TELEFIELD INTERNATIONAL (HOLDINGS) LIMITED

中慧國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1143)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

- Achieved turnover of HKD1,458.2 million for the year ended 31 December 2012, increased by 11.4% year over year
- Continuous contributions from "Trekstor", sales of multimedia products and computer accessories recorded a surge of 31.5% to HK$440.6 million
- Recommended final dividend of HK cents 2.0 per share

The board of directors (the "Board") of Telefield International (Holdings) Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 (the "Year" or the "Period"), together with the comparative figures of 2011, which had been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The 2012 audited consolidated annual results of the Group had been reviewed by the Audit Committee of the Company and approved by the Board on 21 March 2013.

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Revenue	4	**1,458,192**	1,309,390
Cost of goods sold		**(1,176,863)**	(1,040,059)
Gross profit		**281,329**	269,331
Other income	5	**15,686**	7,501
Selling and distribution expenses		**(91,515)**	(79,524)
Administrative expenses		**(125,378)**	(91,562)
Other operating expenses		**(46,273)**	(28,728)
Profit from operations		**33,849**	77,018
Finance costs	6	**(10,854)**	(8,391)
Profit before tax		**22,995**	68,627
Income tax expense	7	**(3,507)**	(8,116)
Profit for the year		**19,488**	60,511
Attributable to:			
Owners of the Company		**23,345**	57,051
Non-controlling interests		**(3,857)**	3,460
		19,488	60,511
Earnings per share	9		
Basic (HK cents)		**5.67**	14.15
Diluted (HK cents)		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
Profit for the year	**19,488**	60,511
Other comprehensive income:		
Exchange differences on translating foreign operations	**192**	2,827
Gains on property revaluation	**8,200**	5,980
Deferred tax arising from gains on property revaluation	**(1,353)**	(987)
Other comprehensive income for the year, net of tax	**7,039**	7,820
Total comprehensive income for the year	**26,527**	68,331
Attributable to:		
Owners of the Company	**30,416**	64,778
Non-controlling interests	**(3,889)**	3,553
	26,527	68,331

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Fixed assets		**83,716**	75,803
Goodwill		**12,157**	12,157
Intangible assets		**67,662**	72,662
Available-for-sale financial assets		**–**	–
Deferred tax assets		**12,174**	5,841
		175,709	166,463
Current assets			
Inventories		**270,249**	209,565
Trade and bill receivables	*10*	**199,652**	182,220
Prepayments, deposits and other receivables		**51,610**	61,647
Derivative instruments		**–**	1,532
Amount due from a shareholder		**–**	200
Current tax assets		**2,868**	2,147
Bank and cash balances		**161,808**	147,756
		686,187	605,067
Current liabilities			
Trade payables	*11*	**128,297**	144,477
Accruals and other payables		**191,719**	148,205
Amount due to a non-controlling shareholder of a subsidiary		**846**	–
Bank borrowings		**79,931**	51,880
Financial liabilities at fair value through profit or loss		**9,782**	9,023
Derivative instruments		**8,137**	–
Product warranty provisions		**17,463**	15,906
Current tax liabilities		**4,678**	3,834
		440,853	373,325
Net current assets		**245,334**	231,742
Total assets less current liabilities		**421,043**	398,205

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
As At 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
Non-current liabilities		
Financial liabilities at fair value through profit or loss	**9,515**	10,063
License fee payable	**22,364**	18,721
Deferred tax liabilities	**25,383**	21,446
	57,262	50,230
NET ASSETS	**363,781**	347,975
Capital and reserves		
Share capital	**4,117**	4,117
Reserves	**356,905**	351,806
Equity attributable to owners of the Company	**361,022**	355,923
Non-controlling interests	**2,759**	(7,948)
TOTAL EQUITY	**363,781**	347,975

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise structure of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the Group on 31 December 2010. Further details of the Group Reorganisation are set out in the paragraph headed "Group reorganisation" in Appendix VI to the prospectus of the Company dated 14 January 2011 (the "Prospectus").

The financial statements of the Group have been prepared in accordance with the principles and procedures of merger accounting as set out in Accounting Guideline 5 ("AG 5") "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the Group Reorganisation had occurred from the date when the combining entities first came under the control of the Controlling Shareholders.

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of leasehold land and building, derivative instruments and financial liabilities at fair value through profit or loss which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SEGMENT INFORMATION

The Group has four reportable segments as follows:

EMS	–	Electronic Manufacturing Services
Distribution Business:		
Telecommunications products ("TCP")	–	Marketing and distribution of branded small and medium business phone systems ("SMB phone systems")
Multimedia products and computer accessories ("MPCA")	–	Assembling and/or marketing and distribution of branded multimedia products and computer accessories
Gaming and Entertainment Products ("GEP")	–	Marketing and distribution of gaming and entertainment products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group's other operating segments include the marketing and distribution of wireless communications products and others. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the 'Others' column under Distribution Business. In 2011, GEP operating segment was included in 'Others' column, and is now retrospectively restated.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

(a) Information about reportable segment profit or loss, assets and liabilities:

		Distribution Business				
	EMS *HK$'000*	**TCP** *HK$'000*	**MPCA** *HK$'000*	**GEP** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Year ended 31 December 2012						
Revenue from external customers	**787,906**	**158,407**	**440,603**	**48,412**	**22,864**	**1,458,192**
Intersegment revenue	**172,973**	**–**	**–**	**–**	**–**	**172,973**
Segment profit/(loss)	**40,646**	**1,026**	**13,239**	**(15,501)**	**(4,420)**	**34,990**
Interest revenue	**276**	**–**	**4**	**–**	**–**	**280**
Interest expense	**1,231**	**3,643**	**5,963**	**–**	**17**	**10,854**
Depreciation and amortisation	**16,863**	**6,025**	**849**	**7,124**	**419**	**31,280**
Staff costs	**184,132**	**7,206**	**34,757**	**8,878**	**5,326**	**240,299**
Reversal of overly provided custom duty provisions	**–**	**–**	**7,796**	**–**	**–**	**7,796**
Income tax expense/ (credit)	**5,951**	**(675)**	**2,307**	**(3,541)**	**(535)**	**3,507**
Additions to segment non-current assets	**12,556**	**101**	**533**	**–**	**12,518**	**25,708**
As at 31 December 2012						
Segment assets	**666,466**	**101,946**	**172,450**	**126,940**	**53,489**	**1,121,291**
Segment liabilities	**232,594**	**81,528**	**161,661**	**127,447**	**49,145**	**652,375**

3. SEGMENT INFORMATION (CONT'D)

(a) Information about reportable segment profit or loss, assets and liabilities (cont'd):

		Distribution Business				
	EMS *HK$'000*	TCP *HK$'000*	MPCA *HK$'000*	GEP *HK$'000*	Others *HK$'000*	Total *HK$'000*
Year ended 31 December 2011						
Revenue from external customers	802,730	153,766	335,088	17,806	–	1,309,390
Intersegment revenue	119,484	–	–	5,877	–	125,361
Segment profit/(loss)	65,886	2,741	7,599	3,587	(2,256)	77,557
Interest revenue	232	1	2	–	–	235
Interest expense	886	2,700	4,805	–	–	8,391
Depreciation and amortisation	14,335	6,877	815	1,186	–	23,213
Staff costs	161,602	6,642	35,384	1,290	1,054	205,972
Income tax expense/ (credit)	7,009	329	(165)	943	–	8,116
Additions to segment non-current assets	18,891	16,206	308	41,466	66	76,937
As at 31 December 2011						
Segment assets	620,263	111,947	131,904	88,518	4,725	957,357
Segment liabilities	232,434	90,807	132,373	73,171	7,128	535,913

3. SEGMENT INFORMATION (CONT'D)

(b) Geographical information:

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Germany	**292,457**	249,733
The People's Republic of China ("the PRC") (including Hong Kong)	**285,793**	242,103
The United States of America	**231,106**	227,939
Switzerland	**200,983**	190,135
United Kingdom	**68,753**	100,269
Italy	**99,965**	69,084
France	**65,638**	37,572
Mexico	**47,803**	55,038
Others	**165,694**	137,517
Consolidated total	**1,458,192**	1,309,390

	2012	2011
	HK$'000	*HK$'000*
Non-current assets		
Germany	**16,254**	16,628
The PRC (including Hong Kong)	**86,992**	73,982
The United State of America	**56,793**	69,841
Others	**3,496**	171
Consolidated total	**163,535**	160,622

In presenting the geographical information, revenue is based on the locations of the customers.

(c) Revenue from major customers:

An analysis of revenue from major customers which account for over 10 percent or more of the Group's revenue is as follows:

	2012	2011
	HK$'000	*HK$'000*
EMS segment		
Customer a	**157,526**	174,960
Customer b	**N/A**	207,490
Customer c	**200,585**	188,382
Distribution Business – MPCA segment		
Customer d	**189,780**	132,816

4. REVENUE

	2012	2011
	HK$'000	*HK$'000*
Sales of goods	**1,480,601**	1,334,305
Net sales return arising from product warranty	**(22,409)**	(24,915)
	1,458,192	1,309,390

5. OTHER INCOME

	2012	2011
	HK$'000	*HK$'000*
Bank interest income	**280**	235
Discount on acquisition	**1,459**	–
Unrealised fair value gain on derivative instruments	**–**	1,199
Realised gain on derivative instruments	**–**	1,132
Fair value gain on financial liabilities at fair value through profit or loss	**–**	1,109
Sales of scrap materials	**1,838**	777
Reversal of overly provided custom duty provisions	**7,796**	–
Others	**4,313**	3,049
	15,686	7,501

6. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Wholly repayable within five years:		
Bank overdraft interest	**1**	1
Bank loans interest	**1,081**	986
Interest on import/export loans	**581**	394
Interest on factoring loans	**5,548**	4,310
Other interest expenses	**3,643**	–
Not wholly repayable within five years:		
Other interest expenses	**–**	2,700
	10,854	8,391

7. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**5,823**	6,935
Over-provision in prior years	**(815)**	(512)
	5,008	6,423
Current tax – Overseas		
Provision for the year	**3,083**	3,876
Under-provision in prior years	**869**	–
	3,952	3,876
Deferred tax	**(5,453)**	(2,183)
	3,507	8,116

Hong Kong Profits Tax has been provided at a rate of 16.5% (2011: 16.5%) based on the estimated assessable profit for the year.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

8. DIVIDENDS

		2012	2011
	Note	***HK$'000***	*HK$'000*
Proposed final	*(a)*	**8,234**	12,352
Interim	*(b)*	**6,176**	8,234
		14,410	20,586

Notes:

(a) A final dividend of HK$0.02 (2011: HK$0.03) per ordinary share of the Company was proposed for the year ended 31 December 2012.

(b) The interim dividend for 2012 of HK$0.015 (2011: HK$0.02) per ordinary share of the Company, totaling HK$6,176,000 (2011: HK$8,234,000) was declared and paid in 2012.

9. EARNINGS PER SHARE

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	**23,345**	57,051
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	**411,714,000**	403,050,241

In determining the weighted average number of ordinary shares in issue during the years ended 31 December 2011, the 10,000 shares issued due to the Group Reorganisation during the year ended 31 December 2010 and 299,990,000 shares issued pursuant to the Capitalisation Issue have been regarded as if these shares were in issue since 1 January 2010. Further details of the Group Reorganisation are set out in the paragraph headed "Group reorganisation" in Appendix VI to the prospectus of the Company dated 14 January 2011 (the "Prospectus").

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the two years.

10. TRADE AND BILL RECEIVABLES

		2012	2011
	Note	*HK$'000*	*HK$'000*
Trade receivables	*(a)*	**199,652**	172,934
Bill receivables	*(b)*	**–**	9,286
		199,652	182,220

Notes:

(a) The Group's trading terms with customers are mainly on credit. During the year, the credit terms generally range from 30 to 120 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

10. TRADE AND BILL RECEIVABLES (CONT'D)

(a) (cont'd)

The Group's aging analysis of trade receivables, based on invoice date, and net of allowance, is as follows:

	2012	2011
	HK$'000	*HK$'000*
0 to 90 days	**190,098**	166,392
91 to 180 days	**3,328**	3,960
181 to 365 days	**4,403**	1,702
Over 365 days	**1,823**	880
	199,652	172,934

Reconciliation of allowance for trade receivables during the year is set out below:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**3,635**	5,862
Allowance for the year	**1,147**	2,164
Reversal for the year	**–**	(748)
Bad debt written off	**(1,147)**	(3,679)
Exchange difference	**–**	36
At 31 December	**3,635**	3,635

As at 31 December 2012, trade receivables of approximately HK$41,848,000 (2011: HK$33,398,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An aging analysis of these trade receivables is as follows:

	2012	2011
	HK$'000	*HK$'000*
Up to 3 months	**33,099**	28,217
Over 3 months	**8,749**	5,181
	41,848	33,398

(b) The bill receivables are repaid within 3 months after the end of reporting period.

11. TRADE PAYABLES

The Group's aging analysis of trade payables, based on invoice date, is as follows:

	2012	2011
	HK$'000	*HK$'000*
0 to 90 days	**123,122**	140,714
91 to 180 days	**3,624**	2,182
181 to 365 days	**341**	402
Over 365 days	**1,210**	1,179
	128,297	144,477

SCOPE OF WORK OF RSM NELSON WHEELER

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 have been agreed by the Group's auditors, RSM Nelson Wheeler, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2012. The work performed by RSM Nelson Wheeler in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by RSM Nelson Wheeler on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Over the past financial year, the Group continued to operate under challenging conditions caused by the volatile global economy, which refers to the economic uncertainty hovering over Europe and the United States, and slowing economic growth in some Asian countries. With an uncertain consumption sentiment, the new product launch plans of consumer electronics brands tend to be less fixed hence EMS manufacturers need to have the capability of arranging production within a shorter leadtime. The increasing difficulty in securing stable orders as well as high production costs in areas such as operating expenses and labour cost in both the electronics manufacturing services segment and the distribution business segment have both contributed to an erosion on the profitability of the Group.

During the Year, the Group recorded operating losses in new business areas including GAEMS that had not yet fully ramped up a distribution network; the China sales network including setting up of a sales centre in Shanghai and the development of an e-commerce platform both being at the inception stage; and a new operation in India, which has not commenced its manufacturing activities.

Despite the unfavourable operating environment, the Group's revenue amounted to HK$1,458.2 million, 11.4% higher than HK$1,309.4 million in the previous year. Gross profit also slightly increased by 4.5% to HK$281.3 million, compared to HK$269.3 million in 2011. Profit attributable to owners of the Company amounted to HK$23.3 million (2011: HK$57.1 million).

The Group continued maintaining a healthy cash flow during the review period, with cash and cash equivalents of HK$161.8 million (2011: HK$147.8 million). The Board recommended a final dividend of HK cents 2.0 per share for the Year. Together with an interim dividend of HK cents 1.5 per share already paid, total dividend per share will amount to HK cents 3.5.

EMS Business

The EMS business recorded a turnover of HK$787.9 million (2011: HK$802.7 million), accounting for 54.0% of total turnover (2011: 61.3%). During the year under review, the weakened consumer sentiment led the Group's customers to be highly cautious when placing orders, preferring terms that curtailed production lead time, as well as smaller volumes and replenishing inventory when necessary rather than making bulk purchases.

During the Year, the Group continued to offer a diversified product portfolio, including telecommunications and non-telecommunications products, with the highest quality standards to its internationally renowned consumer electronics brand customers. It has also stepped up various cost control measures in order to moderate the impact of rising material and labour costs on the Group's profitability. These measures included increasing both automation and staff training to enhance production efficiency, and in turn increase yield and lower its production cost per unit. Meanwhile, it has further strengthened its partnership with its suppliers to ensure a stable supply of raw materials for production.

Distribution Business

The total turnover of distribution businesses amounted to HK$670.3 million (2011: HK$506.7 million), representing a year-on-year increase of 32.3%. The increased sales of multimedia products, including TrekStor's e-Book reader and tablet PC, helped the Group's distribution business to grow steadily and take up a greater proportion of total turnover.

i. Telecommunications Products

For the telecommunications business, which is principally engaged in the distribution of small and medium business phone systems ("SMB phone systems") in Americas, segment revenue reached HK$158.4 million in 2012 (2011: HK$153.8 million). Leveraging its strong R&D capability, the Group broadened its product series via the launch of a VoIP SMB Phone System, thus consolidating its leading position in the SMB phone system market in the US. Meanwhile, it sought to further extend its distribution to potential emerging markets.

ii. Multimedia Products & Computer Accessories

During the reporting period, this area of the Group's operation recorded a 31.5% growth in turnover to HK$440.6 million (2011: HK$335.1 million). As one of the top e-Book reader brands in Germany, the Group has been able to maintain its competitiveness among a few global players through effective marketing campaigns and extensive distribution channels. To strengthen its line-up, the new TrekStor e-Book reader model featuring state-of-the-art technology was launched in 2012, and tablet PC products were also unveiled in the second half of 2012. Both new products series have recorded positive market response.

iii. Gaming and Entertainment Products

During the Year, the Group continued to identify ways to accelerate the growth of its gaming and entertainment products distribution business. One of the major steps made was the signing of a hardware licensing agreement with Microsoft in June 2012, which helped expose the GAEMS product series to the extensive retail and distribution channels of Microsoft's products and related accessories. The new series – GAEMS Sentry and Vanguard have also been well received by the market since its launch in October 2012. In addition, the Group has broadened the distribution channels of its products to the nationwide retail network of a US video game and entertainment products retailer towards the end of 2012, aiming to gradually improve the business performance in 2013.

iv. Others

While developing its existing business, the management is keen to identify suitable acquisition opportunities which complement the Group's existing business and bolster expansion of its distribution network. In September 2012, Telefield has entered into the Subscription Agreement to acquire 53% of the enlarged issued share capital of Fargo Telecom at a consideration of HK$15.0 million in cash. Fargo Telecom is a distributor and provider of wireless products and solutions. The Group believes that the agreement offers a unique opportunity to accelerate the growth of its distribution business, while Fargo Telecom will bring additional technical expertise and business opportunities in developing high-end niche communications products, as well as to broaden the Group's product and solutions range.

Geographical Analysis

Total revenue from major European countries (Germany, United Kingdom, Switzerland, France and Italy) rose 12.5% to HK$727.8 million (2011: HK$646.8 million), accounting for 49.9% of the Group's overall turnover. In the United States, the revenue generated in that country amounted to HK$231.1 million (2011: HK$227.9 million), representing 15.8% of total turnover. In respect to the PRC (mainly in Hong Kong), revenue was recorded at HK$285.8 million, up 18.0% year-on-year from HK$242.1 million in 2011. As for other countries, turnover rose by 10.9% to HK$213.5 million.

FINANCIAL INFORMATION

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2012, the Group recorded total revenue of HK$1,458.2 million, an increase of 11.4% as compared to last year. The Group managed to have a strong growth in revenue as a result of the increase in EMS business and the continued contribution of the distribution businesses.

The Group's reporting segments are strategic business units that offer different products and services. There are two broad groups of business units for segment accounting purpose, EMS and Distribution whereas the latter can be subdivided into telecommunications products, multimedia products and computer accessories, gaming and entertainment products and others.

The Group's other operating segments include the distribution of wireless communications products and others.

For the year ended 31 December 2012, the revenue from EMS decreased by 1.8% to HK$787.9 million (2011: HK$802.7 million), whereas the revenue from Distribution segment increased by 32.3% to HK$670.3 million (2011: HK$506.7 million).

The increase in revenue was mainly attributable to the growth in the sale of non-telecommunication products in both EMS and distribution business by 16.5% to HK$1,148.1 million (2011: HK$985.6 million), which in turn contributes 78.7% (2011: 75.3%) of the overall revenue. It is the ongoing policy of the Group to increase its emphasis to products with higher profit margin non-telecommunication products.

Non-telecommunications products of the Group's EMS segment mainly include appliances and appliances control products and multimedia products; whilst non-telecommunications products of the Group's distribution business segment mainly include multimedia products and computer accessories under the brand "TrekStor" and the mobile electronic gaming and entertainment systems under the brand "GAEMS".

The growth in the revenue generated from non-telecommunications products was mainly attributable to the following factors:

The "TrekStor" brand continued its strength in launching its e-book reader products and it also enriched its product range with tablet computer in its multimedia products category in Germany in 2012. The Revenue generated from this segment of HK$440.6 million (2011: HK$335.1 million) representing an increase of 31.5% and the revenue also accounted for approximately 30.2% (2011: 25.6%) of the Group's total revenue for the year ended 31 December 2012; and

The revenue of HK$22.9 million recorded in the sale of the wireless communications devices under "Fargo" upon the acquisition of the subsidiary since October 2012 and the continuing revenue generated from the mobile electronic gaming and entertainment systems under "GAEMS" of HK$48.4 million (2011: HK$17.8 million).

Cost of Sales

Cost of sales increased by 13.2% from HK$1,040.1 million in 2011 to HK$1,176.9 million in 2012. The increase was mainly due to an increase in the volume of raw materials and components purchased by 15.0% to HK$987.8 million (2011: HK$859.2 million), primarily attributable to an increase in the sale of distribution businesses, and EMS non-telecommunications products.

Gross Profit

Gross profit increased by 4.5% from HK$269.3 million to HK$281.3 million, while the gross profit margin slightly reduced to 19.3% (2011: 20.6%). The gross profit was contributed by the EMS segment of 53.1% (2011: 55.0%) and distribution business of 46.9% (2011: 45.0%). The increase in gross profit was primarily attributable to the following reasons:

(i) The distribution segment of the Group remained strong growth both in volume and gross profit in the year. The volume increased by 32.3% and the gross profit of the segment increased by 8.9% to HK$132.0 million (2011: HK$121.3 million) with the improving result of the distribution of multimedia products and computer accessories under the brand "TrekStor" and the full year contribution resulting from the distribution of the mobile gaming entertainment systems under the brand "GAEMS" and the additional contribution resulting from the distribution of wireless communications products under the brand "Maestro" from the newly acquired business in late 2012 respectively.

(ii) The continuing expansion into the distribution business gives the increasing level of gross profit for the year 2012. An increasing portion of the gross profit is now derived from distribution businesses 46.9% (2011: 45.0%) during the year.

Other income

Other income increased by 109.1% from HK$7.5 million in 2011 to HK$15.7 million in 2012. One of the major items in the Year is the sum of HK$7.8 million derived from the reversal of overly provided custom duty provisions upon the confirmation of the categorisation of the product by the Court in Germany.

Selling and distribution expenses

Selling and distribution expenses accounted for approximately 6.1% in 2011 and 6.3% in 2012 of the Group's revenue respectively. The Group maintained similar level of selling and distribution expenses to the Group's revenue as last year.

Administration expenses

Administration expenses accounted for approximately 7.0% in 2011 and 8.6% in 2012 of the Group's revenue respectively. The increase is mainly caused by the impact of full year operation of the subsidiaries joined in second half of 2011 topped up with the additional expenses recorded for the newly acquired subsidiaries during the year 2012.

Other operating expenses

Other operating expenses increased by 61.1% from HK$28.7 million in 2011 to HK$46.3 million in 2012. The increase was mainly attributable to the additional research and development cost of HK$13.6 million expended by the Group to enhance its design and manufacturing ability and the realised loss and unrealised fair value loss on derivative instruments of HK$8.3 million in relation to Group's coverage of its currency exposure in Euro dollars.

Finance costs

The Group's finance costs mainly comprise interest payments for the Group's bank loans, import/export loans, factoring charges and implicit interest on financial liabilities. The Group's finance costs were approximately HK$8.4 million in 2011 and HK$10.9 million in 2012, represented approximately 0.6% and 0.7% of its revenue, respectively.

Income tax expenses

The Group's income tax expense represents amounts of income tax paid by the Group, at the applicable tax rates in accordance with the relevant laws and regulations in Hong Kong, PRC, Japan, the US, India and Germany. The Group had no tax payable in other jurisdictions during the years ended 31 December 2011 and 2012.

The Group's effective income tax rates for the years ended 31 December 2011 and 2012 were approximately 11.8% and 15.3%, respectively. The increase in the Group's effective tax rate during the year 2012 was primarily attributable to the increase in tax provision of the Group's overseas subsidiary in Germany.

Profit attributable to owners of the Company

The profit attributable to owners of the Company decreased by approximately 59.1% from approximately HK$57.1 million for the year ended 31 December 2011 to approximately HK$23.3 million for the year ended 31 December 2012. The Group's net profit margin attributable to owners of the Company decreased from approximately 4.4% for the year ended 31 December 2011 to approximately 1.6% for the year ended 31 December 2012.

The decrease was mainly attributable to the significant increases in costs of goods sold in the EMS segment due to increase in labour costs caused by labour shortage and compliance with minimum wage requirement in the People's Republic of China and the associated production costs as a result of the appreciation of Renminbi, and the increase in selling and distribution expenses caused by the increase in volume of business under distribution segment.

Profit for the year attributable to non-controlling interests

Profit for the year attributable to non-controlling interests amounts to the loss of HK$3.8 million for the year ended 31 December 2012 (2011: profit of HK$3.5 million). The increase in the net profit contributed primarily by TrekStor, the indirect owned subsidiary of the Company in Germany, was offset by losses incurred by the other indirectly owned overseas subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

The Group generally finances its operations and capital expenditure by internally generated cash flows and the proceeds from the Company's initial public offering in January 2011.

As at 31 December 2012, the cash and cash equivalents amounted to HK$161.8 million, representing an increase of HK$14.0 million from 2011. Respective sum of 39.0%, 42.2% and 13.1% of the cash and cash equivalents was denominated in RMB, US dollars and HK dollars and others 5.7% was denominated in various currencies.

The Group's current ratio reflects a strong position at 1.56 times (2011: 1.62 times).

As at 31 December 2012, the total interest-bearing bank borrowings were HK$79.9 million (2011: HK$51.9 million), comprised primarily of bank loans and overdrafts and import/export loans. These borrowings are all repayable within one year. The majority of these borrowings were denominated in US dollars, Hong Kong dollars or Euro and the interest rates applied were primarily subject to floating rate terms.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of HK$81.9 million such that no gearing ratio applies.

Cash flow

In 2012, HK$35.5 million was generated from the operating activities respectively, whilst HK$9.2 million were received on financing activities and HK$31.3 million were spent on investing activities respectively. Net cash inflow from financing activities was mainly related to the net bank borrowings raised of HK$27.7 million offset by the dividend paid of HK$18.5 million.

Exchange risk exposure

The Group mitigates its foreign exchange rate risk through the use of derivative financial instruments. The Group primarily enters into foreign currency forward contracts and put option (the put option enables the Group to sell Euro at a designated strike price) to reduce the effects of fluctuating foreign currency exchange rates, in particular, the exchange rate between Euro and HK dollars. The Group categorises these instruments as being entered into for purposes other than trading.

As at 31 December 2012, the Group had currency option and forwards contacts of fair value of approximately HK$Nil million and negative of HK$8.1 million respectively. The contract amounts of the option and forward contracts are Euro 2.0 million and Euro 12.5 million respectively.

Capital expenditure

Capital expenditure for 2012 amounted to HK$16.9 million and capital commitments as at 31 December 2012 amounted to HK$11.6 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and machinery to cope with the increase in business volume.

Pledge of assets

As at 31 December 2011 and 2012, none of the Group's assets was pledged.

Contingent liabilities

As at 31 December 2012, the Group has a patent infringement claim lodged by E-Ink Corp. against one of its subsidiary, seeking for an injunction against the sale of ebook reader and for a compensation of HK$10.3 million. The management considers E-Ink Corp.'s allegations are without merits and thus no provision for loss had been provided.

During 2011, a copyright collecting agency has unilaterally announced new copyright fees for certain products of the Group. Management estimated that the alleged claim from the copyright collecting agency at the end of reporting period is approximately HK$40.1 million (2011: HK$32.3 million). The chargeable rate is still pending for the agreement between the agency and the industry representatives, and should the negotiation fails, the chargeable rate will be determined by the Court in Germany. Base on the latest available information, the directors are of the opinion that it is not probable that the Group will be required to settle the relevant alleged claim in full value and provision has been duly made by the Group to cover the expected maximum liabilities pursuant to the best knowledge of the management.

Acquisitions, disposals and significant investment

During the year ended 31 December 2012, the Group acquired the 53% equity interest of Fargo Telecom Holdings Limited ("Fargo Telecom"), a company incorporated in the British Virgin Islands, at a subscription price of HK$15.0 million pursuant to a share subscription agreement. The Group also undertakes to further acquire, by stages but not later than 30 April 2015, up to 42.3% the equity interests of Fargo Telecom currently held by the non-controlling parties of Fargo Telecom. The consideration of the shares will not be exceeding HK$20 million and it is determined by the 5 times of the net profits after tax of Fargo Telecom for the years as agreed.

Apart from the aforesaid transaction, there was no material acquisition, disposal or investment by the Group.

Human resources

As at 31 December 2012, the Group had 2,800 employees in various operating units located Hong Kong, USA, Germany and PRC. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, it offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

Nevertheless, there is no share option scheme put in place as at 31 December 2012.

PROSPECTS

Though the global economy remains challenging and rising production and labour costs weigh on most manufacturers, the Group is cautiously optimistic and looks forward to improvement of its results performance in the year ahead. It will continue to execute the proven growth strategies of its EMS and distribution business, aiming to achieve greater synergies of the business to enhance long-term growth and profitability. While the EMS business remains the major source of revenue, it is expected that the distribution business will account for a higher proportion moving forward.

Leveraging its industry-leading technology know-how as well as insightful market intelligence, the management will continue to emphasize the development of niche market products. Encouraged by the increasing awareness of the TrekStor brand, e-Book reader and tablet PCs will contribute more to segment sales, capturing a greater share of the rapidly growing e-Book reader and tablet PC markets in Europe, particularly Germany but also elsewhere. The acquisition of Fargo Telecom, should further strengthen its R&D capabilities of the telecommunications segment, which has been one of its major income contributors. The Group is also delighted to see a recovery in its gaming accessories area since late 2012, supported by an expanded sales network.

Through strategic acquisitions in the past few years, the Group has already established an extensive business network in the US, Germany, other European and Asian countries. While further exploring potential markets within its existing network coverage, the Group aims to tap emerging markets such as China, Russia and Brazil. Its operations unit in India is planning to kick-start the EMS business in 2013.

Striving to maintain its position in the electronic products sector, the Group is partnering with The Hong Kong Polytechnic University on a project entitled "R&D Platform for New Generation Beam for Medical Ultrasound Scanner," under which the Group is entitled to enjoy priority use of the research results in the development of ultrasound technology used in beauty care equipment and ultimately in medical equipment. The Group is constantly striving to reinforce its R&D capability, so as to cope with more stringent product requirements of its EMS customers. In view of the prevailing challenging environment, it plans to allocate more resources on the ongoing training of staff as well as factory workers, in order to achieve a higher level of production efficiency and capability.

Looking ahead, 2013 is expected to continue presenting a fair mix of challenges and opportunities. Nevertheless, by bolstering Telefield's competitiveness on a variety of fronts, as well as having well-defined business strategies in place, the management is optimistic in achieving solid and balanced growth in the long run.

OTHER INFORMATION

Dividends

The Board recommended the payment of a final dividend of HK cents 2.0 per ordinary share in respect of the year to shareholders on the register of members of the Company on 10 June 2013. Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around 26 June 2013. The recommendation of the final dividend has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 6 June 2013 to Monday, 10 June 2013 (both days inclusive), during such period no transfer of shares will be registered. To ensure the entitlement to the final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on Wednesday, 5 June 2013.

Purchase, Sale or Redemption of Listed Securities of the Company

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of the subsidiaries during the year ended 31 December 2012.

Code on Corporate Governance Practices

The Company is incorporated in the Cayman Islands and has its shares listing on the Hong Kong Stock Exchange on 27 January 2011 (the "Listing Date"). The corporate governance practices are based on the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (together the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the period from the Listing Date to 31 December 2012, the Company has applied the principles and complied with all the applicable code provisions set out in the Code, except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer" and this is deviated from the code provision A.2.1 of the Code.

Mr. Cheng Han Ngok Steve, who acts as the chairman and the executive director of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The roles of the respective executive directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility to comply with the said code provision. If compliance with the said provision is determined, appropriate persons will be nominated to assume the different roles of chairman and chief executive officer.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions carried out by the directors. All directors, after specific enquiries by the Company, confirmed that they had complied with the required standard set out in the Model Code throughout the Period.

Audit Committee and Review of Accounts

The Audit Committee currently has three members comprising Dr. Kwan Pun Fong Vincent (Chairman), Mr. Au-Yang Cheong Yan Peter and Dr. Xue Quan, all being independent non-executive directors. The primary duties of the Audit Committee are mainly to review and supervise the financial reporting process and internal control system of the Group.

The annual results of the Company have been reviewed by the Audit Committee.

Publication of Results Announcement

This annual results announcement is available for viewing on the websites of the Stock Exchange at http://www.hkexnews.hk and the Company at www.telefieldgroup.com.hk.

By Order of the Board
TELEFIELD INTERNATIONAL (HOLDINGS) LIMITED
Cheng Han Ngok Steve
Chairman

Hong Kong, 21 March 2013

As at the date of this announcement, the executive directors are Cheng Han Ngok Steve, Poon Ka Lee Barry, Ng Kim Yuen, Fok Pui Yin and Lee Kai Bon, and the independent non-executive directors are Au-Yang Cheong Yan Peter, Kwan Pun Fong Vincent and Xue Quan.