TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
TCL通訊科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2618)

RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

Unaudited results for the six months ended 30 June

	2016 (HK$'000)	2015 (HK$'000)	Change (%)
Revenue	**10,931,795**	13,226,923	-17%
Gross profit	**2,227,269**	2,554,668	-13%
Gross profit margin (%)	**20.4%**	19.3%	+1.1%
EBITDA	**220,018**	655,809	-66%
Profit attributable to owners of the parent	**22,360**	452,667	-95%
Net profit	**11,338**	453,585	-98%
Basic earnings per share attributable to ordinary equity holders of the parent (HK cents)	**1.76**	36.58	-95%
Diluted earnings per share attributable to ordinary equity holders of the parent (HK cents)	**1.74**	36.01	-95%

OPERATIONAL HIGHLIGHTS

- Total sales volume of handsets and other products reached 33.1 million units for the first half of 2016, representing a year-on-year ("y-o-y") decrease of 2%.
- Total sales volume of smart devices for the first half of 2016 declined by 12% y-o-y to 17.4 million units.
- Overall average selling price ("ASP") declined to US$42.6 from US$50.7 over the same period last year.
- Revenue for the first half of 2016 declined by 17% y-o-y to HK$10.9 billion.
- Gross profit margin increased slightly to 20.4% in the first half of 2016, compared with 19.3% in the same period of last year.
- Net profit of HK$11 million was recorded in the first half of 2016, declined by 98% y-o-y.
- Basic earnings per share was 1.76 HK cents, declined by 95% y-o-y.

The board of directors (the "Board") of TCL Communication Technology Holdings Limited ("TCT" or the "Company") announced the unaudited condensed consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 June 2016, with comparative figures for the same period last year as follows and these condensed interim consolidated financial statements have not been audited, but have been reviewed by the audit committee of the Company:

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and six months ended 30 June

	Notes	**Six months ended 30 June 2016 (Unaudited) HK$'000**	Six months ended 30 June 2015 (Unaudited) HK$'000	**Three months ended 30 June 2016 (Unaudited) HK$'000**	Three months ended 30 June 2015 (Unaudited) HK$'000
REVENUE	3	**10,931,795**	13,226,923	**5,377,726**	6,537,390
Cost of sales		**(8,704,526)**	(10,672,255)	**(4,225,618)**	(5,260,892)
Gross profit		**2,227,269**	2,554,668	**1,152,108**	1,276,498
Other income and gains	3	**490,629**	381,646	**217,209**	226,790
Research and development costs		**(778,180)**	(812,744)	**(420,971)**	(392,713)
Selling and distribution expenses		**(915,240)**	(897,164)	**(437,714)**	(446,072)
Administrative expenses		**(904,635)**	(621,073)	**(462,363)**	(306,359)
Other expenses		**(24,210)**	(66,768)	**(13,167)**	(43,980)
Finance costs	4	**(58,085)**	(68,835)	**(21,602)**	(33,684)
Share of profits and losses of associates		**(6,060)**	(1,791)	**(5,319)**	(750)
Share of losses of joint ventures		**(18,065)**	(636)	**(10,308)**	(636)
PROFIT/(LOSS) BEFORE TAX	5	**13,423**	467,303	**(2,127)**	279,094
Income tax expense	6	**(2,085)**	(13,718)	**4,189**	(10,936)
PROFIT FOR THE PERIOD		**11,338**	453,585	**2,062**	268,158
Attributable to:					
Owners of the parent		**22,360**	452,667	**8,115**	267,706
Non-controlling interests		**(11,022)**	918	**(6,053)**	452
		11,338	453,585	**2,062**	268,158
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7				
Basic		**1.76 HK cents**	36.58 HK cents	**0.64 HK cents**	21.41 HK cents
Diluted		**1.74 HK cents**	36.01 HK cents	**0.63 HK cents**	21.06 HK cents

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June

	Six months ended 30 June 2016 (Unaudited) HK$'000	Six months ended 30 June 2015 (Unaudited) HK$'000	**Three months ended 30 June 2016 (Unaudited) HK$'000**	Three months ended 30 June 2015 (Unaudited) HK$'000
PROFIT FOR THE PERIOD	**11,338**	453,585	**2,062**	268,158
OTHER COMPREHENSIVE LOSS				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Share of other comprehensive income of an associate	**2,124**	-	**2,124**	-
Changes in fair value of available-for-sale investments, net of tax	**110,829**	4,958	**57,927**	2,106
Cash flow hedges:				
Effective portion of changes in fair value of hedging instruments arising during the period	**(68,771)**	157,153	**(96,249)**	(52,190)
Reclassification adjustment for losses/(gains) included in the consolidated statement of profit or loss	**105,773**	(308,879)	**85,206**	(141,891)
Income tax effect	**-**	(22,588)	**-**	(22,588)
	37,002	(174,314)	**(11,043)**	(216,669)
Exchange differences on translation of foreign operations	**(203,291)**	(61,663)	**(262,896)**	40,270
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(53,336)**	(231,019)	**(213,888)**	(174,293)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(53,336)**	(231,019)	**(213,888)**	(174,293)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(41,998)**	222,566	**(211,826)**	93,865
Attributable to:				
Owners of the parent	**(30,976)**	221,648	**(205,773)**	93,413
Non-controlling interests	**(11,022)**	918	**(6,053)**	452
	(41,998)	222,566	**(211,826)**	93,865

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2016 (Unaudited) HK$'000**	31 December 2015 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,643,237**	1,724,658
Investment properties		**100,431**	104,114
Prepaid land lease payments		**103,327**	106,353
Other intangible assets		**1,498,906**	1,463,537
Goodwill		**253,954**	253,954
Investments in associates		**33,318**	35,813
Investments in joint ventures		**22,532**	26,321
Available-for-sale investments		**463,962**	352,591
Deferred tax assets		**288,226**	276,479
Other non-current assets		**36,546**	20,446
Total non-current assets		**4,444,439**	4,364,266
CURRENT ASSETS			
Inventories		**3,385,771**	2,541,199
Trade receivables	8	**5,081,619**	5,824,206
Factored trade receivables		**195,574**	271,167
Notes receivable		**13,393**	17,492
Prepayments, deposits and other receivables		**1,167,303**	1,600,323
Due from related companies		**515,506**	296,680
Tax recoverable		**17,083**	3,734
Derivative financial instruments		**67,184**	93,873
Pledged deposits		**695,883**	1,028,340
Cash and cash equivalents		**586,645**	565,707
Total current assets		**11,725,961**	12,242,721
CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,303,271**	2,803,213
Trade and notes payables	9	**4,820,203**	4,789,906
Bank advances on factored trade receivables		**195,574**	271,167
Other payables and accruals		**3,447,926**	3,283,900
Derivative financial instruments		**208,983**	269,776
Provision for warranties		**358,859**	422,912
Due to related companies		**298,827**	143,978
Tax payable		**7,655**	32,833
Total current liabilities		**11,641,298**	12,017,685
NET CURRENT ASSETS		**84,663**	225,036
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,529,102**	4,589,302

__INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION__ (continued)

	Note	**30 June 2016 (Unaudited) HK$'000**	31 December 2015 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,529,102**	4,589,302
NON-CURRENT LIABILITIES			
Retirement indemnities		**5,290**	5,197
Long service medals		**2,081**	2,044
Interest-bearing bank borrowings		**155,172**	178,268
Due to a related company		**20,806**	63,677
Deferred tax liabilities		**18,612**	18,096
Other non-current liability		**276,152**	283,683
Total non-current liabilities		**478,113**	550,965
Net assets		**4,050,989**	4,038,337
EQUITY			
Equity attributable to owners of the parent			
Share capital	10	**1,275,545**	1,267,799
Shares held for share award scheme		**(5,105)**	(6,512)
Reserves		**2,705,733**	2,691,327
		3,976,173	3,952,614
Non-controlling interests		**74,816**	85,723
Total equity		**4,050,989**	4,038,337

Notes

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 the forward currency contracts, interest rate swaps and listed equity investments 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. The accounting policies and basis of preparation adopted in the preparation of these financial statements are the same as those used in the annual financial statements for the year ended 31 December 2015, except for the changes in relation to the following revised HKFRSs and HKASs that are adopted for the first time for the current period's financial statements.

Impact of revised HKFRSs and HKASs

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The nature and the impact of each amendment is described below:

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

Notes (continued)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(b) Amendments to HKAS 1 include narrow-focus improvement in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;
(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments do not have any significant impact on the Group's financial statements.

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

Notes (continued)

2. OPERATING SEGMENT INFORMATION

For management purpose, the management considers there is only one segment which is research and development, manufacture and sale of mobile phones and other products, and rendering of services. All of the Group's products or services are of a similar nature and subject to similar risk and returns.

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
North America	**3,425,755**	3,222,032
Latin America	**2,939,966**	3,999,963
Europe	**2,772,617**	3,202,708
Middle East and Africa	**892,701**	1,275,202
Asia Pacific	**544,344**	366,815
China	**356,412**	1,160,203
Total	**10,931,795**	13,226,923

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

(b) Non-current assets

Because the majority of the Group's non-current assets and capital expenditure were located/incurred in China, accordingly, no related geographical information of non-current assets is presented.

Notes (continued)

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of mobile phones and other products sold and services rendered during the period, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue		
Sale of mobile phones, other products and rendering of services	**10,931,795**	13,226,923
Other income and gains		
Bank interest income	**15,722**	40,246
Gross rental income	**9,788**	5,777
Subsidy income*	**55,671**	49,932
Value-added-tax ("VAT") refunds**	**168,734**	126,317
Processing income	**-**	3,947
Exchange gain, net	**210,894**	131,281
Dividend income from available-for-sale investments	**3,421**	731
Others	**26,399**	23,415
	490,629	381,646

* Subsidy income mainly represents various government grants received by the Group in the PRC. In the opinion of the management, there are no unfulfilled conditions or contingencies relating to these grants.

** During the six months ended 30 June 2016 and 2015, several subsidiaries of the Company in the PRC, being designated as software enterprises, were entitled to VAT refunds at the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17%.

Notes (continued)

4. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on loans	**50,471**	59,015
Interest on discounted notes and factored trade receivables	**7,614**	9,820
	58,085	68,835

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**8,704,526**	10,672,255
Depreciation of property, plant and equipment	**133,116**	121,816
Depreciation of investment properties	**1,650**	969
Recognition of prepaid land lease payments	**937**	1,048
Amortisation of computer software, intellectual property and ALCATEL brand license	**28,529**	36,083
Research and development costs:		
Deferred expenditure amortised	**626,115**	615,243
Current period expenditure	**152,065**	197,501
	778,180	812,744
Minimum lease payments under operating leases	**80,559**	67,238
Impairment of trade receivables recognised/(reversed)	**38,173**	(1,076)
Impairment of other receivables	**5,813**	-
Net loss/(gain) on disposal of items of property, plant and equipment	**559**	(2,202)
Loss on deemed disposal of investment in a subsidiary	**6,729**	-

Notes (continued)

6. INCOME TAX EXPENSE

The Group calculates income tax of the period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax in the interim consolidated statement of profit or loss of the period are:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current		
Charge for the period:		
PRC	**9,631**	8,904
France	**3,894**	9,342
Russia	**1,772**	2,168
Italy	**1,703**	35
The United States	**21**	69
Mexico	**109**	-
Korea	**623**	-
Overprovision in prior years	**(2,138)**	(3,471)
	15,615	17,047
Deferred	**(13,530)**	(3,329)
Tax charge for the period	**2,085**	13,718

Notes (continued)

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,268,646,378 (six months ended 30 June 2015: 1,237,628,651) in issue during the period.

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

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**22,360**	452,667

	Number of shares For the six months ended 30 June	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,268,646,378**	1,237,628,651
Effect of dilution - weighted average number of ordinary shares:		
Share options	**9,677,321**	18,459,817
Awarded shares	**5,296,933**	874,533
	14,974,254	19,334,350
	1,283,620,632	1,256,963,001

Notes (continued)

8. TRADE RECEIVABLES

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

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Within 3 months	**4,197,088**	5,025,842
4 to 12 months	**867,128**	792,822
Over 12 months	**102,696**	63,155
	5,166,912	5,881,819
Impairment	**(85,293)**	(57,613)
	5,081,619	5,824,206

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

9. TRADE AND NOTES PAYABLES

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

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Within 6 months	**4,766,063**	4,732,916
7 to 12 months	**11,936**	23,730
Over 12 months	**42,204**	33,260
	4,820,203	4,789,906

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

Notes (continued)

10. SHARE CAPITAL

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000
Authorised:			
Ordinary shares of par value HK$1 each at 1 January 2015, 31 December 2015 , 1 January 2016 and 30 June 2016	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
As at 1 January 2015	1,220,766,408	1,220,766	630,976
Exercise of share options	37,867,818	37,869	157,675
Vesting of awarded shares	9,164,290	9,164	23,981
Reclassification of lapsed share options	-	-	165
Final 2014 dividend	-	-	(91,467)
Interim 2015 dividend	-	-	(161,218)
As at 31 December 2015 and 1 January 2016	1,267,798,516	1,267,799	560,112
Exercise of share options *	7,331,071	7,331	29,889
Vesting of awarded shares **	415,495	415	1,960
Reclassification of lapsed share options	-	-	679
As at 30 June 2016	1,275,545,082	1,275,545	592,640

* During the six months ended 30 June 2016, 7,331,071 share options were exercised at subscription prices ranging from HK$2.74 to HK$5.80 per share, resulting in the issue of 7,331,071 ordinary shares of par value HK$1 each for a total cash consideration of approximately HK$ 26,791,000.

** During the six months ended 30 June 2016, under share award scheme of the Company, 415,495 ordinary shares of par value HK$1 each were issued at no consideration.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2016, consumer power and sentiment was affected by the slowdown of global economic growth and continuing currency fluctuation in emerging markets. According to market research firm IDC and the Group's data, shipment volumes of handsets and smartphones globally witnessed decline to varying extents in the first quarter of 2016, the total shipment volumes of handsets was down by 3% year-on-year. During the Period (For the six months ended 30 June 2016, the same below), the Group's total sales volume of handsets and other products was down by 2% year-on-year to 33.1 million units. Due to the downward trend of the industry and business restructuring of the Group, the Group's smartphones sales continued to slow. During the Period, total sales volume of smart devices declined by 12% year-on-year to 17.4 million units. The Group's revenue saw a year-on-year decline of 17% to HK$10.9 billion during the period.

Chinese handset manufacturers' active overseas expansion and the rise of local brands in consumer markets have further intensified competition in the global smartphone market. The average selling price ("ASP") of the Group's products declined to US$42.6 in the first half of 2016 from US$50.7 in the same period in 2015. However, the Group managed to maintain its gross profit margin at a steady level of 20.4% through continuous product portfolio enhancement and market-oriented product development, as well as focusing on business areas with high profitability. In addition, hardware development for virtual reality (VR) products is initiating and the Group will focus on the industry buzz and continue to further invest in product R&D and brand-building. During the Period, the Group's operating expenses (including research and development costs, selling and distribution expenses and administrative expenses) were HK$2,598 million. Net profit was HK$11 million. Basic earnings per share declined to 1.76 HK cents from 36.58 HK cents over the corresponding period in the previous year.

Performance of Product Segments

The Group continued to enhance its product portfolio and launched a number of smart devices equipped with the latest technology and functions, which were widely recognised by the market.

1. Product Business

1.1. Handsets

For smartphones, the Group has been committed to improving users' experience and achieving breakthroughs in technology innovation. During the Period, the flagship product of the year, **Alcatel IDOL 4** series, had already been launched worldwide. The series is designed to grasp the development potential arising from virtual reality: the 5.5-inch 2K AMOLED display **Alcatel IDOL 4S** is equipped with an innovative packaging that can be transformed into a VR box, offering users a brand new 360-degree viewing and gaming perspective.

TCL 750, the first product launched by the Group follow the restructuring in the China region, echoes the brand philosophy "Tout Comme La Vie" with its slim and elegant look. The in-built pose guidance function "Pose Meizi" is able to optimise users' photo-taking experience. In addition, the smartphone possesses personalised functions such as fingerprint recognition and double login for social accounts, offering flexibility for users to separate living and work matters.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Performance of Product Segments (continued)

1. Product Business (continued)

1.2. Tablets, BigPad and Wearable Devices

For tablets, the Group launched its first 2-in-1 tablet, **Alcatel PLUS 10,** using the Windows 10 operating system. The tablet is equipped with a detachable 4G keyboard that can serve as a Wi-Fi hotspot, together with multiple ports, supports three working modes, satisfying various requirements of mobile office use and entertainment. It has been highly reviewed by many well-known international media outlets and received three recognitions in media 'best-of' lists.

The **Xess** series is a BigPad device customised for family use and is committed to establishing a content platform by building a new and entertaining home living mode. During the Period, **Xess** series officially entered the North American markets and partnered with the kids' channel Nickelodeon, providing more choices for global uses of media content.

On the wearable devices front, **Alcatel MOVE TIME TRACK&TALK WATCH**, the Group's third smart watch, possesses in-built GPS to ensure children's safety, while the pre-loaded quick dial function enables parents and children to communicate freely anytime, anywhere.

1.3. Research and Development

The Group continued to expand its investment in VR technology and equipment development. During the Period, **Alcatel** brand became one of the first global handset brands committed to support Google's Daydream platform. Currently, the Group is working closely with Google to improve audio and display experience of media content, including music, gaming and entertainment. Looking forward, the Group will enrich the VR ecosystem through hardware, content and user experience. By doing so, the Group will be able to offer consumers the latest VR technology that resonates with their needs.

2. Services Business

In order to promote "Intelligence + Internet" strategic transformation and establish the "Product + Service" business model, the Group aims to nurture competitive vertical application business, establish an internet ecosystem and build a massive user platform, based on the hardware platform of smart devices and principles of encompassing innovative breakthroughs, open cooperation, reorganisation and consolidation.

2.1. Cloud Services

The Group partnered with its parent company TCL Corporation and Cisco to establish Guangzhou Sky-tech Cloud Info Co., Ltd to develop an enterprise cloud services platform, providing domestic enterprises and industrial users with a cloud-based, multi-terminal video communications platform and cooperative office system. In addition, the Group joined with TCL Corporation and a third-party investor to build "Sky-tech Cloud", a public enterprise services platform, in support of the Group's cloud service. As an important part of the "Double +" business transformation strategy, the enterprise cloud will be combined with family and individual clouds to build a seamlessly integrated cloud service platform with "mobile scene, family scene and enterprise scene". As well as providing basic resource services, it will also provide support, on-site application and data consolidation to the Group and TCL Corporation in the development of internet applications and service platforms, O2O platforms, a financial services platform, Big Data operations, and other value-added services.

Business Review (continued)

Performance of Product Segments (continued)

2. Services Business (continued)

2.1. Cloud Services (continued)

The data centre, billing system and customer system of "Sky-tech Cloud" was launched in 2015 and further cooperation has been undertaken with a number of well-known enterprises within the country after the official commercial launch of the first product, "**Sky-tech WebEx**". During the Period, "Sky-tech Cloud" also introduced Cisco Hosted Collaboration Solution (HCS) to enrich its collaboration service categories.

2.2. Mobile Internet Application Platforms

As of 30 June 2016, the number of cumulative activated mobile users of the Group's mobile internet platform had almost doubled year-on-year to 34.5 million, while the number of cumulative application downloads amounted to nearly 400 million. 2016 is the year for laying the foundation of the mobile internet application platform. During the Period, the Group completed a three-year mobile internet business plan and consolidated its existing product line, gradually laying a solid foundation with a focus on enhancing product core competencies and basic mobile internet operating capabilities.

The mobile internet application platform will take advantage of the Group's favourable position in hardware imports to integrate its own services and content with those of third parties, with Cloud Platform and Big Data as bases, through application development enhancement centred on system applications, system security, cleansing optimisation and flow distribution, to establish a mobile internet ecosystem. Additionally, the platform will enhance the operational capabilities of mobile internet users and gradually establish sales channels for application services based on advertising and games.

2.3. Online Financial Service Platform (Third-party Mobile Payment Gateway)

As of 30 June 2016, the settlement of the online financial services platform (third-party mobile payment gateway), which was jointly developed by the Group and TCL Corporation, recognised a settlement amount of HK$7.3 billion, an increment of over 3 times year-on-year, which connected nearly 460 e-commerce business users.

The Group will continue to consolidate the innovative "Hardware + Payment" industry model with its third-party mobile payment platform. Through integration of Big Data and financial payment on an immense scale, the Group will be able to build customised, in-depth development strategies for commercial users in sectors such as digital entertainment, mobile e-commerce, business travel, mobile gaming and O2O applications, with a focus on mobile payment, internet payment and point-of-sale (POS) payment. In addition, the Group will launch competitive and innovative payment products and financial services to promote TCL Group's development in industrial finance.

2.4. TCL Smart Home

TCL Smart Home (a joint venture of TCL Corporation, the Group and TCL Multimedia Technology Holdings Limited (a fellow subsidiary)) is positioned to provide smart home intelligent solutions for TCL Corporation's products.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

<u>Business Review</u> (continued)

Performance of Product Segments (continued)

2. Services Business (continued)

2.4. TCL Smart Home (continued)

During the Period, the establishment of the fundamental platform for smart home business was completed, followed by the launch of the brand new "Intelligent Control Centre". As the core unit of the smart home system solution, the Intelligent Control Centre consists of two important components named **Uki** gateway and **Super APP 2.0**. These components are responsible for connecting to the core and smart living butler respectively. These not only help users to achieve centralised control and manage smart home devices, but also satisfy the service needs of users' daily lives, providing the most comprehensive integrated smart home management service available. In addition, TCL Smart Home is active in establishing the Smart Home Solution + Intelligent Community platform and specific pilot cooperation work has already begun in cities such as Qingdao, Xiamen and Shenzhen.

Regional Business Performance

In order to respond to market changes in a timely manner, the Group employs a lean and effective organisational structure to achieve healthy operations and maintain stable profitability.

Revenue of handsets and other products **For the six months ended 30 June**			
(HK$ Million)	**2016**	2015	Change (%)
North America	**3,426**	3,222	+6%
Latin America	**2,940**	4,000	-27%
Europe	**2,773**	3,203	-13%
Middle East and Africa ("MEA")	**893**	1,275	-30%
Asia Pacific ("APAC")	**544**	367	+48%
China	**356**	1,160	-69%
Total	**10,932**	13,227	-17%
Including: smart devices	**9,279**	11,876	-22%

1) North America

During the Period, the revenue for the North America increased by 6% year-on-year to HK$3.4 billion; the sales volume of handsets and other devices increased by 4% year-on-year to 7.1 million units, within which smart devices increased by 37% year-on-year to 4.3 million units. Due to close long-term relationships with major operators, tablet business in the region has recorded continuous growth. The Group will actively seek to capture the opportunities brought by the VR trend and continue to strengthen sales and upgrades of 4G products.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Regional Business Performance (continued)

2) Latin America

Business in this region was affected due to the prolonged currencies fluctuations and the rise of local brands. During the Period, revenue for the Latin America region declined by 27% year-on-year to HK$2.9 billion; the sales volume of handsets and other products in Latin America declined by 7% year-on-year to 9.9 million units, within which sales volume of smart devices declined by 16% year-on-year to 5.5 million units. The Group will continue to closely monitor the credit and currency risks in the region and take appropriate protective measures where necessary. It will also protect its leading market share in entry-level smartphones.

3) Europe

Sales in Europe has been mainly driven by North Europe and Germany in order to compensate exchange rate impact in Russia and South Europe. During the Period, the Group's revenue in the European region decreased by 13% year-on-year to HK$2.8 billion; sales volume of handsets and other devices increased by 14% year-on-year to 8.7 million units, while smart devices decreased by 7% year-on-year to 4.2 million units. The Group is committed to broadening open market and online channels in the region.

4) Middle East and Africa ("MEA")

During the Period, the Group achieved a revenue of HK$900 million in the Middle East and Africa, with a decline of 30% year-on-year; the sales volume of handsets and other devices in the MEA region decreased by 1% year-on-year to 3.9 million units, within which smart devices decreased by 28% year-on-year to 1.9 million units. The rising number of domestic brands in the region has intensified the market competition. In the coming quarter, the Group will continue to focus on entry-level products to safeguard its existing market share.

5) Asia Pacific ("APAC")

During the Period, the Group recorded a revenue of HK$500 million in the Asia Pacific region, with a year-on-year increase of 48%; the sales volume of handsets and other products increased by 83% year-on-year to 1.7 million units, within which sales volume of smart devices increased by 46% year-on-year to 0.9 million units. Despite currency devaluation, business in the region continued to demonstrate improvement due to the Group's long-term investment in open markets and e-commerce channels. Riding on this success, the Group will further develop its online channels.

6) China

Due to the gradual, ongoing saturation of the handset market in China, the growth in demand for new devices has slowed. During the Period, the revenue from the region declined by 69% year-on-year to HK$400 million; the sales volume of handsets and other products in China declined 52% year-on-year to 1.8 million units, while sales volume of smart devices was down 71% year-on-year to 0.6 million units. The Group has completed a strategic adjustment and business reorganization during the period and will focus on a three-tier development which consists of operators, open channels and e-commerce. The Group will also actively increase channel coverage and seek more partnerships in pre-installation, promotion and joint marketing. At the same time, the Group will focus on the implementation of its "Premium Strategy" under the new brand philosophy, with the aim of improving brand image and improving product prices.

Business Review (continued)

Marketing and Brand Building

2016 is a year of rebranding for the Group. In January, the Group announced the launch of its new brand concept in China region, "Tout Comme La Vie", which incorporates the concepts of TCL + V (Victory). According to the new positioning, the Group will implement a quality strategy focusing on four different consumer groups: T pragmatic, C young, L fashion, V business; to provide differentiated quality products with unique aesthetics and functions, serving the Chinese consumer. In June, **TCL 750**, the first smartphone that echoes the Group's brand philosophy "Tout Comme La Vie", was launched in Beijing and went on to general release in China. In addition, the "**ALCATEL ONETOUCH**" brand was officially simplified to "**Alcatel**" and it was launched at *MWC 2016*. The new branding seeks to offer the affordable innovative function matches with the millennials' pursuit of enjoyment in every day.

During the Period, the Group participated in several major global industrial trade shows, including CES *2016* in Las Vegas and *MWC 2016* in Barcelona, to enhance its market position and brand building. A number of the Group's new products were launched at these trade shows and won recognition from leading international media. For instance, the tablet **PIXI 3 (8)** was named "2016 CES Top Pick" by *Windows Central,* while BigPad **Xess** was recognised as the "Best of CES 2016" by *Android Authority*. The **IDOL 4** series smartphone and 2-in-1 tablet **PLUS 10** received plaudits in 17 categories from international top-tier media including *Android Central*, *Phone Arena*, *Tom's Guide* and *Windows Central*.

During the Period, the Group was also named "Global Smart Phone Top 10" and "Global Smart Connected Devices Top 15" by *International Data Group (IDG)*. This recognition not only showed the Group's achievement in innovation, but also reflected the Group's overall capability as a leading global smart devices manufacturer.

Business Outlook

Looking ahead, the slowdown in growth of the global mobile communications terminal industry, instability of the global economy and gloomy external commercial environment will bring tremendous challenges, which increase operation and credit risks. The persistently strong US dollar will further weaken the purchasing power of emerging markets. In addition, competition within the industry is getting fiercer. Overseas markets not only need to face competition from Chinese mobile phone manufactures actively seeking overseas opportunities, but also the growing threat from local brands in various regions.

The Group will continue to implement efficient credit controls and currency hedging policies to maintain a healthy and stable financial position. The Group will also further enhance its core competences and continue to improve technological innovation capability and international management ability, thereby preemptively capturing opportunities to expand market share. The Group will actively expand in regional markets, consolidate and strengthen its dominant position in overseas markets; further optimise its management capability and improve internal communication and collaboration efficiency; continue to promote the "Double +" business transformation strategy of "Intelligence + Internet" and "Products + Services", enhance intelligence and internet application service ability, seize the opportunity to develop new strategic business and cultivate new growth drivers, thereby maximising shareholders' value.

Financial Review

Results

For the six months ended 30 June 2016, the Group's unaudited consolidated revenue amounted to HK$10,932 million (six months ended 30 June 2015: HK$13,227 million), representing a year-on-year decrease of 17% as compared to the same period last year.

The Group's gross profit margin increased to 20.4% from 19.3% in the same period of last year.

EBITDA and profit attributable to owners of the parent were HK$220 million (six months ended 30 June 2015: HK$656 million) and HK$22 million (six months ended 30 June 2015: HK$453 million) respectively. Basic earnings per share were 1.76 HK cents (six months ended 30 June 2015: 36.58 HK cents).

Inventory

The Group's inventory (including factory inventory only) turnover period was 28 days (year ended 31 December 2015: 26 days) for the period under review.

Trade Receivables

Credit period ranged from 30 to 180 days on average and the trade receivable (excluding factored trade receivables) turnover period was 81 days (year ended 31 December 2015: 89 days) for the period under review.

Significant Investments and Acquisitions

There has been no significant investments and acquisitions during the six months ended 30 June 2016 and up to the date of this announcement.

Fund Raising

There has been no fund raising during the six months ended 30 June 2016 and up to the date of this announcement.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period under review. The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, interest-bearing bank borrowings and bank advances on factored trade receivables. The cash and cash equivalents balance as at 30 June 2016 amounted to HK$587 million, of which 50% were in Renminbi ("RMB"), 22% in United States dollars ("USD"), 9% in Euro and 19% in Hong Kong dollars and other currencies for the operations. The Group's total interest-bearing borrowings as at 30 June 2016 were HK$2,654 million, in which the interest-bearing bank borrowings were HK$2,458 million and bank advances on factored trade receivables were about HK$196 million. The Group's financial position remained healthy with equity attributable to owners of the parent of HK$3,976 million as at 30 June 2016 (31 December 2015: HK$3,953 million). The Group had a gearing ratio of 16% as at the end of the period under review (31 December 2015: 20%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Financial Review (continued)

Pledged Deposits

Deposit balance of HK$696 million (31 December 2015: HK$1,028 million) represented the pledged deposit for interest-bearing bank borrowings, banking facilities and other financial instruments of HK$665 million (31 December 2015: HK$995 million) and retention guarantee for factored trade receivables of HK$31 million (31 December 2015: HK$33 million).

Capital Commitments and Contingent Liabilities

The capital commitments of the Group were as follows:

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**-**	4,528
Capital contributions payable to an associate	**77,586**	77,508
Capital contributions payable to a joint venture	**14,040**	28,646
	91,626	110,682

The Group had no significant contingent liabilities as at 30 June 2016 (31 December 2015: Nil).

Foreign Exchange Exposure

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contracts. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employees and Remuneration Policy

The Group had around 13,000 employees as at 30 June 2016. Total staff costs for the period under review were HK$1,124 million. The remuneration policy was reviewed in accordance with current legislation, market conditions and both individual and company performance.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

During the period under review, the Company has fully complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for Code Provisions A.6.7, D.1.4, E.1.2 and F.1.1 as explained below.

Code Provision A.6.7

In respect of this Code Provision, due to respective pre-arranged business commitment which must be attended to by Mr. HUANG Xubin and Mr. LIAO Qian, both being non-executive directors of the Company, were not present at the annual general meeting of the Company held on 18 May 2016. However, Mr. LAU Siu Ki, Mr. LOOK Andrew and Mr. KWOK Hoi Sing, all of whom being independent non-executive directors of the Company, were all present at the said annual general meeting to ensure an effective communication with the shareholders thereat.

Code Provision D.1.4

In respect of this Code Provision, except Mr. LI Dongsheng, Mr. Nicolas Daniel Bernard ZIBELL, Mr. LIAO Qian and Mr. LAU Siu Ki, the Company has not entered into the formal letters of appointment with directors of the Company (the "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 appointments already exists between the Company and the Directors, and so there is no written record of the same. However, all Directors are subject to retirement by rotation at least once every three years in accordance with the memorandum and articles of association of the Company and Code Provision A.4.2.

Code Provisions E.1.2

In respect of this Code Provision, due to respective pre-arranged business commitment which must be attended to by Mr. LI Dongsheng, the chairman, was not present at the annual general meeting held on 18 May 2016. However, Mr. GUO Aiping, being an executive Director and the chief executive officer of the Company, present at the annual general meeting and was elected as the chairman thereof pursuant to the memorandum and articles of association to ensure an effective communication with the shareholders thereat.

Code Provision F.1.1

In respect of this Code Provision, the company secretary of the Company (the "Company Secretary"), Ms. PANG Siu Yin ("Ms. PANG"), is a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors. Ms. PANG has been appointed as the Company Secretary since 2004. The Company has also assigned the acting chief financial officer of the Company, Mr. WANG Pui, Janus (resigned on 23 July 2016) and Mr. SONG Yu (appointed on 23 July 2016) as the contact person with Ms. PANG. Information in relation to the performance, financial position and other major developments of the Group are speedily delivered to Ms. PANG through the contact person assigned, to enable Ms. PANG to get hold of the Group's development promptly without material delay and with her expertise and experience, the Company is confident that having Ms. PANG as the Company Secretary is beneficial to the Group's compliance with the relevant Board procedures, applicable laws, rules and regulations.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

INTERIM DIVIDEND

The Board has resolved not to declare payment of any interim dividend for six months ended 30 June 2016 (six months ended 30 June 2015: 12.80 HK cents)

AUDIT COMMITTEE

The unaudited consolidated results for the period ended 30 June 2016 have been reviewed by the audit committee of the Company which comprises four members, namely Mr. LAU Siu Ki (chairman), Mr. LOOK Andrew and Mr. KWOK Hoi Sing, all being independent non-executive Directors and Mr. HUANG Xubin, a non-executive Director.

On behalf of the Board
TCL Communication Technology Holdings Limited
LI Dongsheng
Chairman

Hong Kong, 12 August 2016

As at the date of this announcement, the Board comprises Mr. LI Dongsheng, Mr. GUO Aiping, and Mr. Nicolas Daniel Bernard ZIBELL, being the executive Directors; Mr. HUANG Xubin and Mr. LIAO Qian, being the non-executive Directors; Mr. LAU Siu Ki, Mr. LOOK Andrew and Mr. KWOK Hoi Sing, being the independent non-executive Directors.