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

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

RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2013

FINANCIAL HIGHLIGHTS
Unaudited results for the three months ended 31 March

	2013 **(*HK$M*)**	2012 (*HK$M*)	**Change**
Turnover	**10,260**	8,302	+23.6%
Gross profit	**1,664**	1,497	+11.2%
Operating profit	**341**	480	(29.0%)
Net profit	**210**	311	(32.5%)
Profit attributable to owners of the parent	**196**	309	(36.6%)
Basic earnings per share *(HK cents)*	**14.83**	24.32	(39.0%)

HIGHLIGHTS

- For the three months ended 31 March 2013, the Group recorded a turnover of approximately HK$10,260 million, up by 23.6% year-on-year. Gross profit amounted to approximately HK$1,664 million, up by 11.2% year-on-year. Operating profit was approximately HK$341 million, down by 29.0% year-on-year. Net profit was approximately HK$210 million, down by 32.5% year-on-year, net profit margin was 2.0%. If the one-off gain ("One-off Gain") of approximately HK$144 million from acquisition of the entire equity interest in TCL Optoelectronics Technology (Huizhou) Co., Ltd. and its 60% equity interest in Huizhou TCL Coretronic Co., Ltd. in the same period of last year was excluded, net profit would have risen by 25.7% year-on-year. Profit attributable to owners of the parent was approximately HK$196 million, representing an increase of 18.8% year-on-year if the One-off Gain in the same period of last year was excluded.

- The overall sales volume of LCD TVs reached 3.91 million sets, representing an increase of 21.5% year-on-year. The sales volume of LCD TVs in the PRC Market rose by 48.6% year-on-year, while the sales volume of LCD TVs in the Overseas Markets dropped by 9.0% year-on-year, of which, sales volume of LCD TVs in the Emerging Markets recorded an increase of 2.4% year-on-year. The product mix has continuously been optimized, with a higher proportion of sales volume of high-end products. Sales volume of smart TVs and 3D TVs accounted for 21.5% and 30.1% of the Group's LCD TV sales volume in the PRC Market, respectively.

- TCL has been striving to rapidly enhance its global brand influence by implementing international marketing strategies and upgrading its brand. Following the formation of strategic partnerships with a Hollywood movie "Iron Man 3" and Grauman's Chinese Theatre in Hollywood of the United States, TCL hosted a 2013 Spring press conference in Beijing to announce its brand enhancement strategies projecting a "young, fashionable and internationalized" image and release a new brand Visual Identity system, simultaneously launched various new product series under "Fireball Plan", its new sub-brand Viveza for high-end TVs and its first new high-end TV product, Viveza V101. The moves were well received by the market.

The Board of Directors (the "Board") of TCL Multimedia Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2013 with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 31 March	
		2013	2012
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	3	**10,260,347**	8,302,189
Cost of sales		**(8,596,587)**	(6,805,441)
Gross profit		**1,663,760**	1,496,748
Other revenue and gains		**135,193**	296,443
Selling and distribution expenses		**(1,164,157)**	(1,064,426)
Administrative expenses		**(242,213)**	(173,843)
Research and development costs		**(51,679)**	(71,765)
Other operating expenses		**(201)**	(3,080)
		340,703	480,077
Finance costs		**(36,420)**	(107,118)
Share of profits and losses of:			
A joint venture		**(895)**	212
Associates		**2,623**	(23,295)
PROFIT BEFORE TAX		**306,011**	349,876
Income tax expense	4	**(96,121)**	(38,615)
PROFIT FOR THE PERIOD		**209,890**	311,261
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedge:			
Effective portion of change in fair value of the hedging instruments arising during the period		**21,224**	–
Exchange fluctuation reserve:			
Translation of foreign operations		**18,598**	(2,098)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**39,822**	(2,098)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**249,712**	309,163

	Notes	Three months ended 31 March 2013 (unaudited) HK$'000	2012 (unaudited) HK$'000
Profit attributable to:			
Owners of the parent		**196,244**	308,856
Non-controlling interests		**13,646**	2,405
		209,890	311,261
Total comprehensive income attributable to:			
Owners of the parent		**235,314**	306,689
Non-controlling interests		**14,398**	2,474
		249,712	309,163
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	6		
Basic		**HK14.83 cents**	HK24.32 cents
Diluted		**HK14.61 cents**	HK24.26 cents

Details of the dividends are disclosed in note 5.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 March 2013 (unaudited)** *HK$'000*	31 December 2012 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,544,445**	2,484,028
Prepaid land lease payments		**145,720**	146,266
Goodwill		**119,638**	119,638
Other intangible assets		**384**	419
Investment in a joint venture		**10,773**	11,574
Investments in associates		**162,075**	158,921
Available-for-sale investments		**6,677**	6,677
Deferred tax assets		**116,205**	150,707
Total non-current assets		**3,105,917**	3,078,230
CURRENT ASSETS			
Inventories		**5,976,597**	6,731,951
Trade receivables		**4,245,699**	4,338,139
Bills receivable		**6,369,840**	7,087,252
Other receivables		**2,553,234**	2,502,247
Tax recoverable		**32,376**	24,363
Pledged deposits		**828,726**	826,220
Cash and bank balances		**4,067,533**	3,431,337
Total current assets		**24,074,005**	24,941,509
CURRENT LIABILITIES			
Trade payables		**6,670,897**	9,263,133
Bills payable		**7,494,420**	5,176,951
Other payables and accruals		**3,996,909**	4,974,350
Interest-bearing bank and other borrowings	7	**2,723,626**	2,607,644
Tax payable		**247,156**	213,276
Provisions		**389,740**	345,020
Total current liabilities		**21,522,748**	22,580,374
NET CURRENT ASSETS		**2,551,257**	2,361,135
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,657,174**	5,439,365

	Notes	**31 March 2013 (unaudited)** *HK$'000*	31 December 2012 (audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,657,174**	5,439,365
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	7	**310,110**	402,346
Deferred tax liabilities		**37,585**	38,873
Pensions and other post-employment benefits		**6,310**	6,301
Total non-current liabilities		**354,005**	447,520
Net assets		**5,303,169**	4,991,845
EQUITY			
Equity attributable to owners of the parent			
Issued capital	8	**1,328,262**	1,321,003
Reserves		**3,733,911**	3,444,244
		5,062,173	4,765,247
Non-controlling interests		**240,996**	226,598
Total equity		**5,303,169**	4,991,845

Notes:

1. BASIS OF PREPARATION

The accounting policies and the basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the new and revised HKFRSs as disclosed in note 2 below.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

3. OPERATING SEGMENT INFORMATION

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

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

- the People's Republic of China (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 a joint venture and associates as well as head office and corporate income and expenses are excluded from such measurement.

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

	Three months ended 31 March (unaudited)									
	Television – PRC market		Television – Overseas markets		AV		Others		Consolidation	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**6,683,175**	4,508,869	**2,561,205**	2,789,425	**875,658**	785,627	**140,309**	218,268	**10,260,347**	8,302,189
Segment results	**362,782**	215,718	**(52,578)**	44,650	**45,748**	37,444	**(10,778)**	(15,642)	**345,174**	282,170
Bank interest income									**24,794**	21,064
Corporate income/ (expenses), net									**(29,265)**	176,843
Finance costs									**(36,420)**	(107,118)
Share of profits and losses of:										
A joint venture	**–**	–	**(895)**	212	**–**	–	**–**	–	**(895)**	212
Associates	**(404)**	(26,779)	**–**	–	**(38)**	(88)	**3,065**	3,572	**2,623**	(23,295)
Profit before tax									**306,011**	349,876
Income tax expense									**(96,121)**	(38,615)
Profit for the period									**209,890**	311,261

4. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (31 March 2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Three months ended 31 March	
	2013	2012
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**670**	11,276
Current – Elsewhere	**61,952**	17,633
Deferred	**33,499**	9,706
Total tax charge for the period	**96,121**	38,615

5. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2013 (31 March 2012: Nil).

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

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

	Three months ended 31 March	
	2013	2012
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in basic and diluted earnings per share calculations	**196,244**	308,856

	Number of shares Three months ended 31 March	
	2013	2012
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	**1,323,172,865**	1,270,144,701
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	**20,330,229**	2,819,270
Weighted average number of ordinary shares in issue during the period used in diluted earnings per share calculation	**1,343,503,094**	1,272,963,971

7. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 March 2013 (unaudited) *HK$'000*	31 December 2012 (audited) *HK$'000*
Current		
Bank loans – secured	**106,357**	106,198
Bank loans – unsecured	**1,663,284**	2,156,914
Trust receipt loans – unsecured	**397,200**	97,892
Loan from an associate – secured	**247,460**	246,640
Loan from an associate – unsecured	**309,325**	–
	2,723,626	2,607,644
Non-current		
Bank loans – unsecured	**310,110**	402,346
	3,033,736	3,009,990
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**2,166,841**	2,361,004
In the second year	**310,110**	402,346
	2,476,951	2,763,350
Loans from an associate repayable:		
Within one year	**556,785**	246,640
	3,033,736	3,009,990

Notes:

(a) As at 31 March 2013, 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 certain of the Group's time deposits amounting to HK$106,841,000 (31 December 2012: HK$106,486,000); and

(ii) pledge of certain of the Group's bills receivable amounting to HK$247,460,000 (31 December 2012: HK$246,640,000).

(c) TCL Corporation ("TCL Corporation") has guaranteed certain of the Group's bank loans up to HK$1,362,204,000 (31 December 2012: HK$1,355,187,000) as at the end of the reporting period.

8. SHARE CAPITAL

	31 March 2013 (unaudited) ***HK$'000***	31 December 2012 (audited) *HK$'000*
Authorised:		
2,200,000,000 (31 December 2012: 2,200,000,000) shares of HK$1.00 each (31 December 2012: HK$1.00 each)	**2,200,000**	2,200,000
Issued and fully paid:		
1,328,262,346 (31 December 2012: 1,321,002,598) shares of HK$1.00 each (31 December 2012: HK$1.00 each)	**1,328,262**	1,321,003

During the three months ended 31 March 2013, the subscription rights attaching to 4,590,526, 1,807,622 and 861,600 share options were exercised at the subscription price of HK$2.45, HK$3.17 and HK$3.60 per share, respectively, resulting in the issue of 7,259,748 shares of HK$1.00 each for a total cash consideration of HK$20,079,000 before expenses.

BUSINESS REVIEW

In the first quarter of 2013, the world economy, especially in Europe and the United States, remained complicated and volatile while the PRC's economic growth experienced a slowdown. Facing such a challenging business environment, the Group adhered to its development strategy with an emphasis on "speed and efficiency", and further boosted its sales volume and market share by improving its product competitiveness, stepping up its efforts in sales channel establishment and brand establishment. For the three months ended 31 March 2013, the Group recorded a turnover of approximately HK$10,260 million, up by 23.6% year-on-year. Gross profit was approximately HK$1,664 million, up by 11.2% year-on-year. In addition, the Group integrated its industry chain so as to reduce costs and speed up turnover rate. It also fully took advantages of vertical integration and raised the proportion of sales volume of high-end products to improve its overall competitiveness. During the period, the gross profit margin dropped to 16.2% from 18.0% of the same period of last year. Expense ratio lowered to 13.7% from 14.9% of the same period of last year. Operating profit was approximately HK$341 million, down by 29.0% year-on-year. Net profit was approximately HK$210 million, down by 32.5% year-on-year, net profit margin was 2.0%. Net profit rose 25.7% year-on-year if the One-off Gain in the same period of last year was excluded. Profit attributable to owners of the parent was approximately HK$196 million, which would have represented an increase of 18.8% year-on-year if the One-off Gain in the same period of last year was excluded. Basic earnings per share was HK14.83 cents (The first quarter of 2012: HK24.32 cents).

The Group achieved growth in the sales volume of LCD TVs by continuously optimizing its product mix, expanding its sales channels and implementing proactive marketing strategies. The Group sold a total of 3.91 million sets of LCD TVs during the period under review, up by 21.5% year-on-year. The sales volume of LCD TVs in the PRC Market increased by 48.6% year-on-year, representing a significant increase. According to the latest DisplaySearch report, the Group's market share in the global LCD TV market increased from 4.8% in 2011 to 5.8% in 2012, thereby lifting its ranking to No.4. Meanwhile, the Group has ranked No.1 in the PRC LCD TV market with a market share of 18.0%.

In addition, the Group's Tonly Electronics Limited ("Tonly Electronics") business continued to increase its investments in R&D of software and electro-acoustic technologies so as to enhance its capability in the design of intelligent accessories and enrich its product mix. Although the sales volume of AV products decreased by 3.4% year-on-year to 3.25 million sets, the turnover increased by 11.5% year-on-year to HK$876 million. The Group achieved satisfactory development in intelligent accessories and new audio products by continuously implementing diversified strategies for its products and customer base as well as actively proceeding with its product transformation.

TV Business

For the three months ended 31 March 2013, the Group sold 3.91 million sets of LCD TVs, up by 21.5% year-on-year. The sales volume of LCD TVs in the PRC Market rose by 48.6% year-on-year to 2.54 million sets while the sales volume of LCD TVs in the Overseas Markets decreased by 9.0% year-on-year to 1.38 million sets. The sales volume of LCD TVs in the Emerging Markets grew by 2.4% year-on-year to 0.91 million sets. The Emerging Markets remained the 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 accounted for 90.5% of the total LCD TV sales volume, while the proportion of smart TVs and 3D TVs to the total LCD TV sales volume increased to 15.1% and 19.7%, respectively.

TCL aims at enhancing its brand influence by projecting a "young, fashionable and internationalized" image in its brand building efforts and marketing campaigns tying in with the entertainment industry. During the period under review, TCL hosted a 2013 Spring press conference in Beijing to announce its brand enhancement strategies that project a "young, fashionable and internationalized" image and release a new brand Visual Identity system. It also announced a series of cooperations with the Hollywood movie "Iron Man 3" through brand placement, joint promotions and authorized usage of creative elements. TCL's smart TV, with the world's largest 110-inch 4K full high-definition 3D LCD panel, the cloud technology and mobile handsets would be featured in "Iron Man 3". This move will comprehensively demonstrate the innovative products and strong capability of TCL. Meanwhile, TCL has obtained the naming right of Grauman's Chinese Theatre, a landmark building on Hollywood Boulevard. The building was officially renamed "TCL Chinese Theatre" (the "Theatre"). After the renaming, TCL assists to upgrade LCD and LED digital display panels, electronic posters and advertising panel facilities in the Theatre. In the future, TCL will apply the most advanced digital display technologies and equipments in the world into the Theatre, featuring it as a landmark which blends in Hollywood's history with modern technologies. Movie star Robert De Niro was invited and attended the hand and foot prints collection ceremony at the Theatre's facade on 4 February 2013. He was the first superstar to attend the most honorable ceremony representing Hollywood following the renaming of the Theatre. Furthermore, the Group has become a new television sponsor of Hong Kong International Airport ("HKIA"), making it the first television brand in the PRC to feature its TV products at HKIA, allowing consumers and travelers from all over the world to experience the charisma of TCL products.

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

	2013 First quarter *('000 sets)*	2012 First quarter *('000 sets)*	**Change**
LCD TVs	**3,912**	3,219	+21.5%
of which: LED backlight LCD TVs	**3,541**	2,022	+75.1%
Smart TVs	**591**	112	+427.7%
3D TVs	**772**	250	+208.8%
– PRC Market	**2,535**	1,706	+48.6%
– Overseas Markets	**1,377**	1,513	(9.0%)
CRT TVs	**343**	765	(55.2%)
– PRC Market	**–**	86	(100.0%)
– Overseas Markets	**343**	679	(49.5%)
Total TV sales volume	**4,255**	3,984	+6.8%
Total AV products sales volume	**3,253**	3,368	(3.4%)

The PRC Market

During the period under review, the Group's sales volume and turnover in the PRC Market recorded a satisfactory growth. The turnover rose by 48.2% year-on-year to HK$6,683 million and the PRC Market remains the Group's major source of revenue and profit. The sales volume of LCD TVs reached 2.54 million sets, up by 48.6% from the same period last year. Of which, the sales volume of LED backlight LCD TVs accounted for 92.8% of the total LCD TV sales volume in the PRC Market, while the proportion of smart TVs and 3D TVs to the total LCD TV sales volume rose to 21.5% and 30.1%, respectively, during the first quarter of 2013.

The Group continued to pursue its "full cloud strategies" and stepped up marketing efforts to increase the proportion of sales volume of smart TVs and 3D TVs. The sales volume of smart TVs was 0.55 million sets in the first quarter of 2013, and its proportion to the total LCD TV sales volume in the PRC Market increased to 21.5%. The sales volume of 3D TVs increased from 0.22 million sets in the first quarter of 2012 to 0.76 million sets in the first quarter of 2013, and its proportion to the total LCD TV sales volume in the PRC Market increased to 30.1%. Meanwhile, the Group continued to enhance its supply chain management and to reduce its production costs through resources integration, thereby further improving the competitiveness of its products and successfully consolidated its leading position in the PRC TV market by achieving a balanced development in scale, profitability and brand.

In addition, the Group continued to increase the number of points of sales by establishing more specialty stores in cities and rural markets, enhance the efficiency of every points of sales and improve its penetration rate into third-tier to sixth-tier markets so as to boost its sales volume and market share. Meanwhile, in order to increase its market share in the PRC Market, the Group explored more sales channels and comprehensively developed electronic commerce, launched value-for-money products by implementing its dual brand strategy and taking the advantage of its sales channels.

Overseas Markets

During the period under review, the Group's turnover in the Overseas Markets decreased by 8.2% year-on-year to HK$2,561 million. The sales volume of LCD TVs in the Overseas Markets declined by 9.0% year-on-year to 1.38 million sets, in which the sales volume of LED backlight LCD TVs grew from 0.91 million sets in the same period of last year to 1.19 million sets in the first quarter of 2013, accounting for 86.3% of the total sales volume of LCD TVs in the Overseas Markets.

In the Emerging Markets, the Group fully capitalized on opportunities in transformation to high-end products and actively expanded the businesses of LCD TVs and LED backlight LCD TVs. It also continued to enhance its supply chain management and promote smart TV products to accommodate market demand, which further enhanced its product competitiveness and increased its market share. The Group also actively explored new customer bases, developed new points of sales and increased the number of major points of sales, in order to accelerate sales volume growth. In the first quarter of 2013, the sales volume of the LCD TVs in the Emerging Markets rose by 2.4% year-on-year to 0.91 million sets.

In the European Market, the Group strived to optimize its product mix and stepping up efforts in sales channel establishment. It developed new sales channels in Italy and Spain. Meanwhile, the Group continued to improve inventory control in the sales channels, accelerated introduction of new products such as smart TVs and increased the proportion of sales volume of high-end products so as to improve gross profit margin. In the North American Market, the Group continued to strengthen its strategic cooperation with Amazon while actively developing other sales channels to boost sales volume, thereby establishing a strong footing for promoting the TCL brand.

Tonly Electronics Business

In response to the trend of product transformation, the Group continued to implement diversified strategies for its products and customer base. It also actively promoted the market transition to new products by launching 24 new models of basic series in the period under review, achieving satisfactory development in intelligent accessories and new audio products. Although the sales volume of AV products declined by 3.4% year-on-year to 3.25 million sets, the turnover increased by 11.5% year-on-year to HK$876 million. Meanwhile, the Group proactively improved efficiency of its supply chain, accelerated the turnover rate, enhanced its fundamental R&D capabilities and stepped up efforts in developing new products to extend the scope of its supply chain and expand its production capacity, further enhancing its product competitiveness.

R&D

During the period under review, the Group actively stepped up investments in R&D and enhanced its products competitiveness through product innovation in order to increase its market shares in the mid-range and high-end products. It strived to enhance development of smart cloud TVs and 3D TVs and continuously introduced innovative products. It launched 14 new products of 3 series in the PRC Market, including mid-range 3D cloud TVs, E5500, in different sizes and its upgraded series E5590. In March 2013, the Group announced its "Fireball Plan" and "Plan V". Under "Fireball Plan", the Group will simultaneously plan, design, produce, announce and introduce into the markets a collection of smart cloud TVs in 8 major product series. This will enable simultaneous replacement of an array of outmoded products with new products firstly realised in the industry. The 8 series of smart cloud TVs included Cloud QingV8500, Cloud JingV7600, Cloud XianH6600, Cloud LianE5590 and Cloud LeE4650, of which, Cloud QingV8500 is exclusively equipped with MSTAR quad-core processor and Android 4.2 operating system. It is a perfect device for processing high-definition images, from input and decoding of signals to the best 4K super high-definition display. Meanwhile, "Plan V" is the Group's another strategic plan for 2013. Under the plan, the Group launched a new sub-brand Viveza for high-end TVs and realised its first new TV product, Viveza V101. Viveza V101 features an ultra-thin and fashionable design, with an overall thickness of only 12.5mm and being the first ultra-slim LED backlight LCD TVs in the world, a brand that brings comprehensive entertainment services to consumers who attaches great importance to high quality lifestyles. Moreover, the Group and the world's leading semi-conductor chip manufacturer, Marvell, jointly launched Google Super-Smart TV MoVo, leading the Group the first Chinese television enterprise to launch the integrated TV sets of Google TV.

Outlook

Looking ahead, an uncertain global economy and slowing economic growth in the PRC are expected to pose challenges to the world's TV industry. Nevertheless, given the urbanization in the PRC, the replacement demand of advanced models from traditional CRT TVs and the popularization of smart TVs, the market demand for LCD TVs will remain strong. In addition, the measures by the PRC government to subsidize users of five categories of energy-saving electrical appliances, including flat-panel TVs, will be fuel the impetus for growth of the Group's TV business.

The Group will continue to implement its strategies on business operation and marketing with an emphasis on "speed and efficiency" and will strive to bring more value-for-money products to consumers through product innovation, cost optimization, product competitiveness and pricing strategy. It will also boost its sales volume and market share by enhancing both the sales channels and brand development. The Group is striving to meet its annual sales volume target of 18.00 million sets of LCD TVs for 2013.

For the TV market in the PRC, the steadily growing demand for high-end TV and large-panel TV market will generate more opportunities for the Group. The Group will reinforce its edges in the smart cloud TV market in terms of branding, products and sales. For instance, it will pursue its "full cloud strategies" by launching a sub-brand Viveza for high-end TVs and a collection of smart cloud TVs in 8 major product series under its "Fireball Plan" to bring an entirely new experience of high-end smart cloud technologies to consumers. Meanwhile, the Group will continue to optimize its product mix by raising the proportion of sales volume of high value-added products such as smart cloud TVs and 3D TVs. It will also consolidate its production chain to reduce cost and speed up turnover rate to maintain the average selling price and increase the gross profit margin. In addition, the Group will continue to step up its efforts in building sales channels and improve store efficiency. It will also capitalize on business opportunities in several golden festivals and holidays in the second quarter of the year by conducting large-scale marketing campaigns, which will help to boost both the sales volume and market share.

In the Overseas Markets, the Group will continue to implement a prudent operational strategy while capitalizing opportunities from the transition to high-end products in the Emerging Markets. It strives to raise the proportion of sales volume of LED backlight LCD TVs and smart TVs. The Group will continue to implement a two-pronged strategy to enhance its competitiveness. On the one hand, speed, efficiency and cost control will remain the core elements of the Group's strategy to establish its core competences in the Overseas Markets. On the other hand, it will intensify efforts in brand development and marketing to establish a "young, fashionable and internationalized" image so as to enhance the influence of TCL brand in the Overseas Markets. The Group will continue to drive development in sales channels and improve the operational efficiency in the Emerging Markets as part of its efforts to enhance overall competitiveness. In the European and North American Markets, the Group will remain committed to improving operational efficiency, speeding up launches of new products and enhancing sales services standards to intensify sales efforts in the North American Market and increase investments in brand development. The Group will enhance promotions of smart TVs and launch series of ultra narrow edge products in the Overseas Markets. Smart TV is expected to become an important growth driver in the Overseas Markets and series of smart TVs will be fully launched in the second quarter onwards in all regions. Content and hardware support, as well as R&D efforts on smart TVs will be further strengthened in order to boost smart TV sales and enhance the popularity of smart TVs in the Overseas Markets.

The Group will step up its investments in R&D of Tonly Electronics business, including software development and electro-acoustic technologies to enhance its capability in design of intelligent ancillary products. Meanwhile, it will put more efforts in new product development which is closely associated with intelligent accessories and new audio products, including Sound Bar products so as to enrich its product mix.

The Group will continue to adhere to its principle of "speed and efficiency" and persist in pursuing quality-driven growth and streamlined management. It will further optimize its product portfolio, enhance brand influence, optimize its supply chain management persistently and tighten management of its operating cycles, lower production costs and expense ratio. It will also capitalize on resource advantages of TCL Corporation, and cooperate more strategically with Shenzhen China Star Optoelectronics Technology Co., Ltd. and TCL Communication Technology Holdings Limited in products, R&D as well as management, etc., to derive more strategic synergies. The Group will fully take the advantages brought by its vertically-integrated operations, enhance its leading position and make TCL to be a more influential international brand, and thus, to create more values to its shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There was no significant investment, acquisition and disposal for the three months ended 31 March 2013.

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 31 March 2013 amounted to HK$4,067,533,000, of which 2.9% was maintained in Hong Kong dollars, 19.8% in US dollars, 75.2% in Renminbi, 1.0% 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 2012 and there was no asset held under finance lease as at 31 March 2013.

As at 31 March 2013, the Group's gearing ratio was 0% since the Group's total pledged deposits and cash and bank balances of HK$4,896,259,000 were higher than the total interest-bearing borrowings of HK$3,033,736,000. The maturity profile of the borrowings ranged from one to two years.

Pledge of Assets

As at 31 March 2013, saved as disclosed in note 7, certain financial instruments and time deposits of the Group amounting to HK$132,304,000 and HK$721,885,000, respectively (31 December 2012: certain bills receivable and time deposits of the Group amounting to HK$88,050,000 and HK$719,734,000, respectively), were pledged for certain bills payable amounting to HK$852,403,000 (31 December 2012: HK$804,045,000).

Capital Commitments and Contingent Liabilities

There was no significant change in capital commitments and contingent liabilities of the Group compared to the position outlined in the annual report for 2012.

Events After The Reporting Period

On 19 April 2013, 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 further membership interests in the R&D Elite Club (including but not limited to the exclusive rights to occupy and use the premises and the ancillary services at Unit 201 to Unit 708 of Category A to H of the 2nd to 7th Floor of B8 building and the whole floor of 6th 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 RMB51,416,000 (equivalent to approximately HK$63,756,000). The transaction was completed on 19 April 2013.

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.

Employee and Remuneration Policy

The Group had a total of 31,794 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 a total of 39,738,524 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.

PURCHASES, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of shares for the three months ended 31 March 2013.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, throughout the three months ended 31 March 2013, complied fully with the code provisions (the "Code Provisions") of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange Hong Kong Limited (the "Listing Rules"), except for the deviation from the Code Provisions D.1.4 and F.1.1. The reasons for such deviation remain the same as those stated in the Company's 2012 annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2013, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee comprises four members including Mr. TANG Guliang (Chairman), Ms. WU Shihong and Dr. TSENG Shieng-chang Carter, all being independent non-executive directors of the Company, and Mr. HUANG Xubin, a non-executive director of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by directors of Listed Issuers set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period under review.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 24 April 2013

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