nd to 5th and 9th to 12th floor of D4 building, TCL Science Park, No. 1001, Zhongshanyuan Road, Xili, Nanshan District, Shenzhen, the PRC) for office and industrial research use at a cash consideration of approximately RMB186,819,000 (equivalent to approximately HK$228,441,000). The transaction was completed on 20 September 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

On 8 December 2012, Tonly Electronics, a wholly-owned subsidiary of the Company, entered into a subscription agreement with the Company, Run Fu Holdings Limited ("Run Fu", a limited liability company of which Mr. YU Guanghui, a director of the Company, is deemed to be interested in more than 30% equity interest) and Star Force Investment Limited ("Star Force"), pursuant to which Tonly Electronics agreed to issue and allot whereas the Company, Run Fu and Star Force agreed to subscribe for 34,640,000, 11,426,400 and 9,733,600 ordinary shares of Tonly Electronics respectively at respective consideration of approximately HK$90,757,000, HK$29,937,000 and HK$25,502,000. On completion of the subscription agreement, Tonly Electronics will be held by the Company, Run Fu and Star Force as to 84,640,000, 11,426,400 and 9,733,600 ordinary shares of Tonly Electronics, representing 80%, 10.8% and 9.2% respectively of the enlarged issued share capital of Tonly Electronics. The transaction was completed on 28 December 2012.

On 10 December 2012, TCL Technoly Electronics (Huizhou) Co., Ltd. ("TCL Technoly (Huizhou)"), a 80% owned subsidiary of the Group, entered into a capital injection agreement with certain independent third parties, pursuant to which TCL Technoly (Huizhou) agreed to invest RMB30,000,000 (equivalent to approximately HK$36,996,000) for a 60% equity interest of the enlarged capital of Guangdong Regency Optics-Electron Corp.. The transaction was completed on 25 December 2012.

## 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 as at the year end amounted to HK$3,431,337,000, of which 2.0% was maintained in Hong Kong dollars, 26.9% in US dollars, 68.7% in Renminbi, 1.3% in Euro and 1.1% held in other currencies for the overseas operations.

There was no material change in available credit facilities when compared with the year ended 31 December 2011 and there was no asset held under finance lease as at year end.

As at year end, the Group's gearing ratio was 0% since the Group's total pledged deposits and cash and bank balances of HK$4,257,557,000 were higher than the total interest-bearing borrowings of HK$3,009,990,000. The maturity profile of the borrowings ranged from one to two years.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PLEDGE OF ASSETS

Please refer to notes 24, 27 and 30 to the financial statements.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At the end of the reporting period, the Group had the following capital commitments:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for | **44,092** | 9,256 |
| Authorised, but not contracted for | **753,614** | 549,479 |
| | **797,706** | 558,735 |

As at 31 December 2012, the Group did not have any material contingent liability not provided for the financial statements.

## PENDING LITIGATION

The Group had not been involved in any material litigation for the year ended 31 December 2012.

## 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 the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 32,295 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operation. 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 for a total of 46,998,272 shares remained outstanding at the end of 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 in 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.


# DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

# DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

### MR. LI DONGSHENG

Aged 55, is the founder and Chairman of the Company. Mr. LI is also the Chairman, Chief Executive Officer ("CEO") and one of the founders of TCL Corporation. Mr. LI is the Chairman and an executive director of TCL Communication Technology Holdings Limited ("TCL Communication"), a subsidiary of TCL Corporation. Mr. LI is one of the most influential business leaders in the PRC. He has led TCL to set a precedent for internationalization among Chinese enterprises in the global consumer electronics industry.

In 1982, Mr. LI began his career as a workshop technician in TTK Household Electrical Appliances Co. Ltd., the predecessor of TCL. In 1985, Mr. LI became General Manager of the newly established TCL Communication Equipment Co. Ltd., and created the TCL brand. He was then appointed as Director of Introduction Department of Guangdong Huizhou Industrial Development Company. Mr. LI was appointed as Deputy General Manager of Huizhou Electronic Communication Co. in 1990. In 1993, Mr. LI became General Manager of TCL Electronics Group Co. During the same period, TCL launched its color TV business, and soon became a leading TV manufacturer in the PRC. Mr. LI became Chairman and President of TCL Corporation in 1996.

In 2003, Mr. LI was appointed as Chairman of the Board and CEO of TCL Corporation, which was then listed on the Shenzhen Stock Exchange. Under his leadership, TCL acquired French Thomson's global color TV business and Alcatel's global mobile phone business in 2004. After many years of efforts in international integration, TCL ranked among the top 4 global LCD TV market share and ranked No.7 in terms of global mobile phone market share in the third quarter of 2012.

In 2011, Mr. LI was awarded the "Chinese Economic Leader" by Ifeng.com and *21st Century Business Herald*. He also received China's "Life Achievement Award of Top 25 Influential Business Leaders" from China Entrepreneur magazine. In 2009, Mr. LI was awarded "China's Economic Person of the Year: Business Leader of the Decade" by CCTV, in addition to "Top 60 Branding Leaders of the Past 60 Years" by Brand China Industry Union. In 2008, Mr. LI received the "Deloitte Entrepreneur Award" in Barcelona and was honored as "Economic Figure of China's 30 years of Reform and Opening-up". In the same year, Mr. LI was named by *China Times* as China's "Top Ten Outstanding CEOs." He was also awarded "The Founder of the Brand in 30 years' Reform and Opening-up" by a brand evaluating agency in New York. In 2007, Mr. LI received the "Corporate Leadership Award" from the US-China Forum in Chicago. He was named as "One of the Most Influential Business Leaders" by China Entrepreneur Magazine in 2006 and 2005, "China's Economic Person of the Year" by CCTV, "Asia Businessman of the Year" by international famous magazine *Fortune* and one of the "Top 25 Global Influential Business Leaders" by American *Time* magazine and CNN in 2004. Mr. LI also received a medal of OFFICER DE LA LEGION D'HONNEUR (French national honor) by French President, Mr. Jacques Chirac in the same year.

# DIRECTORS AND SENIOR MANAGEMENT

Mr. LI was elected as a delegate to China's 16th Party Congress, and a delegate to China's 10th and 11th National People's Congress. Mr. LI holds a number of prestigious positions: Chairman of China Electronic Imaging Industry Association, Vice Chairman of China Chamber of International Commerce and Chairman of Guangdong Household Electrical Appliances Chamber of Commerce, Honorary Chairman of Shenzhen Flat Panel Display Industry Association and Adjunct Professor of Wuhan University. Mr. LI graduated with a Bachelor's degree in Radio Technology from South China University of Technology. Mr. LI is also an independent non-executive director of Tencent Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## MR. BO LIANMING

Aged 50, is an Executive Director of the Company. He is also an Executive Director, President and Chief Operating Officer ("COO") of TCL Corporation, and a Non-executive Director of TCL Communication. Mr. BO held a number of management positions in TCL Corporation including Vice President and Financial Director of TCL IT Industrial Group, Vice President of TCL Components Strategic Business Unit, Executive Vice President of TTE Corporation, as well as Human Resources Director, Vice President and Senior Vice President of TCL Corporation. Mr. BO has over 12 years of experience in the consumer electronics products industry. Before joining TCL Corporation in 2000, he was the Chief Accountant of Shenzhen Airlines Co., Ltd.. Mr. BO holds a Doctorate Degree in Business Administration from Xi'an Jiaotong University.

## MR. ZHAO ZHONGYAO

Aged 50, is currently the CEO and an Executive Director of the Company, also an Executive Director and Senior Vice President of TCL Corporation. He currently holds the position of Chairman of Huizhou Techne and Huizhou Sheng Hua Industrial Company Ltd.. Mr. ZHAO has over 20 years of experience in sales and marketing and management of consumer electronics business. Mr. ZHAO graduated with a Master's degree in Engineering from Northwestern Polytechnic University of PRC and was a post-graduate in Avionics Engineering in the same university. Mr. ZHAO also obtained a Master's degree in Business Administration from Massachusetts Institute of Technology in 2007.

# DIRECTORS AND SENIOR MANAGEMENT

### MR. YU GUANGHUI

Aged 44, is currently an Executive Director of the Company, and Vice President of TCL Corporation. Mr. YU joined TCL in 1993. He had held the positions of Engineer of TCL Huizhou Shouhua Science Park, Manager Assistant of LG Electronics (Huizhou) Co., Ltd., Deputy General Manager of TCL King Electrical Appliances (Huizhou) Co., Ltd. ("TCL King (Huizhou)"), Deputy General Manager of TCL Electronics (HK) Co., Ltd., General Manager of TCL Overseas Holdings Co., Ltd., Vice President of Electronics Business Unit and Overseas Business Unit of the Company, President of TTE Strategic-OEM Business Unit, General Manager of AV Business Unit and President of the Company. Mr. YU has rich management experience in materials procurement, manufacturing, product management, business development and cooperation with world-class companies. Mr. YU graduated from the Shanxi Normal University with a Master's degree in Physics, and holds a MBA degree from Peking University and an EMBA degree from Cheung Kong Graduate School of Business.

### MS. XU FANG

Aged 50, is currently an Executive Director of the Company and a member of the Remuneration Committee of the Company. She is also Vice President and Human Resources Director of TCL Corporation, and a Non-Executive Director of TCL Communication. Ms. XU joined TCL Institute of Training of TCL Corporation as the Dean in February 2004. Ms. XU became the Deputy Dean of TCL Institute of Leadership Development of TCL Corporation in February 2006 and the Dean in April 2007. Ms. XU has been the Human Resources Director of TCL Corporation since September 2007. From September 2007 to May 2010, Ms. XU concurrently held the position of General Manager of the Human Resources Management Centre of TCL Corporation. Ms. XU has been the Vice President of TCL Corporation since October 2010. From September 2010 to June 2011, Ms. XU concurrently held the position of Chief Human Resources Officer of the Company. 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 was graduated from Nanjing Normal University in English Linguistics, and a Master degree in Business Administration from New York Institute of Technology.

# DIRECTORS AND SENIOR MANAGEMENT

## NON-EXECUTIVE DIRECTORS

### MR. ALBERT THOMAS DA ROSA, JUNIOR

Aged 59, is a Non-executive Director of the Company. He has been a director of the Company since November 1999. Mr. DA ROSA holds both Bachelor's and Master's Law Degrees from the University of Hong Kong. He was qualified as a solicitor in Hong Kong in 1980. He is currently a practicing solicitor and a partner of Messrs. Cheung Tong & Rosa Solicitors, Hong Kong.

Mr. DA ROSA is a fellow of the Chartered Institute of Arbitrators and the Hong Kong Institute of Directors, a member of the Hong Kong Securities Institute and the Society of Registered Financial Planners and an Accredited Mediator with certain institutions in the U.K. and Hong Kong.

Mr. DA ROSA is an Independent Non-executive Director of HKC (Holdings) Limited, and the Company Secretary of Y.T. Realty Group Limited and Yugang International Limited, all of which are companies listed on the Stock Exchange. In the past three years, Mr. DA ROSA had been a Non-executive Director of eSun Holdings Limited.

Mr. DA ROSA serves as Chairman of the Appeal Tribunal (Buildings) Panel, the Tribunal Convenor of the Solicitors Disciplinary Tribunal Panel, and Deputy Chairman of the Panel of the Board of Review (Inland Revenue) respectively. He also served as a member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission from 2003 to 2009.

### MR. HUANG XUBIN

Aged 47, is a Non-executive Director of the Company. He is also the Chief Financial Officer ("CFO") of TCL Corporation and a Non-executive Director of TCL Communication. Mr. HUANG joined TCL in March 2001 and served as an Officer and General Manager of the Financial Settlement Centre, the Chief Economist, Financial Director, and the Vice President of TCL Corporation. Mr. HUANG has been a member of the Executive Committee of TCL Corporation since July 2007. He currently holds the position of the Chairman of TCL Finance Co., Ltd., Director of Huizhou Techne, Director of Huizhou TCL Home Appliance Group Co., Ltd and Director of TCL Real Estate (Huizhou) Co., Ltd. ("TCL Real Estate (Huizhou)"). Before joining TCL, Mr. HUANG served as Head of Credit Division of China Construction Bank, Guangdong Branch, the Deputy Manager and Manager of Fund Management Division and Securities Division of Guotai Junan Securities Co. Ltd., Guangzhou Branch, and also Senior Manager of Guangzhou Office of China Cinda Asset Management Co., Ltd.. Mr. HUANG is a Senior Economist. He graduated from Hunan University (formerly known as Hunan College of Finance and Economics), and then obtained a Master's degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, the PRC and an EMBA degree from China Europe International Business School.

# DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### MR. TANG GULIANG

Aged 50, is an Independent Non-executive Director of the Company. He is a professor at Department of Accounting, School of Business, University of International Business and Economics. Mr. TANG holds directorships in several listed companies in the PRC. He is also a Director of the Accounting Society of China.

### MR. ROBERT MAARTEN WESTERHOF

Aged 69, is an Independent Non-executive Director of the Company. He has over thirty years' experience in the electronics industry. Mr. WESTERHOF had held senior management positions in the Computer, Telecommunications and Medical Systems divisions of Philips, his last positions were CEO of Philips Asia (based in Hong Kong and Shanghai) and CEO of Philips North America (based in New York). After his retirement from Philips, Mr. WESTERHOF became the President of the European top soccer team PSV Eindhoven (a voluntary job). Mr. WESTERHOF is the Co-Chairman of Thinktank Omega, an independent think tank that advises the government of the Netherlands on economics, financial and social issues and a Non-executive Director of AND Technologies N.V., a global leading provider of navigation solutions and digital maps which listed on the Amsterdam Stock Exchange. Mr. WESTERHOF is a member of the Supervisory Board of Teleplan, a hardware services provider headquartered in the Netherlands, and a member of the Advisory Board of VKA, an IT strategy company based in the Netherlands. Mr. WESTERHOF also serves as the Chairman of the Advisory Board of Suncycle B.V., a company specialized in advance concentrated solar technologies in the Netherlands, and the Chairman of Foundation Sparta Rotterdam based in Rotterdam, the Netherlands, it was founded in 1888 and is the oldest professional football team in the Netherlands. Mr. WESTERHOF holds a Master's degree in Business Administration at the Erasmus University of Rotterdam and he is also a graduate from Harvard Business School's Advanced Management Program and International Senior Management Program.

# DIRECTORS AND SENIOR MANAGEMENT

## MS. WU SHIHONG

Aged 56, is an Independent Non-executive Director of the Company. She has extensive experience in the information technology industry. Ms. WU has become an independent non-executive director of A8 Digital Music Holdings Limited, a company listed on the Stock Exchange since March 2012. Ms. WU was the Chairman and President of Shanghai Blackspace Information Technology Co., Ltd., from May 2008 to February 2012 and retired at the end of February 2012. Ms. WU joined IBM China in 1985 and was a General Manager of Channel Management of IBM China from May 1997 to February 1998. Ms. WU then became a General Manager of Microsoft China Co. Ltd. until August 1999. From 1999 to 2002, Ms. WU was a Vice President of TCL Corporation, and General Manager of TCL Information Technology Industrial (Group) Co., Ltd., a wholly owned subsidiary of the Company. Since January 2002, Ms. WU has been studying in the area of philanthropy. Ms. WU was elected by the "Fortune" magazine as one of the "Most Powerful Business Women in the World" in 2001 (No.27) and 2002 (No. 24).

## DR. TSENG SHIENG-CHANG CARTER

Aged 64, is an Independent Non-executive Director of the Company, and a member of the Audit Committee and Remuneration Committee of the Company. Dr. TSENG served as an Independent Non-executive Director of TCL Corporation from 20 June 2008 to 20 June 2011. Dr. TSENG is currently a Senior Consultant of the Shenzhen Municipal Government, Senior Consultant of Tianjin Economic-Technological Development Area, TEDA and the Executive Chairman of Nankai International Business Forum. Dr. TSENG also serves as adjunct professor at a number of renowned universities over the globe including the University of Alberta (Canada), the City University of Hong Kong, the Nankai University in Tianjin, the Sichuan University and the University of Electronic Science and Technology of China in Chengdu. Dr. TSENG is also a member of the USA-based "Committee of 100".

Dr. TSENG holds a Bachelor of Science in Electrical Engineering from the National Taiwan University, he then pursued further studies at the University of California where he received his Master and Doctoral degrees in Computer Science and Electronics Engineering. Dr. TSENG has over 30 years of experience in the high-tech industry. While in the US, Dr. TSENG worked at PARC (XEROX Research Center) in Silicon Valley and various U.S. based companies including Lockheed Aircraft Co. and NRL. Dr. TSENG then returned to Taiwan in 1980, and was a Co-Founder of MICROTEK which was listed in 1988 – the world class leader in the Image Scanner industry, one of the first and most successful listed high-tech companies based in Taiwan Hsinchu Science Park. Dr. TSENG has also drawn on his rich experience to coaching and mentoring executives and managers in the high-tech arena. In 1998, Dr. TSENG set up the Little Dragon Foundation with a mission to guide entrepreneurs of tomorrow, which has served many large corporations in the PRC. Dr. TSENG also serves as the overseas director of Canada National Institute of Nano-Technology and a director of China National Academy of Nano-Technology & Engineering.

# DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

### MR. HAO YI

Aged 39, a member of the Executive Committee, is currently Vice President of TCL Corporation, the Chief Sales Officer and General Manager of Overseas Business Group of the Company. Mr. HAO joined TCL in March 2004. He had held the positions of Assistant to Board Chairman of TCL Corporation, Vice President of the Company and General Manager of Emerging Market Business Center of the Company. He has rich experiences in international business. Mr.HAO graduated from York University, Toronto with a Bachelor's degree in Economics, and also holds a degree of EMBA from Cheung Kong Graduate School of Business.

### MR. CHENG FONG TING, EDMOND

Aged 51, a member of the Executive Committee, is currently the Chief Financial Officer of the Company. Mr. CHENG joined TCL in October 2011. From 1985 to 1994, he worked in both audit and Financial Management Department for GTE Corporation, Compaq Computers Corporation, and Applied Materials Incorporated. From 1994 to 2005, he worked in various senior Finance and Operational Senior Management roles for regional businesses of Hewlett Packard Company, Mallinckrodt Medical Incorporated, Ingram Micro Incorporated. From April 2005 to August 2011, he worked as the Chief Financial Officer of Titan Petrochemicals Group Ltd, PSA International PTE Ltd, Zoomlion Science & Technology Development Company Ltd, and UTStarcom Inc., USA. Mr. CHENG graduated from University of Hawaii in 1984 and received a Bachelor degree in Business Administration. In 1986, he graduated from the same university with a Master degree of Accounting. Mr. CHENG has also completed his EMBA Global Asia program, offered jointly by Columbia University, London Business School and Hong Kong University (the first Executive MBA program spanning three connected global cities which drive global capital markets).

### MR. YANG BIN

Aged 43, a member of the Executive Committee, is currently Vice President, General Manager of China Business Group, General Manager of China Sales Company and China Product Business Unit of the Company. Mr. YANG joined TCL in August 1991. He had held the positions of Director of TCL Technoly (Huizhou), General Manager of Nanjing branch of China Sales Company, Planning Director of TV Business Unit of the Company, General Manager of China Manufacturing Center of the Company, General Manager of CRT Business Group of the Company and Vice President and General Manager of China Manufacturing Center of the Company. He was Vice President of Time Share Advertising & Communication Co., Ltd. from 2008 to 2009, Vice President of Guangzhou Lian Zhong Media Ltd. from 2009 to 2010, General Manager of TCL Small Household Business Unit from May 2010 to September 2011, and has been Vice President and General Manager of China Sales Company since September 2011. He has accumulated rich experiences in both manufacturing management and sales management. Mr. YANG graduated from Zhejiang University with a Bachelor's degree in Optical Instrument. He also holds a Master degree in Supply Chain Management from Chinese University of Hong Kong and Tsinghua University jointly.

# DIRECTORS AND SENIOR MANAGEMENT

## MR. CHEN KUANG-LANG, WOLF

Aged 49, a member of the Executive Committee, is currently the Chief Technology Officer ("CTO") of the Company. Mr. CHEN joined TCL Corporation in October 2010, and had held the position of Vice President of Industrial Research Institute of TCL Corporation. Since February 2011, Mr. CHEN has been re-designated as the CTO of the Company. Mr. CHEN is an expert in the field of video signal processing and flat-panel display technologies. From July 1992 to September 2010, he worked for Chunghwa Picture Tubes, Ltd. and served as Senior Engineer of CRT R&D Division, Manager of Optoelectronics Department, Manager of Array Engineering Department in TFT Factory, Director of Opto-electronics Division, Head, Chief Engineer, and Deputy General Manager of Optoelectronics Business Unit, the CTO and Senior Vice General Manger of R&D Center. Mr. CHEN graduated from Department of Electronics Engineering, Taiwan University of Science and Technology in 1992 with a Master degree in Engineering. In 2009, he graduated from Department of International Business Management, College of Management of Taiwan University, with an EMBA degree.

## MR. CAI JINRUI

Aged 39, a member of the Executive Committee, is currently Vice President and General Manager of Global Operation Center of the Company. Mr. CAI joined TCL in 1996. He had held the positions of Factory Supervisor of TCL King (Huizhou) TV Factory, Assistant to Plastic Injection Department Manager Of Global Industrial Center of the Company, Assistant to Plastic Injection Factory Manager and Plastic Injection and Molding Section Manager of Global Industrial Center of the Company, Deputy General Manager of China Production Center, General Manager of Plastic Injection Factory of CRT Business Unit, General Manager of CRT Business Unit of Global Industrial Center of the Company, General Manager of OEM Business Unit of the Company and General Manager of Global Industrial Center of the Company. Mr. CAI has rich experience in manufacturing management. Mr. CAI graduated from Guangdong University of Technology with a Bachelor degree in Mechanical Production Technique & Equipment in 1996.

## MR. SIN MAN LUNG

Aged 39, is currently the Financial Controller of the Company. Mr. SIN joined the Company in 2005. He has more than 10 years experience in auditing, finance and accounting in multi-national and listed companies. Mr. SIN is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated from the City University of Hong Kong with a Bachelor's degree in Accountancy.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

Mr. LI Dongsheng (Chairman)
Mr. BO Lianming
Mr. ZHAO Zhongyao (CEO)
Mr. YU Guanghui
Ms. XU Fang

### NON-EXECUTIVE DIRECTORS

Mr. Albert Thomas DA ROSA, Junior
Mr. HUANG Xubin

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## COMPANY SECRETARY

Ms. PANG Siu Yin, Solicitor, Hong Kong

## AUDITOR

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

## LEGAL ADVISOR

Cheung Tong & Rosa Solicitors
Room 501, 5/F, Sun Hung Kai Centre
30 Harbour Road
Hong Kong

# CORPORATE INFORMATION

## PRINCIPAL 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 REGISTRAR

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

## PRINCIPAL OFFICE

13/F, TCL Tower
8 Tai Chung Road
Tsuen Wan, New Territories
Hong Kong

## REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KYI-1104
Cayman Islands

## INVESTOR AND MEDIA RELATIONS

iPR Ogilvy Limited
Units 2008-12,
20/F., The Center,
99 Queen's Road,
Central, Hong Kong

# CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company ("Board") aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the world's leader in the multimedia industry. The Group's ultimate goal is to maximize values for its shareholders and customers, and to provide opportunities for employees.

## CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

In April 2005, the Board adopted the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the guidelines for corporate governance of the Group, and has taken steps to comply with the Code wherever appropriate. Appendix 14 to the Listing Rules was revised and renamed as "Corporate Governance Code and Corporate Governance Report" (the "Code") by the Stock Exchange in October 2011. In February 2012, the Company has adopted the code provisions (the "Code Provisions") on the latest Code as the guidelines for corporate governance of the Company.

Throughout the year ended 31 December 2012, the Group complied with the Code and 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.***

Due to other pre-arranged business commitments which must be attended to by each of them, Mr. HUANG Xubin and Mr. Albert Thomas DA ROSA, Junior, both of whom being non-executive directors of the Company, and Mr. Robert Maarten WESTERHOF and Dr. TSENG Shieng-chang Carter, both of whom being independent non-executive directors of the Company, were not present at the annual general meeting ("AGM") of the Company held on 8 May 2012. However, Ms. WU Shihong and Mr. TANG Guliang, both of whom being independent non-executive directors of the Company were present at the AGM 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 as most of them have been serving as directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and the directors, and so there is no written record of the same. In any event, all directors, including those without a letter of appointment and those appointed for a specific term, shall be subject to retirement by rotation in the manner prescribed under the articles of association of the Company, and on re-election of the retiring directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant directors.

# CORPORATE GOVERNANCE REPORT

***Under Code Provision E.1.2, the chairman of the Board should attend the AGM.***

Due to other pre-arranged business commitments which must be attended by him, Mr. LI Dongsheng, the Chairman of the Board, was not present at the AGM held on 8 May 2012. However, Ms. WU Shihong and Mr. TANG Guliang, both of whom being independent non-executive directors of the Company were present at the AGM and Ms. WU Shihong was elected chairman thereof pursuant to the articles of association to ensure an effective communication with the shareholders thereat.

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

The company secretary of the Company, Ms. PANG Siu Yin, is a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors. Ms. PANG has been appointed as the company secretary of the Company in 1999. The Company has also assigned Mr. SIN Man Lung, financial controller of the Company as the contact person with Ms. PANG. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. PANG through the contact person assigned. Given the long-term relationship between Ms. PANG and the Group, Ms. PANG is very familiar with the operations of the Group and has an in depth knowledge of the management of the Group. Having in place a mechanism that she will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. PANG as the company secretary is beneficial to the Group's compliance of the relevant board procedures, applicable laws, rules and regulations.

## A. DIRECTORS

### A1: THE BOARD

The Board of Directors, led by the chairman, steers the Group's business direction. It is responsible for formulating the Group'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.

Regular Board meetings are attended to by a majority of the directors in person or through other electronic means of communication. Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's timely attention. As some of the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive directors attend. During 2012, apart from holding Board meetings, the Board also passed resolutions in writing to approve certain matters.

# CORPORATE GOVERNANCE REPORT

On 24 February 2012, the Board has adopted its terms of reference, setting out membership of the Board, frequency and proceedings of Board meetings, duties of the Board, division of responsibility between the chairman and managing director, delegation policy, procedures for directors seeking professional advice and reporting procedures.

During 2012, the Board held 4 regular meetings at about quarterly intervals and 20 additional meetings (15 of which were held regarding special matters which required the Board's decisions whereas the other 5 meetings were held regarding operational matters involving the attendance of executive directors only) and 1 AGM was held during the year. Attendance of individual directors at the Board meetings in 2012 is as follows:

| | Attendance | | | |
|---|---|---|---|---|
| | Regular Board Meetings | Special Board Meetings concerning special matters requiring the Board's decisions | Special Board Meetings concerning operational matters only | General Meeting |
| **Executive Directors** | | | | |
| Mr. LI Dongsheng (Chairman) | 2/4 | 4/15 | 1/5 | 0/1 |
| Mr. BO Lianming | 3/4 | 9/15 | 1/5 | 0/1 |
| Mr. ZHAO Zhongyao (CEO) | 4/4 | 15/15 | 4/5 | 0/1 |
| Mr. YU Guanghui | 4/4 | 9/15 | 4/5 | 0/1 |
| Ms. XU Fang | 3/4 | 10/15 | N/A | 0/1 |
| **Non-Executive Directors** | | | | |
| Mr. Albert Thomas DA ROSA, Junior | 4/4 | 15/15 | N/A | 0/1 |
| Mr. HUANG Xubin | 4/4 | 13/15 | N/A | 0/1 |
| **Independent Non-Executive Directors** | | | | |
| Mr. TANG Guliang | 4/4 | 14/15 | N/A | 1/1 |
| Mr. Robert Maarten WESTERHOF | 4/4 | 14/15 | N/A | 0/1 |
| Ms. WU Shihong | 4/4 | 14/15 | N/A | 1/1 |
| Dr. TSENG Shieng-chang Carter | 3/4 | 12/15 | N/A | 0/1 |

## A2: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The position of Chairman is held by Mr. LI Dongsheng and the position of CEO is held by Mr. ZHAO Zhongyao. The segregation of duties and responsibilities between the Chairman and the CEO has been clearly established. A clear distinction between the Chairman's duty to manage the Board and the CEO's duty to oversee the overall internal operation of the Group is ensured.

# CORPORATE GOVERNANCE REPORT

## A3: BOARD COMPOSITION

The Board currently comprises 11 directors, including 5 executive directors, 2 non-executive directors ("NEDs") and 4 independent non-executive directors ("INEDs").

Details of the biographies of the directors are given under the section "Directors and Senior Management" of this Annual Report. None of the directors is related to each other.

The NEDs, more than half of whom are independent, play an important role on the Board. Accounting for about 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 the shareholders of the Company and the Group as a whole.

Throughout the year of 2012, the Board at all times met the listing requirements of having at least 3 INEDs, and having INEDs representing one-third of the Board and that at least one of them had appropriate professional qualifications in accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED on his/her independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Code Provision A.4.3 and confirms that year of service of all INEDs is less than 9 years.

## A4: APPOINTMENT, RE-ELECTION AND REMOVAL

*Nomination of Directors*

On 24 February 2012, the Board has established a nomination committee (the "Nomination Committee") pursuant to the requirements of the Code. The Nomination Committee currently comprises 1 executive director and 3 INEDs, namely:

**Executive Director**
Ms. XU Fang

**Independent Non-Executive Directors**
Dr. TSENG Shieng-chang Carter (Chairman)
Mr. TANG Guliang
Ms. WU Shihong

The Nomination Committee is governed by its terms of reference, which are closely aligned with the Code, are available on the Group's website at http://multimedia.tcl.com and HKEx's website at http://www.hkex.com.hk.

# CORPORATE GOVERNANCE REPORT

The main duties of the Nomination Committee include the following:

1. review and supervise the structure, size and composition of the Board;

2. identify qualified individuals to become members of the Board;

3. assess the independence of the INEDs; and

4. make recommendations to the Board on the appointment or re-appointment of directors.

In 2012, there was 1 Nomination Committee meeting during which the Nomination Committee reviewed the structure, size and composition of the Board and assessed the independence of the INEDs and the attendance record of the directors at the meeting is as follows:

| | Attendance |
|---|---|
| Dr. TSENG Shieng-chang Carter (Chairman) | 0/1 |
| Mr. TANG Guliang | 1/1 |
| Ms. WU Shihong | 1/1 |
| Ms. XU Fang | 1/1 |

All NEDs have been appointed for a specific term of 3 years subject to re-election, in accordance with Code Provision A.4.1.

In the AGM held on 8 May 2012, two directors (namely Mr. LI Dongsheng and Ms. XU Fang) were subject to retirement by rotation and were re-elected. The other directors (namely Mr. Albert Thomas DA ROSA, Junior and Mr. Robert Maarten WESTERHOF) were elected to hold office for a specific term until the AGM to be held in 2015.

### A5: RESPONSIBILITIES OF DIRECTORS

If any new director is appointed, the financial controller of the Company, with assistance from the Company's external legal advisors, will work closely with the newly appointed directors both immediately before and after his/her appointment to acquaint the newly appointed directors with the duties and responsibilities as a director of the Company and the business operation of the Company.

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

The directors are continually updated with legal and regulatory developments, and 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 period from 1 April 2012 to 31 December 2012:

| Directors | Read materials | Attend seminars/ briefings |
|---|---|---|
| **Executive Directors** | | |
| Mr. LI Dongsheng (Chairman) | ✓ | ✓ |
| Mr. BO Lianming | ✓ | ✓ |
| Mr. ZHAO Zhongyao (CEO) | ✓ | ✓ |
| Mr. YU Guanghui | ✓ | ✓ |
| Ms. XU Fang | ✓ | ✓ |
| **Non-Executive Directors** | | |
| Mr. Albert Thomas DA ROSA, Junior | ✓ | ✓ |
| Mr. HUANG Xubin | ✓ | ✓ |
| **Independent Non-Executive Directors** | | |
| Mr. TANG Guliang | ✓ | ✓ |
| Mr. Robert Maarten WESTERHOF | ✓ | ✓ |
| Ms. WU Shihong | ✓ | ✓ |
| Dr. TSENG Shieng-chang Carter | ✓ | ✓ |

*Directors' Securities Transactions*

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group. All directors have confirmed, following specific enquiry by the Group that throughout year 2012, they complied with the required standard set out in the Model Code for securities transactions. The directors' interests in shares of the Group as at 31 December 2012 are set out in the section "Report of the Directors" of this Annual Report.

# CORPORATE GOVERNANCE REPORT

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### B1: THE LEVEL AND MAKE-UP OF REMUNERATION AND DISCLOSURES

**Remuneration of Directors**

The Remuneration Committee was established in April 2005 pursuant to the requirements of the Code. It meets from time to time to make recommendations to the Board on the Group'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; and determines, with delegated responsibility, the remuneration packages of individual executive directors and senior management.

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

The Remuneration Committee currently comprises 4 members, namely Ms. WU Shihong, Mr. TANG Guliang, Ms. XU Fang and Dr. TSENG Shieng-chang Carter and the majority of them are INEDs. Ms. WU Shihong is the chairman of the Remuneration Committee.

3 Remuneration Committee meetings were held during the year and the works performed during the meetings include the following:

- review of the emolument policy and the levels of remuneration paid to the directors and senior management of the Group;
- determination of the remuneration packages of the directors, chief financial officer and certain senior management;
- discussion of the incentive scheme of the Company of 2012-2013, including share options and restricted shares; and
- formulation of a new framework for determining the remuneration package in the coming year.

Attendance of each member at the Remuneration Committee meetings in 2012 is as follows:

| | Number of committee meeting attended/eligible to attend |
|---|---|
| Ms. WU Shihong (Chairman) | 3/3 |
| Mr. TANG Guliang | 3/3 |
| Ms. XU Fang | 3/3 |
| Dr. TSENG Shieng-chang Carter | 3/3 |

# CORPORATE GOVERNANCE REPORT

*Emolument Policy and Long-Term Incentive Plan*

To attract and retain talent and calibre, the Group provides competitive remuneration packages to its executive directors and senior management. These comprise base monthly salary, guaranteed cash benefits and allowances, special allowances, variable pay and long-term incentive plan which includes share option scheme and restricted share award scheme. The amount of variable pay is set at a percentage of the fixed pay, and is paid half-yearly or yearly relative to performance delivered through plans and objectives with pre-determined criteria and standards.

Long-term incentive plan primarily consists of share options to subscribe for the shares of the Company and shares of the Company purchased by trustee under the restricted share award scheme respectively. Please refer to the Company's announcement and circular dated 6 February 2008 and 20 March 2008 respectively for details of the restricted share award scheme. The remuneration payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The remuneration package of executives is designed so that a proportion is structured to link rewards to corporate and individual performance, and to give incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The NED's remuneration relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee, which is usually paid annually; and

- share options or restricted shares which are awarded subject to the discretion of the Board.

The fees and any other reimbursement or remuneration payable to the Directors are set out in note 8 to the financial statements.

## C. ACCOUNTABILITY AND AUDIT

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

# CORPORATE GOVERNANCE REPORT

## C1: FINANCIAL REPORTING

As at 31 December 2012, the Group had net assets of approximately HK$4,992 million, the Group also recorded a profit attributable to ordinary equity holders of the parent of approximately HK$911 million for the year ended 31 December 2012.

The financial statements set out on pages 92 to 203 were prepared on a going concern basis.

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 Rules 3.08 of Listing Rules.

## C2: INTERNAL CONTROL

The Board is responsible for ensuring that an effective internal control system is maintained within the Group. 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, the directors, through the Audit Committee, have reviewed the effectiveness of the internal control system of the Group.

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

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

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

The Company's internal audit department independently reviewed the effectiveness of the internal controls, including financial, operational and compliance, in the key activities of the Group's business. The head of the Company's internal audit department reports to the Audit Committee.

# CORPORATE GOVERNANCE REPORT

## C3: AUDIT COMMITTEE

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

The Audit Committee currently comprises 4 members, namely Mr. TANG Guliang, Mr. HUANG Xubin, Ms. WU Shihong and Dr. TSENG Shieng-chang Carter. Mr. TANG Guliang is the chairman of the Audit Committee. He is a certified public accountant in the PRC and a professor at the University of International Business and Economics, School of Business. The Audit Committee meets at least 4 times a year to review the Group's quarterly, interim and annual results.

During year 2012, the Audit Committee met 5 times and the attendance of each member at the Audit Committee meetings is as follows:

| | **Number of committee meetings attended/eligible to attend** |
|---|---|
| Mr. TANG Guliang (Chairman) | 5/5 |
| Mr. HUANG Xubin | 5/5 |
| Ms. WU Shihong | 5/5 |
| Dr. TSENG Shieng-chang Carter | 3/5 |

The Audit Committee meetings are normally attended by the Company's financial controller. When meetings concern the routine finance control, the head of the internal control department of the Company also attends the meeting to report on the problems identified during the internal control audits and recommendation of methods to alleviate and solve the problems identified. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work completed by the Audit Committee during 2012 included consideration of the following matters:

- the completeness and accuracy of the 2011 annual and 2012 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on 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, the scope and timetable of the audit for year 2012; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors.

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

| | |
|---|---|
| Audit services | HK$19,480,000 |
| Non-audit services (in which include taxation compliance and agreed-upon procedures) | HK$2,373,000 |

## D. DELEGATION BY THE BOARD

### D1: MANAGEMENT FUNCTIONS

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

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

# CORPORATE GOVERNANCE REPORT

### D2: EXECUTIVE COMMITTEE

The Board established the Executive Committee in October 2005 with specific written terms of reference. The Board has delegated responsibilities to the Executive Committee for making certain decisions for the management of the Group. The Executive Committee comprises 4 executive directors, namely Mr. LI Dongsheng, Mr. BO Lianming, Mr. ZHAO Zhongyao and Mr. YU Guanghui.

## E. INVESTOR RELATIONS

Cultivating high standard of investor relations is one of the key elements of good corporate governance. The Group is committed to enhancing communication with investment community and corporate transparency in order to keep investors and analysts up-to-date on its latest developments. Since April 2001, the Group has voluntarily commenced releasing monthly shipment data for its key products. Other corporate information including interim and annual reports, announcements, circular and press releases are posted on the Group's website after publication, enabling investors and the public to obtain the updated information of the Group in a timely manner.

The Group also holds press conferences and analyst briefings after the interim and annual results announcement, with directors and senior management present to answer questions from the media and investors to maintain an effective mutual communication.

In addition to frequent meetings, telephone conferences and plant tours, the Group's investor relations team, led by senior management, actively participated in investor meetings and non-deal road shows in Hong Kong, Macau, Shanghai, Beijing, Taiwan, Singapore, Japan and the United States to disseminate its latest business development to investors in the past year.

# CORPORATE GOVERNANCE REPORT

**Key Investor Relations Events in 2012:**

| Date | | Events |
|---|---|---|
| January | • | Investor conferences in Shanghai (organized by Credit Suisse) |
| | • | Investor conferences in Hong Kong (organized by JP Morgan) |
| February | • | Investor conferences in Hong Kong (organized by JP Morgan) |
| | • | 2011 annual results announcement (press conference and analyst briefing) |
| | • | Investor conferences in Hong Kong (organized by JP Morgan) |
| | • | Luncheon with media reporters |
| March | • | Plant visit |
| | • | Investor conferences in Hong Kong (organized by Oriental Paton) |
| | • | Investor conferences in Singapore (organized by Kim Eng) |
| | • | Investor conferences in Taiwan (organized by UOB Kay Hian) |
| | • | Investor conferences in Taiwan (organized by Bank of America Merrill Lynch) |
| | • | Investor conferences in Hong Kong (organized by Credit Suisse) |
| | • | Investor conferences in Hong Kong (organized by CICC) |
| | • | Investor conferences in Shanghai (organized by CICC) |
| | • | Investor conferences in Hong Kong (organized by BOCI) |
| | • | Investor conferences in Japan (organized by Societe Generale/Ji-Asia) |
| April | • | 2012 1st quarter results announcement (investor & media teleconferences) |
| May | • | Investor conferences in Taiwan (organized by Yuanta) |
| | • | 2012 AGM |
| | • | Investor conferences in Beijing (organized by BOCI) |
| | • | Investor conferences in the United States (organized by JP Morgan) |
| June | • | Plant visit |
| | • | Investor conferences in Shenzhen (organized by Goldman Sachs) |
| | • | Investor conferences in Beijing (organized by JP Morgan) |
| | • | Investor conferences in Hong Kong (organized by Mirae Asset) |
| | • | Investor conferences in Hong Kong (organized by CICC) |
| July | • | Plant visit |

# CORPORATE GOVERNANCE REPORT

| Date | | Events |
|---|---|---|
| August | • | 2012 interim results announcement (press conference and analyst briefing) |
| | • | Investor conferences in Hong Kong (organized by Societe Generale) |
| | • | Investor conferences in Hong Kong (organized by Kim Eng) |
| | • | Investor conferences in Hong Kong (organized by ICBCI) |
| | • | Investor conferences in Hong Kong (organized by Oriental Patron) |
| | • | Investor conferences in Hong Kong (organized by BNP) |
| | • | Investor conferences in Hong Kong (organized by CITIC) |
| | • | Investor conferences in Hong Kong (organized by BOCI) |
| | • | Investor conferences in Hong Kong (organized by CICC) |
| | • | Investor conferences in Hong Kong (organized by Standard Chartered) |
| September | • | Investor conferences in Taiwan (organized by Credit Suisse) |
| | • | Investor conferences in Taiwan (organized by HSBC) |
| | • | Dinner with stock commentators |
| | • | Luncheon with media reporters |
| October | • | 2012 3rd quarter results announcement (investor & media teleconferences) |
| | • | Investor conferences in Hong Kong (organized by Goldman Sachs) |
| | • | Investor conferences in Hong Kong (organized by JP Morgan) |
| November | • | Investor conferences in Macau (organized by Citi) |
| | • | Plant visit |
| | • | Investor conferences in Beijing (organized by Bank of America Merrill Lynch) |
| | • | Investor conferences in Shenzhen (organized by Guoyuan) |
| | • | Investor conferences in Japan (organized by Ji-Asia) |
| | • | Investor conferences in Sanya, Hainan (organized by SWS) |
| December | • | Plant visit |

## E1: COMMUNICATION WITH SHAREHOLDERS AND PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

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

### E2: PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

General meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

### E3: CONSTITUTIONAL DOCUMENTS

In 2012, certain amendments to the articles of association of the Company have been made in light of the amendments made to the Listing Rules and the Code. Certain other amendments in relation to cosmetic changes have also been made. All these amendments are disclosed on page 16 to 35 of the circular of the Company published on 26 March 2012.

## F. 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 financial controller of the Company, Mr. SIN Man Lung. The Company Secretary reported to the chairman of the Board from time to time. All directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed.

Since Ms. PANG was appointed in 1999, she has to take no less than 15 hours of relevant professional training during the year 2012. She has fulfilled the requirement during the year under review.

# HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

## HUMAN RESOURCES:

In the year 2012, the Group implemented a series of human resources management initiatives for "sales volume growth, transformation and sustainability" which served as a direct and effective support for bolstering the Company's strategy, enhancing its organizational performance, and facilitating the growth of its employees.

### 1. BASIC INFORMATION ON HUMAN RESOURCES

As of 31 December 2012, there were a total of 32,295 employees worldwide and approximately 4.8% of them are employed outside of Mainland China, the distribution of which is set out as follows:

| | |
|---|---|
| Mainland China | 30,756 |
| Rest of Asia (including Hong Kong and Australia) | 710 |
| North America (including Mexico) | 11 |
| Europe | 818 |

As compared to the corresponding period last year, due to strong growth in the Group's sales volume, its efficiency per capita and organizational efficiency were enhanced. At the same time, more emphasis was put on scientific and optimized deployment of human resources. In talent cultivation, the "Bring In and Go Out" strategy was implemented to stimulate the learning atmosphere and facilitate the organizational communication while improving the staff capabilities.

### 2. KEY EFFORT ON HUMAN RESOURCES

In the year 2012, the competition situation in the global LCD TV market changed drastically; the market share of the PRC enterprises has been increasing rapidly and these enterprises have become an important force in the global TV industry. To accommodate the corporate development strategy and the shift in business model, the Group adopted a series of human resources initiatives to enhance its organizational efficiency, key positions' capability, assessment and encouragement, as well as to improve its organizational atmosphere and employee morale.

# HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

– Pursuant to the integration of LCD industry chain, the need of "Consumer Electronic-oriented marketing and IT-oriented operation" in business development and work theme of "sales volume growth, transformation and sustainability", the Group aims to become a respected and the most innovative global leader in the industry through independent innovation, research and development, promotion of industry chain integration between upstream and downstream industries, and strategic expansion of overseas emerging markets. Its organizational effectiveness was enhanced by refining the organizational structure and core workflows. The core workflows are being optimized continuously under the premise that the organization maintains its relative stableness. At the same time, the Group established a "product line" and "business line" end-to-end accounting model, realized a "transparency, simplification, standardization and computerization" operation model, and implemented a series of incentive programs, with an aim to augment speed and efficiency, and to address customer needs and market changes promptly.

– The Group has established a dual pipeline of physical and non-physical incentives system, a high-performance-oriented culture, and advocated the full participation in the operation and share of benefits of corporate development by our staff. At the same time, the Group is committed to create a culture characterized by "Happy at work and a healthy lifestyle". A series of activities and arrangements were implemented, including executive team integration, staff proposals, line manager assistance program, team expansion, various kind of associations and societies and staff satisfaction survey, to enhance staff satisfaction and organizational atmosphere while supporting the growth of business.

– The Group pays attention to talent development and cultivation consistently. In the previous year, in order to accommodate the needs of talent development of the Group, international talent cultivation and the "Eagle Echelon Talent Cultivation Scheme" were put into practice; effort was also made in respect of administrators' leadership enhancement and marketing capacity expansion program, and its investment was increased in the cultivation of core professional talents and key business expertise, in a move to see mutual growth of our staff and the Company while supporting the rapid growth of our business.

– To match with the Group's work requirement of "transparency, simplification, standardization and computerization," the Group has endeavored to refine all policies and systems regarding human resources management, promoted the construction of standardized infrastructure such as E-HR (Electronic Human Resources) system and OA (Office Automation) system, etc., while standardizing business workflows to raise efficiency and quality of its personnel services.

# HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

## 3. SOCIAL RESPONSIBILITY

In the previous year, TCL Group has always adhered to its principle of performing social responsibility, and contributed to the community with concrete action by actively taking part in campaigns such as public charity, educational support, environmental protection and construction.

### FOCUS ON EDUCATION

The Group is committed to "shouldering social responsibility and becoming an outstanding corporate citizen" and pays close attention to the educational undertakings.

**49 students from the "Hua Min Hong Zhi Class" (華萌宏志班) subsidized by the "Hua Min Fund" (華萌基金) founded by Mr. LI Dongsheng were admitted into universities in July 2012**

- In July 2012, the Hua Min Hong Zhi Class established by Mr. LI Dongsheng, founder of the Hua Min Fund and Chairman of the Group, together with his spouse, Ms. WEI Xue reached another fruitful result. Among 50 National College Entrance Examination graduates in the class, 49 graduates were admitted into universities, of which 41 of them getting into undergraduate program and 6 students, including ZHOU Yan (周燕) and LIU Debiao (劉德彪) getting into major universities such as South China Normal University and Central South University.

- Since Hua Min Fund first set up Hong Zhi Class in Hua Luo-geng Secondary School (華羅庚中學) in 2008, 50 promising students from poor families are admitted to the class every year, it has subsidized a total of 200 students.

**Mr. LI Dongsheng, together with his spouse, Ms. WEI Xue donated RMB30 million to South China University of Technology to expand "Duxing Building" (篤行樓) on 16 November 2012**

- On 16 November 2012, the 60th anniversary of the establishment of South China University of Technology, Mr. LI Dongsheng, Chairman of the Group, and his spouse, Ms. WEI Xue presented in the ground-breaking ceremony of "Duxing Building" to which they donated RMB30 million to expand, representing another significant donation made by Hua Min Fund after the fund donated RMB30 million to South China University of Technology in September 2010. At the same time, TCL also donated RMB10 million worth of multimedia display devices to South China University of Technology, in a move to support the electronic development of South China University of Technology. The donation ceremony was also held on the same day.

# HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

**TCL Multimedia established the "Caring Fund"**

In 2012, TCL Multimedia established the "Caring Fund – A Caring Tomorrow Subsidized Scheme" (《愛心基金》「真愛明天助學計劃」) to subsidize 567 students from 9 secondary schools in Jingxi County and Napo County in Guangxi Province, which aims at showing consideration and providing stipend to children living in poverty and remote mountainous areas. The Group organized various business centers and units in Shenzhen to donate clothes to people struck by the earthquake in Qinghai and participated in subsidized activities in Guyang Primary School (古洋小學) in mountainous region in Shaoguan.

## SCHOOL-ENTERPRISE COOPERATION

**TCL went into Chongqing University to boost talent development in high schools on 18 October 2012**

– As part of the "TV Guy into the Campus Series Activity" of the "Chinese University Student TV Festival", Ms. XU Fang, director of the Group and Mr. HAN Qiaosheng, famous commentator for CCTV sports programs got into the campus of Chongqing University to have close communication and interaction with university students in Chongqing and in-depth discussion with the Meishi Film Academy of Chongqing University in relation to talent cultivation.

– During the 2012 "University Student TV Festival", TCL has visited campuses of various universities to give speech. As a renowned forerunner to roll out campus recruitment scheme, TCL was warmly applauded by a packed house of students in Chongqing University.

– In recent years, TCL has visited a number of campuses and reserved a group of talents who possess certain qualities that TCL looks for. We have held some seminars for such "Eyas" that enable them to understand the full picture of TCL's development, gain in-depth knowledge of TCL's culture, learn how to plan their personal development via scientific career planning, prepare unyielding minds to cope with future challenges, have preliminary understanding on the background business knowledge required in their work and complete fundamental mental change from a student to an employee, together with "Eagles, Talents, Tercels", to obtain growth through experience.

– This year, TCL have employed a large number of outstanding postgraduates and graduates from well-known tertiary institutions such as South China University of Technology, University of Electronic Science and Technology of China, Harbin Institute of Technology, Xi'an University of Science and Technology, Huazhong University of Science and Technology as new forces in research and development to achieve win-win situation by school-enterprise cooperation.

# HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

## SUPPORT FOR CULTURAL AND SPORTS UNDERTAKINGS

### TCL launched the "Cloud Living Experience Caravan – the China Visit" on 30 April 2012

The national tour of TCL's "Cloud Living Experience Caravan" officially debuted in Sanlian Appliances Plaza, Quanchengxi Road, Jinan, Shandong. Existing members of the China national basketball team, XI Relijiang, DI Xiaochuan and ZHU Yanxi were present to have close interaction and product-signing event with consumers and they also personally experienced TCL's "Cloud" series products. "Cheer Men's Basketball Team Up in London – TCL's May 1st England Trip Lottery" jointly held by TCL and China Men's Basketball Team was also launched simultaneously. Driven by the all-cloud technological innovation, resources integration, industry synergies and experience orientation, TCL's "Cloud Living Experience Caravan" brought in an unprecedented move the price of 3D smart cloud TVs to levels of ordinary 3D TVs, so that they are more affordable by ordinary families. It created a trend of cloud living environment and cloud technology experience nationwide while cheering up the Men's Basketball Team.

## ENVIRONMENTAL PROTECTION

- As a manufacturing enterprise, the Group is highly concerned about the ecological changes and its close relationship with the environment. Through creating low-carbon economy and circular economy from green manufacturing, green products to green industry with technological innovation, TCL hopes to contribute to the protection of the earth's ecological environment.

- The Group has been active in adopting internally environmental measures, such as bringing personal cups and holding activities such as "Walk for the Environment", to strengthen the environmental protection awareness of the staff.

# REPORT OF THE DIRECTORS

The directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There was no significant change in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 92 to 203.

The Board has proposed a final dividend for the year ended 31 December 2012 of HK14.80 cents (2011: HK16.00 cents) in cash per share.

Subject to approval at the forthcoming AGM, the said final dividend will be payable on or about 10 May 2013, Friday to shareholders whose names appear on the register of members of the Company at the close of business at 4:30 p.m. on 30 April 2013, Tuesday.

The register of members of the Company will be closed on 22 April 2013, Monday for the purposes of determining the entitlements of the members of the Company to attend and vote at the AGM. No transfer of the shares may be registered on that day. 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 Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 19 April 2013, Friday.

The register of members of the Company will be closed from 26 April 2013, Friday to 30 April 2013, Tuesday (both dates inclusive), for the purpose of determining the entitlements of the members of the Company to the proposed final dividend upon passing of relevant resolution. No transfer of 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 Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 25 April 2013, Thursday.

## FIVE YEAR FINANCIAL SUMMARY

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 restated/reclassified as appropriate, is set out on page 204. This summary does not form part of the audited financial statements.

# REPORT OF THE DIRECTORS

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in note 34 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company had an aggregate of HK$3,280,788,000 standing to credit of its share premium account and HK$738,936,000 standing to the credit of its capital reserve account. As the aforesaid capital reserve represents premium arising on an issue of shares of the Company, the entire amount of HK$738,936,000 standing to the credit of the capital reserve account of the Company will be transferred to the share premium account in compliance with the articles of association of the Company and Cayman law. Subject to compliance with certain requirements under Cayman Law, share premium may be applied for payment of dividend by the Company. After transfer of the capital reserve as aforesaid, the amount which can be utilised for payment of dividend by the Company in future would become HK$4,019,724,000.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK$290,000.

# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

**Purchases**

| | |
|---|---|
| – the largest supplier | 19% |
| – the five largest suppliers combined | 37% |

**Sales**

| | |
|---|---|
| – the largest customer | 6% |
| – the five largest customers combined | 17% |

None of the directors of the Company, their associates or 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.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

**Executive directors:**
Mr. LI Dongsheng
Mr. BO Lianming
Mr. ZHAO Zhongyao
Mr. YU Guanghui
Ms. XU Fang

**Non-executive directors:**
Mr. Albert Thomas DA ROSA, Junior
Mr. HUANG Xubin

**Independent non-executive directors:**
Mr. TANG Guliang
Mr. Robert Maarten WESTERHOF
Ms. WU Shihong
Dr. TSENG Shieng-chang Carter

# REPORT OF THE DIRECTORS

In accordance with article 116 of the Company's articles of association, Mr. BO Lianming, Mr. ZHAO Zhongyao, Mr. HUANG Xubin and Ms. WU Shihong will retire by rotation at the AGM. All of them, being eligible, will offer themselves for re-election at the forthcoming AGM.

The Board will re-designate Mr. BO Lianming as a NED if re-elected at the AGM and he will hold office until the conclusion of the AGM to be held in 2016. Mr. HUANG Xubin, being a NED, and Ms. WU Shihong, being an INED, if re-elected, will hold office until the conclusion of the AGM to be held in 2016.

## REMUNERATION OF DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID EMPLOYEES

The Company has received from each of its INEDS an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the INEDS to be independent.

Particulars of the remuneration of the directors and the five highest paid employees (including senior management) during the financial year are set out in notes 8 and 9 to the financial statements, respectively.

## EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 52 to 67 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the remuneration payable to the directors.

## PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 33 to the financial statements.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 40 to 49 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

None of the directors or their associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

# REPORT OF THE DIRECTORS

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

At 31 December 2012, 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 were as follows:

### (A) Interests in the Company – Long Positions

| | Number of ordinary shares held | | | | | |
|---|---|---|---|---|---|---|
| Name of Director | Personal interests | Family interests | Other interests *(Note 1)* | Number of underlying shares held under equity derivatives | Total | Approximate percentage of issued share capital of the Company |
| LI Dongsheng | 30,327,848 | 2,538,000 | 482,000 | 5,372,954 | 38,720,802 | 2.931% |
| BO Lianming | 1,807 | – | 96,920 | 1,434,054 | 1,532,781 | 0.116% |
| ZHAO Zhongyao | 6,824,000 | – | 192,800 | 8,068,254 | 15,085,054 | 1.142% |
| YU Guanghui | 242,493 | – | – | 359,211 | 601,704 | 0.046% |
| XU Fang | – | – | 108,760 | 1,258,510 | 1,367,270 | 0.104% |
| Albert Thomas DA ROSA, Junior | – | – | 30,000 | 330,000 | 360,000 | 0.027% |
| HUANG Xubin | – | – | 60,560 | 1,020,280 | 1,080,840 | 0.082% |
| TANG Guliang | – | – | 30,000 | 330,000 | 360,000 | 0.027% |
| Robert Maarten WESTERHOF | – | – | 30,000 | 330,000 | 360,000 | 0.027% |
| WU Shihong | – | – | 30,000 | 330,000 | 360,000 | 0.027% |

# REPORT OF THE DIRECTORS

## (B) Interests in Associated Corporation of the Company – Long Positions
### TCL Corporation *(Note 2)*

| Name of Director | Number of ordinary shares held: Personal interests | Number of ordinary shares held: Family interests | Number of underlying shares held under equity derivatives | Total | Approximate percentage of issued share capital of TCL Corporation |
|---|---|---|---|---|---|
| LI Dongsheng | 494,838,400 | – | – | 494,838,400 | 5.838% |
| BO Lianming | 802,340 | – | 6,871,400 | 7,673,740 | 0.091% |
| ZHAO Zhongyao | 3,557,478 | – | 3,077,800 | 6,635,278 | 0.078% |
| YU Guanghui | – | – | 1,026,000 | 1,026,000 | 0.012% |
| XU Fang | – | 40,000 | 3,383,400 | 3,423,400 | 0.040% |
| HUANG Xubin | – | – | 4,833,400 | 4,833,400 | 0.057% |

## (C) Interests in Associated Corporation of the Company – Long Positions
### TCL Communication *(Note 3)*

| Name of Director | Number of ordinary shares held: Personal interests | Number of ordinary shares held: Family interests | Number of underlying shares held under equity derivatives | Total | Approximate percentage of issued share capital of TCL Communication |
|---|---|---|---|---|---|
| LI Dongsheng | 34,102,756 | 1,920,000 | 12,416,165 | 48,438,921 | 4.293% |
| BO Lianming | 65,700 | – | 3,388,987 | 3,454,687 | 0.306% |
| ZHAO Zhongyao | 443,000 | – | – | 443,000 | 0.039% |
| YU Guanghui | 740 | – | – | 740 | 0.0001% |
| XU Fang | – | – | 2,511,467 | 2,511,467 | 0.223% |
| HUANG Xubin | – | – | 2,767,906 | 2,767,906 | 0.245% |

# REPORT OF THE DIRECTORS

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

**Huizhou Techne** *(Note 4)*

| Name of Director | Number of ordinary shares held: Personal interests | Number of ordinary shares held: Family interests | Number of underlying shares held under equity derivatives | Total | Approximate percentage of issued share capital of Huizhou Techne |
|---|---|---|---|---|---|
| ZHAO Zhongyao | 12,443,000 | – | – | 12,443,000 | 5.410% |
| WU Shihong | 802,700 | – | – | 802,700 | 0.349% |

*Notes:*

1. The shares are restricted shares granted to the relevant directors under the Award Scheme of the Company and were not vested as at 31 December 2012.

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

3. TCL Communication is a subsidiary of TCL Corporation.

4. Huizhou Techne is a subsidiary of TCL Corporation.

Save as disclosed above, as at 31 December 2012, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2012, the interests and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

### (i) Long positions in shares of the Company:

| Shareholders | Capacity | Number of shares held | Percentage of issued share capital of the Company |
|---|---|---|---|
| TCL Corporation | Interest of controlled corporation | 816,094,475 *(Note 1)* | 61.78% *(Note 2)* |

*Notes:*

1. TCL Corporation was deemed to be interested in 569,597,284 shares held by T.C.L. Industries, its direct wholly-owned subsidiary, for the purpose of the SFO. On 6 July 2012, TCL Corporation transferred 246,497,191 shares to T.C.L. Industries and the total number of shares held by T.C.L. Industries became 816,094,475 shares.

2. Such percentage was calculated based on the issued share capital of the Company as at 31 December 2012, being 1,321,002,598 shares in issue.

3. The following Directors are directors/employees of TCL Corporation who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

   (a) Mr. LI Dongsheng is the chairman and chief executive officer of TCL Corporation;
   (b) Mr. BO Lianming is an executive director, president and chief operating officer of TCL Corporation;
   (c) Mr. ZHAO Zhongyao is an executive director and senior vice president of TCL Corporation;
   (d) Mr. YU Guanghui is a vice president of TCL Corporation;
   (e) Ms. XU Fang is a vice president and human resources director of TCL Corporation; and
   (f) Mr. HUANG Xubin is the chief financial officer of TCL Corporation.

Save as disclosed above, as at 31 December 2012, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

# REPORT OF THE DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; nor was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEMES

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

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

# REPORT OF THE DIRECTORS

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

| Name or category of participant | Number of share options: At 1 January 2012 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2012 | Date of grant of share options | Exercise price of share options HK$ | Exercise period of share options | Price of Company's shares: At grant date HK$ | At exercise date HK$ |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| *Executive directors* | | | | | | | | | | |
| LI Dongsheng | 1,799,002 | - | - | (1,799,002) | - | 4-Jul-07 | 6.30 | Note 1 | 6.00 | N/A |
| | 1,395,754 | - | - | - | 1,395,754 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 3,977,200 | - | - | - | 3,977,200 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 7,171,956 | - | - | (1,799,002) | 5,372,954 | | | | | |
| BO Lianming | 182,003 | - | - | (182,003) | - | 4-Jul-07 | 6.30 | Note 1 | 6.00 | N/A |
| | 158,354 | - | - | - | 158,354 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 1,275,700 | - | - | - | 1,275,700 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 1,616,057 | - | - | (182,003) | 1,434,054 | | | | | |
| ZHAO Zhongyao | 130,003 | - | - | (130,003) | - | 4-Jul-07 | 6.30 | Note 1 | 6.00 | N/A |
| | 158,354 | - | - | - | 158,354 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 2,341,800 | - | - | - | 2,341,800 | 8-Nov-10 | 3.60 | Note 3 | 3.60 | N/A |
| | 5,568,100 | - | - | - | 5,568,100 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 8,198,257 | - | - | (130,003) | 8,068,254 | | | | | |
| YU Guanghui | 338,452 | - | - | (338,452) | - | 4-Jul-07 | 6.30 | Note 1 | 6.00 | N/A |
| | 359,211 | - | - | - | 359,211 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 697,663 | - | - | (338,452) | 359,211 | | | | | |
| XU Fang | 23,600 | - | - | (23,600) | - | 4-Jul-07 | 6.30 | Note 1 | 6.00 | N/A |
| | 123,610 | - | - | - | 123,610 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 183,000 | - | - | - | 183,000 | 8-Nov-10 | 3.60 | Note 3 | 3.60 | N/A |
| | 951,900 | - | - | - | 951,900 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 1,282,110 | - | - | (23,600) | 1,258,510 | | | | | |
| | 18,966,043 | - | - | (2,473,060) | 16,492,983 | | | | | |
| *Non-Executive directors* | | | | | | | | | | |
| Albert Thomas DA ROSA, Junior | 30,000 | - | - | - | 30,000 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 300,000 | - | - | - | 300,000 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 330,000 | - | - | - | 330,000 | | | | | |
| HUANG Xubin | 72,249 | - | - | (72,249) | - | 4-Jul-07 | 6.30 | Note 1 | 6.00 | N/A |
| | 222,980 | - | - | - | 222,980 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 797,300 | - | - | - | 797,300 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 1,092,529 | - | - | (72,249) | 1,020,280 | | | | | |
| TANG Guliang | 30,000 | - | - | - | 30,000 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 300,000 | - | - | - | 300,000 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 330,000 | - | - | - | 330,000 | | | | | |
| Robert Maarten WESTERHOF | 30,000 | - | - | - | 30,000 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 300,000 | - | - | - | 300,000 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 330,000 | - | - | - | 330,000 | | | | | |
| WU Shihong | 30,000 | - | - | - | 30,000 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | N/A |
| | 300,000 | - | - | - | 300,000 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 330,000 | - | - | - | 330,000 | | | | | |
| | 2,412,529 | - | - | (72,249) | 2,340,280 | | | | | |

# REPORT OF THE DIRECTORS

| Name or category of participant | Number of share options: At 1 January 2012 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2012 | Date of grant of share options | Exercise price of share options HK$ | Exercise period of share options | Price of Company's shares: At grant date HK$ | At exercise date HK$ |
|---|---|---|---|---|---|---|---|---|---|---|
| **Other employees and those who have contributed or may contribute to the Group** | 7,192,865 | - | - | (7,192,865) | - | 4-Jul-07 | 6.30 | Note 1 | 6.00 | N/A |
| | 8,435,373 | - | (2,229,639) | (120,625) | 6,085,109 | 25-Aug-08 | 2.45 | Note 2 | 2.33 | 4.31 |
| | 530,600 | - | - | - | 530,600 | 8-Nov-10 | 3.60 | Note 3 | 3.60 | N/A |
| | 21,549,300 | - | - | - | 21,549,300 | 5-Jul-11 | 3.17 | Note 4 | 3.17 | N/A |
| | 37,708,138 | - | (2,229,639) | (7,313,490) | 28,165,009 | | | | | |
| | 59,086,710 | - | (2,229,639) | (9,858,799) | 46,998,272 | | | | | |

*Note 1* One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

*Note 2* One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 24 August 2013.

*Note 3* 50% of such share options are exercisable after the expiry of 6 months from the date of grant, and the remaining 50% is exercisable after the expiry of 18 months from the date of grant, up to 7 November 2015.

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

## SHARE AWARD SCHEME

The Board on 6 February 2008 resolved to adopt the Share Award Scheme (the "Share Award Scheme") pursuant to which existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the scheme.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transactions and continuing connected transactions with TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (excluding the Group) (being an associate (as defined in the Listing Rules) of TCL Corporation) (collectively, the "TCL Group").

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2012:

On 20 January 2012, TCL King (Huizhou), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Huizhou Techne, pursuant to which Huizhou Techne agreed to sell and TCL King (Huizhou) agreed to acquire the entire equity interest of Huizhou Keda Precision Parts Co., Ltd., a non-wholly owned subsidiary of Huizhou Techne, for a cash consideration of approximately RMB6,848,000 (equivalent to approximately HK$8,415,000). The transaction was completed on 27 February 2012.

On 12 April 2012, TCL Technoly (Huizhou) entered into a construction management agreement with TCL Real Estate (Huizhou), a non-wholly owned subsidiary of TCL Corporation, pursuant to which TCL Technoly (Huizhou) agreed to appoint TCL Real Estate (Huizhou) as the construction manager for the building project ("Construction Project") involving construction of a manufacturing plant and certain ancillary facilities for the manufacture of blue ray disc player and satellite decoder on the land located at Sub-division 37, Zhong Kai High Tech Park, Huizhou, Guangdong Province, the PRC ("Land no.37") to provide it with construction management services for a term of 14 months and at a cash consideration of RMB7,000,000 (equivalent to HK$8,610,000). The transaction began from the date of the agreement for a term of 14 months and will be completed in June 2013.

On 24 April 2012, TCL King (Huizhou) entered into a joint construction agreement with Huizhou TCL Mobile Communication Co., Ltd. ("Huizhou Mobile"), an indirect wholly-owned subsidiary of TCL Communication, pursuant to which Huizhou Mobile agreed to give TCL King (Huizhou) the right to enter the Land no.37 and to commence the Construction Project. The transfer of the land use rights will take place upon the satisfaction of certain conditions as imposed by the relevant authorities in the PRC. Huizhou Mobile further undertook to facilitate TCL King (Huizhou) in obtaining the property ownership certificate of the facilities buildings after obtaining of the land use rights. The total cash consideration of the transfer is RMB3,700,000 (equivalent to HK$4,551,000). The transaction will be completed when the land use right certificate is obtained by TCL King (Huizhou).

# REPORT OF THE DIRECTORS

On 20 July 2012, TOT entered into an acquisition agreement with Suzhou Coretronic, pursuant to which TOT agreed to acquire and Suzhou Coretronic agreed to sell 40% equity interest of Huizhou Coretronic, at a cash consideration of approximately RMB13,124,000 (equivalent to approximately HK$16,073,000). The transaction was completed on 22 August 2012.

On 20 September 2012, TCL New Technology entered into a club membership acquisition agreement with Shenzhen TCL Optoelectronics, pursuant to which TCL New Technology agreed to acquire and Shenzhen TCL Optoelectronics agreed to sell the entire membership interests in the R&D Elite Club (including but not limited to the exclusive right to occupy and use the premises at Unit 102 (category B of 1st floor), the whole floor of 2nd to 5th and 9th to 12th floor of D4 building, TCL Science Park, No. 1001, Zhongshanyuan Road, Xili, Nanshan District, Shenzhen, the PRC), for office and industrial research use at a cash consideration of approximately RMB186,819,000 (equivalent to approximately HK$228,441,000). The transaction was completed on 20 September 2012.

On 17 October 2012, TCL King (Huizhou) and TCL Technoly (Huizhou) entered into an agreement in respect of a construction cooperation project ("Tripartite Construction Agreement") with Huizhou Mobile, pursuant to which Huizhou Mobile, as the owner of the land located in Sub-division 38, Zhong Kai High Tech Park, Huizhou, Guangdong Province, the PRC ("Land no.38"), agreed to execute various contracts in relation to the construction project on Land no.38 on behalf of TCL King (Huizhou) and TCL Technoly (Huizhou), including paying the construction costs to the relevant parties. Once relevant conditions in relation to relevant portion of the Land no.38 of each of TCL King (Huizhou) and TCL Technoly (Huizhou), as imposed by the relevant authorities in the PRC in relation to the transfer of state-owned land use rights are satisfied, Huizhou Mobile shall enter into the transfer agreement with each of TCL King (Huizhou) and TCL Technoly (Huizhou) whereby Huizhou Mobile will transfer the relevant portion of the Land no.38 together with the buildings thereon to each of TCL King (Huizhou) and TCL Technoly (Huizhou) agreed between them at a total cash consideration of approximately RMB72,921,000 (equivalent to approximately HK$88,964,000), subject to subsequent adjustment of the actual costs reasonably incurred and in any event not exceeding a total of RMB98,000,000 (equivalent to HK$119,560,000). The transaction began from the date of the agreement and will be completed when each of TCL King (Huizhou) and TCL Technoly (Huizhou) has entered into agreements in its own name in the capacity of the owner of the land use rights of the relevant portions of the Land no.38.

On 17 October 2012, TCL King (Huizhou) entered into a transfer agreement with Huizhou Mobile pursuant to which Huizhou Mobile agreed to transfer the land use rights of Land no.37 together with the facilities buildings thereon at a total cash consideration of approximately RMB13,008,000 (equivalent to approximately HK$15,870,000), as the relevant conditions as imposed by the relevant authorities in the PRC in relation to the transfer of land use rights of Land no.37 have been satisfied. The transaction will be completed when the land use right certificate has been obtained.

# REPORT OF THE DIRECTORS

On 8 December 2012, Tonly Electronics entered into a subscription agreement with the Company, Run Fu and Star Force, pursuant to which Tonly Electronics agreed to issue and allot whereas the Company, Run Fu and Star Force agreed to subscribe for 34,640,000, 11,426,400 and 9,733,600 ordinary shares of Tonly Electronics respectively at respective consideration of approximately HK$90,757,000, HK$29,937,000 and HK$25,502,000. As Run Fu is a connected person of the Company, the subscription of such shares by Run Fu constituted a connected transaction of the Company under the Listing Rules. On completion of the subscription agreement, Tonly Electronics will be held by the Company, Run Fu and Star Force as to 84,640,000, 11,426,400 and 9,733,600 ordinary shares of Tonly Electronics, representing 80%, 10.8% and 9.2% respectively of the enlarged issued share capital of Tonly Electronics. The transaction was completed on 28 December 2012.

On 17 December 2012, Huizhou Mobile entered into two construction management agreements ("Construction Management Agreements") with TCL Real Estate (Huizhou) in respect of building projects ("TCL Construction Projects") involving construction of staff quarters, apartments and common facilities on the relevant portions of the Land no.38 acquired by each of TCL King (Huizhou) and TCL Technoly (Huizhou) under the Tripartite Construction Agreement. Each of the Construction Management Agreements stipulates that, subject to the quartet construction management agreement entered into among TCL King (Huizhou), TCL Technoly (Huizhou), Huizhou Mobile and TCL Real Estate (Huizhou) on 17 December 2012, Huizhou Mobile agreed to, on behalf of each of TCL King (Huizhou) and TCL Technoly (Huizhou), appoint TCL Real Estate (Huizhou) as the construction manager for TCL Construction Projects, to provide management services for a period from the date of the agreement and until each of TCL King (Huizhou) and TCL Technoly (Huizhou) has entered into agreements with TCL Real Estate (Huizhou) in its own name in the capacity as the owners of the land use rights of the relevant portions of the Land no.38, at a total cash consideration of approximately RMB5,600,000 (equivalent to approximately HK$6,888,000), subject to subsequent adjustment of the actual costs reasonably incurred and in any event not exceeding a total of RMB7,000,000 (equivalent to approximately HK$8,610,000). The transaction began from the date of the agreement and will be completed when each of TCL King (Huizhou) and TCL Technoly (Huizhou) has entered into agreements with TCL Real Estate (Huizhou) in its own name in the capacity of the owner of the land use rights of the relevant portions of the Land no.38.

# REPORT OF THE DIRECTORS

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2012:

(a) Pursuant to the Master TCL Trademark License Agreement dated 26 October 2011 entered into between the Company and TCL Corporation under which TCL Group has agreed to grant to the Group an exclusive (subject to certain limited exceptions which are related to existing obligation or businesses of TCL Corporation), non-sub-licensable and non-transferable license to use certain of its registered trademarks including "TCL" for the manufacture, production, sale and distribution of electronic products including televisions and audiovisual products. During the year, no payment has been made by the Group to TCL Group as royalties and HK$211,361,000 was paid by the Group to TCL Group as reimbursement of branding advertising costs.

(b) Pursuant to the Master Electronic and Electrical Goods Sourcing Agreement dated 26 October 2011 entered into between the Company and TCL Corporation in connection with the purchase of electronic or electrical products from TCL Group, the Group purchased finished goods from TCL Group amounting to HK$6,517,000 during the year.

(c) Pursuant to the Master Sourcing Agreement dated 26 October 2011 entered into between the Company and TCL Corporation, the Group (i) sold overseas materials to TCL Group amounting to HK$1,480,702,000; (ii) purchased overseas materials from TCL Group amounting to HK$1,939,827,000 during the year.

(d) Pursuant to the Master Supply Agreement dated 26 October 2011 entered into between the Company and TCL Corporation, the Group (i) purchased goods produced or manufactured in the PRC from TCL Group amounting to HK$7,494,711,000; (ii) sold goods to TCL Group amounting to HK$1,230,292,000 during the year.

(e) Pursuant to the Master Financial Services Agreement dated 26 October 2011 entered into among the Company, TCL Corporation and TCL Finance Company Limited ("TCL Finance"), a non-wholly owned subsidiary of TCL Corporation, the Group paid fees and commissions for the other financial services thereunder amounting to HK$889,000 during the year. The maximum outstanding balance of deposits placed by the Group with TCL Finance and facility provided to the Group by TCL Finance with bank instruments as security during the year were HK$3,411,687,000 and HK$246,640,000 respectively.

(f) Pursuant to the Master Logistics Service Supply Agreement dated 26 October 2011 entered into between the Company and Shenzhen Speed Distribution Platform Company Limited ("Speed Distribution"), a wholly owned subsidiary of TCL Corporation, the Group may from time to time request Speed Distribution for provision of certain logistics services. The Group paid HK$90,415,000 to Speed Distribution for all the cost and expenses incurred by Speed Distribution for provision of the logistics services during the year.

# REPORT OF THE DIRECTORS

(g) Pursuant to the Master Call Centre Services Supply Agreement dated 26 October 2011 entered into between the Company and TCL Corporation, TCL Group has agreed to provide the call centre services to the Group. The Group paid HK$20,197,000 to TCL Group for all the cost and expenses incurred by TCL Group for provision of the call centre services during the year.

(h) Pursuant to the Master Subcontracting Agreement dated 26 October 2011 entered into between the Company and TCL Corporation, the Group (i) paid subcontracting fees to TCL Group amounting to HK$43,136,000; (ii) received subcontracting fees from TCL Group amounting to HK$82,772,000 during the year.

(i) Pursuant to the Master Lease, Production Line and Vehicle (Lessor) Agreement dated 26 October 2011 entered into between the Company as lessor and TCL Corporation as lessee, the Group received rental income from TCL Group amounting to HK$58,999,000 during the year.

(j) Pursuant to the Master Lease (Tenant) Agreement dated 26 October 2011 entered into between the Company as tenant and TCL Corporation as landlord, the Group paid rental cost to TCL Group amounting to HK$64,619,000 during the year.

(k) Pursuant to the Master Service Agreement dated 26 October 2011 entered into between the Company and TCL Corporation, no content income was shared by the Group in respect of the provision of value added services to end users; and HK$86,087,000 was paid by the Group to TCL Group as service fees in respect of the provision of certain basic services during the year.

(l) Pursuant to the Joint Design Centre and Expertise Agreement dated 26 October 2011 entered into between TCL New Technology and Shenzhen TCL Advanced Technology Development Company Limited ("TCL Advanced Technology", an indirect wholly owned subsidiary of TCL Corporation), the Group reimbursed human resource costs, rent, property management charges, utility charges, renovation expenses and depreciation of fixed assets to TCL Group amounting to HK$26,905,000 during the year.

(m) Pursuant to the Intellectual Property Services Agreement dated 26 October 2011 entered into between TCL New Technology and TCL Corporation Technology Centre (a department of TCL Corporation), the Group paid service fee to TCL Corporation Technology Centre amounting to HK$1,843,000 during the year.

(n) Pursuant to the Know-how Development Agreement dated 26 October 2011 entered into between TCL New Technology and TCL Research America Inc. ("TCL Research", an indirect wholly owned subsidiary of TCL Corporation, formerly known as TCL Lab (US) Inc.), the Group paid research fee to TCL Research amounting to HK$6,401,000 during the year.

# REPORT OF THE DIRECTORS

(o) Pursuant to the Master After Sale Service Agreement dated 24 October 2012 entered into between the Company and TCL Corporation, the Group received service fees from TCL Group in connection with the provision of after sale service to TCL Group for commercial use display products sold by TCL Group in the PRC amounting to HK$4,623,000 during the year.

(p) Pursuant to the Strategic Cooperation Framework Agreement dated 27 November 2012 entered into between the Company and TCL Corporation, no service fee was paid by the Group to TCL Group for the Joint Design Centre Project and HK$34,497,000 was paid by the Group to TCL Group as service fee for the Strategic Mutual Research and Mid-to-Long-Term Planning Project provided by TCL Group during the year.

The directors of the Company confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have confirmed that the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

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.

## CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 52 to 67 in this annual report.

# REPORT OF THE DIRECTORS

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2012.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, 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 for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

## AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will offer themselves for reappointment as auditors of the Company at the forthcoming AGM.

ON BEHALF OF THE BOARD

**LI Dongsheng**
*Chairman*

Hong Kong
26 February 2013

# INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of TCL Multimedia Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 92 to 203, which comprise the consolidated and company statements of financial position as at 31 December 2012, and 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.

## 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 2012, 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
26 February 2013

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| TURNOVER | 5 | **39,684,855** | 32,932,363 |
| Cost of sales | | **(33,106,998)** | (27,643,428) |
| Gross profit | | **6,577,857** | 5,288,935 |
| Other revenue and gains | | **678,897** | 583,031 |
| Selling and distribution expenses | | **(4,362,864)** | (3,792,109) |
| Administrative expenses | | **(1,078,595)** | (859,535) |
| Research and development costs | | **(478,006)** | (280,930) |
| Other operating expenses | | **(51,230)** | (56,537) |
| | | **1,286,059** | 882,855 |
| Finance costs | 6 | **(278,296)** | (289,411) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | **4,184** | (2,884) |
| Associates | | **(17,702)** | 22,329 |
| PROFIT BEFORE TAX | 7 | **994,245** | 612,889 |
| Income tax expense | 10 | **(72,708)** | (151,448) |
| PROFIT FOR THE YEAR | | **921,537** | 461,441 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | | |
| Cash flow hedge: | | | |
| Effective portion of change in fair value of the hedging instrument arising during the year | | **(94)** | – |
| | | **(94)** | – |
| Exchange fluctuation reserve: | | | |
| Translation of foreign operations | | **2,183** | 143,283 |
| Release upon disposal and liquidation of subsidiaries | | **3,642** | (50,313) |
| Release upon liquidation of a jointly-controlled entity | | **–** | (23,828) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | | **5,731** | 69,142 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **927,268** | 530,583 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Profit attributable to: | | | |
| Owners of the parent | 11 | **910,916** | 452,600 |
| Non-controlling interests | | **10,621** | 8,841 |
| | | **921,537** | 461,441 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | **905,215** | 516,761 |
| Non-controlling interests | | **22,053** | 13,822 |
| | | **927,268** | 530,583 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 13 | | |
| Basic | | **HK69.65 cents** | HK41.80 cents |
| Diluted | | **HK69.03 cents** | HK41.75 cents |

Details of the dividends for the year are disclosed in note 12 to the financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 2,484,028 | 1,342,461 |
| Prepaid land lease payments | 15 | 146,266 | 87,076 |
| Goodwill | 16 | 119,638 | 119,638 |
| Other intangible assets | 17 | 419 | 594 |
| Investment in a jointly-controlled entity | 19 | 11,574 | 6,840 |
| Investments in associates | 20 | 158,921 | 190,478 |
| Available-for-sale investments | 21 | 6,677 | 6,677 |
| Deferred tax assets | 32 | 150,707 | 42,967 |
| Total non-current assets | | 3,078,230 | 1,796,731 |
| CURRENT ASSETS | | | |
| Inventories | 22 | 6,731,951 | 4,298,384 |
| Trade receivables | 23 | 4,338,139 | 3,795,014 |
| Bills receivable | 24 | 7,087,252 | 7,575,284 |
| Other receivables | 25 | 2,502,247 | 1,930,424 |
| Tax recoverable | | 24,363 | 28,253 |
| Pledged deposits | 27 | 826,220 | 255,770 |
| Cash and bank balances | 27 | 3,431,337 | 4,452,001 |
| Total current assets | | 24,941,509 | 22,335,130 |
| CURRENT LIABILITIES | | | |
| Trade payables | 28 | 9,263,133 | 6,725,368 |
| Bills payable | | 5,176,951 | 5,268,877 |
| Other payables and accruals | 29 | 4,974,350 | 3,608,742 |
| Interest-bearing bank and other borrowings | 30 | 2,607,644 | 2,623,940 |
| Due to TCL Corporation | 26 | – | 131,978 |
| Due to T.C.L. Industries | 26 | – | 971,163 |
| Tax payable | | 213,276 | 169,690 |
| Provisions | 31 | 345,020 | 248,783 |
| Total current liabilities | | 22,580,374 | 19,748,541 |
| NET CURRENT ASSETS | | 2,361,135 | 2,586,589 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,439,365 | 4,383,320 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,439,365 | 4,383,320 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 30 | 402,346 | 710,928 |
| Deferred tax liabilities | 32 | 38,873 | 13,790 |
| Pensions and other post-employment benefits | 33 | 6,301 | 5,917 |
| Total non-current liabilities | | 447,520 | 730,635 |
| Net assets | | 4,991,845 | 3,652,685 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 34 | 1,321,003 | 1,072,276 |
| Reserves | 35 | 3,444,244 | 2,461,376 |
| | | 4,765,247 | 3,533,652 |
| **Non-controlling interests** | | 226,598 | 119,033 |
| Total equity | | 4,991,845 | 3,652,685 |

**LI Dongsheng**
*Director*

**ZHAO Zhongyao**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

| | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **GROUP** | Issued capital HK$'000 (Note 34) | Share premium account HK$'000 (Note 34) | Share option reserve HK$'000 (Note 35 (a)(i)) | Capital reserve HK$'000 (Note 35 (a)(ii)) | Reserve funds HK$'000 (Note 35 (a)(iii)) | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Shares held for the Award Scheme HK$'000 (Note 34) | Awarded share reserve HK$'000 (Note 35 (a)(iv)) | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2011 | 1,086,425 | 3,233,686 | 32,715 | 59,099 | 881,708 | 408,250 | (2,543,848) | (17,031) | 3,442 | 3,144,446 | 105,211 | 3,249,657 |
| Profit for the year | - | - | - | - | - | - | 452,600 | - | - | 452,600 | 8,841 | 461,441 |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | |
| Exchange differences on: | | | | | | | | | | | | |
| Translation of foreign operations | - | - | - | - | - | 138,302 | - | - | - | 138,302 | 4,981 | 143,283 |
| Release upon disposal and liquidation of subsidiaries | - | - | - | - | - | (50,313) | - | - | - | (50,313) | - | (50,313) |
| Release upon liquidation of a jointly-controlled entity | - | - | - | - | - | (23,828) | - | - | - | (23,828) | - | (23,828) |
| Total comprehensive income for the year | - | - | - | - | - | 64,161 | 452,600 | - | - | 516,761 | 13,822 | 530,583 |
| Shares repurchased | (14,488) | (19,030) | - | - | - | - | - | - | - | (33,518) | - | (33,518) |
| Equity-settled share option arrangements | - | - | 14,351 | - | - | - | - | - | - | 14,351 | - | 14,351 |
| Issue of shares upon exercise of share options | 339 | 766 | (275) | - | - | - | - | - | - | 830 | - | 830 |
| Share options lapsed during the year | - | - | (2,080) | - | - | - | 2,080 | - | - | - | - | - |
| Purchase of shares for the Award Scheme | - | - | - | - | - | - | - | (109,218) | - | (109,218) | - | (109,218) |
| Transfer from retained profits | - | - | - | - | 33,480 | - | (33,480) | - | - | - | - | - |
| At 31 December 2011 | 1,072,276 | 3,215,422* | 44,711* | 59,099* | 915,188* | 472,411* | (2,122,648)* | (126,249)* | 3,442* | 3,533,652 | 119,033 | 3,652,685 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

| GROUP | Issued capital HK$'000 (Note 34) | Share premium account HK$'000 (Note 34) | Share option reserve HK$'000 (Note 35 (a)(i)) | Capital reserve HK$'000 (Note 35 (a)(ii)) | Reserve funds HK$'000 (Note 35 (a)(iii)) | Hedging reserve HK$'000 (Note 35 (a)(v)) | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Shares held for the Award Scheme HK$'000 (Note 34) | Awarded share reserve HK$'000 (Note 35 (a)(iv)) | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to owners of the parent | | | | | | | | | | | | |
| At 31 December 2011 and 1 January 2012 | 1,072,276 | 3,215,422 | 44,711 | 59,099 | 915,188 | - | 472,411 | (2,122,648) | (126,249) | 3,442 | 3,533,652 | 119,033 | 3,652,685 |
| Profit for the year | - | - | - | - | - | - | - | 910,916 | - | - | 910,916 | 10,621 | 921,537 |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | |
| Cash flow hedge | - | - | - | - | - | (94) | - | - | - | - | (94) | - | (94) |
| Exchange differences on: | | | | | | | | | | | | | |
| Translation of foreign operations | - | - | - | - | - | - | 2,223 | - | - | - | 2,223 | (40) | 2,183 |
| Release upon liquidation of subsidiaries | - | - | - | - | - | - | 3,642 | - | - | - | 3,642 | - | 3,642 |
| Release upon deemed partial disposal of equity interests in subsidiaries | - | - | - | - | - | - | (11,472) | - | - | - | (11,472) | 11,472 | - |
| Total comprehensive income/(loss) for the year | - | - | - | - | - | (94) | (5,607) | 910,916 | - | - | 905,215 | 22,053 | 927,268 |
| Issue of shares for acquisition of subsidiaries | 246,497 | 391,931 | - | - | - | - | - | - | - | - | 638,428 | 13,373 | 651,801 |
| Acquisition of a subsidiary | - | - | - | - | - | - | - | - | - | - | - | 25,249 | 25,249 |
| Acquisition of non-controlling interests | - | - | - | (1,767) | - | - | - | - | - | - | (1,767) | (14,306) | (16,073) |
| Deemed partial disposal of equity interests in subsidiaries | - | - | - | (6,338) | - | - | - | - | - | - | (6,338) | 61,777 | 55,439 |
| Equity-settled share option arrangements | - | - | 21,547 | - | - | - | - | - | - | - | 21,547 | - | 21,547 |
| Issue of shares upon exercise of share options | 2,230 | 5,020 | (1,787) | - | - | - | - | - | - | - | 5,463 | - | 5,463 |
| Share options lapsed during the year | - | - | (21,969) | - | - | - | - | 21,969 | - | - | - | - | - |
| Vesting of shares under the Award Scheme | - | - | - | - | - | - | - | - | 718 | (86) | 632 | - | 632 |
| Dividends paid to non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - | (581) | (581) |
| Final 2011 dividend declared | - | (204,033) | - | - | - | - | - | - | - | - | (204,033) | - | (204,033) |
| Interim 2012 dividend | - | (127,552) | - | - | - | - | - | - | - | - | (127,552) | - | (127,552) |
| Transfer from retained profits | - | - | - | - | 81,663 | - | - | (81,663) | - | - | - | - | - |
| At 31 December 2012 | 1,321,003 | 3,280,788* | 42,502* | 50,994* | 996,851* | (94)* | 466,804* | (1,271,426)* | (125,531)* | 3,356* | 4,765,247 | 226,598 | 4,991,845 |

* These reserve accounts comprise the consolidated reserves of HK$3,444,244,000 (2011: HK$2,461,376,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 994,245 | 612,889 |
| Adjustments for: | | | |
| Finance costs | 6 | 278,296 | 289,411 |
| Share of profits and losses of jointly-controlled entities and associates | | 13,518 | (19,445) |
| Loss/(gain) on disposal of items of property, plant and equipment and the associated prepaid land lease payments, net | 7 | 2,156 | (42,444) |
| Gain on bargain purchase of subsidiaries | 7 | (144,627) | – |
| Gain on disposal of a subsidiary | 7 | – | (231,696) |
| Loss/(gain) on liquidation of subsidiaries, net | 7 | 3,460 | (12,434) |
| Gain on liquidation of a jointly-controlled entity | 7 | – | (23,828) |
| Bank interest income | 7 | (126,992) | (79,247) |
| Fair value gains on derivative financial instruments, net – transactions not qualifying as hedges | 7 | (19,830) | (10,728) |
| Depreciation | 7 | 300,746 | 203,617 |
| Impairment of items of property, plant and equipment | 7 | 31,231 | 3,746 |
| Amortisation of other intangible assets | 7 | 174 | 408 |
| Amortisation of prepaid land lease payments | 7 | 3,995 | 2,660 |
| Equity-settled share option expense | 7 | 21,547 | 14,351 |
| Equity-settled Award Scheme expense | 7 | 632 | – |
| | | 1,358,551 | 707,260 |
| Decrease/(increase) in inventories | | (2,360,832) | 836,690 |
| Increase in trade receivables | | (449,563) | (493,408) |
| Decrease/(increase) in bills receivable | | 558,642 | (5,306,301) |
| Increase in other receivables | | (476,636) | (188,942) |
| Increase in trade payables | | 2,515,304 | 1,292,869 |
| Increase/(decrease) in bills payable | | (92,561) | 3,901,366 |
| Increase in other payables and accruals | | 1,040,382 | 1,182,131 |
| Increase/(decrease) in provisions | | 95,720 | (120,943) |
| Increase/(decrease) in pensions and other post-employment benefits | | 398 | (59) |
| Cash generated from operations | | 2,189,405 | 1,810,663 |
| Interest paid | | (278,296) | (289,411) |
| Income taxes paid | | (129,875) | (204,374) |
| Net cash flows from operating activities | | 1,781,234 | 1,316,878 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Net cash flows from operating activities | | **1,781,234** | 1,316,878 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **126,992** | 79,247 |
| Dividend received | | **13,763** | 5,245 |
| Purchases of items of property, plant and equipment | | **(593,212)** | (76,021) |
| Prepayment of land lease payments | | **(4,548)** | – |
| Proceeds from disposal of items of property, plant and equipment and the associated prepaid land lease payments | | **24,929** | 127,422 |
| Acquisition of subsidiaries | 36(a)(i),(ii) | **175,126** | – |
| Acquisition of a subsidiary that is not a business | 36(b) | **(8,415)** | – |
| Disposal of a subsidiary | 36(c) | **–** | 104,305 |
| Liquidation of a jointly-controlled entity | | **–** | 98,648 |
| Investment in an associate | | **–** | (355) |
| Decrease/(increase) in pledged deposits | | **(570,386)** | 2,150,556 |
| Net cash flows from/(used in) investing activities | | **(835,751)** | 2,489,047 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares upon exercise of share options | 34 | **5,463** | 830 |
| Repurchase of shares | 34 | **–** | (33,518) |
| Purchase of shares for the Award Scheme | 34 | **–** | (109,218) |
| New bank and other loans | | **10,708,596** | 7,057,900 |
| Repayment of bank loans | | **(11,278,357)** | (8,950,379) |
| Decrease in loans from TCL Corporation | | **(139,927)** | (475,758) |
| Increase/(decrease) in loans from T.C.L. Industries | | **(970,239)** | 971,023 |
| Acquisition of non-controlling interests | | **(16,073)** | – |
| Deemed partial disposal of equity interests in subsidiaries | | **55,439** | – |
| Dividends paid | | **(331,585)** | – |
| Dividends paid to non-controlling shareholders | | **(581)** | – |
| Net cash flows used in financing activities | | **(1,967,264)** | (1,539,120) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **(1,021,781)** | 2,266,805 |
| Cash and cash equivalents at beginning of year | | **4,452,001** | 2,132,619 |
| Effect of foreign exchange rate changes, net | | **1,117** | 52,577 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **3,431,337** | 4,452,001 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | **3,431,337** | 4,452,001 |

# STATEMENT OF FINANCIAL POSITION

31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | 18 | **1,503,202** | 818,906 |
| CURRENT ASSETS | | | |
| Due from subsidiaries | 18 | **2,031,075** | 2,112,693 |
| Other receivables | 25 | **62,914** | 50,819 |
| Cash and bank balances | | **19,223** | 1,540 |
| Total current assets | | **2,113,212** | 2,165,052 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 29 | **23,935** | 5,519 |
| Interest-bearing bank borrowings | 30 | **153,183** | 59,773 |
| Tax payable | | **–** | 3,836 |
| Total current liabilities | | **177,118** | 69,128 |
| NET CURRENT ASSETS | | **1,936,094** | 2,095,924 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **3,439,296** | 2,914,830 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 30 | **402,346** | 556,797 |
| Net assets | | **3,036,950** | 2,358,033 |
| EQUITY | | | |
| Issued capital | 34 | **1,321,003** | 1,072,276 |
| Reserves | 35 | **1,715,947** | 1,285,757 |
| Total equity | | **3,036,950** | 2,358,033 |

**LI Dongsheng**
*Director*

**ZHAO Zhongyao**
*Director*

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 1. CORPORATE INFORMATION

TCL Multimedia Technology Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- manufacture and sale of colour television sets and trading of related components
- manufacture and sale of audio-visual products

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a company incorporated in Hong Kong, is the immediate holding company of the Company and the ultimate holding company of the Company is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

## 2.1 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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, 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 Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.1 BASIS OF PREPARATION (CONTINUED)

### BASIS OF CONSOLIDATION (CONTINUED)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* |
| HKAS 12 Amendments | Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* |

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans* [2] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [2] |
| HKFRS 9 | *Financial Instruments* [4] |
| HKFRS 10 | *Consolidated Financial Statements* [2] |
| HKFRS 11 | *Joint Arrangements* [2] |
| HKFRS 12 | *Disclosure of Interests in Other Entities* [2] |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance* [2] |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities* [3] |
| HKFRS 13 | *Fair Value Measurement* [2] |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [1] |
| HKAS 19 (2011) | *Employee Benefits* [2] |
| HKAS 27 (2011) | *Separate Financial Statements* [2] |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures* [2] |
| HKAS 32 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [3] |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine* [2] |
| *Annual Improvements 2009-2011 Cycle* | Amendments to a number of HKFRSs issued in June 2012 [2] |

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

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

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral arrangements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosure of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

The *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

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

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

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distribution to equity holders.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### SUBSIDIARIES

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

### JOINT VENTURES

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

# NOTES TO FINANCIAL STATEMENTS
31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### JOINTLY-CONTROLLED ENTITIES

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities 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 reserves of jointly-controlled entities is included in profit or loss and other comprehensive income of the consolidated statement of comprehensive income, respectively.

Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

### ASSOCIATES

An associate is an entity, not being a subsidiary or a jointly-controlled 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.

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 reserves of associates is included in profit or loss and other comprehensive income of the consolidated statement of comprehensive income, respectively.

Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of impairment of the asset transferred.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### BUSINESS COMBINATIONS AND GOODWILL (CONTINUED)

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.

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 value of the disposed operation and the portion of the cash-generating unit retained.

### 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 and goodwill), 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 to sell, 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 profit or loss of the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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 profit or loss of the statement of comprehensive income in the period in which it arises.

### 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;

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### RELATED PARTIES (CONTINUED)

(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 profit or loss of the statement of comprehensive income 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:

| | |
|---|---|
| Freehold land | Not depreciated |
| Leasehold land under finance leases | Over the lease terms |
| Buildings | 2% – 4.5% |
| Leasehold improvements | 20% – 50% |
| Plant and machinery | 9% – 20% |
| Furniture, fixtures and equipment | 18% – 33.3% |
| Motor vehicles | 18% – 25% |

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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (CONTINUED)

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 profit or loss of the statement of comprehensive income 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 buildings under construction and plant and machinery in the process of installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and installation and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

#### Patents and licences

Purchased patents and licences with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 4 to 10 years.

#### Trademarks

Purchased trademarks with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

#### Research and development costs

All research costs are charged to profit or loss of the statement of comprehensive income 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss of the statement of comprehensive income 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-current assets, and rentals receivable under the operating leases are credited to profit or loss of the statement of comprehensive income 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 profit or loss of the statement of comprehensive income on the straight-line basis over the lease terms.

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

### INVESTMENTS AND OTHER FINANCIAL ASSETS

#### Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

#### Subsequent measurement

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

#### 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 revenue and gains in profit or loss of the statement of comprehensive income. The loss arising from impairment is recognised in profit or loss of the statement of comprehensive income in finance costs for loans and in other operating expenses for receivables.

#### Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

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 profit or loss of the statement of comprehensive income in other revenue and gains, 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 profit or loss of the statement of comprehensive income in other operating expenses. 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 profit or loss of the statement of comprehensive income 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

**Available-for-sale financial investments (continued)**

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 and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

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 profit or loss of the statement of comprehensive income.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 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 derecognised 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 asset is recognised to the extent of the Group's continuing involvement in the asset. 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 objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists 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.

If there is objective evidence that an impairment loss has been incurred, 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 (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). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss of the statement of comprehensive income. 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 operating expenses in profit or loss of the statement of comprehensive income.

#### 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, 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

**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 profit or loss of the statement of comprehensive income, is removed from other comprehensive income and recognised in profit or loss of the statement of comprehensive income.

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. The determination of what is "significant" or "prolonged" requires judgement. "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 profit or loss of the statement of comprehensive income – is removed from other comprehensive income and recognised in profit or loss of the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss of the statement of comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

### FINANCIAL LIABILITIES

**Initial recognition and measurement**

Financial liabilities within the scope of HKAS 39 are classified 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. The Group determines the classification of its financial liabilities at initial recognition.

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 other payables, amounts due to TCL Corporation and T.C.L. Industries, derivative financial instruments and interest-bearing bank and other borrowings.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### FINANCIAL LIABILITIES (CONTINUED)

**Subsequent measurement**

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

**Loans and borrowings**

After initial recognition, interest-bearing bank and other 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 profit or loss of the statement of comprehensive income 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 profit or loss of the statement of comprehensive income.

**Financial guarantee contracts**

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### 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 profit or loss of the statement of comprehensive income.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

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

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

#### Initial recognition and subsequent measurement (continued)

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

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

#### Fair value hedges

The change in the fair value of a hedging derivative is recognised in profit or loss of the statement of comprehensive income as other operating 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 profit or loss of the statement of comprehensive income as other operating expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss of the statement of comprehensive income 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 profit or loss of the statement of comprehensive income.

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 profit or loss of the statement of comprehensive income. The changes in the fair value of the hedging instrument are also recognised in profit or loss of the statement of comprehensive income.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

#### Cash flow hedges

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

Amounts recognised in other comprehensive income are transferred to profit or loss of the statement of comprehensive income 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 profit or loss of the statement of comprehensive income in the same period or periods during which the asset acquired or liability assumed affects profit or loss of the statement of comprehensive income.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to profit or loss of the statement of comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

#### 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### TREASURY SHARES

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss of the statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average 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 bank balances comprise cash on hand and at banks, including term deposits, 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 profit or loss of the statement of comprehensive income.

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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, 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, associates and joint ventures, 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### INCOME TAX (CONTINUED)

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

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

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

### GOVERNMENT GRANTS

Government grants are recognised at their fair values 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 profit or loss of the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

### 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) income from the rendering of services, when the services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### REVENUE RECOGNITION (CONTINUED)

(d) 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; and

(e) dividend income, when the shareholders' right to receive payment has been established.

### EMPLOYEE BENEFITS

**Share-based payments**

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 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. 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 profit or loss of the statement of comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

## 2.4 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 is reflected as additional share dilution in the computation of earnings per share.

### OTHER EMPLOYEE BENEFITS

**Pension schemes**

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss of the statement of comprehensive income 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 Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Certain subsidiaries outside Hong Kong are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to profit or loss of the statement of comprehensive income as they become payable in accordance with the rules of the pension schemes.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### OTHER EMPLOYEE BENEFITS (CONTINUED)

**Pension schemes (continued)**

Certain subsidiaries operate defined benefit pension schemes and provide certain additional post-employment healthcare benefits to certain employees. These benefits are unfunded. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains or losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains or losses for each individual plan at the end of the previous reporting year exceed 10% of the defined benefit obligation. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

### 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

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

Final dividends are recognised as a liability when they have been approved by the shareholders.

### 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 translated 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 profit or loss of the statement of comprehensive income.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 2.4 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 determined. 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, jointly-controlled entities 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 comprehensive income 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 profit or loss of the statement of comprehensive income.

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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgement, 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.

### JUDGEMENT

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

**Derecognition of financial assets – Receivables purchase arrangements**

The Group has entered into certain receivables purchase arrangements with its banks on its trade receivables. As at 31 December 2012, the Group has determined that it has transferred substantially all the risks and rewards of ownership associated with certain trade receivables factored to banks under these arrangements. Accordingly, the relevant trade receivables with an aggregate carrying amount of HK$519,070,000 (2011: HK$233,523,000) are fully derecognised. Further details are given in note 23 to the financial statements.

### 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.

**(i) 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 2012 was HK$119,638,000 (2011: HK$119,638,000). Further details are given in note 16 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

### ESTIMATION UNCERTAINTY (CONTINUED)

#### (ii) Useful lives and impairment of property, plant and equipment

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

#### (iii) Impairment of trade receivables

Impairment of trade 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.

#### (iv) Provision against obsolete and slow-moving inventories

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

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

### ESTIMATION UNCERTAINTY (CONTINUED)

#### (v) Warranty provisions

As further explained in note 31 to the financial statements, the Group makes provisions for the warranties it gives on sale of its products taking into account the Group's current sales levels and past experience of the level of repairs and returns. 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.

#### (vi) Deferred tax assets

Deferred tax assets are recognised for deductible temporary difference arising from the warranty provisions and patent fee provisions and the unused tax losses 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. Further details on deferred tax assets are included in note 32 to the financial statements.

#### (vii) PRC corporate income tax

The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

Further information about the assumptions and their risk factors relating to defined retirement benefit obligations, the fair values of the share options granted and financial instruments is disclosed in notes 33, 34 and 41, respectively.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 4. OPERATING SEGMENT INFORMATION

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

(a) Television segment – manufacture and sale of television sets and trading of related components in:
– the PRC market
– the Overseas markets

(b) AV segment – manufacture and sale of audio-visual products; and

(c) Others segment – comprises information technology and other businesses, including 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 interest income, finance costs, share of profits and losses of jointly-controlled entities and associates as well as head office and corporate income and expenses are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### GROUP

| | Television-PRC market | | Television-Overseas markets | | AV | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Segment revenue:** | | | | | | | | | | | | |
| Sales to external customers | 23,146,374 | 19,615,224 | 11,939,494 | 8,743,034 | 3,573,564 | 3,880,441 | 1,025,423 | 693,664 | - | - | 39,684,855 | 32,932,363 |
| Intersegment sales | 5,528,047 | 3,483,098 | - | - | 13,212 | 193,305 | 2,901,941 | 36,316 | (8,443,200) | (3,712,719) | - | - |
| Total | 28,674,421 | 23,098,322 | 11,939,494 | 8,743,034 | 3,586,776 | 4,073,746 | 3,927,364 | 729,980 | (8,443,200) | (3,712,719) | 39,684,855 | 32,932,363 |
| **Segment results** | 902,571 | 526,672 | 158,710 | (811) | 72,903 | 101,739 | 87,200 | 12,639 | - | - | 1,221,384 | 640,239 |
| Bank interest income | | | | | | | | | | | 126,992 | 79,247 |
| Corporate income/(expenses), net | | | | | | | | | | | (62,317) | 163,369 |
| Finance costs | | | | | | | | | | | (278,296) | (289,411) |
| Share of profits and losses of: | | | | | | | | | | | | |
| Jointly-controlled entities | - | (446) | 4,184 | (2,438) | - | - | - | - | - | - | 4,184 | (2,884) |
| Associates | (31,506) | 13,296 | - | - | 2 | - | 13,802 | 9,033 | - | - | (17,702) | 22,329 |
| Profit before tax | | | | | | | | | | | 994,245 | 612,889 |
| Income tax expense | | | | | | | | | | | (72,708) | (151,448) |
| Profit for the year | | | | | | | | | | | 921,537 | 461,441 |
| **Other segment information:** | | | | | | | | | | | | |
| Depreciation and amortisation | 139,723 | 145,938 | 34,747 | 46,591 | 12,494 | 13,540 | 117,951 | 616 | - | - | 304,915 | 206,685 |
| Impairment recognised in profit or loss | 18,573 | 120 | 1,965 | 3,626 | - | - | 10,693 | - | - | - | 31,231 | 3,746 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### GEOGRAPHICAL INFORMATION

### GROUP

| | PRC | | Europe | | North America | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue from external customers | 23,526,775 | 19,720,395 | 2,274,474 | 1,637,019 | 513,623 | 554,881 | 13,369,983 | 11,020,068 | 39,684,855 | 32,932,363 |
| Non-current assets | 2,595,877 | 1,358,576 | 176,131 | 186,801 | 140,670 | 158,507 | 14,845 | 49,880 | 2,927,523 | 1,753,764 |

The revenue information above is based on the locations of the customers. The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

### INFORMATION ABOUT A MAJOR CUSTOMER

Revenue of approximately HK$2,335,299,000 (2011: HK$1,846,299,000) was derived from sales by the Television – PRC market segment to a single customer.

## 5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | GROUP | |
|---|---|---|
| | 2012 | 2011 |
| | HK$'000 | HK$'000 |
| Interest on: | | |
| Bank loans and overdrafts | 209,027 | 227,158 |
| Loans from TCL Corporation | 48,579 | 36,494 |
| Loans from T.C.L. Industries | 15,069 | 15,496 |
| Loan from an associate | 5,621 | 10,263 |
| Total | 278,296 | 289,411 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 7. PROFIT BEFORE TAX

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

| | GROUP | |
|---|---|---|
| | 2012 | 2011 |
| | HK$'000 | HK$'000 |
| Cost of inventories sold | 32,967,976 | 27,522,923 |
| Depreciation (note 14) | 300,746 | 203,617 |
| Research and development costs | 520,517 | 328,660 |
| Less: Government grants released* | (42,511) | (47,730) |
| | 478,006 | 280,930 |
| Amortisation of other intangible assets (note 17) | 174 | 408 |
| Amortisation of prepaid land lease payments (note 15) | 3,995 | 2,660 |
| Minimum lease payments under operating leases in respect of land and buildings | 102,637 | 100,481 |
| Auditors' remuneration | 19,480 | 17,831 |
| Employee benefit expense (including directors' remuneration (note 8)): | | |
| Wages and salaries | 2,165,697 | 1,627,825 |
| Equity-settled share option expense | 21,547 | 14,351 |
| Equity-settled Award Scheme expense | 632 | – |
| Defined contribution expense | 171,091 | 134,798 |
| Defined benefit expense (note 33) | 549 | 232 |
| | 2,359,516 | 1,777,206 |
| Foreign exchange differences, net | (19,056) | (21,299) |
| Impairment of items of property, plant and equipment (note 14)** | 31,231 | 3,746 |
| Impairment of trade receivables (note 23)** | 14,383 | 21,194 |
| Write-down of inventories to net realisable value | 192,521 | 51,504 |
| Product warranty provision (note 31): | | |
| Additional provision | 144,403 | 106,044 |
| Reversal of unutilised provision | (9,679) | (50,695) |
| | 134,724 | 55,349 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 7. PROFIT BEFORE TAX (CONTINUED)

| | Group 2012 HK$'000 | Group 2011 HK$'000 |
|---|---|---|
| Fair value gains on derivative financial instruments, net | | |
| – transactions not qualifying as hedges | **(19,830)** | (10,728) |
| Realised gains on settlement of derivative financial instruments | **(76,224)** | (253) |
| Rental income, net | **(41,670)** | (3,518) |
| Bank interest income | **(126,992)** | (79,247) |
| Government grants*** | **(61,652)** | (40,548) |
| Loss/(gain) on disposal of items of property, plant and equipment | | |
| and the associated prepaid land lease payments, net** | **2,156** | (42,444) |
| Gain on bargain purchase of subsidiaries | | |
| (note 36(a)(i),(ii)) | **(144,627)** | – |
| Gain on disposal of a subsidiary (note 36(c)) | **–** | (231,696) |
| Loss/(gain) on liquidation of subsidiaries, net (note 36(d))** | **3,460** | (12,434) |
| Gain on liquidation of a jointly-controlled entity | **–** | (23,828) |
| Provision for litigation** | **–** | 31,563 |
| Restructuring costs**: | | |
| Additional provision | **–** | 1,233 |
| Reversal of unutilised provision | **–** | (1,199) |
| | **–** | 34 |

Notes:

* Certain government grants have been received for research activities in the PRC. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

** These expenses are included in "Other operating expenses" on the face of the consolidated statement of comprehensive income.

*** Certain government grants have been received for the enhancement of technologies applied in certain of the Group's production lines in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Fees | **1,950** | 2,025 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **3,717** | 3,576 |
| Discretionary bonuses | **6,333** | 2,608 |
| Equity-settled share option benefits | **8,648** | 6,731 |
| Pension scheme contributions | **196** | 182 |
| | **18,894** | 13,097 |
| | **20,844** | 15,122 |

### (a) INDEPENDENT NON-EXECUTIVE DIRECTORS

The remuneration paid to independent non-executive directors during the year was as follows:

| | 2012 | | | | 2011 | | |
|---|---|---|---|---|---|---|---|
| | Fees HK$'000 | Equity-settled share option benefits HK$'000 | Discretionary bonuses HK$'000 | Total remuneration HK$'000 | Fees HK$'000 | Equity-settled share option benefits HK$'000 | Total remuneration HK$'000 |
| Mr. TANG Guliang | **300** | **178** | **133** | **611** | 300 | 89 | 389 |
| Mr. Robert Maarten WESTERHOF | **300** | **178** | **133** | **611** | 300 | 89 | 389 |
| Ms. WU Shihong | **300** | **178** | **133** | **611** | 300 | 89 | 389 |
| Dr. TSENG Shieng-chang Carter (note (i)) | **-** | **-** | **-** | **-** | - | - | - |
| | **900** | **534** | **399** | **1,833** | 900 | 267 | 1,167 |

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

## 8. DIRECTORS' REMUNERATION (CONTINUED)

### (b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

The remuneration paid to executive directors and non-executive directors during the year was as follows:

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary performance related bonuses HK$'000 | Equity-settled share option benefits HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| **Executive directors:** | | | | | | |
| Mr. LI Dongsheng | 120 | 650 | 2,140 | 2,362 | - | 5,272 |
| Mr. BO Lianming | 120 | - | 430 | 758 | - | 1,308 |
| Mr. ZHAO Zhongyao | 120 | 2,161 | 2,183 | 3,743 | 71 | 8,278 |
| Mr. YU Guanghui | 120 | 906 | 296 | - | 125 | 1,447 |
| Ms. XU Fang | 120 | - | 483 | 599 | - | 1,202 |
| | 600 | 3,717 | 5,532 | 7,462 | 196 | 17,507 |
| **Non-executive directors:** | | | | | | |
| Mr. Albert Thomas DA ROSA, Junior | 225 | - | 133 | 178 | - | 536 |
| Mr. HUANG Xubin | 225 | - | 269 | 474 | - | 968 |
| | 450 | - | 402 | 652 | - | 1,504 |
| | 1,050 | 3,717 | 5,934 | 8,114 | 196 | 19,011 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 8. DIRECTORS' REMUNERATION (CONTINUED)

### (b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS (CONTINUED)

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary performance related bonuses HK$'000 | Equity-settled share option benefits HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| **Executive directors:** | | | | | | |
| Mr. LI Dongsheng | 120 | 650 | – | 1,241 | – | 2,011 |
| Mr. BO Lianming | 120 | – | – | 386 | – | 506 |
| Mr. ZHAO Zhongyao | 120 | 1,888 | 1,903 | 4,001 | 70 | 7,982 |
| Mr. YU Guanghui | 120 | 858 | 705 | 31 | 112 | 1,826 |
| Ms. XU Fang | 120 | – | – | 470 | – | 590 |
| | 600 | 3,396 | 2,608 | 6,129 | 182 | 12,915 |
| **Non-executive directors:** | | | | | | |
| Mr. Albert Thomas DA ROSA, Junior | 225 | – | – | 89 | – | 314 |
| Mr. HUANG Xubin | 225 | – | – | 246 | – | 471 |
| Mr. LEONG Yue Wing (note (ii)) | 75 | 180 | – | – | – | 255 |
| | 525 | 180 | – | 335 | – | 1,040 |
| | 1,125 | 3,576 | 2,608 | 6,464 | 182 | 13,955 |

Notes:

(i) Dr. TSENG Shieng-chang Carter was appointed as an independent non-executive director of the Company with effect from 1 July 2011. Dr. TSENG Shieng-chang Carter agreed to waive his director's remuneration for the year ended 31 December 2012 of HK$300,000 (2011: HK$150,000), and such remuneration was donated to a charitable fund held by the Company.

(ii) Mr. LEONG Yue Wing has resigned as a non-executive director of the Company with effect from 30 June 2011.

Save as disclosed in note (i) above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2011: one), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2011: four) non-directors, highest paid employees for the year are as follows:

| | GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **6,072** | 6,654 |
| Discretionary performance related bonuses | **3,505** | 5,714 |
| Equity-settled share option benefits | **3,307** | 2,450 |
| Pension scheme contributions | **1,822** | 2,051 |
| | **14,706** | 16,869 |

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

| | Number of employees | |
|---|---|---|
| | **2012** | 2011 |
| HK$2,500,001 to HK$3,000,000 | **–** | 1 |
| HK$3,000,001 to HK$3,500,000 | **1** | – |
| HK$3,500,001 to HK$4,000,000 | **–** | 1 |
| HK$4,000,001 to HK$4,500,000 | **–** | 1 |
| HK$4,500,001 to HK$5,500,000 | **1** | – |
| HK$5,500,001 to HK$6,000,000 | **–** | 1 |
| HK$6,000,001 to HK$6,500,000 | **1** | – |
| | **3** | 4 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | 13,502 | 10,438 |
| Underprovision/(overprovision) in prior years | (7,793) | 2,174 |
| Current – Elsewhere | | |
| Charge for the year | 196,744 | 153,033 |
| Underprovision/(overprovision) in prior years | (24,384) | 2,323 |
| Deferred (note 32) | (105,361) | (16,520) |
| Total tax charge for the year | 72,708 | 151,448 |

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Profit before tax | 994,245 | 612,889 |
| Tax at the statutory/applicable tax rates of different countries/jurisdictions | 217,279 | 151,480 |
| Lower tax rates for specific provinces or enacted by local authority | (79,213) | (3,701) |
| Adjustments in respect of current tax of previous periods | (32,177) | 4,497 |
| Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries | 16,895 | – |
| Profits and losses attributable to jointly-controlled entities and associates | 3,380 | (4,861) |
| Income not subject to tax | (86,908) | (29,995) |
| Income subject to other taxes | – | (38,230) |
| Expenses not deductible for tax | 93,873 | 79,987 |
| Tax losses utilised from previous periods | (105,101) | (79,148) |
| Tax losses not recognised | 45,956 | 70,152 |
| Others | (1,276) | 1,267 |
| Tax charge at the Group's effective rate | 72,708 | 151,448 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 10. INCOME TAX EXPENSE (CONTINUED)

The share of tax attributable to a jointly-controlled entity and associates amounting to HK$368,000 (2011: HK$1,239,000) and HK$6,160,000 (2011: HK$7,521,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" in profit or loss of the consolidated statement of comprehensive income.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries enjoy income tax exemptions and reductions are subject to income taxes at tax rates ranging from 12.5% to 25%.

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of HK$55,308,000 (2011: HK$95,197,000) which has been dealt with in the financial statements of the Company (note 35(b)).

## 12. DIVIDENDS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Interim dividend – HK10.00 cents (2011: Nil) per ordinary share | **132,032** | – |
| Proposed final dividend – HK14.80 cents (2011: HK16.00 cents) per ordinary share | **195,687** | 211,004 |
| | **327,719** | 211,004 |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in basic and diluted earnings per share calculations | **910,916** | 452,600 |

| | Number of shares<br>2012 | <br>2011 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **1,307,869,318** | 1,082,760,047 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Assumed issue at no consideration on deemed exercise of all share options outstanding during the year | **11,776,472** | 1,279,496 |
| Weighted average number of ordinary shares in issue during the year used in diluted earnings per share calculation | **1,319,645,790** | 1,084,039,543 |

# NOTES TO FINANCIAL STATEMENTS
31 December 2012

## 14. PROPERTY, PLANT AND EQUIPMENT

### GROUP

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | |
| At 31 December 2011 and at 1 January 2012: | | | | | | | |
| Cost | 1,041,750 | 110,354 | 1,091,750 | 336,514 | 46,984 | 16,300 | 2,643,652 |
| Accumulated depreciation and impairment | (214,929) | (84,409) | (659,716) | (294,796) | (34,869) | (12,472) | (1,301,191) |
| Net carrying amount | 826,821 | 25,945 | 432,034 | 41,718 | 12,115 | 3,828 | 1,342,461 |
| At 1 January 2012, net of accumulated depreciation and impairment | 826,821 | 25,945 | 432,034 | 41,718 | 12,115 | 3,828 | 1,342,461 |
| Additions | 349,120 | 34,451 | 88,135 | 61,075 | 12,382 | 276,848 | 822,011 |
| Acquisition of subsidiaries (note 36(a)(i),(ii)) | 206,558 | 79,304 | 365,724 | 23,060 | 1,161 | 1,672 | 677,479 |
| Disposals | (238) | (1,506) | (20,925) | (464) | (1,927) | (2,025) | (27,085) |
| Depreciation provided during the year | (59,782) | (44,983) | (129,981) | (59,874) | (6,126) | - | (300,746) |
| Impairment | - | - | (27,667) | (3,564) | - | - | (31,231) |
| Transfers | 74,411 | 2,013 | 570 | 600 | - | (77,594) | - |
| Exchange realignment | 706 | (24) | (219) | (85) | 37 | 724 | 1,139 |
| At 31 December 2012, net of accumulated depreciation and impairment | 1,397,596 | 95,200 | 707,671 | 62,466 | 17,642 | 203,453 | 2,484,028 |
| At 31 December 2012: | | | | | | | |
| Cost | 1,703,060 | 263,711 | 1,629,543 | 410,479 | 53,551 | 215,925 | 4,276,269 |
| Accumulated depreciation and impairment | (305,464) | (168,511) | (921,872) | (348,013) | (35,909) | (12,472) | (1,792,241) |
| Net carrying amount | 1,397,596 | 95,200 | 707,671 | 62,466 | 17,642 | 203,453 | 2,484,028 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### GROUP (CONTINUED)

| | Land and buildings HK$'000 | Leasehold improve-ments HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | |
| At 1 January 2011: | | | | | | | |
| Cost | 1,064,684 | 119,765 | 1,129,088 | 369,534 | 53,891 | 41,725 | 2,778,687 |
| Accumulated depreciation and impairment | (210,061) | (95,349) | (589,361) | (339,842) | (33,784) | (12,469) | (1,280,866) |
| Net carrying amount | 854,623 | 24,416 | 539,727 | 29,692 | 20,107 | 29,256 | 1,497,821 |
| At 1 January 2011, net of accumulated depreciation and impairment | 854,623 | 24,416 | 539,727 | 29,692 | 20,107 | 29,256 | 1,497,821 |
| Additions | 4,177 | 4,083 | 2,514 | 38,418 | 3,386 | 23,443 | 76,021 |
| Disposals | (3,445) | (3,087) | (18,796) | (3) | (7,328) | (15,898) | (48,557) |
| Disposal of a subsidiary (note 36(c)) | (20,831) | (1,303) | (223) | (693) | - | - | (23,050) |
| Depreciation provided during the year | (48,953) | (5,718) | (105,667) | (38,326) | (4,953) | - | (203,617) |
| Impairment | (10) | - | (3,372) | (364) | - | - | (3,746) |
| Transfers | 17,653 | 6,958 | 1,701 | 6,666 | 227 | (33,205) | - |
| Exchange realignment | 23,607 | 596 | 16,150 | 6,328 | 676 | 232 | 47,589 |
| At 31 December 2011, net of accumulated depreciation and impairment | 826,821 | 25,945 | 432,034 | 41,718 | 12,115 | 3,828 | 1,342,461 |
| At 31 December 2011: | | | | | | | |
| Cost | 1,041,750 | 110,354 | 1,091,750 | 336,514 | 46,984 | 16,300 | 2,643,652 |
| Accumulated depreciation and impairment | (214,929) | (84,409) | (659,716) | (294,796) | (34,869) | (12,472) | (1,301,191) |
| Net carrying amount | 826,821 | 25,945 | 432,034 | 41,718 | 12,115 | 3,828 | 1,342,461 |

Note: As at 31 December 2012, whilst the application was in progress, the certificate of ownership with respect to certain buildings of the Group with an aggregate carrying amount of approximately HK$222,082,000 (2011: Nil) had not been issued by the relevant government authorities.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's land and buildings are situated in the PRC and elsewhere and are held under the following lease terms:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Freehold | 274,883 | 285,056 |
| Short term leases | 121,059 | 116,574 |
| Medium term leases | 1,001,654 | 425,191 |
| | 1,397,596 | 826,821 |

At 31 December 2011, certain of the Group's buildings and plant and machinery with net carrying amounts of approximately HK$249,162,000 and HK$100,917,000, respectively, were pledged to secure the bank loans granted to the Group (note 30).

## 15. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | 2012<br>HK$'000 | 2011<br>HK$'000 |
| Carrying amount at 1 January | 88,699 | 108,258 |
| Additions | 4,548 | – |
| Acquisition of subsidiaries (note 36(a)(i)) | 52,972 | – |
| Acquisition of a subsidiary that is not a business (note 36(b)) | 7,065 | – |
| Disposals | – | (21,284) |
| Amortised during the year | (3,995) | (2,660) |
| Exchange realignment | 34 | 4,385 |
| Carrying amount at 31 December | 149,323 | 88,699 |
| Current portion included in other receivables (note 25) | (3,057) | (1,623) |
| Non-current portion | 146,266 | 87,076 |

Note: As at 31 December 2012, whilst the application was in progress, the certificate of ownership with respect to certain prepaid land lease payments of the Group with an aggregate carrying amount of HK$4,548,000 (2011: Nil) had not been issued by the relevant government authorities.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 15. PREPAID LAND LEASE PAYMENTS (CONTINUED)

The Group's leasehold land is situated in the PRC and is held under the following lease terms:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Short term leases | 27,515 | 14,606 |
| Medium term leases | 121,808 | 74,093 |
| | 149,323 | 88,699 |

At 31 December 2011, certain of the Group's prepaid land lease payments with a net carrying amount of approximately HK$23,566,000 were pledged to secure the bank loans granted to the Group (note 30).

## 16. GOODWILL

| | Group | |
|---|---|---|
| | 2012<br>HK$'000 | 2011<br>HK$'000 |
| Cost and carrying amount at 1 January and 31 December | 119,638 | 119,638 |

### IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations has been allocated to the PRC television products cash-generating unit for impairment testing.

The recoverable amount of the PRC television products cash-generating unit has been 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 cash flow projections is 12% (2011: 10%).

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rate used is before tax and reflects specific risks relating to the unit.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 17. OTHER INTANGIBLE ASSETS

### GROUP

| | Patents and licences HK$'000 | Trademarks HK$'000 | Total HK$'000 |
|---|---|---|---|
| **31 December 2012** | | | |
| Cost at 1 January 2012, net of accumulated amortisation and impairment | – | 594 | 594 |
| Amortisation provided during the year | – | (174) | (174) |
| Exchange realignment | – | (1) | (1) |
| At 31 December 2012 | – | 419 | 419 |
| At 31 December 2012: | | | |
| Cost | 32,363 | 59,310 | 91,673 |
| Accumulated amortisation and impairment | (32,363) | (58,891) | (91,254) |
| Net carrying amount | – | 419 | 419 |
| 31 December 2011 | | | |
| Cost at 1 January 2011, net of accumulated amortisation and impairment | – | 965 | 965 |
| Amortisation provided during the year | – | (408) | (408) |
| Exchange realignment | – | 37 | 37 |
| At 31 December 2011 | – | 594 | 594 |
| At 31 December 2011 and at 1 January 2012: | | | |
| Cost | 32,361 | 59,309 | 91,670 |
| Accumulated amortisation and impairment | (32,361) | (58,715) | (91,076) |
| Net carrying amount | – | 594 | 594 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 18. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **4,164,481** | 3,435,297 |
| Due from subsidiaries | **2,180,721** | 2,322,061 |
| Capital contribution in respect of employee share-based compensation | **72,616** | 57,782 |
| | **6,417,818** | 5,815,140 |
| Provision for impairment | **(2,883,541)** | (2,883,541) |
| | **3,534,277** | 2,931,599 |
| Less: Portion of amounts due from subsidiaries classified as current assets | **(2,031,075)** | (2,112,693) |
| | **1,503,202** | 818,906 |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for certain balances due from subsidiaries totalling HK$2,031,075,000 (2011: HK$2,112,693,000) which are repayable on demand.

The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ paid-up capital | % of equity attributable to the Company 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| Guangzhou Digital Rowa Technology Co., Ltd.** | PRC | RMB120,000,000 | 70 | 70 | Manufacture of television products |
| Inner Mongolia TCL King Electrical Appliance Company Limited** | PRC | RMB88,130,825 | 100 | 100 | Manufacture of television products |
| Manufacturas Avanzadas, S.A. de. C.V. | Mexico | US$15,866,637 | 100 | 100 | Manufacture of television products |
| TTE Corporation@ | British Virgin Islands/ Hong Kong | US$10,000 | 100 | 100 | Investment holding |
| Shenzhen TCL New Technology Company Limited** | PRC | RMB10,608,600 | 100 | 100 | Manufacture and sale of television products |
| TCL (Vietnam) Corporation Limited | Vietnam | VND37,135,000,000 | 100 | 100 | Manufacture and sale of television products |
| TCL Electrical Appliance Sales Co., Ltd.** | PRC | RMB30,000,000 | 100 | 100 | Operation of a distribution network in the PRC |
| TCL Electronics (HK) Limited | Hong Kong | HK$30,000,000 | 100 | 100 | Trading of television products and components |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ paid-up capital | % of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | 2012 | 2011 | |
| TCL Electronics (Thailand) Co. Limited | Thailand | THB255,000,000 | 100 | 100 | Trading of television products and components |
| TCL Holdings (BVI) Limited | British Virgin Islands/ Hong Kong | US$25,000 | 100 | 100 | Investment holding |
| TCL Belgium S.A. | Belgium | EUR61,500 | 100 | 100 | Investment holding |
| TCL International Electronics (BVI) Limited@ | British Virgin Islands/ Hong Kong | US$1 | 100 | 100 | Investment holding |
| TTE (North America) Holdings Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | 100 | Investment holding |
| TCL Information Technology Industrial (Group) Co., Ltd.@ | British Virgin Islands/ Hong Kong | US$4,500,000 | 100 | 100 | Investment holding |
| TCL King Electrical Appliances (Chengdu) Company Limited** | PRC | RMB100,880,000 | 100 | 100 | Manufacture of television products |
| TCL King Electrical Appliances (Huhehaote) Company Limited** | PRC | RMB21,400,000 | 100 | 100 | Manufacture of television products |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ paid-up capital | % of equity attributable to the Company 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| TCL King Electrical Appliances (Huizhou) Company Limited* | PRC | RMB485,863,120 | **100** | 100 | Manufacture and sale of television products and trading of components |
| TCL King Electrical Appliances (Nanchang) Company Limited** | PRC | RMB21,400,000 | **100** | 100 | Manufacture of television products |
| TCL King Electrical Appliances (Wuxi) Company Limited** | PRC | RMB78,835,125 | **70** | 70 | Manufacture of television products |
| TCL OEM Sales Limited# | Hong Kong | HK$2 | **80** | 100 | Trading of audio-visual products and components |
| TCL Overseas Consumer Electronics Limited | Hong Kong | HK$100 | **100** | 100 | Trading of television products and components |
| TCL Overseas Electronics (Huizhou) Limited* | PRC | RMB106,819,156 | **100** | 100 | Manufacture of television products |
| TCL Overseas Holdings Limited | British Virgin Islands/ Hong Kong | US$1 | **100** | 100 | Investment holding |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ paid-up capital | % of equity attributable to the Company 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| TCL Overseas Marketing Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | 100 | Trading of television products and components |
| TCL Technoly Electronics (Huizhou) Co., Ltd.*/# | PRC | RMB76,000,000 | 80 | 100 | Manufacture and sale of audio-visual products |
| TTE Technology Canada Limited | Canada | CAD13,000,000 | 100 | 100 | Trading of television products and components |
| TTE Technology Inc. | USA | US$75,954,000 | 100 | 100 | Trading of television products and components |
| TCL Overseas Marketing (Macao Commercial Offshore) Limited | Macao | MOP100,000 | 100 | 100 | Trading of television products and components |
| TCL Operations Polska SP. ZO.O. | Poland | PLN126,716,500 | 100 | 100 | Manufacture of television products |
| TCL Technology (HK) Company Limited# | Hong Kong | HK$50,000,000 | 80 | 100 | Trading of audio-visual products and components |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ paid-up capital | % of equity attributable to the Company 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| TCL Optoelectronics Technology (Huizhou) Co., Ltd.@ | PRC | RMB576,000,000 | 100 | – | Manufacture and sale of television products and trading of components |
| Huizhou TCL Coretronic Co., Ltd. | PRC | RMB32,000,000 | 100 | – | Manufacture of television components |
| Guangdong Regency Optics-Electron Corp. | PRC | RMB50,000,000 | 48 | – | Manufacture of audio-visual components |

@ Direct subsidiaries of the Company

# 20% equity interest of the intermediate holding company of these subsidiaries were disposed by the Group during the year

* Registered as wholly-foreign-owned enterprises under the PRC law

** Registered as Sino-foreign joint ventures 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

| | Group 2012 HK$'000 | Group 2011 HK$'000 |
|---|---|---|
| Share of net assets | **11,574** | 6,840 |

The Group's trade receivables due from a jointly-controlled entity are disclosed in note 23 to the financial statements.

Particulars of the jointly-controlled entity indirectly held by the Company are as follows:

| Name | Particulars of issued shares/ registered capital | Place of incorporation/ registration and operations | Percentage of: Ownership interest | Voting power | Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| TCL Sun, Inc. | Ordinary shares of PHP100 each | Philippines | 50 | 50 | 50 | Trading of television products |

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

Share of the jointly-controlled entity's assets and liabilities:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Current assets | **27,090** | 32,378 |
| Non-current assets | **932** | 858 |
| Current liabilities | **(16,448)** | (26,396) |
| Net assets | **11,574** | 6,840 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (CONTINUED)

Share of the jointly-controlled entity's results:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Turnover | **84,732** | 85,920 |
| Other revenue | **1,323** | 59 |
| | **86,055** | 85,979 |
| Total expenses | **(81,503)** | (87,624) |
| Income tax expense | **(368)** | (1,239) |
| Profit/(loss) after tax | **4,184** | (2,884) |

## 20. INVESTMENTS IN ASSOCIATES

| | Group | |
|---|---|---|
| | 2012<br>HK$'000 | 2011<br>HK$'000 |
| Share of net assets | **158,921** | 190,478 |

The Group's trade receivables, other receivables, trade payables and other payables due from/to the associates are disclosed in notes 23, 25, 28 and 29 to the financial statements, respectively.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 20. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the associates are as follows:

| Name | Particulars of registered capital | Place of registration and operations | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| TCL Finance Co., Ltd. ("TCL Finance") | RMB500,000,000 | PRC | 14 | Provision of financial services |
| Guangdong Yijiatong Technical Development of Digital Home Co., Ltd. | RMB10,000,000 | PRC | 20 | Provision of technical services |
| Toshiba Visual Products (China) Co., Ltd. | RMB50,000,000 | PRC | 49 | Trading of television products and components |
| Huizhou Bri-King Optronics Co., Ltd. | US$12,000,000 | PRC | 49 | Manufacture and sale of television products and components |
| Beijing Optical Consulting Co., Ltd. ("BOC") | RMB900,000 | PRC | 26.4 | Provision of advisory services |

The Group's shareholdings in the associates are all held through indirect wholly-owned subsidiaries of the Company, except BOC, which is held through an indirect non-wholly owned subsidiary of the Company.

Although the Group holds less than 20% of the voting power of TCL Finance, in the opinion of the directors, the Group is in a position to exercise significant influence over TCL Finance through its representation on the board of directors and its participation in policy-making processes of TCL Finance.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 20. INVESTMENTS IN ASSOCIATES (CONTINUED)

All the above associates have been accounted for using the equity method in these financial statements and their financial year end is coterminous with that of the Group.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Assets | 7,484,254 | 8,223,119 |
| Liabilities | 6,656,531 | 7,302,837 |
| Revenue | 1,056,850 | 3,005,578 |
| Profit | 34,387 | 91,974 |

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | |
|---|---|---|
| | 2012<br>HK$'000 | 2011<br>HK$'000 |
| Unlisted equity investments, at cost | 8,359 | 8,359 |
| Provision for impairment | (1,682) | (1,682) |
| | 6,677 | 6,677 |

The Group's available-for-sale investments represent investments in unlisted equity securities in the PRC. In the opinion of the directors, the fair value of these unlisted equity investments cannot be reliably measured because (a) these investments do not have quoted market prices in an active market; (b) the range of reasonable fair value estimates is significant for these investments; and (c) the probabilities of the various estimates cannot be reasonably assessed and used in estimating fair value. As such, all these unlisted equity securities are stated at cost less any impairment losses.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 22. INVENTORIES

| | Group 2012 HK$'000 | Group 2011 HK$'000 |
|---|---|---|
| Raw materials | 2,061,988 | 1,503,545 |
| Work in progress | 243,575 | 461,464 |
| Finished goods | 4,426,388 | 2,333,375 |
| | 6,731,951 | 4,298,384 |

## 23. TRADE RECEIVABLES

| | Note | Group 2012 HK$'000 | Group 2011 HK$'000 |
|---|---|---|---|
| Due from third parties | | 3,018,240 | 2,813,373 |
| Provision for impairment | | (216,885) | (215,042) |
| | | 2,801,355 | 2,598,331 |
| Due from related parties: | | | |
| Companies controlled by TCL Corporation | 26 | 1,107,501 | 431,929 |
| Associates of TCL Corporation | 26 | 2,965 | 2,943 |
| Jointly-controlled entity | 26 | 25,344 | 47,327 |
| Associates | 26 | 400,974 | 714,484 |
| | | 1,536,784 | 1,196,683 |
| | | 4,338,139 | 3,795,014 |

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 23. TRADE RECEIVABLES (CONTINUED)

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

| | Group 2012 HK$'000 | Group 2011 HK$'000 |
|---|---|---|
| Current to 90 days | 3,855,007 | 3,681,453 |
| 91 to 180 days | 433,945 | 65,611 |
| 181 to 365 days | 40,491 | 25,846 |
| Over 365 days | 8,696 | 22,104 |
| | 4,338,139 | 3,795,014 |

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

| | Group 2012 HK$'000 | Group 2011 HK$'000 |
|---|---|---|
| At 1 January | 215,042 | 242,455 |
| Impairment losses recognised | 14,383 | 21,194 |
| Amount written off as uncollectible | (9,603) | (33,547) |
| Exchange realignment | (2,937) | (15,060) |
| At 31 December | 216,885 | 215,042 |

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 23. TRADE RECEIVABLES (CONTINUED)

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **3,699,306** | 3,156,689 |
| Less than 91 days past due | **618,086** | 596,028 |
| 91 – 180 days past due | **2,037** | 19,147 |
| Over 180 days past due | **18,710** | 23,150 |
| | **4,338,139** | 3,795,014 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were 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 Company 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.

Certain subsidiaries of the Group have entered into receivables purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 31 December 2012, trade receivables factored to banks aggregated to HK$519,070,000 were fully derecognised (2011: trade receivables factored to banks aggregated to HK$307,570,000 of which HK$233,523,000 were derecognised) from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

The remaining balance of HK$74,047,000 as at 31 December 2011 was included in the balance of trade receivables (the "Recognised Factored Receivables") because the derecognition criteria for financial assets were not met. Accordingly, the advances from a bank of approximately HK$74,047,000 received by the Group as consideration for the Recognised Factored Receivables at 31 December 2011 were recognised as liabilities and included in "interest-bearing bank and other borrowings" (note 30).

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 24. BILLS RECEIVABLE

At 31 December 2012, certain bills receivable of the Group with an aggregate amount of HK$246,640,000 (2011: HK$246,609,000) were pledged as securities for the Group's bank loans (note 30). In addition, certain bills receivable with an aggregate amount of HK$88,050,000 and certain time deposits (note 27) were pledged as securities for the Group's bills payable amounting to HK$804,045,000 (2011: Nil).

## 25. OTHER RECEIVABLES

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| | Notes | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Prepayments and deposits | | 417,653 | 568,893 | 1,054 | 889 |
| Other receivables | | 1,902,644 | 1,292,506 | 61,841 | 49,858 |
| Prepaid land lease payments | 15 | 3,057 | 1,623 | – | – |
| Prepaid royalties | | 7,916 | 10,916 | – | – |
| Derivative financial instruments | (a) | 72,394 | 35,473 | – | – |
| Due from companies controlled by TCL Corporation | 26 | 19,559 | 13,992 | 19 | 72 |
| Due from associates of TCL Corporation | 26 | 71,949 | 7,021 | – | – |
| Due from an associate | 26 | 7,075 | – | – | – |
| | | 2,502,247 | 1,930,424 | 62,914 | 50,819 |

Note:

(a) (i) Forward currency contract – cash flow hedge

The Group's forward currency contract is designated as a hedging instrument in respect of forecast future sales in Euro to which the Group has firm commitments. The forward currency contract balance varies with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

The terms of the forward currency contract match the terms of the commitments. The cash flow hedge relating to expected future sales in January 2013 was assessed to be highly effective and a net loss of HK$94,000 was included in the hedging reserve.

(ii) For non-hedging currency derivatives

In addition, the Group has entered into various forward exchange contracts and interest rate swaps to manage its exchange rate exposures and interest rate exposures, respectively. They are not designated for hedge purposes and are measured at fair value through profit or loss. A net gain of HK$19,830,000 (2011: HK$10,728,000) as a result of changes in the fair value of these non-hedging derivative financial contracts was recognised in profit or loss of the consolidated statement of comprehensive income for the year ended 31 December 2012.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to the receivables for which there was no recent history of default.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 26. DUE FROM/TO TCL CORPORATION/COMPANIES CONTROLLED BY TCL CORPORATION/ASSOCIATES OF TCL CORPORATION/T.C.L. INDUSTRIES/A JOINTLY-CONTROLLED ENTITY/ASSOCIATES

The amounts are unsecured, repayable within one year and interest-free, except for an aggregate amount of HK$131,978,000 due to TCL Corporation and an aggregate amount of HK$971,163,000 due to T.C.L. Industries as at 31 December 2011 which bore interest at a fixed rate of 7.63% per annum and fixed rates ranging from 2.28% to 6.00% per annum, respectively.

## 27. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

At 31 December 2012, certain time deposits of the Group of HK$106,486,000 (2011: HK$255,770,000) were pledged as securities for the Group's bank loans (note 30). In addition, the remaining time deposits of the Group of HK$719,734,000 and certain bills receivable (note 24) were pledged as securities for the Group's bills payable amounting to HK$804,045,000 (2011: Nil).

Included in the Group's cash and bank balances are deposits of HK$2,281,635,000 (2011: HK$2,060,568,000) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rates for these deposits ranged from 0.39% to 1.33% (2011: 0.36% to 1.31%) per annum, which were determined with reference to the savings rates offered by the People's Bank of China. Further details of the interest income attributable to the deposits with TCL Finance are set out in note 40 to the financial statements.

## 28. TRADE PAYABLES

| | | Group | |
|---|---|---|---|
| | | 2012 | 2011 |
| | Note | HK$'000 | HK$'000 |
| Due to third parties | | 6,537,503 | 4,894,918 |
| Due to related parties: | | | |
| Companies controlled by TCL Corporation | 26 | 2,682,750 | 1,725,606 |
| Associates of TCL Corporation | 26 | 15,254 | 3,934 |
| Associates | 26 | 27,626 | 100,910 |
| | | 2,725,630 | 1,830,450 |
| | | 9,263,133 | 6,725,368 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 28. TRADE PAYABLES (CONTINUED)

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

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | HK$'000 | HK$'000 |
| Current to 90 days | 8,940,845 | 6,604,675 |
| 91 to 180 days | 137,000 | 54,870 |
| 181 to 365 days | 125,620 | 7,354 |
| Over 365 days | 59,668 | 58,469 |
| | 9,263,133 | 6,725,368 |

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

## 29. OTHER PAYABLES AND ACCRUALS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| | Notes | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Other payables | (a) | 2,911,355 | 2,137,617 | 954 | 5,455 |
| Accruals | | 779,181 | 528,217 | 22,978 | – |
| Receipts in advance | | 1,218,435 | 858,324 | 3 | 64 |
| Derivative financial instruments | 25(a) | 19,685 | 33,760 | – | – |
| Due to TCL Corporation | (b) | 45,475 | 34,400 | – | – |
| Due to T.C.L. Industries | (b) | 219 | 15,501 | – | – |
| Due to an associate | (b) | – | 923 | – | – |
| | | 4,974,350 | 3,608,742 | 23,935 | 5,519 |

Notes:

(a) The other payables are non-interest-bearing and are expected to be settled within one year.

(b) The amounts due to TCL Corporation, T.C.L. Industries and an associate are unsecured, interest-free and repayable on demand.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 30. INTEREST-BEARING BANK AND OTHER BORROWINGS

### GROUP

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Contractual interest rate (%) | Maturity | HK$'000 | Contractual interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank loans – secured | LIBOR+1.10 | 2013 | 106,198 | 4.33/PBOC base flat rate/LIBOR +2.30 | 2012 | 606,404 |
| Bank loans – unsecured | 0.60 to 1.48/ LIBOR + (0.75 to 1.70) | 2013 | 2,156,914 | 3.12 to 4.74/ LIBOR + (1.70 to 3.05) | 2012 | 1,701,537 |
| Advances from banks as consideration for the Recognised Factored Receivables – unsecured | - | - | - | TIBOR + 0.80 | 2012 | 74,047 |
| Trust receipt loans – unsecured | LIBOR+1.60 | 2013 | 97,892 | LIBOR +(0.55 to 1.60) | 2012 | 201,352 |
| Loan from an associate – secured | 4.70 | 2013 | 246,640 | - | - | - |
| Loan from an associate – unsecured | - | - | - | 5.90 | 2012 | 40,600 |
| | | | 2,607,644 | | | 2,623,940 |
| **Non-current** | | | | | | |
| Bank loans – secured | - | - | - | PBOC base flat rate | 2013 – 2014 | 154,131 |
| Bank loans – unsecured | LIBOR+1.70 | 2014 | 402,346 | LIBOR + 1.70 | 2013 – 2014 | 556,797 |
| | | | 402,346 | | | 710,928 |
| | | | 3,009,990 | | | 3,334,868 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 30. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

### COMPANY

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Contractual interest rate (%) | Maturity | HK$'000 | Contractual interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank loans – unsecured | LIBOR + 1.70 | 2013 | 153,183 | LIBOR + 1.70 | 2012 | 59,773 |
| **Non-current** | | | | | | |
| Bank loans – unsecured | LIBOR + 1.70 | 2014 | 402,346 | LIBOR + 1.70 | 2013 – 2014 | 556,797 |
| | | | 555,529 | | | 616,570 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 HK$'000 | 2011 HK$'000 | 2012 HK$'000 | 2011 HK$'000 |
| Analysed into: | | | | |
| Bank loans repayable: | | | | |
| Within one year or on demand | 2,361,004 | 2,583,340 | 153,183 | 59,773 |
| In the second year | 402,346 | 276,837 | 402,346 | 153,533 |
| In the third to fifth years, inclusive | – | 434,091 | – | 403,264 |
| | 2,763,350 | 3,294,268 | 555,529 | 616,570 |
| Loan from an associate repayable: | | | | |
| Within one year | 246,640 | 40,600 | – | – |
| | 3,009,990 | 3,334,868 | 555,529 | 616,570 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 30. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) As at 31 December 2012, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(b) Certain of the Group's bank loans are secured by:

(i) pledge of the Group's prepaid land lease payments, buildings and plant and machinery situated in the PRC, which had aggregate carrying amounts as at 31 December 2011 of approximately HK$23,566,000, HK$249,162,000 and HK$100,917,000, respectively;

(ii) pledge of certain of the Group's time deposits amounting to HK$106,486,000 (2011: HK$255,770,000); and

(iii) pledge of certain of the Group's bills receivable amounting to HK$246,640,000 (2011: HK$246,609,000).

(c) TCL Corporation has guaranteed certain of the Group's bank loans up to HK$1,355,187,000 (2011: HK$1,799,996,000) as at the end of the reporting period.

Included in bank loans are the following amounts denominated in currencies other than the functional currencies of the entities to which they relate:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| United States dollar | **2,763,350** | 2,955,180 | **555,529** | 616,570 |
| Hong Kong dollar | **–** | 40,600 | **–** | – |

## 31. PROVISIONS

### GROUP

| | **Warranties** |
|---|---|
| | HK$'000 |
| At 1 January 2012 | 248,783 |
| Additional provision | 144,403 |
| Amount utilised during the year | (39,004) |
| Reversal of unutilised amounts | (9,679) |
| Exchange realignment | 517 |
| At 31 December 2012 | 345,020 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 31. PROVISIONS (CONTINUED)

### WARRANTIES

The Group provides warranties ranging from three months to three years to its customers on certain of its electronic products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

## 32. DEFERRED TAX

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

### DEFERRED TAX LIABILITIES

### GROUP

| | Notes | Depreciation allowance in excess of related depreciation HK$'000 | Fair value adjustments on acquisition HK$'000 | Withholding tax for dividend HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2011 | | 12,994 | – | – | 12,994 |
| Deferred tax charged to profit or loss of the consolidated statement of comprehensive income during the year | 10 | 819 | – | – | 819 |
| Exchange realignment | | (23) | – | – | (23) |
| Gross deferred tax liabilities at 31 December 2011 and 1 January 2012 | | 13,790 | – | – | 13,790 |
| Acquisition of subsidiaries | 36(a)(i),(ii) | – | 23,123 | – | 23,123 |
| Deferred tax charged/(credited) to profit or loss of the consolidated statement of comprehensive income during the year | 10 | 2,433 | (3,317) | 2,889 | 2,005 |
| Exchange realignment | | (32) | (13) | – | (45) |
| Gross deferred tax liabilities at 31 December 2012 | | 16,191 | 19,793 | 2,889 | 38,873 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 32. DEFERRED TAX (CONTINUED)

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

### DEFERRED TAX ASSETS

### GROUP

| | Note | Elimination of unrealised profits arising from intra-group transactions HK$'000 | Accruals and other provisions HK$'000 | Losses available for offsetting against future taxable profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2011 | | 18,000 | 442 | 7,294 | 25,736 |
| Deferred tax credited/(charged) to profit or loss of the consolidated statement of comprehensive income during the year | 10 | 20,000 | – | (2,661) | 17,339 |
| Exchange realignment | | – | 20 | (128) | (108) |
| Gross deferred tax assets at 31 December 2011 and 1 January 2012 | | 38,000 | 462 | 4,505 | 42,967 |
| Deferred tax credited to profit or loss of the consolidated statement of comprehensive income during the year | 10 | 35,000 | 69,808 | 2,558 | 107,366 |
| Exchange realignment | | – | 257 | 117 | 374 |
| Gross deferred tax assets at 31 December 2012 | | 73,000 | 70,527 | 7,180 | 150,707 |

The Group has tax losses of HK$3,082,262,000 (2011: HK$4,266,062,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 32. DEFERRED TAX (CONTINUED)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and a jointly-controlled entity established in the PRC in respect of earnings generated from 1 January 2008.

Except for the deferred tax liabilities of HK$2,889,000 (2011: Nil) which represents the withholding taxes for the earnings of the PRC subsidiaries to be remitted, as at 31 December 2012, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately HK$2,803,132,000 at 31 December 2012 (2011: HK$2,279,102,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 33. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group has defined benefit plans in certain locations, covering its employees. The Group also has agreed to provide certain additional post-employment healthcare benefits to employees in certain locations. These benefits are unfunded.

The following tables summarise the components of net benefit expense recognised in profit or loss of the consolidated statement of comprehensive income and the amounts recognised in the consolidated statement of financial position for the plans.

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Net benefit expense** | | |
| Current service cost | 549 | 180 |
| Interest cost on benefit obligation | – | 8 |
| Net cumulative actuarial loss recognised in profit or loss of the consolidated statement of comprehensive income | – | 44 |
| Net benefit expense | 549 | 232 |
| **Benefit liabilities** | | |
| Benefit obligation and liabilities | 6,301 | 5,917 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 33. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Movements in the benefit liabilities during the year are as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| At 1 January | 5,917 | 6,798 |
| Benefit expense (note 7) | 549 | 232 |
| Contributions | (151) | (290) |
| Exchange realignment | (14) | (823) |
| At 31 December | 6,301 | 5,917 |

The principal assumptions used in determining the pensions and post-employment benefit obligations under the Group's major plans are shown below:

| | 2012<br>% | 2011<br>% |
|---|---|---|
| Discount rate | 4.8 | 6.0 – 8.5 |
| Future salary increase rate | 2.7 | 2.8 – 10.0 |
| Healthcare cost increase rate | NIL | Nil |

## 34. SHARE CAPITAL

### SHARES

| | Company<br>2012<br>HK$'000 | <br>2011<br>HK$'000 |
|---|---|---|
| Authorised:<br>2,200,000,000 (2011: 2,200,000,000)<br>shares of HK$1.00 each (2011: HK$1.00 each) | 2,200,000 | 2,200,000 |
| Issued and fully paid:<br>1,321,002,598 (2011: 1,072,275,768)<br>shares of HK$1.00 each (2011: HK$1.00 each) | 1,321,003 | 1,072,276 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 34. SHARE CAPITAL (CONTINUED)

### SHARES (CONTINUED)

During the year, the movements in share capital and share premium account were as follows:

(a) The subscription rights attaching to 2,229,639 share options were exercised at the subscription price of HK$2.45 per share, resulting in the issue of 2,229,639 shares of HK$1.00 each for a total cash consideration of HK$5,463,000 before expenses. An amount of HK$1,787,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(b) On 27 June 2011, the Company entered into an acquisition agreement with TCL Corporation, pursuant to which the Company agreed to acquire the entire equity interest of TCL Optoelectronics Technology (Huizhou) Co., Ltd. ("TOT") and its 60% owned-subsidiary, Huizhou TCL Coretronic Co., Ltd. ("Huizhou Coretronic") (collectively the "TOT Entities") from TCL Corporation at a consideration of HK$788,791,000 by way of issuing 246,497,191 ordinary shares of the Company at an issue price of HK$3.20. The acquisition of the TOT Entities was completed on 18 January 2012 (the "Completion Date"). The purchase price was settled by the issue and allotment of 246,497,191 new shares of the Company at a market price of HK$2.59 per share on the Completion Date. Further details are set out in note 36(a)(i) to the financial statements.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital and share premium account is as follows:

| | Notes | Number of shares in issue | Issued capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2011 | | 1,086,424,827 | 1,086,425 | 3,233,686 | 4,320,111 |
| Issue of shares upon exercise of share options | | 338,941 | 339 | 766 | 1,105 |
| Shares repurchased | | (14,488,000) | (14,488) | (19,030) | (33,518) |
| At 31 December 2011 and 1 January 2012 | | 1,072,275,768 | 1,072,276 | 3,215,422 | 4,287,698 |
| Issue of shares upon exercise of share options | (a) | 2,229,639 | 2,230 | 5,020 | 7,250 |
| Issue of consideration shares | (b) | 246,497,191 | 246,497 | 391,931 | 638,428 |
| | | 1,321,002,598 | 1,321,003 | 3,612,373 | 4,933,376 |
| Dividend paid | | – | – | (331,585) | (331,585) |
| At 31 December 2012 | | 1,321,002,598 | 1,321,003 | 3,280,788 | 4,601,791 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 34. SHARE CAPITAL (CONTINUED)

### SHARE OPTIONS

The Company operates a share option scheme (the "Scheme") 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 Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, advisers, consultants, agents, contractors, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, any non-controlling shareholder in the Company's subsidiaries and any other person whom the Board at its sole discretion considers may contribute or have contributed to the Group. The Scheme became effective on 15 February 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The purpose of the Scheme is to recognise the contribution of eligible participants, to motivate them by providing incentives to them, to help the Company retain its existing full-time or part-time employees (including any executive and non-executive director or proposed executive and non-executive director) of the Company and its subsidiaries (the "Employees") and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

Pursuant to the Scheme and subject to shareholders' approval, the maximum number of shares in respect of which options may be granted under the Scheme is such number of shares representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the Scheme and any other scheme).

The maximum number of shares in respect of which options may be granted to any one participant in a 12-month period shall not exceed 1% (0.1% for connected persons) of the issued share capital of the Company. The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than ten years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of offer; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 34. SHARE CAPITAL (CONTINUED)

### SHARE OPTIONS (CONTINUED)

The following share options were outstanding under the Scheme during the year:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Weighted average exercise price per share HK$ | Number of options '000 | Weighted average exercise price per share HK$ | Number of options '000 |
| At 1 January | 3.574 | 59,087 | 4.191 | 25,364 |
| Granted during the year | – | – | 3.170 | 35,457 |
| Lapsed during the year | 6.253 | (9,859) | 4.774 | (1,395) |
| Exercised during the year | 2.450 | (2,230) | 2.450 | (339) |
| At 31 December | 3.066 | 46,998 | 3.574 | 59,087 |

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.312 per share (2011: HK$2.907 per share).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

**2012**

| Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 8,623 | 2.45 | NOTE 2 |
| 3,055 | 3.60 | NOTE 3 |
| 35,320 | 3.17 | NOTE 4 |
| 46,998 | | |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 34. SHARE CAPITAL (CONTINUED)

### SHARE OPTIONS (CONTINUED)

2011

| Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 9,738 | 6.30 | Note 1 |
| 10,974 | 2.45 | Note 2 |
| 3,055 | 3.60 | Note 3 |
| 35,320 | 3.17 | Note 4 |
| 59,087 | | |

* The exercise price of the share options is subject to adjustment in the case of rights on bonus issues, or other similar changes in the Company's share capital.

Note 1 One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third are exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

Note 2 One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third are exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 24 August 2013.

Note 3 50% of such share options are exercisable after the expiry of 6 months from the date of grant, and the remaining 50% is exercisable after the expiry of 18 months from the date of grant, up to 7 November 2015.

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

The fair value of the share options granted during the prior year was HK$57,896,000 (approximately HK$1.633 each). The fair value of equity-settled share options granted in the prior year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2011.

## 34. SHARE CAPITAL (CONTINUED)

### SHARE OPTIONS (CONTINUED)

| | 2011 |
|---|---|
| Dividend yield (%) | 1.15 per annum |
| Expected volatility (%) | 63.09 per annum |
| Risk-free interest rate (%) | 1.651 per annum |
| Expected life of options (year) | 6 |

The expected life of the options is based on the historical data over the past five years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The 2,229,639 share options exercised during the year resulted in the issue of 2,229,639 ordinary shares of the Company and new share capital of HK$2,230,000 and share premium of HK$5,020,000.

At the end of the reporting period, the Company had 46,998,272 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 46,998,272 additional ordinary shares of the Company and additional share capital of HK$46,998,000 and share premium of HK$97,091,000.

### RESTRICTED SHARE AWARD SCHEME

On 6 February 2008 (the "Adoption Date"), the Board approved a restricted share award scheme (the "Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (the "Selected Employees") in accordance with the provisions of the Award Scheme and the maximum number of the Awarded Shares awarded to the Selected Employees under the Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Pursuant to the Award Scheme, the Board shall select the Selected Employees and determine the number of shares to be awarded. The Board shall pay BOCI-Prudential Trustee Limited (the "Trustee"), the trustee engaged by the Company for the purpose of administrating the Award Scheme, the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee. The Trustee shall purchase from the market such a number of shares awarded as specified by the Board and shall hold such shares until they vest in accordance with the rules of the Award Scheme.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 34. SHARE CAPITAL (CONTINUED)

### RESTRICTED SHARE AWARD SCHEME (CONTINUED)

Upon adoption of the Award Scheme, the Board also resolved to provide a total amount not exceeding HK$50 million to the Trustee for the purchase of the Awarded Shares to be awarded to certain current employees of the Group as a recognition of their contribution to the Group and an incentive to retain them for the continual operation and development of the Group.

On 21 April 2008, the shareholders had further approved the Board to implement the Award Scheme to its full extent (i.e., to provide further funds to the Trustee in accordance with the terms of the Award Scheme for purchase of the Awarded Shares up to 10% of the issued share capital of the Company as at the Adoption Date).

The Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of five years and shall be automatically renewed for one successive five-year term unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of the Selected Employees under the Award Scheme.

The following Awarded Shares were outstanding under the Award Scheme during the year:

| | 2012<br>Number<br>of Awarded<br>Shares<br>'000 | 2011<br>Number<br>of Awarded<br>Shares<br>'000 |
|---|---|---|
| At 1 January | 44,812 | 7,904 |
| Purchased during the year (note a) | – | 36,908 |
| Awarded and vested (note b) | (255) | – |
| At 31 December | 44,557 | 44,812 |

Notes:

(a) For the year ended 31 December 2011, the Trustee purchased 36,908,000 Awarded Shares at a total cost (including related transaction costs) of HK$109,218,000. No Awarded Shares had been purchased by the Trustee for the year ended 31 December 2012.

(b) For the year ended 31 December 2012, 20,061,879 Awarded Shares were granted to certain Selected Employees as settlement of their performance bonuses for the year ended 31 December 2011. The weighted average fair value of the Awarded Shares on the date of grant was HK$2.64 per share. 254,925 Awarded Shares had been awarded and vested for the year ended 31 December 2012.

## 35. RESERVES

### (a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 96 and 97 of the financial statements.

#### (i) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

#### (ii) Capital reserve

The Group's capital reserve represented the excess of the nominal value of the shares of the subsidiaries acquired prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor as well as the difference between the amounts of consideration and the carrying values of non-controlling interests acquired or disposed of.

#### (iii) Reserve funds

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries in the PRC has been transferred to the reserve funds which are restricted to use.

#### (iv) Awarded share reserve

The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Employees at the date of award.

#### (v) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 35. RESERVES (CONTINUED)

### (b) COMPANY

| | Share premium account HK$'000 | Share option reserve[Δ] HK$'000 | Capital reserve[#] HK$'000 | Accumulated losses HK$'000 | Shares held for the Award Scheme HK$'000 | Awarded share reserve* HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2011 | 3,233,686 | 32,715 | 738,936 | (2,514,056) | (17,031) | 3,442 | 1,477,692 |
| Total comprehensive loss for the year | - | - | - | (78,529) | - | - | (78,529) |
| Shares repurchased | (19,030) | - | - | - | - | - | (19,030) |
| Equity-settled share option arrangements | - | 14,351 | - | - | - | - | 14,351 |
| Issue of shares upon exercise of share options | 766 | (275) | - | - | - | - | 491 |
| Share options lapsed during the year | - | (2,080) | - | 2,080 | - | - | - |
| Purchase of shares for the Award Scheme | - | - | - | - | (109,218) | - | (109,218) |
| At 31 December 2011 and 1 January 2012 | 3,215,422 | 44,711 | 738,936 | (2,590,505) | (126,249) | 3,442 | 1,285,757 |
| Total comprehensive income for the year | - | - | - | 344,432 | - | - | 344,432 |
| Issue of shares for acquisition of subsidiaries | 391,931 | - | - | - | - | - | 391,931 |
| Equity-settled share option arrangements | - | 21,547 | - | - | - | - | 21,547 |
| Issue of shares upon exercise of share options | 5,020 | (1,787) | - | - | - | - | 3,233 |
| Share options lapsed during the year | - | (21,969) | - | 21,969 | - | - | - |
| Vesting of shares under the Award Scheme | - | - | - | - | 718 | (86) | 632 |
| Final 2011 dividend declared | (204,033) | - | - | - | - | - | (204,033) |
| Interim 2012 dividend | (127,552) | - | - | - | - | - | (127,552) |
| At 31 December 2012 | 3,280,788 | 42,502 | 738,936 | (2,224,104) | (125,531) | 3,356 | 1,715,947 |

Δ The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

# The capital reserve arose as a result of the Group reorganisation in 1999 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

* The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Employees at the date of award.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) ACQUISITION OF SUBSIDIARIES

**Year ended 31 December 2012**

(i) On 27 June 2011, the Company entered into an acquisition agreement with TCL Corporation to acquire the TOT Entities at a consideration of HK$788,791,000 by way of issuing 246,497,191 ordinary shares of the Company at an issue price of HK$3.20. The TOT Entities are mainly engaged in the manufacture and sale of LCD modules to subsidiaries of TCL Corporation and other domestic and overseas LCD TV manufacturers.

The acquisition was completed on 18 January 2012. The purchase price was settled by the issue of 246,497,191 new shares of the Company at a market price of HK$2.59 per share on the Completion Date. The aggregate fair value of the consideration shares issued is approximately HK$638,428,000.

The aggregate fair values of the identifiable assets and liabilities of the TOT Entities as at the Completion Date are as follows:

| | Fair value recognised on acquisition HK$'000 |
|---|---|
| Property, plant and equipment | 663,215 |
| Prepaid land lease payments | 52,972 |
| Inventories | 43,780 |
| Trade receivables | 643,881 |
| Bills receivable | 56,484 |
| Other receivables | 50,806 |
| Tax recoverable | 1,424 |
| Cash and bank balances | 188,989 |
| Trade payables | (568,318) |
| Other payables and accruals | (59,397) |
| Interest-bearing bank and other borrowings | (246,105) |
| Due to TCL Corporation | (8,450) |
| Tax payables | (1,014) |
| Deferred tax liabilities | (22,717) |
| Total identifiable net assets at fair value | 795,550 |
| Non-controlling interests | (13,373) |
| | 782,177 |
| Gain on bargain purchase* (note 7) | (143,749) |
| Satisfied by shares of the Company | 638,428 |

* The gain on bargain purchase arose mainly from the change in market prices of the consideration shares issued by the Company between the date on which the sale and purchase agreement was concluded and the Completion Date.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (a) ACQUISITION OF SUBSIDIARIES (CONTINUED)

**Year ended 31 December 2012 (continued)**

(i) (continued)

Since the completion of the acquisition, the TOT Entities contributed approximately HK$2,867,985,000 to the Group's turnover and incurred a loss of approximately HK$4,625,000 to the consolidated profit for the year ended 31 December 2012.

An analysis of the cash flows in respect of the acquisition of TOT Entities is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | – |
| Cash and bank balances acquired | 188,989 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 188,989 |

(ii) On 10 December 2012, TCL Technoly Electronics (Huizhou) Co., Ltd. ("TCL Technoly (Huizhou)"), an 80% owned subsidiary of the Group, entered into a capital injection agreement with certain independent third parties to invest RMB30,000,000 (equivalent to approximately HK$36,996,000) for a 60% equity interest of the enlarged capital of Guangdong Regency Optics-Electron Corp. ("Regency Optics-Electron"). Regency Optics-Electron is mainly engaged in the manufacture and sale of audio-visual modules and light guide plates. The capital injection was completed on 25 December 2012.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (a) ACQUISITION OF SUBSIDIARIES (CONTINUED)

**Year ended 31 December 2012 (continued)**

(ii) (continued)

The aggregate fair values of the identifiable assets and liabilities of the Regency Optics-Electron as at the date of capital injection are as follows:

| | Fair value recognised on acquisition HK$'000 |
|---|---|
| Property, plant and equipment | 14,264 |
| Inventories | 28,283 |
| Trade receivables | 7,545 |
| Bills receivable | 13,879 |
| Other receivables | 45,415 |
| Cash and bank balances | 23,133 |
| Trade payables | (14,061) |
| Other payables and accruals | (54,929) |
| Deferred tax liabilities | (406) |
| Total identifiable net assets at fair value | 63,123 |
| Non-controlling interests | (25,249) |
| | 37,874 |
| Gain on bargain purchase (note 7) | (878) |
| Satisfied by cash | 36,996 |

An analysis of the cash flows in respect of the capital injection of Regency Optics-Electron is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | (36,996) |
| Cash and bank balances acquired | 23,133 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (13,863) |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (a) ACQUISITION OF SUBSIDIARIES (CONTINUED)

**Year ended 31 December 2012 (continued)**

(ii) (continued)

Since the completion of the capital injection, Regency Optics-Electron had neither contributed to the Group's turnover nor consolidated profit for the year ended 31 December 2012.

Had the capital injection taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK$39,713,753,000 and HK$923,295,000, respectively.

### (b) ACQUISITION OF A SUBSIDIARY THAT IS NOT A BUSINESS

**Year ended 31 December 2012**

On 20 January 2012, the Group entered into a share transfer agreement with Huizhou Techne Corporation ("Huizhou Techne"), a non-wholly owned subsidiary of TCL Corporation, pursuant to which the Group agreed to acquire and Huizhou Techne agreed to sell the entire equity interest in Huizhou Keda Precision Parts Co., Ltd. ("Huizhou Keda"), a wholly owned subsidiary of Huizhou Techne, at a cash consideration of RMB6,848,000 (equivalent to approximately HK$8,415,000). Huizhou Keda is principally engaged in the design and sale of LCD modules and its major asset is a piece of land located in Huizhou, the PRC. The acquisition was completed on 27 February 2012.

As Huizhou Keda had not carried out any significant business activities except for holding a piece of land, the acquisition of Huizhou Keda has been accounted for by the Group as an asset acquisition.

The net assets acquired by the Group in the above transaction are as follows:

| | HK$'000 |
|---|---|
| Net assets acquired: | |
| Prepaid land lease payments | 7,065 |
| Other receivables | 1,350 |
| Satisfied by cash | 8,415 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (b) ACQUISITION OF A SUBSIDIARY THAT IS NOT A BUSINESS (CONTINUED)

**Year ended 31 December 2012 (continued)**

An analysis of the net cash outflow of cash and cash equivalents in respect of the asset acquisition is as follows:

| | **HK$'000** |
|---|---|
| Cash consideration | **(8,415)** |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | **(8,415)** |

### (c) DISPOSAL OF A SUBSIDIARY

**Year ended 31 December 2011**

On 28 June 2011, the Group entered into a disposal agreement with an independent third party to dispose of its entire equity interest in TCL King Electronics (Shenzhen) Company Limited, a wholly-owned subsidiary of the Group, at a consideration of RMB296,628,000 (equivalent to approximately HK$359,637,000).

The disposal agreement was completed on 31 December 2011, and details of the net assets disposed of under the disposal agreement and its financial impacts are summarised below:

| | 2011<br>HK$'000 |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 23,050 |
| Cash and bank balances | 114,682 |
| Other receivables | 2,645 |
| | 140,377 |
| Release of exchange fluctuation reserve upon disposal | (36,550) |
| PRC capital gain tax arising from disposal of a subsidiary | 23,263 |
| Transaction costs | 851 |
| Gain on disposal of a subsidiary (note 7) | 231,696 |
| | 359,637 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (c) DISPOSAL OF A SUBSIDIARY (CONTINUED)

**Year ended 31 December 2011 (continued)**

| | 2011<br>HK$'000 |
|---|---|
| Satisfied by: | |
| Other receivables | 140,650 |
| Cash | 218,987 |
| | 359,637 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

| | 2011<br>HK$'000 |
|---|---|
| Cash consideration | 218,987 |
| Cash and bank balances disposed of | (114,682) |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 104,305 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (d) LIQUIDATION OF SUBSIDIARIES

**Year ended 31 December 2012**

Huizhou TCL King Technology Co., Ltd. and TCL Overseas Investment (Singapore) Pte. Ltd., wholly-owned subsidiaries of the Group, had been dormant for a number of years and were wound-up voluntarily in August and October 2012, respectively. Sizzon Pte Ltd., an 80% owned subsidiary of the Group, had been dormant for a number of years and was wound-up voluntarily in October 2012.

| | HK$'000 |
|---|---|
| Net liabilities of subsidiaries: | |
| Other receivables | 7 |
| Other payables and accruals | (189) |
| | (182) |
| Release of exchange fluctuation reserve upon liquidation | 3,642 |
| Loss on liquidation of subsidiaries (note 7) | (3,460) |
| | – |
| Net outflow of cash and cash equivalents in respect of the liquidation of subsidiaries | – |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (d) LIQUIDATION OF SUBSIDIARIES (CONTINUED)

**Year ended 31 December 2011**

Schneider Electronics GmbH ("Schneider"), a wholly-owned subsidiary of the Group, had been dormant for a number of years and was wound-up voluntarily in June 2011. TCL–Thomson Electronics (Thailand) Co., Ltd. ("TTE Thailand"), another wholly-owned subsidiary of Group, was also wound-up voluntarily upon the disposal of its property, plant and equipment in July 2011.

| | 2011<br>HK$'000 |
|---|---|
| Net assets of Schneider and TTE Thailand: | |
| Other receivables | 1,329 |
| | 1,329 |
| Release of exchange fluctuation reserve upon liquidation | (13,763) |
| Gain on liquidation of subsidiaries (note 7) | 12,434 |
| | – |
| Net outflow of cash and cash equivalents in respect of the liquidation of subsidiaries | – |

# NOTES TO FINANCIAL STATEMENTS
31 December 2012

## 37. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees given to banks in connection with banking facilities granted to subsidiaries | **–** | – | **1,611,785** | 1,205,622 |
| Guarantees given to suppliers in connection with the payment of purchases by subsidiaries | **–** | – | **1,007,708** | 233,079 |
| | **–** | – | **2,619,493** | 1,438,701 |

As at 31 December 2012, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$915 million (2011: HK$910 million), and the guarantees given to suppliers in connection with the payments of purchases by subsidiaries were utilised to the extent of approximately HK$117 million (2011: were not utilised).

In addition, the Company provided guarantees to banks in connection with foreign exchange contracts entered into by certain subsidiaries of the Group. As at 31 December 2012, the aggregate notional amounts of unsettled foreign exchange contracts and interest rate swaps amounted to HK$5,156 million (2011: HK$5,704 million) and HK$2,138 million (2011: HK$78 million), respectively.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 38. OPERATING LEASE ARRANGEMENTS

### AS LESSEE

The Group leases certain of its office properties and factories under operating lease arrangements. These leases are negotiated for terms ranging from one to ten years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Within one year | **56,496** | 66,752 |
| In the second to fifth years, inclusive | **45,424** | 74,583 |
| After five years | **493** | 3,979 |
| | **102,413** | 145,314 |

## 39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the end of the reporting period:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for | **44,092** | 9,256 |
| Authorised, but not contracted for | **753,614** | 549,479 |
| | **797,706** | 558,735 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| A jointly-controlled entity: | | | |
| Sales of finished goods | (ii) | 125,292 | 143,354 |
| TCL Corporation: | | | |
| Interest expense | (iv) | 48,579 | 36,494 |
| Other finance service fee | (ix) | 24,500 | 5,888 |
| T.C.L. Industries: | | | |
| Interest expense | (v) | 15,069 | 15,496 |
| Associates: | | | |
| Interest income | (vii) | 9,414 | 4,249 |
| Interest expense | (viii) | 5,621 | 10,263 |
| Other finance service fee | (ix) | 889 | 279 |
| Sales of finished goods | (ii) | 616,947 | 1,010,087 |
| Sales of raw materials | (i) | 6,848 | 168,936 |
| Purchases of raw materials | (iii) | – | 983,470 |
| Subcontracting fee expense | (x) | 31,061 | – |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Companies controlled by TCL Corporation: | | | |
| Sales of raw materials | (i) | 170,429 | 234,607 |
| Sales of finished goods | (ii) | 1,059,858 | 245,798 |
| Purchases of raw materials | (iii) | 6,021,085 | 916,744 |
| Purchases of finished goods | (iii) | 1,930,160 | 318,337 |
| Subcontracting fee expense | (x) | 43,136 | 40,167 |
| Subcontracting income | (xi) | 82,772 | – |
| Rental, maintenance fees and facilities usage fees | (xii) | 58,117 | 2,733 |
| Rental expense | (xiii) | 34,969 | 31,698 |
| Reimbursement of brand advertising costs | (xiv) | 211,361 | 207,277 |
| Logistics service fee expense | (xv) | 90,415 | 62,961 |
| Call centre service fee expense | (xvi) | 20,197 | 18,584 |
| Recharge of expenses | (xvii) | 1,437 | 1,433 |
| Reimbursement of research and development and rental expenses | (xix) | 69,646 | 12,394 |
| Construction management fee expense | (xx) | 3,686 | – |
| After-sale service income | (vi) | 4,623 | – |
| Associates of TCL Corporation: | | | |
| Purchases of finished goods | (iii) | – | 3,989 |
| Purchases of raw materials | (iii) | 9,108 | – |
| Sales of finished goods | (ii) | 5 | – |
| Rental expense | (xiii) | 30,465 | 18,350 |
| Rental income | (xii) | 882 | – |
| Service fee expenses | (xviii) | 86,087 | 22,535 |

Notes:

(i) The sales of raw materials were made at a gross margin of 0 – 7% (2011: 0 – 5%).

(ii) The sales of finished goods were made by reference to the prevailing market prices for comparable transactions.

(iii) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers.

(iv) The interest was charged at rates ranging from 6.94% to 8.20% (2011: from 5.31% to 7.63%) per annum.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

Notes: (continued)

(v) The interest was charged at rates ranging from 2.28% to 6.00% (2011: from 1.76% to 6.00%) per annum.

(vi) The after-sale service income was determined with reference to the rates of other similar services for comparable transactions and the amount of general after-sale service expenses of the Group in the past.

(vii) The interest was charged at rates ranging from 0.39% to 1.33% (2011: 0.36% to 1.31%) per annum, which were determined with reference to the savings rates offered by the People's Bank of China.

(viii) The interest was charged at rates ranging from 4.70% to 5.90% (2011: 5.90%) per annum.

(ix) The other finance service fee was determined with reference to the rates of other similar services for comparable transactions.

(x) The subcontracting fee expense was determined with reference to subcontracting fees charged by third party companies offering similar services.

(xi) The subcontracting income was determined with reference to the rates of other similar services for comparable transactions.

(xii) The rental, maintenance fees and facilities usage fees and the rental income were determined with reference to the rates of other similar premises for comparable transactions.

(xiii) The rental expense was charged at a rate of RMB9.02 to RMB81.00 (2011: from RMB9.00 to RMB81.00) per square metre.

(xiv) The brand advertising costs represent advertising costs incurred by TCL Corporation and were reimbursed by the Group at cost and at a minimum of 0.5% (2011: 0.5%) and 0.25% (2011: 0.25%) of the aggregate net sales of TV products using TCL A brand and TCL B brand, respectively, as defined in the Master TCL Trademark License Agreement.

(xv) The logistics service fee was determined with reference to the rates of other similar services for comparable transactions.

(xvi) The call centre service fee was calculated based on the actual usage in connection with the provision of the call centre service.

(xvii) The income recharged for electricity and water was paid with reference to the rates charged by relevant service providers.

(xviii) The service fee expenses for the internet television software were charged at agreed rates between the parties (2011: RMB20) and RMB12 (2011: RMB12) for each internet television targeted for non-rural areas and rural areas in the PRC, respectively.

(xix) The research and development expenses represent human resource costs allocated to the Group in respect of personnel of companies controlled by TCL Corporation. The rental expenses were determined with reference to the rates of other similar premises for comparable transactions.

(xx) The construction service fee expense was determined with reference to the rates of other similar services for comparable transactions.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other major transactions with related parties:

(i) On 27 June 2011, the Company entered into an acquisition agreement with TCL Corporation to acquire the TOT Entities at a consideration of HK$638,428,000. The acquisition was completed on 18 January 2012. Further details of the acquisition are set out in note 36(a)(i) to the financial statements.

(ii) On 20 September 2012, Shenzhen TCL New Technology Company Limited ("TCL New Technology"), a wholly-owned subsidiary of the Company, entered into a club membership acquisition agreement with TCL Optoelectronics Tech (Shenzhen) Company Limited ("Shenzhen TCL Optoelectronics"), a non-wholly owned subsidiary of TCL Corporation, pursuant to which TCL New Technology agreed to acquire and Shenzhen TCL Optoelectronics agreed to sell the entire membership interests in the R&D Elite Club for office and industrial research use at a cash consideration of RMB186,819,000 (equivalent to approximately HK$228,441,000). The transaction was completed on 20 September 2012. Further details of this transaction are set out in the Company's announcement dated 20 September 2012.

(iii) On 17 October 2012, TCL King Electrical Appliances (Huizhou) Co., Ltd. ("TCL King (Huizhou)"), an indirect wholly-owned subsidiary of the Company, entered into a transfer agreement with Huizhou TCL Mobile Communication Co., Ltd. ("Huizhou Mobile"), an indirect wholly-owned subsidiary of TCL Communication Technology Holdings Limited (an indirect 50.78% owned subsidiary of TCL Corporation), to acquire the land use right together with facilities buildings in Huizhou of the PRC at a consideration of approximately RMB13,008,000 (equivalent to approximately HK$15,870,000). As at 31 December 2012, whilst the application was in progress, the certificate of ownership with respect to the land use right together with facilities buildings had not been issued by the relevant government authorities. Further details of this transaction are set out in the Company's announcements dated 24 April 2012 and 17 October 2012.

(iv) On 17 October 2012, TCL King (Huizhou) and TCL Technoly (Huizhou), indirect wholly-owned subsidiaries of the Company, entered into a tripartite construction agreement with Huizhou Mobile, to acquire the land use right together with facilities buildings in Huizhou of the PRC at a consideration of RMB72,921,000 (equivalent to approximately HK$88,964,000). Further details of this transaction are set out in the Company's announcement dated 17 October 2012.

(c) Details of compensation of key management personnel of the Group are set out in notes 8 and 9 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

Except for the transactions with a jointly-controlled entity of the Group and associates of TCL Corporation included in note 40(a), all the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing borrowings, and cash and short term 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 and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board 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 2.4 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 debt obligations with floating interest rates.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet the borrowing needs of all subsidiaries. In some cases, subsidiaries may borrow directly from local banks upon approval from the Group Treasury in advance. At subsidiary level, financing is generally done on a short term floating rate basis. Long term financings are normally done at Group level.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no material impact on other components of the Group's equity.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### INTEREST RATE RISK (CONTINUED)

| | Group | |
|---|---|---|
| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax HK$'000 |
| **2012** | | |
| Hong Kong dollar | (25) | – |
| United States dollar | (25) | 2,392 |
| Renminbi | (25) | 248 |
| Hong Kong dollar | 25 | – |
| United States dollar | 25 | (2,392) |
| Renminbi | 25 | (248) |
| 2011 | | |
| Hong Kong dollar | (25) | 58 |
| United States dollar | (25) | 5,227 |
| Renminbi | (25) | 1,214 |
| Hong Kong dollar | 25 | (58) |
| United States dollar | 25 | (5,227) |
| Renminbi | 25 | (1,214) |

### FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. In addition, certain bank loans were denominated in currencies other than the functional currencies of the entities to which they relate. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incurs, so as to alleviate the impact on business due to exchange rate fluctuations. 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 items to maximise hedge effectiveness.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### FOREIGN CURRENCY RISK (CONTINUED)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, 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). There is no material impact on other components of the Group's equity.

| | Increase/ (decrease) in exchange rates % | Increase/ (decrease) in profit before tax HK$'000 |
|---|---|---|
| **2012** | | |
| If Hong Kong dollar weakens against United States dollar | **5** | **(108,160)** |
| If Renminbi weakens against United States dollar | **5** | **(158,241)** |
| If Macau Pataca weakens against United States dollar | **5** | **4,028** |
| If Macau Pataca weakens against Euro | **5** | **30** |
| If Hong Kong dollar strengthens against United States dollar | **(5)** | **108,160** |
| If Renminbi strengthens against United States dollar | **(5)** | **158,241** |
| If Macau Pataca strengthens against United States dollar | **(5)** | **(4,028)** |
| If Macau Pataca strengthens against Euro | **(5)** | **(30)** |
| 2011 | | |
| If Hong Kong dollar weakens against United States dollar | 5 | (158,977) |
| If Renminbi weakens against United States dollar | 5 | (215,149) |
| If Macau Pataca weakens against United States dollar | 5 | (362) |
| If Macau Pataca weakens against Euro | 5 | 104 |
| If Hong Kong dollar strengthens against United States dollar | (5) | 158,977 |
| If Renminbi strengthens against United States dollar | (5) | 215,149 |
| If Macau Pataca strengthens against United States dollar | (5) | 362 |
| If Macau Pataca strengthens against Euro | (5) | (104) |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 23 and 25, respectively, 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 bank loans and other interest-bearing borrowings.

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### LIQUIDITY RISK (CONTINUED)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

### GROUP

| | 2012 | | | |
|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years HK$'000 | Total HK$'000 |
| Interest-bearing bank and other borrowings | **2,617,759** | **414,070** | **–** | **3,031,829** |
| Trade payables | **9,263,133** | **–** | **–** | **9,263,133** |
| Bills payable | **5,176,951** | **–** | **–** | **5,176,951** |
| Other payables | **2,976,734** | **–** | **–** | **2,976,734** |
| | **20,034,577** | **414,070** | **–** | **20,448,647** |

| | 2011 | | | |
|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years HK$'000 | Total HK$'000 |
| Interest-bearing bank and other borrowings | 2,649,724 | 292,988 | 460,427 | 3,403,139 |
| Trade payables | 6,725,368 | – | – | 6,725,368 |
| Bills payable | 5,268,877 | – | – | 5,268,877 |
| Other payables | 2,222,201 | – | – | 2,222,201 |
| Due to TCL Corporation | 142,069 | – | – | 142,069 |
| Due to T.C.L. Industries | 982,899 | – | – | 982,899 |
| | 17,991,138 | 292,988 | 460,427 | 18,744,553 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### LIQUIDITY RISK (CONTINUED)

### COMPANY

| | 2012 | | | |
|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years HK$'000 | Total HK$'000 |
| Interest-bearing bank borrowings | 154,303 | 414,070 | – | 568,373 |
| Other payables | 953 | – | – | 953 |
| | 155,256 | 414,070 | – | 569,326 |
| The maximum amount of the guarantee given to banks in connection with banking facilities granted to subsidiaries | 1,611,785 | – | – | 1,611,785 |
| The maximum amount of the guarantee given to suppliers in connection with the payment of purchases by subsidiaries | 1,007,708 | – | – | 1,007,708 |
| | 2,619,493 | – | – | 2,619,493 |

| | 2011 | | | |
|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years HK$'000 | Total HK$'000 |
| Interest-bearing bank borrowings | 60,520 | 158,266 | 425,641 | 644,427 |
| Other payables | 5,455 | – | – | 5,455 |
| | 65,975 | 158,266 | 425,641 | 649,882 |
| The maximum amount of the guarantee given to banks in connection with banking facilities granted to subsidiaries | 1,205,622 | – | – | 1,205,622 |
| The maximum amount of the guarantee given to suppliers in connection with the payment of purchases by subsidiaries | 233,079 | – | – | 233,079 |
| | 1,438,701 | – | – | 1,438,701 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2012

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### 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. 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 two years ended 31 December 2012 and 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Net debt is calculated as a total of interest-bearing bank and other borrowings, interest-bearing amounts due to TCL Corporation, interest-bearing amounts due to T.C.L. Industries, less cash and bank balances and pledged deposits. Total capital refers to equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

### GROUP

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Interest-bearing bank and other borrowings (note 30) | **3,009,990** | 3,334,868 |
| Due to TCL Corporation (note 26) | **–** | 131,978 |
| Due to T.C.L. Industries (note 26) | **–** | 971,163 |
| Less: Cash and bank balances (note 27) | **(3,431,337)** | (4,452,001) |
| Pledged deposits (note 27) | **(826,220)** | (255,770) |
| Net debt | **(1,247,567)** | (269,762) |
| Equity attributable to owners of the parent | **4,765,247** | 3,533,652 |
| Gearing ratio | **–** | – |

## 42. COMPARATIVE AMOUNTS

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

## 43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 26 February 2013.

# FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified/re-presented as appropriate, is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| RESULTS | | | | | |
| TURNOVER | **39,684,855** | 32,932,363 | 26,948,627 | 30,342,550 | 25,773,322 |
| PROFIT/(LOSS) BEFORE TAX | **994,245** | 612,889 | (835,244) | 571,419 | (132,416) |
| Income tax expense | **(72,708)** | (151,448) | (138,169) | (167,359) | (119,045) |
| PROFIT/(LOSS) FOR THE YEAR | **921,537** | 461,441 | (973,413) | 404,060 | (251,461) |
| Attributable to: | | | | | |
| Owners of the parent | **910,916** | 452,600 | (983,161) | 396,523 | (268,245) |
| Non-controlling interests | **10,621** | 8,841 | 9,748 | 7,537 | 16,784 |
| | **921,537** | 461,441 | (973,413) | 404,060 | (251,461) |
| ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS | | | | | |
| Total assets | **28,019,739** | 24,131,861 | 18,500,653 | 14,921,161 | 12,616,968 |
| Total liabilities | **(23,027,894)** | (20,479,176) | (15,250,996) | (11,208,696) | (9,203,862) |
| Non-controlling interests | **(226,598)** | (119,033) | (105,211) | (91,786) | (124,684) |
| | **4,765,247** | 3,533,652 | 3,144,446 | 3,620,679 | 3,288,422 |