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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult a licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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This Scheme Document is provided for information purposes only and is not intended to and does not constitute, or form part of, any offer to purchase or subscribe for or an invitation to purchase or subscribe for any securities of the Offeror or the Company.

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**T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED**  
(T.C.L. 實業控股(香港)有限公司)  
*(Incorporated in Hong Kong with limited liability)*

**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)

**PROPOSAL FOR THE PRIVATISATION OF  
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED  
(TCL 通訊科技控股有限公司)  
BY THE OFFEROR  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW) WITH CANCELLATION PRICE OF  
HK\$7.50 FOR EVERY SCHEME SHARE**

**Financial Adviser to Offeror**



**BNP PARIBAS**

**Independent Financial Adviser to Independent Board Committee**



**REORIENT Financial Markets Limited**

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All capitalised terms used in this Scheme Document have the meanings set out in the section headed "Definitions" on pages 1 to 10 of this Scheme Document.

A letter from the Board is set out on pages 19 to 30 of this Scheme Document. A letter from the Independent Board Committee containing its advice to the Independent Shareholders, the Optionholders, and in relation to the Trustee so far as the interest of the grantees of the relevant Unallotted Awarded Shares are concerned in respect of the Proposal, the Scheme, the Option Offer and the Share Award Offer is set out on pages 31 and 32 of this Scheme Document. A letter from REORIENT, being the Independent Financial Adviser, containing its advice to the Independent Board Committee in respect of the Proposal, the Scheme, the Option Offer and the Share Award Offer is set out on pages 33 to 59 of this Scheme Document. An Explanatory Statement regarding the Scheme is set out on pages 60 to 85 of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held at Rooms 1-2, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 14 September 2016 at 10:00 a.m. and 11:30 a.m. respectively (or in the case of the EGM as soon as after the conclusion or adjournment of the Court Meeting) are set out on pages 217 to 222 of this Scheme Document. Whether or not you are able to attend the Court Meeting and/or EGM, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed on them respectively, and to deposit them at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under paragraph headed "20. Action to be taken" in the Explanatory Statement of this Scheme Document. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll.

This Scheme Document is jointly issued by T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED and TCL Communication Technology Holdings Limited.

**The English language text of this Scheme Document, the Option Offer Letter, the Share Award Offer Letter, the Option Form of Acceptance and the Award Form of Acceptance shall prevail over the Chinese language text.**

22 August 2016

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## DEFINITIONS

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*In this Scheme Document, the following expressions have the meanings respectively set opposite them, unless the context otherwise requires:*

“acting in concert”	has the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” and “concert parties” shall be construed accordingly
“Announcement”	the announcement dated 12 June 2016 issued jointly by the Offeror and the Company pursuant to Rule 3.5 of the Takeovers Code in relation to the Proposal and the Scheme
“Announcement Date”	12 June 2016, being the date of the Announcement
“associate”	has the meaning ascribed to it in the Takeovers Code
“Award Form of Acceptance”	the form of acceptance despatched to the Trustee in connection with the Share Award Offer
“Awarded Shares”	the Shares awarded under the Share Award Scheme from time to time which have not been vested to the grantee(s) of such Shares, and the Board shall have the discretion to determine whether upon vesting to the relevant grantees such Shares are to be purchased from market or subscribed. As at the Latest Practicable Date, there were 7,820,051 outstanding Awarded Shares, comprising 566,668 Trustee Held Allotted Awarded Shares and 7,253,383 Unallotted Awarded Shares
“Beneficial Owner”	any beneficial owner of the Shares registered in the name of any nominee, trustee, depository or any other authorised custodian or third party
“Board”	the board of Directors
“BNP”	BNP Paribas Securities (Asia) Limited, the financial adviser to the Offeror and a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Offeror
“Business Day”	a business day on which the Stock Exchange is open for the transaction of business
“Cancellation Price”	the cancellation price of HK\$7.50 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme

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## DEFINITIONS

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“CCASS”	the Central Clearing and Settlement System established and operated by the HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participant in CCASS as a custodian participant
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or an Investor Participant
“Companies Law”	the Companies Law (2013 Revision), as consolidated and revised, of the Cayman Islands
“Company”	TCL Communication Technology Holdings Limited (TCL通訊科技控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange (stock code: 2618)
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as set out in the paragraph headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Statement of this Scheme Document
“connected person”	has the meaning given to it in the Listing Rules
“controlling shareholder”	has the meaning given to it in the Listing Rules
“Court Hearing”	the hearing by the Grand Court of the petition seeking sanction of the Scheme and to confirm the proposed reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares
“Court Meeting”	the meeting of the Independent Shareholders (who are also Scheme Shareholders) to be convened at the direction of the Grand Court for the purposes of considering and, if thought fit, approving the Scheme, notice of which is set out in Appendix IV to this Scheme Document, and any adjournment thereof
“Court Order”	the order of the Grand Court sanctioning the Scheme under section 86 of the Companies Law
“Directors”	directors of the Company

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## DEFINITIONS

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“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and Companies Law, being the date on which a copy of the Order of Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be Thursday, 29 September 2016 (Cayman Islands time) (i.e. Friday, 30 September 2016 (Hong Kong time))
“EGM”	the extraordinary general meeting to be convened on Wednesday, 14 September 2016 at 11:30 a.m. (or as soon as after the conclusion or adjournment of the Court Meeting) by the Company to consider and if appropriate, to approve, among others, (i) the special resolution in relation to the reduction of issued share capital of the Company by cancelling the Scheme Shares; (ii) the special resolution in relation to the withdrawal of listing of the Shares upon the Scheme becoming effective; and (iii) the ordinary resolution in relation to the restoration of the issued share capital of the Company to its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled, credited as fully paid at par, to the Offeror
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“Explanatory Statement”	the explanatory statement issued in compliance with the rules of the Grand Court, which is set out on pages 60 to 85 of this Scheme Document
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Interim Results Announcement”	the interim results announcement issued by the Company dated 12 August 2016 in relation to the unaudited consolidated financial results of the Company for the six months ended 30 June 2016

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## DEFINITIONS

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“Independent Board Committee”	the independent board committee of the Company, which comprises all the independent non-executive Directors, namely Mr. Lau Siu Ki, Mr. Look Andrew and Mr. Kwok Hoi Sing, and a non-executive Director, namely Mr. Liao Qian, established by the Board to make a recommendation to the Independent Shareholders, the Optionholders and, in relation to the Trustee so far as the interest of the grantees of the relevant Unallotted Awarded Shares are concerned (as the case may be) in respect of, among others, the Proposal, the Scheme, the Option Offer and the Share Award Offer
“Independent Shareholders”	the Shareholders other than the Offeror, the Offeror Concert Parties and the Trustee (in respect of the Trustee Held Allotted Awarded Shares and the Trustee Held Pool Shares)
“Independent Financial Adviser” or “REORIENT”	REORIENT Financial Markets Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee in relation to the Proposal, the Scheme, the Option Offer and the Share Award Offer
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Last Trading Day”	3 June 2016, being the last trading day prior to the date of suspension of trading in the Shares on the Stock Exchange before the issuance of the Announcement
“Latest Practicable Date”	19 August 2016, being the latest practicable date prior to the despatch of this Scheme Document for the purpose of ascertaining certain information contained in this Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2016 or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct
“Meeting Record Date”	Wednesday, 14 September 2016, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of Shareholders to attend and vote at the Court Meeting and the EGM
“Offer Period”	has the meaning given to it in the Takeovers Code

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## DEFINITIONS

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“Offeror”	T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED (T.C.L.實業控股 (香港) 有限公司), a limited company incorporated in Hong Kong and directly wholly owned by TCL Corp.
“Offeror Board”	the board of director(s) of the Offeror
“Offeror Director(s)”	the director(s) of the Offeror
“Offeror Concert Parties”	parties acting in concert with the Offeror in relation to the Company, including, Mr. Li Dongsheng, Mr. Guo Aiping, Mr. Huang Xubin, Mr. Du Yuanhua and Mr. Bo Lianming
“Optionholder(s)”	holder(s) of the Share Options
“Option Amount”	the amount of cash required for the Option Offer
“Option Cancellation Price”	the cancellation price per outstanding Share Option(s) payable in cash by the Offeror to the Optionholders pursuant to the Option Offer
“Option Form(s) of Acceptance”	the form(s) of acceptance despatched to the Optionholders in connection with the Option Offer
“Option Offer”	the offer made on behalf of the Offeror to the holders of the outstanding Share Options
“Option Offer Letter(s)”	the letter dated 22 August 2016 setting out the terms and conditions of the Option Offer sent separately to the Optionholders and substantially in the form set out in Appendix VI to this Scheme Document
“Option Offer Record Date”	29 September 2016, or such other time and date as shall have been announced to the Optionholders, being the record date for the purpose of determining entitlements under the Option Offer
“Optionholders”	the holders of the Share Options
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited the Shares with, a CCASS participant
“person”	any natural person, firm, company, joint venture, partnership, corporation, association or other entity (whether or not having a separate legal personality) or any of them as the context so requires

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## DEFINITIONS

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“PRC”	the People’s Republic of China, but for the purpose of this Scheme Document, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by the Company on 13 September 2004, as amended from time to time
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares
“Proxy Forms”	the pink form of proxy in respect of the Court Meeting for the Independent Shareholders (who are also Scheme Shareholders) and the white form of proxy in respect of the EGM for all Shareholders, which are enclosed with this Scheme Document
“Record Date”	29 September 2016, being the record date for determining entitlements under the Scheme
“Record Time”	4:00 p.m. (Hong Kong time) on the Record Date
“Reduction”	the proposed reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares
“Registered Owner”	any owner of the Shares (including without limitation a nominee, trustee, depository or any other authorised custodian or third party) entered in the register of members of the Company
“Registrar of Companies”	the registrar of companies appointed under the Companies Law
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Relevant Period”	the period commencing on the date six months before the Announcement Date and ending on the Latest Practicable Date
“Rules of the Grand Court”	the Cayman Islands Grand Court Rules (1995) (Revised Edition), including Practice Direction 2/2010
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme”	the proposed scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law for the implementation of the Proposal, with or subject to any modification, addition or condition approved or imposed by the Grand Court and agreed to by the Company



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## DEFINITIONS

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“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Scheme Shareholders”	holder(s) of Scheme Shares as at the Meeting Record Date
“Scheme Shares”	Share(s) other than those held by the Offeror
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Registrar”	the Company’s branch share registrar in Hong Kong (being Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong)
“Shareholders”	holder(s) of Shares
“Shares”	ordinary share(s) of HK\$1.00 each in the share capital of the Company
“Share Award Amount”	the amount of cash required for the Share Award Offer
“Share Award Offer”	the offer made on behalf of the Offeror in respect of the Unallotted Awarded Shares
“Share Award Offer Letter”	the letter dated 22 August 2016 setting out the terms and conditions of the Share Award Offer sent separately to the Trustee and substantially in form set out in Appendix VII to this Scheme Document
“Share Award Offer Price”	the cancellation price per each Unallotted Awarded Share payable in cash by the Offeror pursuant to the Share Award Offer, which shall equal to the Cancellation Price
“Share Award Offer Record Date”	29 September 2016, or such other time and date as shall have been announced to the Trustee, being the record date for the purpose of determining the entitlements under the Share Award Offer in respect of the Unallotted Awarded Shares
“Share Award Scheme”	the share award scheme adopted by the Company on 11 March 2008, as amended from time to time

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## DEFINITIONS

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“Share Award Scheme Amendments”	amendments to the respective rules of the Share Award Scheme and the Trust Deed to, among other matters, accelerate the vesting date of the Awarded Shares to the date on which the Scheme becoming effective, and to facilitate the Trustee to pay the Cancellation Price for the Trustee Held Allotted Awarded Shares and the Share Award Amount to the grantees of the Awarded Shares and the Trustee shall accept the Share Award Offer on behalf of the grantees for the Awarded Shares and to pay such grantees by reference to the number of Awarded Shares attributable to such grantees
“Share Option(s)”	the share option(s) granted under the Pre-IPO Share Option Scheme or the Share Option Scheme from time to time
“Share Option Scheme”	the share option scheme adopted by the Company on 28 April 2014, as amended from time to time
“Share Option Schemes”	collectively, the Pre-IPO Share Option Scheme and the Share Option Scheme
“Share Option Schemes Amendments”	amendments to the respective rules of the Share Option Schemes, in accordance with the respective rules of the Share Option Schemes and the applicable Listing Rules, so that, among others, if the Scheme is formally proposed to the Shareholders prior to the expiry of the Share Options, the Optionholders shall be entitled to exercise their respective Share Options (to the extent not exercised) to its full extent or to the extent specified in the Optionholders’ notice to the Company in exercise of their respective Share Options at any time thereafter and up to 3:00 p.m. on the Record Date; and the Share Options (to the extent not exercised) will lapse automatically on the date on which the Option Offer closes
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“TCL Corp.”	TCL Corporation (TCL集團股份有限公司), a limited liability company registered in the PRC and the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000100)
“Trustee” or “BOCI-Prudential”	BOCI-Prudential Trustee Limited, which holds Shares for the benefit of the grantees of the Share Award Scheme and others subject to the Trust Deed

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## DEFINITIONS

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“Trust Deed”	the trust deed of the restricted Shares award trust dated 11 March 2008 (as amended from time to time)
“Trustee Held Shares”	existing Shares held by the Trustee; and as at the Latest Practicable Date, there were 1,672,768 Trustee Held Shares which comprise (i) 566,668 Trustee Held Allotted Awarded Shares; (ii) 331,109 Trustee Held Pool Shares; (iii) 774,991 Trustee Held Nominee Shares
“Trustee Held Allotted Awarded Shares”	existing Awarded Shares held by the Trustee for designated grantees under the Share Award Scheme until vesting of such Awarded Shares pursuant to the rules of the Share Award Scheme and the relevant terms of the grants. As at the Latest Practicable Date, there were 566,668 Trustee Held Allotted Awarded Shares which were held on behalf of grantees who are neither the Offeror nor Offeror Concert Parties
“Trustee Held Nominee Shares”	existing Awarded Shares which have been vested in and which are to be transferred to the relevant grantees of Awarded Shares but which for administrative reason and as consented by the relevant grantees, were held by BOCI-Prudential as nominee on behalf of such grantees. As at the Latest Practicable Date, there were 774,991 Trustee Held Nominee Shares which were held on behalf of grantees who are neither the Offeror nor Offeror Concert Parties
“Trustee Held Pool Shares”	existing Awarded Shares held by the Trustee which have not been designated to any particular grantee yet, and which are to be utilised for satisfying future grants of share awards. As at the Latest Practicable Date, there were 331,109 Trustee Held Pool Shares
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“Unallotted Awarded Share(s)”	outstanding Awarded Shares which, upon vesting to the grantees, shall involve allotment and issue of new Shares and which have not been so allotted and issued as at the Latest Practicable Date. There were 7,253,383 Unallotted Awarded Shares as at the Latest Practicable Date
“US”	the United States of America
“US\$”	US dollars, the lawful currency of the US
“%”	per cent

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## **DEFINITIONS**

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All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and the Effective Date, which are the relevant date in the Cayman Islands. For references only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

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## ACTIONS TO BE TAKEN

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### ACTIONS TO BE TAKEN BY SHAREHOLDERS

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document and sent to Registered Owners of Shares. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are an Independent Shareholder (who is also a Scheme Shareholder), you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. (Hong Kong time) on Monday, 12 September 2016 or be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll, and the **white** form of proxy for use at the EGM should be lodged not later than 11:30 a.m. (Hong Kong time) on Monday, 12 September 2016. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of the Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Independent Shareholders (who are also Scheme Shareholders) or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of Independent Shareholders (who are also Scheme Shareholders) to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 12 September 2016 to Wednesday, 14 September 2016 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 9 September 2016.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

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## **ACTIONS TO BE TAKEN**

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### **ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS**

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

### **ACTIONS TO BE TAKEN BY THE OPTIONHOLDERS**

The Option Offer Letter is being sent to each Optionholder, together with this Scheme Document and an Option Form of Acceptance. If you are an Optionholder and you will wish to accept the Option Offer, you must complete and return the duly completed and executed Option Form of Acceptance so as to reach the Offeror at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Offeror Board and marked "TCL Communication Technology Holdings Limited – Option Offer" by no later than 4:00 p.m. on 14 October 2016 (or such later date and time as may be notified to you by the Company, the Offeror or BNP). No acknowledgement of receipt of any Option Form of Acceptance or other document evidencing the grant of Share Options or any other document will be given. Under the Option Offer, (i) for Share Options with exercise price below the Cancellation Price, the Option Cancellation Price equals to the "see-through" price (being the Cancellation Price minus the exercise price of the Share Options) for each outstanding Share Option that they hold; and (ii) for Share Options with exercise price equal to or exceeding the Cancellation Price, the Option Cancellation Price equals a

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## ACTIONS TO BE TAKEN

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nominal amount of HK\$0.01 for each outstanding Share Option that they hold. If you do not complete an Option Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your Share Options (to the extent not exercised) will lapse automatically on the date on which the Option Offer closes.

**All Optionholders must lodge the duly completed and executed Option Form of Acceptance as mentioned above at or before 4:00 p.m. on 14 October 2016 (or such later date and time as may be notified to you by the Company, the Offeror or BNP).**

You are urged to read the instructions and other terms and conditions of the Option Offer in the Option Offer Letter, substantially in the form set out in Appendix VI to this Scheme Document.

**ALL OPTIONHOLDERS SHOULD NOTE THAT PURSUANT TO THE IMPLEMENTED SHARE OPTION SCHEMES AMENDMENTS, ALL OUTSTANDING SHARE OPTIONS CAN ONLY BE EXERCISED AT ANY TIME UP TO 3:00 P.M. ON THE RECORD DATE AND THE SHARE OPTIONS (TO THE EXTENT NOT EXERCISED) WILL LAPSE AUTOMATICALLY ON THE DATE ON WHICH THE OPTION OFFER CLOSES. IF YOU ARE AN OPTIONHOLDER AND WISH TO BE QUALIFIED FOR ENTITLEMENTS UNDER THE SCHEME, YOU SHOULD LODGE NOTICES OF EXERCISE OF YOUR EXERCISABLE SHARE OPTIONS BY 3:00 P.M. ON 29 SEPTEMBER 2016. OR ELSE YOU WILL ONLY BE ENTITLED TO ACCEPT THE OPTION OFFER. IF YOU NEITHER EXERCISE YOUR OUTSTANDING EXERCISABLE SHARE OPTIONS BY 3:00 P.M. ON 29 SEPTEMBER 2016 NOR ACCEPT THE OPTION OFFER, YOU WILL RECEIVE NEITHER THE CANCELLATION PRICE NOR THE OPTION CANCELLATION PRICE FROM THE OFFEROR.**

### **ACTIONS TO BE TAKEN BY THE TRUSTEE**

In respect of the Trustee Held Shares, if you are the Trustee and the Scheme becomes effective, the Offeror shall pay to you an amount equivalent to the Cancellation Price times the number of the Trustee Held Shares, which (i) in respect of the Trustee Held Allotted Awarded Shares and the Trustee Held Nominee Shares, shall be held on trust by you for the relevant designated grantees of Awarded Shares and shall be paid by you to such grantees of the Awarded Shares by reference to the number of Awarded Shares attributable to such grantees on the Share Award Offer Record Date as soon as practicable after you receive such amount from the Offeror under the Scheme; and (ii) in respect of the Trustee Held Pool Shares, the amount shall be held on trust by you for and on behalf of the Company and shall be paid by you to the Company in accordance with the rules of the Share Award Scheme.

In respect of the Unallotted Awarded Shares, i.e. the shortfall between the total number of Awarded Shares and the Trustee Held Allotted Awarded Shares, the Offeror will procure to be made on its behalf the Share Award Offer to cancel the Unallotted Awarded Shares, to the extent they have not otherwise lapsed or been cancelled, in return for providing the Share Award Offer Price for each Unallotted Awarded Share on acceptance. The Offeror shall pay to you, if you are the Trustee, the Share Award Amount, being an amount equivalent to the Share Award Offer Price times the number of the Unallotted Awarded Shares as at the Share Award Offer Record Date, which shall be held on trust by you for such grantees of the Awarded Shares and shall be paid by you to such grantees of the Awarded Shares by reference to the number of Awarded Shares attributable to such grantees on the Share Award Offer Record Date as soon as practicable after you receive such amount from the Offeror under the Share Award Offer.

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## ACTIONS TO BE TAKEN

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The Share Award Offer Letter is being sent to the Trustee, together with this Scheme Document and the Award Form of Acceptance. If you are the Trustee and you will accept the Share Award Offer in accordance with the rules of the Share Award Scheme, and you must complete and return the duly completed and executed Award Form of Acceptance so as to reach the Offeror at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Offeror Board and marked "TCL Communication Technology Holdings Limited – Share Award Offer" by no later than 4:00 p.m. on 14 October 2016 (or such later date and time may be notified to you by the Company, the Offeror or BNP). No acknowledgement of receipt of the Award Form of Acceptance or any other document will be given.

**The Trustee must lodge the duly completed and executed Award Form of Acceptance as mentioned above at or before 4:00 p.m. on 14 October 2016 (or such later date and time as may be notified to you by the Company, the Offeror or BNP).**

You are urged to read the instructions and other terms and conditions of the Share Award Offer in the Share Award Offer Letter, substantially in the form set out in Appendix VII to this Scheme Document.

### EXERCISE YOUR RIGHT TO VOTE

**IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, WE URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.**

**IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, WE ENCOURAGE YOU TO PROVIDE HKSCC NOMINEES LIMITED WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR THE EGM WITHOUT DELAY (AS DETAILED IN THE SECTION "ACTIONS TO BE TAKEN – ACTION TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS" ABOVE).**

**IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.**

**IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.**



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## EXPECTED TIMETABLE

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**Hong Kong time**

(unless otherwise stated)

Date of despatch of this Scheme Document . . . . .	Monday, 22 August 2016
Date of despatch of the Option Offer Letter for the Optionholders . . . . .	Monday, 22 August 2016
Date of despatch of the Share Award Offer Letter for the Trustee . . . . .	Monday, 22 August 2016
Latest time for Optionholders to lodge notices of exercise (accompanied by full payment) of their exercisable Share Options in order to become entitled to attend and vote at the Court Meeting and the EGM <sup>(Note 1)</sup> . . . . .	before 3:30 p.m. on Friday, 9 September 2016
Latest time for lodging transfers of the Shares in order to qualify for attending and voting at the Court Meeting and the EGM . . . . .	before 4:30 p.m. on Friday, 9 September 2016
Register of members of the Company closed for determination of entitlements of the Shareholders to attend and vote at the Court Meeting and at the EGM <sup>(Note 2)</sup> . . . . .	Monday, 12 September 2016 to Wednesday, 14 September 2016 (both days inclusive)
Latest time for lodging forms of proxy in respect of the: Court Meeting <sup>(Note 3)</sup> . . . . .	10:00 a.m. on Monday, 12 September 2016
EGM <sup>(Note 3)</sup> . . . . .	11:30 a.m. on Monday, 12 September 2016
Meeting Record Date . . . . .	Wednesday, 14 September 2016
Court Meeting <sup>(Note 4)</sup> . . . . .	10:00 a.m. on Wednesday, 14 September 2016
EGM <sup>(Note 4)</sup> . . . . .	11:30 a.m. on Wednesday, 14 September 2016 (or as soon as after the conclusion or adjournment of the Court Meeting)

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## EXPECTED TIMETABLE

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Announcement of the results of the Court Meeting and the EGM published on the website of the Stock Exchange and the Company . . . . .	no later than 7:00 p.m. on Wednesday, 14 September 2016
Expected last day for dealing in the Shares on the Stock Exchange . . . . .	4:00 p.m. on Thursday, 22 September 2016
Court Hearing to sanction the Scheme and to confirm the Reduction <sup>(Note 5)</sup> . . . . .	Thursday, 22 September 2016 <b>(Cayman Islands time)</b> (i.e. Friday, 23 September 2016 <b>(Hong Kong time))</b>
Announcement of (1) the results of the Court Hearing; and (2) the intention to withdraw the listing of the Shares on the Stock Exchange . . . . .	no later than 8:30 a.m. on Monday, 26 September 2016
Latest time for lodging transfers of the Shares to qualify for entitlements under the Scheme . . . . .	4:30 p.m. on Tuesday, 27 September 2016
Register of members of the Company closed for determination of the Scheme Shareholders who are qualified for entitlements under the Scheme . . . . .	Wednesday, 28 September 2016 onwards
Latest time for Optionholders to lodge notices of exercise (accompanied by full payment) of their exercisable Share Options in order to become qualified for entitlements under the Scheme <sup>(Note 6)</sup> . . . . .	before 3:00 p.m. on Thursday, 29 September 2016
Option Offer Record Date . . . . .	Thursday, 29 September 2016
Share Award Offer Record Date . . . . .	Thursday, 29 September 2016
Record Date (for determining entitlements under the Scheme) . . . . .	Thursday, 29 September 2016
Effective Date <sup>(Note 7)</sup> . . . . .	Thursday, 29 September 2016 <b>(Cayman Islands time)</b> (i.e. Friday, 30 September 2016 <b>(Hong Kong time))</b>
Announcement of (1) the Effective Date; and (2) the withdrawal of the listing of the Shares on the Stock Exchange . . . . .	no later than 8:30 a.m. on Friday, 30 September 2016

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## EXPECTED TIMETABLE

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Expected withdrawal of the listing of  
the Shares on the Stock Exchange  
becomes effective . . . . . 4:00 p.m. on Friday, 30 September 2016

Latest time to despatch cheques for  
cash entitlements under the Scheme <sup>(Note 8)</sup> . . . . . on or before Wednesday, 12 October 2016

Latest time to accept the Share Award Offer and  
closing date of the Share Award Offer <sup>(Note 9)</sup> . . . . . 4:00 p.m. on Friday, 14 October 2016

Latest time to accept the Option Offer and  
closing date of the Option Offer <sup>(Note 10)</sup> . . . . . 4:00 p.m. on Friday, 14 October 2016

Lapse of outstanding Share Options not  
tendered under Option Offer . . . . . 4:00 p.m. on Friday, 14 October 2016

Announcement of the results of  
the Option Offer and the Share Award Offer on  
the websites of the SFC . . . . . no later than 7:00 p.m.  
on Friday, 14 October 2016

Announcement of the results of the Option Offer and the Share  
Award Offer published in one leading English language  
newspaper and one leading Chinese  
language newspaper . . . . . Saturday, 15 October 2016

Latest time to despatch cheques for cash payment under  
the Option Offer, in respect of the Share Options as  
at the Option Offer Record Date <sup>(Note 11)</sup> . . . . . on or before Tuesday,  
25 October 2016

Latest time to despatch cheques for cash payment under  
the Share Award Offer, in respect of the Unallotted Awarded  
Shares as at the Share Award Offer Record Date <sup>(Note 12)</sup> . . . . . on or before Tuesday,  
25 October 2016

**Shareholders, the Optionholders and the Trustee should note that the timetable is subject to change. Further announcement(s) will be made in the event that there is any change to the timetable.**

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## EXPECTED TIMETABLE

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*Notes:*

- (1) Optionholders who exercise their outstanding Share Options after the time and date stated above are not able to exercise their Share Options in time to entitle them to attend and vote at the Court Meeting and the EGM.
- (2) The closure of the register of members of the Company during this period is not for the purpose of determining entitlements under the Scheme. Instead, it is for the purpose of determining entitlements of the Shareholders to attend and vote at the Court Meeting and the EGM.
- (3) Forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than the time and date stated above. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll. In order to be valid, the pink form of proxy for the Court Meeting and the white form of proxy for the EGM must be deposited by the time and date stated above. Completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude a Shareholder entitled to do so from attending the relevant meeting and voting in person. In such event, the relevant form of proxy will be deemed to have been revoked.
- (4) The Court Meeting and EGM will be held at Rooms 1-2, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong at the times and dates specified above. Notice of the Court Meeting is set out in Appendix IV to this Scheme Document and Notice of the EGM is set out in Appendix V to this Scheme Document.
- (5) All references in this Scheme Document to times and dates are references to Hong Kong times and dates, other than references to the expected dates of the Court Hearing of the petition to sanction the Scheme and to confirm the Reduction and the Effective Date, which are the relevant times and dates in the Cayman Islands. Cayman Islands time is 13 hours behind Hong Kong time.
- (6) Pursuant to the implemented Share Option Schemes Amendments, if the Scheme is formally proposed to the Shareholders prior to the expiry of the Share Options, the Optionholders shall be entitled to exercise their respective Share Options (to the extent not exercised) at any time up to 3:00 p.m. on the Record Date and outstanding Share Options (to the extent not exercised) will lapse automatically on the date on which the Option Offer closes. Hence, holders of Share Options who do not exercise their respective outstanding Share Options prior to 3:00 p.m. on the Record Date shall only be entitled to accept the Option Offer.
- (7) The Scheme will become effective upon all the Conditions having been satisfied or waived, as applicable.
- (8) Cheques for cash entitlements to the Scheme Shareholders will be despatched by ordinary post in pre-paid envelopes addressed to Scheme Shareholders at their respective addresses as appearing in the register of members at the Record Date or, in the case of joint holders, at the address appearing in the register of members at the Record Date of the joint holder whose name then stands first in the register of members in respect of the relevant joint holdings as soon as possible but in any event within seven Business Days from the Effective Date. Cheques shall be posted at the risk of the addresses and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
- (9) Award Form of Acceptance, duly completed and executed in accordance with the instructions on it, must be lodged with the Offeror at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention to the Offeror Board and marked "TCL Communication Technology Holdings Limited – Share Award Offer" by no later than 4:00 p.m. on 14 October 2016 (or such later date and time as may be notified to you by the Company, the Offeror or BNP).
- (10) Option Form(s) of Acceptance, duly completed and executed in accordance with the instructions on them, must be lodged with the Offeror at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Offeror Board and marked "TCL Communication Technology Holdings Limited – Option Offer" by no later than 4:00 p.m. on 14 October 2016 (or such later date and time as may be notified to you by the Company, the Offeror or BNP).
- (11) Payment by cheque in respect of validly completed and executed Option Forms of Acceptance received after the Option Offer Record Date but at or before 4:00 p.m. on 14 October 2016 will be despatched within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of such validly completed and executed Option Forms of Acceptance.
- (12) Payment by cheque in respect of validly completed and executed Award Form of Acceptance received after the Share Award Offer Record Date but at or before 4:00 p.m. 14 October 2016 will be despatched within seven Business Days following the later of the date the Share Award Offer becomes unconditional and the date of receipt of the validly completed and executed Award Form of Acceptance.

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## LETTER FROM THE BOARD

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### 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)

*Executive Directors:*

Mr. Li Dongsheng

Mr. Guo Aiping

Mr. Nicolas Daniel Bernard Zibell

*Registered office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Non-executive Directors:*

Mr. Huang Xubin

Mr. Liao Qian

*Independent non-executive Directors:*

Mr. Lau Siu Ki

Mr. Look Andrew

Mr. Kwok Hoi Sing

*Principal place of business:*

Rooms 1910-12A, 19/F

Tower 3

China Hong Kong City

33 Canton Road, Tsimshatsui

Kowloon, Hong Kong

22 August 2016

*To the Shareholders, Optionholders and the Trustee*

Dear Sir or Madam,

**PROPOSAL FOR THE PRIVATISATION OF  
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED**

**(TCL 通訊科技控股有限公司)**

**BY THE OFFEROR**

**BY WAY OF A SCHEME OF ARRANGEMENT**

**(UNDER SECTION 86 OF THE COMPANIES LAW) WITH CANCELLATION PRICE OF**

**HK\$7.50 FOR EVERY SCHEME SHARE**

#### **1. INTRODUCTION**

On 12 June 2016, the Offeror and the Company jointly announced that on 5 June 2016, the Offeror had requested the Board to put forward a Proposal to the Scheme Shareholders for a proposed privatisation of the Company by way of the Scheme, subject to satisfaction, or waiver, as applicable, of the Conditions.

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## LETTER FROM THE BOARD

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The purpose of this Scheme Document is to provide you with further information regarding the Proposal, the Scheme, the Option Offer, the Share Award Offer and the expected timetable and to give you notices to the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in this Scheme Document, the letter from REORIENT, being the Independent Financial Adviser, set out in this Scheme Document, the Explanatory Statement of this Scheme Document and the terms of the Scheme as set out in Appendix III to this Scheme Document.

### 2. TERMS OF THE PROPOSAL

#### Scheme of Arrangement

Subject to the fulfilment or waiver (as applicable) of the Conditions as set out in the paragraph headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Statement of this Scheme Document, the Proposal will be implemented by way of the Scheme. Subject to the Scheme becoming effective, each Scheme Shareholder whose name appears in the register of members of the Company as at the Record Date will be entitled to receive HK\$7.50 in cash for each Scheme Share.

On the assumption that no outstanding Share Options are exercised, cancelled or lapsed on or before the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required to implement the Proposal in full (including the Option Amount and the Share Award Amount) would be approximately HK\$3,511.61 million, of which approximately HK\$3,369.64 million would be for the Scheme, approximately HK\$87.57 million would be for the Option Offer, and approximately HK\$54.40 million would be for the Share Award Offer.

On the assumption that all exercisable outstanding Share Options are exercised on or before the Record Date, that no unexercisable Share Options are cancelled or lapsed on or before the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required to implement the Proposal in full (including the Option Amount and the Share Award Amount) would be approximately HK\$3,635.68 million, of which approximately HK\$3,570.99 million would be for the Scheme, approximately HK\$10.29 million would be for the Option Offer, and approximately HK\$54.40 million would be for the Share Award Offer.

Assuming the Scheme becomes effective on Friday, 30 September 2016 (Hong Kong time), (i) cheques for cash entitlements under the Scheme are expected to be despatched to the Scheme Shareholders of the Cancellation Price by ordinary mail at their own risk on or before Wednesday, 12 October 2016; (ii) cheques for payment of the Option Cancellation Price are expected to be despatched to the Optionholders by ordinary mail at their own risk on or before Tuesday, 25 October 2016; and (iii) cheque for payment of the Share Award Amount is expected to be despatched to the Trustee on or before Tuesday, 25 October 2016.

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## LETTER FROM THE BOARD

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### *The Scheme*

Under the Scheme, the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares, and forthwith upon such reduction, the share capital of the Company will be increased to its former amount by the issuance to the Offeror at par of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

The Cancellation Price of HK\$7.50 per Scheme Share represents:

- a premium of approximately 34.65% over the closing price of HK\$5.57 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 43.13% over the average closing price of approximately HK\$5.24 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 47.06% over the average closing price of approximately HK\$5.10 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 45.07% over the average closing price of approximately HK\$5.17 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 36.36% over the average closing price of approximately HK\$5.50 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 135.11% over the audited consolidated net asset value per Share of approximately HK\$3.19 as at 31 December 2015; and
- a premium of approximately 7.30% over the closing price of HK\$6.99 per Share as at the Latest Practicable Date.

### **Dividends**

In general, a Cayman Islands company shall only declare and pay dividends out of either profit and/or share premium account, subject, in the case of paying dividend out of share premium account, to such company being able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is paid.

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## LETTER FROM THE BOARD

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The share premium account is described in Section 34 of the Companies Law. When a company issues shares at a premium to par value, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premium on those shares shall be transferred to the share premium account.

As disclosed in the announcement of the Company dated 18 May 2016, the Company declared a final dividend of 21.00 HK cents per Share to be paid out of the share premium account of the Company to the Shareholders whose names appeared on the register of members of the Company on 29 July 2016, which is before the Effective Date. Such declaration of a final dividend paid out of the share premium account of the Company was approved by the Shareholders on 18 May 2016.

### **The Share Option Schemes**

As at the Latest Practicable Date, there were 34,044,505 outstanding Share Options granted in aggregate under the Share Option Schemes, each relating to one Share, of which 26,846,899 outstanding Share Options are exercisable as at the Latest Practicable Date. Other than such Share Options and the Unallotted Awarded Shares, there are no other options, derivatives, warrants or other securities convertible or exchangeable into the Shares which were issued by the Company.

Your attention is drawn to the sub-paragraph headed “The Option Offer” under the paragraph headed “2. Terms of the Proposal” in the Explanatory Statement of this Scheme Document and to Appendix VI – Form of Option Offer Letter to this Scheme Document.

### **The Share Award Scheme**

As at the Latest Practicable Date, there were 7,820,051 outstanding Awarded Shares awarded under the Share Award Scheme which remain unvested, among which there were 566,668 Trustee Held Allotted Awarded Shares and 7,253,383 Unallotted Awarded Shares. Such Awarded Shares shall, upon vesting, be satisfied either by utilising the Trustee Held Allotted Awarded Shares, being existing Shares held by the Trustee, or by the Unallotted Awarded Shares, which will involve subscription of new Shares by, and the allotment and issue of new Shares to, the Trustee. As at the Latest Practicable Date, there were 1,672,768 Trustee Held Shares, which shall form part of the Scheme Shares and be subject to the Scheme, and among which 566,668 were Trustee Held Allotted Awarded Shares.

Your attention is drawn to the sub-paragraph headed “The Share Award Offer” under the paragraph headed “2. Terms of the Proposal” in the Explanatory Statement of this Scheme Document and to Appendix VII – Form of Share Award Offer Letter to this Scheme Document.



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## LETTER FROM THE BOARD

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### 3. TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$7.50 per Scheme Share and 449,285,356 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$3,369.94 million. As at the Latest Practicable Date, there are 34,044,505 outstanding Share Options granted under the Share Option Scheme each relating to one Share, of which 26,846,899 outstanding Share Options are exercisable as at the Latest Practicable Date. As at the Latest Practicable Date, there were 7,820,051 outstanding Awarded Shares awarded under the Share Award Scheme which remain unvested, of which (i) 566,668 Awarded Shares will be satisfied by the Trustee Held Allotted Awarded Shares which shall form part of the Scheme Shares; and (ii) 7,253,383 Awarded Shares will be satisfied by the Unallotted Awarded Shares which will involve the subscription of new Shares. Except for the outstanding Share Options and the Unallotted Awarded Shares, there are no other outstanding options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

On the assumption that no outstanding Share Options are exercised, cancelled or lapsed on or before 3:00 p.m. on the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required for the Proposal (before taking into account the Option Offer and the Share Award Offer to be made) would be approximately HK\$3,369.94 million. On the assumption that no outstanding Share Options are exercised, cancelled or lapsed on or before 3:00 p.m. on the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required to implement the Proposal in full (including the Option Amount and the Share Award Amount) would be approximately HK\$3,511.61 million, of which approximately HK\$3,369.94 million would be for the Scheme, approximately HK\$87.57 million would be for the Option Offer, and approximately HK\$54.40 million would be for the Share Award Offer.

On the assumption that all exercisable outstanding Share Options are exercised on or before 3:00 p.m. on the Record Date, that no unexercisable Share Options are cancelled or lapsed on or before the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required for the Proposal (before taking into account the Option Offer and the Share Award Offer to be made) would be approximately HK\$3,570.99 million. On the assumption that all exercisable outstanding Share Options are exercised on or before 3:00 p.m. on the Record Date, that no unexercisable Share Options are cancelled or lapsed on or before the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required to implement the Proposal in full (including the Option Amount and the Share Award Amount) would be approximately HK\$3,635.68 million, of which approximately HK\$3,570.99 million would be for the Scheme, approximately HK\$10.29 million would be for the Option Offer, and approximately HK\$54.40 million would be for the Share Award Offer.

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## LETTER FROM THE BOARD

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The Offeror intended to finance the cash required for the Proposal, the Scheme, the Option Offer and the Share Award Offer from a combination of its internal financial resources and a banking facility granted by Bank of China (Hong Kong) Limited in the amount of the lower of HK\$2.3 billion or 60% of the cash required to implement the Proposal in full, which may be used by the Offeror to finance the Proposal, the Scheme, the Option Offer and the Share Award Offer, if necessary. BNP, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal, the Scheme, the Option Offer and the Share Award Offer.

#### 4. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The Proposal is subject to the fulfilment or waiver (as applicable) of the Conditions to the Proposal as set out in the paragraph headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Statement of this Scheme Document. When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Company, the Offeror and all the Scheme Shareholders.

The Offeror reserves the right to waive any of Conditions (g) to (k), either in whole or in respect of any particular matter. The Company has no right to waive any of the Conditions. Conditions (a) to (f) cannot be waived in any event.

All of the Conditions will have to be fulfilled or waived (as applicable) on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), failing which the Proposal and the Scheme will lapse.

When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Offeror, the Company and all the Scheme Shareholders. Assuming that the Conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme may become effective on 29 September 2016 (Cayman Islands time) (i.e. 30 September 2016 (Hong Kong time)).

**Shareholders and investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived (as applicable). Therefore, the Proposal may or may not become effective. Shareholders and investors are advised to exercise caution when dealing in the Shares.**

#### 5. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Lau Siu Ki, Mr. Look Andrew and Mr. Kwok Hoi Sing, and a non-executive Director, namely Mr. Liao Qian, has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal, the Scheme, the Option Offer and the Share Award Offer are, or are not, fair and reasonable and as to voting, to the Optionholders as to its views on the acceptance of the Option Offer, and to the Trustee so far as the interest of the grantees of the relevant Unallotted Awarded Shares are concerned as to its views on the acceptance of the Share Award Offer. Our non-executive Director, Mr. Huang Xubin, being an Offeror Concert Party, is regarded to have a material interest in the Proposal and the Scheme. Accordingly, Mr. Huang Xubin has been precluded from joining the Independent Board Committee.

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## LETTER FROM THE BOARD

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The full text of the letter from the Independent Board Committee is set out on pages 31 to 32 of this Scheme Document.

### 6. INDEPENDENT FINANCIAL ADVISER

REORIENT has been appointed as the Independent Financial Adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal, the Scheme, the Option Offer and the Share Award Offer.

The full text of the letter from REORIENT is set out on pages 33 to 59 of this Scheme Document.

### 7. REASONS FOR AND BENEFITS OF THE PROPOSAL

The Directors are of the view that the terms of the Proposal are attractive to the Scheme Shareholders, the Optionholders and grantees of the relevant Unallotted Awarded Shares and that the Proposal will be beneficial to the Scheme Shareholders, the Optionholders and grantees of the relevant Unallotted Awarded Shares for reasons stated below:

- (a) As a result of the challenging business environment in which the Group operates and the recent global economic condition, the Directors anticipate there may be a period of fluctuation in the sales of mobile device products. The outlook for the retail market of mobile device products in the foreseeable future is anticipated to remain challenging, which may negatively affect the stock price of the Shares. Following the implementation of the Proposal, the Offeror and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.
- (b) The Company's share price performance has not been satisfactory since 2015. This limits the ability of the Group to attract investors' interests and enhance its market image. The Offeror considers that the underperformance of share price has had an adverse impact on the Company's reputation with customers, and therefore on its business and employee morale. The implementation of the Proposal could eliminate this adverse impact.
- (c) The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 3.65 million Shares per day, representing only approximately 0.29% of the issued Shares and approximately 0.95% of the issued Shares held by public Shareholders as at the Announcement Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

In addition, given the low liquidity of Shares, the Offeror Board believes that the Company's ability to raise funds from the public equity markets is currently limited and it is unlikely to expect any significant improvement in the liquidity of the Shares in the foreseeable future.

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## LETTER FROM THE BOARD

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- (d) The Proposal, the Option Offer and the Share Award Offer are intended to provide the Scheme Shareholders, the Optionholders and grantees of the relevant Unallotted Awarded Shares with an opportunity to realise their investment in the Company for cash at a premium to the market price. For reference purpose, the Cancellation Price of HK\$7.50 represents a premium of approximately 34.65% over the closing price of the Shares on the Last Trading Day, a premium of approximately 43.13% over the average closing price of Shares for the 10 trading days up to and including the Last Trading Day, or a premium of approximately 47.06% over the average closing price of Shares for the 30 trading days up to and including the Last Trading Day.
- (e) The Proposal will simplify the structure of the group of TCL Corp. and will enable TCL Corp. to eliminate the listing of the Company. The Offeror Directors consider the delisting of the Company would reduce the costs and management resources associated with the maintenance of the Company's listing on the Stock Exchange and its publicly listed status, and, therefore the delisting of the Company is expected to result in a more efficient and cost-effective group structure for TCL Corp. and create more flexibility for TCL Corp. to manage the Group's business in an efficient and sustainable manner.

On the basis of the foregoing, the Directors (including the members of the Independent Board Committee) have decided to put forward to the Scheme Shareholders for their consideration, and if approved and all Conditions have been satisfied or applicably waived, proceed with, the Proposal.

### **8. OFFEROR'S AND DIRECTORS' INTENTION REGARDING THE COMPANY**

It is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company.

The Offeror has no plan, in the event that the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group.

On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate.

The Board has considered the Offeror's intentions as set out in this section and is of the view that, based on the Offeror's plans, there will be no material change to the existing businesses of the Group and the employees of the Group. The Independent Board Committee has taken the Offeror's intentions into account in making its recommendations as set out on pages 31 to 32 of this Scheme Document.

### **9. INFORMATION ON THE COMPANY AND THE OFFEROR**

Your attention is drawn to paragraph headed "12. Information of the Group" in the Explanatory Statement of this Scheme Document and paragraph headed "13. Information on the Offeror and the Offeror Concert Parties" in the Explanatory Statement of this Scheme Document. Your attention is also drawn to the "Financial Information of the Group" set out in Appendix I to this Scheme Document.

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## LETTER FROM THE BOARD

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### 10. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS

Your attention is drawn to paragraph headed “14. Overseas Shareholders and Overseas Optionholders” in the Explanatory Statement of this Scheme Document.

### 11. COURT MEETING AND THE EGM

In accordance with the direction of the Grand Court, the Court Meeting will be held at 10:00 a.m. on Wednesday, 14 September 2016 at Rooms 1-2, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme. All the Independent Shareholders (who are also Scheme Shareholders) will be entitled to vote at the Court Meeting. Cayman Islands law requires the resolution to approve the Scheme to be passed by a majority in number representing not less than 75% in value of the Scheme Shares present and voting either in person or by proxy at the Court Meeting.

In addition, the Scheme will, in compliance with Rule 2.10 of the Takeovers Code, only be implemented if: (i) the Scheme is approved (by way of a poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are voted at the Court Meeting (either in person or by proxy); and (ii) the number of votes cast (by way of a poll) against the resolution to approve the Scheme at the Court Meeting (either in person or by proxy) is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held in aggregate 449,285,356 Scheme Shares. On that basis, 10% of the votes attached to the Scheme Shares held by all the Independent Shareholders represent approximately 44,928,535 Shares as at the Latest Practicable Date.

The EGM will be held at 11:30 a.m. on Wednesday, 14 September 2016 or as soon thereafter as the Court Meeting convened for the same date and place has been concluded or adjourned. All Shareholders shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to: (i) the special resolution to approve the Reduction resulting from the cancellation of the Scheme Shares; (ii) the special resolution to approve the withdrawal of the listing of the Shares on the Stock Exchange following the Effective Date; and (iii) the ordinary resolution to approve the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of new Shares as is equal to the number of Scheme Shares cancelled. The special resolutions described under (i) and (ii) above will be passed if not less than 75% of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM are in favour of each of the special resolutions. The ordinary resolution described under (iii) above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders present and voting, in person or by proxy, at the EGM.

Notice of the Court Meeting is set out on pages 217 to 219 of this Scheme Document. A pink form of proxy for the Court Meeting is enclosed with this Scheme Document.

Notice of the EGM is set out on pages 220 to 222 of this Scheme Document. A white form of proxy for the EGM is enclosed with this Scheme Document.

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## LETTER FROM THE BOARD

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Voting at the Court Meeting and at the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Scheme will take effect when the Court Order has been delivered to the Registrar of Companies for registration pursuant to Section 86(3) of the Companies Law. If the Scheme becomes effective under the Companies Law, it will be binding on the Company and all Scheme Shareholders irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement.

**It is important that as many votes as possible are cast at the Court Meeting so that the Grand Court may be satisfied that there is a fair and reasonable representation of opinion of the Scheme Shareholders. You are therefore strongly urged to complete and return your pink form of proxy for the Court Meeting as soon as possible.**

Further details of the Scheme, the Court Meeting and the EGM are set out in the Explanatory Statement of this Scheme Document.

### **12. ACTIONS TO BE TAKEN**

The actions which you are required to take in relation to the Proposal are set out under paragraph headed “20. Actions to be taken” in the Explanatory Statement of this Scheme Document.

### **13. RECOMMENDATION**

The Directors (other than those on the Independent Board Committee whose views are set out in the letter from the Independent Board Committee) all believe that the terms of the Proposal and the Scheme (including the Option Offer and the Share Award Offer) are fair and reasonable and in the interests of the Shareholders as a whole.

In the letter from REORIENT, REORIENT states that it considers the terms of the Proposal, the Scheme, the Option Offer and the Share Award Offer to be fair and reasonable, and advises the Independent Board Committee to recommend that the Independent Shareholders vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve and implement the Proposal, the Scheme, the Option Offer and the Share Award Offer.

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## LETTER FROM THE BOARD

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The Independent Board Committee, having considered the terms of the Proposal, the Scheme, the Option Offer and the Share Award Offer, and having taken into account the advice of REORIENT, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal, the Scheme, the Option Offer and the Share Award Offer are fair and reasonable so far as the Independent Shareholders, the Optionholders and, in relation to the Trustee so far as the interest of the grantees of the relevant Unallotted Awarded Shares are concerned.

Your attention is drawn to the recommendations of the Independent Board Committee in respect of the Proposal as set out in the letter from the Independent Board Committee on pages 31 to 32 of this Scheme Document.

### **14. SHARE CERTIFICATES, DEALINGS, WITHDRAWAL OF LISTING, REGISTRATION AND PAYMENT**

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as document or evidence of title, and the register of members of the Company will be updated to reflect the same. The Company does not intend to retain its listing on the Stock Exchange and will apply for the withdrawal of listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from the date on which the Scheme becomes effective. The Scheme Shareholders will be notified by way of an announcement of the exact dates of (i) the Effective Date, and (ii) the withdrawal of the listing of the Shares becoming effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Thursday, 22 September 2016, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 4:00 p.m. on Friday, 30 September 2016. Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

### **15. TAXATION, EFFECTS AND LIABILITIES**

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

It is emphasised that none of the Company, the Offeror, the Offeror Concert Parties, BNP, REORIENT and any of their respective directors or associates or any other person involved in the Scheme and the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal. Accordingly, you are asked to read paragraph headed “18. Taxation, Effects and Liabilities” in the Explanatory Statement of this Scheme Document and if you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

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## LETTER FROM THE BOARD

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### 16. FURTHER INFORMATION

You are urged to read carefully (i) the letter from the Independent Board Committee as set out on pages 31 to 32 of this Scheme Document; (ii) the letter from REORIENT, the Independent Financial Adviser to the Independent Board Committee, as set out on pages 33 to 59 of this Scheme Document; (iii) the Explanatory Statement as set out on pages 60 to 85 of this Scheme Document; (iv) the Appendices to this Scheme Document, including the Scheme of Arrangement as set out on pages 209 to 216 of this Scheme Document; (v) the notice of the Court Meeting as set out on pages 217 to 219 of this Scheme Document; and (vi) the notice of the EGM as set out on pages 220 to 222 of this Scheme Document, the pink proxy form in respect of the Court Meeting as enclosed with this Scheme Document and the white proxy form in respect of the EGM as enclosed with this Scheme Document.

Yours faithfully,

For and on behalf of the Board of

**TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED**

**Li Dongsheng**

*Chairman*





**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)

22 August 2016

*To the Independent Shareholders, the Optionholders and the Trustee*

Dear Sir or Madam,

**PROPOSAL FOR THE PRIVATISATION OF  
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED  
(TCL 通訊科技控股有限公司)  
BY THE OFFEROR  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW) WITH CANCELLATION PRICE OF  
HK\$7.50 FOR EVERY SCHEME SHARE**

We refer to the document dated 22 August 2016 jointly issued by the Offeror and the Company in relation to the Scheme (including the Option Offer and the Share Award Offer) (the “**Scheme Document**”), of which this letter form part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

For the purpose of the Proposal, we have been appointed by the Board as the Independent Board Committee to give a recommendation to the Independent Shareholders, the Optionholders and, in relation to the Trustee so far as the interest of the grantees of the relevant Unallotted Awarded Shares are concerned in respect of the Proposal, the Scheme, the Option Offer and the Share Award Offer. REORIENT has been appointed with our approval as our Independent Financial Adviser in respect of the Scheme, the Option Offer and the Share Award Offer. Details of the advice from REORIENT and the principal factors REORIENT has taken into consideration in arriving at its recommendation are set out in the “Letter from REORIENT” on pages 33 to 59 of the Scheme Document.

We also wish to draw the attention of the Independent Shareholders, the Optionholders and the Trustee to the additional information set out in the Appendices to the Scheme Document.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### RECOMMENDATIONS

Having considered the terms of the Scheme (including the Option Offer and the Share Award Offer) and taken into account the advice from REORIENT, in particular the factors, reasons and recommendations as set out in the letter from REORIENT, we consider that the terms of the Scheme (including the Option Offer and the Share Award Offer) are fair and reasonable so far as the Independent Shareholders, the Optionholders and, in relation to the Trustee so far as the interest of the grantees of the relevant Unallotted Awarded Shares are concerned. Accordingly, we recommend that:

- (a) at the Court Meeting:
  - (i) the Independent Shareholders vote in favour of the resolution to approve the Scheme;
- (b) at the EGM, the Shareholders vote in favour of:
  - (i) the special resolution to approve the Reduction resulting from the cancellation of the Scheme Shares;
  - (ii) the special resolution to approve the withdrawal of the listing of the Shares on the Stock Exchange following the Effective Date; and
  - (iii) the ordinary resolution to approve the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled.
- (c) the Optionholders to accept the Option Offer.
- (d) the Trustee to accept the Share Award Offer.

Yours faithfully,

**Independent Board Committee of the Board**

**Lau Siu Ki**

*Independent non-executive Director*

**Look Andrew**

*Independent non-executive Director*

**Kwok Hoi Sing**

*Independent non-executive Director*

**Liao Qian**

*Non-executive Director*

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## LETTER FROM REORIENT

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*The following is the full text of the letter from REORIENT Financial Markets Limited which sets out its advice to the Independent Board Committee for inclusion in the Scheme Document.*



Suites 3201-3204, One Exchange Square  
8 Connaught Place, Hong Kong

22 August 2016

To: *The Independent Board Committee*  
TCL Communication Technology Holdings Limited

Dear Sirs

**PROPOSAL FOR THE PRIVATISATION OF  
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED  
(TCL通訊科技控股有限公司)  
BY THE OFFEROR  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW)  
WITH CANCELLATION PRICE OF HK\$7.50 FOR EVERY SCHEME SHARE**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee in connection with the Proposal, the Scheme, the Option Offer and the Share Award Offer. Details of such are set out in the Scheme Document dated 22 August 2016, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context otherwise requires.

On 12 June 2016, the Offeror, being the controlling shareholder of the Company, and the Company jointly announced that, on 5 June 2016, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of the Scheme. The Scheme will involve the cancellation of the Scheme Shares where each Scheme Shareholder will be entitled to receive HK\$7.50 in cash for each Scheme Share. Upon the Scheme has become effective and the withdrawal of the listing of the Shares on the Stock Exchange has taken place, the Offeror will hold the entire issued share capital of the Company.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Lau Siu Ki, Mr. Look Andrew and Mr. Kwok Hoi Sing, and the non-executive Director not being an Offeror Concert Party, Mr. Liao Qian, has been formed to advise (i) the Independent Shareholders on whether the terms of the Proposal and the Scheme (including the Option Offer and the Share Award Offer) are fair and reasonable and as to voting; (ii) the Optionholders as to its views on the acceptance of the Option Offer; and (iii) the Trustee as to its views on the acceptance of the Share Award Offer. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in this regard.

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## LETTER FROM REORIENT

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We are not associated with the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal, the Scheme, the Option Offer and the Share Award Offer. In the last two years, we acted as (i) the independent financial adviser of a fellow subsidiary of the Company, the issued shares of which are listed on the Main Board of the Stock Exchange, in respect of certain continuing connected transactions providing our independent view to such fellow subsidiary's independent board committee and independent shareholders under the Listing Rules; (ii) the independent financial adviser of the Company in respect of certain connected/continuing connected transactions providing our independent view to the Company's independent board committee and independent shareholders under the Listing Rules; and (iii) the independent financial adviser of an associated company of the Company's controlling shareholder in respect of a connected transaction providing our independent view to such associated company's independent board committee and independent shareholders under the Listing Rules.

Apart from normal professional fees paid or payable to us in connection with the engagements described above, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them. As at the Latest Practicable Date, REORIENT Financial Markets Limited did not have any relationships with or interests in the Company that could reasonably be regarded as relevant to the independence of REORIENT Financial Markets Limited. Accordingly, we do not consider there is any conflict of interest for REORIENT Financial Markets Limited in acting as the independent financial adviser for the Proposal, the Scheme, the Option Offer and the Share Award Offer.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, facts and representations contained or referred to in the Scheme Document and those supplied or made available to us by the Directors and the management of the Company. We have assumed that all such statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and can be relied upon. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Scheme Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Scheme Document, or the reasonableness of the opinions expressed by the Company, its advisers, the Directors and/or the management of the Company, which have been provided to us.

We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied.

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## LETTER FROM REORIENT

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### **PRINCIPAL TERMS OF THE PROPOSAL, THE SCHEME, THE OPTION OFFER AND THE SHARE AWARD OFFER**

#### **The Proposal and the Scheme**

The Proposal involves the privatisation of the Company by the Offeror by way of the Scheme. The Scheme provides that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$7.50 in cash for each Scheme Share. Under the Scheme, the total consideration payable for cancellation of the Scheme Shares will be payable by the Offeror.

On the Effective Date, the issued share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares, and forthwith upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Offeror of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Scheme becoming effective.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

If the Scheme Shareholder is a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, it must, unless it is an Investor Participant, contact its broker, custodian, nominee, or other relevant person who has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if it wishes to vote at the Court Meeting and/or at the EGM. The Scheme Shareholders should contact their broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

#### **The Option Offer**

As at the Latest Practicable Date, there were 34,044,505 outstanding Share Options, which when exercised in full, will result in the issue of 34,044,505 new Shares. In accordance with Rule 13 of the Takeovers Code, the Offeror makes the Option Offer to the Optionholders to cancel all outstanding Share Options, vested and unvested, in exchange for the Option Cancellation Price being (i) where the exercise price of such outstanding Share Options is below the Cancellation Price, an amount equal to the "see-through" price, being the Cancellation Price minus the exercise price of the Share Options; or (ii) where the exercise price of such outstanding Share Options is equal to or exceeds the Cancellation Price, a nominal amount of HK\$0.01 for each outstanding Share Option held. Such Option Offer will be conditional only upon the Scheme becoming effective.

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## LETTER FROM REORIENT

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The Company implemented certain amendments to the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme so that if the Scheme is formally proposed to the Shareholders prior to the expiry of the Share Options, the Optionholders shall be entitled to exercise their respective Share Options (to the extent not exercised) to its full extent or to the extent specified in the Optionholders' notice to the Company in exercise of their respective Share Options at any time thereafter and up to 3:00 p.m. on the Record Date; and the Share Options (to the extent not exercised) will lapse automatically on the date the Option Offer closes. The Share Option Schemes Amendments became effective on 9 August 2016, as such, for holder(s) of Share Options who has/have not exercised their Share Options prior to 3:00 p.m. on the Record Date, they would only be entitled to accept the Option Offer.

Details of the Option Offer are set out in paragraph 2 headed "Terms of the Proposal – The Option Offer" in the Explanatory Statement of this Scheme Document.

### **The Share Award Offer**

As at the Latest Practicable Date, there were 7,820,051 outstanding Awarded Shares granted under the Share Award Scheme which remain unvested. Such Awarded Shares shall, upon vesting, be satisfied either by (i) 566,668 Trustee Held Allotted Awarded Shares in issue which are held by the Trustee and form part of the Scheme Shares; or (ii) 7,253,383 Unallotted Awarded Shares to be issued by the Company.

The Offeror makes the Share Award Offer to cancel such Unallotted Awarded Shares, to the extent they have not otherwise lapsed or been cancelled, in return for providing the Share Award Offer Price (representing the Cancellation Price) for each Unallotted Awarded Share. In accordance with the rules of the Share Award Scheme, the Trustee shall accept the Share Award Offer upon the Scheme and the Share Award Offer becoming unconditional and lodge a completed Award Form of Acceptance by the prescribed deadline. The Offeror shall pay to the Trustee the Share Award Amount, being an amount equivalent to the Share Award Offer Price times the number of the Unallotted Awarded Shares as at the Share Award Offer Record Date, which shall be held on trust by the Trustee for such grantees of the Awarded Shares and shall be paid by the Trustee to such grantees of the Awarded Shares by reference to the number of Awarded Shares attributable to such grantees on the Share Award Offer Record Date as soon as practicable after the Trustee receives such amount from the Offeror under the Share Award Offer.

In order to enable the Trustee to hold on trust the Share Award Amount for the grantees of the Unallotted Awarded Shares and pay such grantees of the Unallotted Awarded Shares the Share Award Offer Price, the Company proposed to implement the Share Award Scheme Amendments which is one of the Conditions. The Share Award Scheme Amendments became effective on 9 August 2016.

The Trustee shall not exercise the voting rights in respect of any Trustee Held Allotted Awarded Shares and Trustee Held Pool Shares held by it and thus is not entitled to vote on the Proposal and the Scheme in respect of such Shares.

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## LETTER FROM REORIENT

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### Shareholding of the Company

On the assumption that no outstanding Share Options are exercised on or before 3:00 p.m. on the Record Date and that there is no change in shareholdings of the Company, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

	As at the Latest Practicable Date		Immediately upon completion of the Proposal	
	<i>Number of Shares</i>	%	<i>Number of Shares</i>	%
Offeror	829,356,000	64.86%	1,278,641,356	100.00%
Offeror Concert Parties	<u>53,383,630</u>	<u>4.18%</u>	<u>–</u>	<u>–</u>
Aggregate number of Shares held by the Offeror and the Offeror Concert Parties	882,739,630	69.04%	1,278,641,356	100.00%
Trustee ( <i>Note</i> )	<u>897,777</u>	<u>0.07%</u>	<u>–</u>	<u>–</u>
Aggregate number of Shares not voting on the Scheme	883,637,407	69.11%		
Independent Shareholders	<u>395,003,949</u>	<u>30.89%</u>	<u>–</u>	<u>–</u>
Total	<u><u>1,278,641,356</u></u>	<u><u>100.00%</u></u>	<u><u>1,278,641,356</u></u>	<u><u>100.00%</u></u>
Total number of Scheme Shares	<u><u>449,285,356</u></u>	<u><u>35.14%</u></u>		

*Note:* The Shares held by the Trustee included 566,668 Trust Held Allotted Awarded Shares and 331,109 Trustee Held Pool Shares.

### Financial resources

On the assumption that no outstanding Share Options are exercised, cancelled or lapsed on or before 3:00 p.m. on the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required to implement the Proposal in full (including the Option Amount and the Share Award Amount) would be approximately HK\$3,511.61 million, of which approximately HK\$3,369.64 million would be for the Scheme, approximately HK\$87.57 million would be for the Option Offer, and approximately HK\$54.40 million would be for the Share Award Offer. On the assumption that all exercisable outstanding Share Options are exercised

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## LETTER FROM REORIENT

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before the Record Date, that no unexercisable Share Options are cancelled or lapsed on or before the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required to implement the Proposal in full (including the Option Amount and the Share Award Amount) would be approximately HK\$3,635.68 million, of which approximately HK\$3,570.99 million would be for the Scheme, approximately HK\$10.29 million would be for the Option Offer, and approximately HK\$54.40 million would be for the Share Award Offer.

As at the Latest Practicable Date, the Offeror intended to finance the cash required for the Proposal, the Scheme, the Option Offer and the Share Award Offer from a combination of its internal financial resources and a banking facility granted by Bank of China (Hong Kong) Limited in the amount of the lower of HK\$2.3 billion or 60% of the cash required to implement the Proposal in full, which may be used by the Offeror to finance the Proposal, the Scheme, the Option Offer and the Share Award Offer, if necessary. BNP, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal, the Scheme, the Option Offer and the Share Award Offer.

### **Reasons for the Proposal**

The following reasons are cited by the Directors for the reasons for the Proposal:

- (a) Under the challenging business environment and outlook in mobile device products, the price of the Shares may be negatively affected. Following the implementation of the Proposal, the Offeror and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company;
- (b) Underperformance of the Shares has had an adverse impact on the Company's business, reputation with customers and employee's morale;
- (c) The low trading liquidity of the Shares could make it difficult for Shareholders to dispose of a substantial number of Shares on-market without adversely affecting the price of the Shares. Given the low liquidity of Shares, the Offeror Board believes that the Company's ability to raise funds from the public equity markets is currently limited and it is unlikely to expect any significant improvement in the liquidity of the Shares in the foreseeable future;
- (d) An opportunity for Scheme Shareholders to realise their investment for a premium; and
- (e) Cost reduction from the saving of cost of listing and cost of investor relations.

Further information in relation to the reasons for the Proposal is set out in paragraph 11 headed "Reasons for and benefits of the Proposal" in the Explanatory Statement of this Scheme Document.



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## LETTER FROM REORIENT

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### Conditions of the Proposal and the Scheme

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the Conditions as set out in paragraph 4 headed “Conditions of the Proposal and the Scheme” in the Explanatory Statement of this Scheme Document, which Conditions include but not limited to:

- (a) the approval of the Scheme (by way of poll) by a majority in numbers of the Independent Shareholders representing not less than 75% in value of the Scheme Shares held by the Independent Shareholders present and voting either in person or by proxy at the Court Meeting;
- (b) the approval of the Scheme (by way of poll) by the Independent Shareholders holding at least 75% in value of the Scheme Shares held by the Independent Shareholders that are present and voting either in person or by proxy at the Court Meeting; provided that the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders; and
- (c) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; (ii) the passing of a special resolution by the Shareholders at the EGM to approve the withdrawal of the listing of the Shares on the Stock Exchange following the Effective Date; and (iii) the passing of an ordinary resolution by the Shareholders at the EGM to immediately after the Reduction increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror.

Conditions precedent set out in paragraphs (a), (b) and (c) above cannot be waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to the right to invoke any such Conditions are of material significance to the Offeror in the context of the Proposal.

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), failing which the Proposal and the Scheme will lapse. As at the Latest Practicable Date, certain Conditions had been fulfilled. Further information in relation to the Conditions is set out in paragraph 4 headed “Conditions of the Proposal and the Scheme” in the Explanatory Statement of this Scheme Document.

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## LETTER FROM REORIENT

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### PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Proposal and the Scheme, we have taken into consideration the following principal factors:

#### **Information of the Group**

##### *Principal business*

The Group designs, manufactures and markets mobile and internet products worldwide under two key brands “Alcatel” and “TCL”. Headquartered in Shenzhen, the PRC, the Group operates its manufacturing plant and research and development centres in various provinces and cities of the PRC.

##### *Financial performance*

Set out below is a summary of certain audited financial information of the Group for the three years ended 31 December 2015 and certain unaudited financial information of the Group for the six months ended 30 June 2015 and 2016 supplemented by sales volumes and selling prices of the Group’s products, as extracted from the Company’s annual reports for the years ended 31 December 2014 and 2015 and the Company’s interim results announcement for the six months ended 30 June 2016 (the “**Interim Results Announcement**”).

## LETTER FROM REORIENT

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	(Audited) <i>HK\$'000</i>	(Audited) <i>HK\$'000</i>	(Audited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Revenue	19,362,061	30,691,054	28,557,585	13,226,923	10,931,795
Cost of sales	(15,689,908)	(24,773,502)	(22,525,437)	(10,672,255)	(8,704,526)
Gross profit	3,672,153	5,917,552	6,032,148	2,554,668	2,227,269
<i>Gross profit margin</i>	<i>19.0%</i>	<i>19.3%</i>	<i>21.1%</i>	<i>19.3%</i>	<i>20.4%</i>
Other income and gains	512,743	582,122	804,334	381,646	490,629
Research and development costs	(1,064,154)	(1,479,149)	(1,746,017)	(812,744)	(778,180)
Selling and distribution expenses	(1,611,218)	(2,420,176)	(2,076,656)	(897,164)	(915,240)
Administrative expenses	(946,351)	(1,246,383)	(1,547,989)	(621,073)	(904,635)
Other expenses	(158,229)	(105,073)	(189,478)	(66,768)	(24,210)
Finance costs	(104,983)	(99,513)	(140,834)	(68,835)	(58,085)
Share of profits and losses of associates	(1,581)	(364)	(13,499)	(1,791)	(6,060)
Share of losses of joint ventures	–	–	(9,191)	(636)	(18,065)
Profit before tax	298,380	1,149,016	1,112,818	467,303	13,423
Income tax expense	17,798	(41,476)	(55,334)	(13,718)	(2,085)
Profit for the year/period	<u>316,178</u>	<u>1,107,540</u>	<u>1,057,484</u>	<u>453,585</u>	<u>11,338</u>
<i>Net profit margin</i>	<u><i>1.63%</i></u>	<u><i>3.61%</i></u>	<u><i>3.70%</i></u>	<u><i>3.43%</i></u>	<u><i>0.10%</i></u>
Sales volume (million units)					
Smart devices	17.6	41.5	44.5	19.7	17.4
Other products (mainly feature phones)	37.6	32.0	35.5	14.0	15.7
Total	<u>55.2</u>	<u>73.5</u>	<u>80.0</u>	<u>33.7</u>	<u>33.1</u>
Average selling price per unit (US\$)	<u>45.0</u>	<u>53.5</u>	<u>46.0</u>	<u>50.7</u>	<u>42.6</u>

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## LETTER FROM REORIENT

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### *Revenue*

The Group's revenue grew from approximately HK\$19,362 million for the year ended 31 December 2013 ("FY2013") to approximately HK\$30,691 million for the year ended 31 December 2014 ("FY2014") and then declined to approximately HK\$28,558 million for the year ended 31 December 2015 ("FY2015"). In 2014, the growth momentum of demand for handsets in emerging markets remained strong, which raised the overall demand for handsets globally, with a great number of customers replacing their feature phones with smartphones. The Group's handsets remained strong across various markets with the penetration rate of smartphones of the Group continuing to grow in 2014. The Group's sales for FY2014 represented a year-on-year increase of approximately 59% with the sale of smart devices mainly smartphones jumping from approximately 17.6 million units for FY2013 to approximately 41.5 million units for FY2014. Such increase in the sale of smart devices improved the average selling price of the Group's products from approximately US\$45.0 in FY2013 to approximately US\$53.5 in FY2014. In 2015, uncertain global economy, the weak consumer sentiments and fluctuating exchange rates principally in relation to Latin America, Europe and Russia put pressure on the prices and profit margins on handsets. Although the Group's sale of smart devices grew to approximately 44.5 million units for FY2015, the average selling price of the Group's products declined to approximately US\$46.0 in FY2015 (a year-on-year decline of approximately 14%) and the Group's revenue declined to approximately HK\$28,558 million for FY2015 (a year-on-year decline of approximately 7%). The average selling prices of the Group's products for the three months ended 31 March 2015, the six months ended 30 June 2015, the nine months ended 30 September 2015 and the FY2015 are approximately US\$54.7, approximately US\$50.7, approximately US\$47.2 and approximately US\$46.0 respectively, showing a continuing downward trend.

As reported by International Monetary Fund on 19 January 2016, there were downside risks to the world economy including a generalized slowdown in emerging market economies, China's rebalancing, lower commodity prices, and the gradual exit from extraordinarily accommodative monetary conditions in the United States. Such economic conditions coupled with currency fluctuation led to weakened demand for smartphones during the six months ended 30 June 2016 ("2016H1"). For such period, the Group's sale of smartphone amounted to approximately 17.4 million units (representing a year-on-year decrease of approximately 12%) and the average selling price of the Group's products amounted to approximately US\$42.6 (representing a year-on-year decrease of approximately 16%), causing the Group's revenue to decrease to approximately HK\$10,932 million for 2016H1 (representing a year-on-year decrease of approximately 17%).

### *Profitability*

During the three years ended 31 December 2015 and the 2016H1, the gross profit margins of the Group stayed within approximately 19%-21%. The gross profit margin of approximately 21% for FY2015 is higher than those of approximately 19% for FY2013 and FY2014 and approximately 20% for 2016H1 as a result of the Group's efforts to prioritise sales in regions and new models that commanded relatively higher profitability in FY2015 together with continuous control on reducing costs and expenses.

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## LETTER FROM REORIENT

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The net profit of the Group grew from approximately HK\$316.2 million for FY2013 to approximately HK\$1,107.5 million for FY2014 and slightly declined to approximately HK\$1,057.5 million for FY2015 with net profit margins of approximately 1.6% for FY2013, and approximately 3.6% and approximately 3.7% for FY2014 and FY2015. The growth in net profits and net profit margins from FY2013 to FY2014 and FY2015 were led by the growth in revenue and/or control of costs.

Due to the aforesaid decline in revenue for 2016H1 and the increase in administrative expense to approximately HK\$904.6 million for 2016H1 from approximately HK\$621.1 million for the six months ended 30 June 2015 (“**2015H1**”), the unaudited net profit amounted to only approximately HK\$11.3 million for 2016H1 compared with approximately HK\$453.6 million for 2015H1 and the net profit margin amounted to approximately 0.10% for 2016H1 compared with approximately 3.43% for 2015H1. The increase in administrative expense was principally due to the annual salary increment since April 2015, bonus payments to certain staff in 2016H1 and increase in manpower and the relative office expenses since the second half of FY2015 to support the Group’s business expansion principally in North America, the Middle East, Africa and China. During 2016H1, research and development expenses were reduced to approximately HK\$778.2 million compared with approximately HK\$812.7 million for 2015H1 which is principally due to less development expenses recognised during the period given that development expenses are recognised based on sales and the Group reported less sales during 2016H1 compared with 2015H1.

### *Financial position*

Set out below are the Group’s unaudited assets and liabilities as at 30 June 2016, as extracted from the Interim Results Announcement.

	<b>As at 30 June 2016</b> (Unaudited) <i>HK\$’000</i>
<b>Non-current assets</b>	
Property, plant and equipment	1,643,237
Investment properties	100,431
Prepaid land lease payments	103,327
Other intangible assets	1,498,906
Goodwill	253,954
Investments in associates	33,318
Investments in joint ventures	22,532
Available-for-sale investments	463,962
Deferred tax assets	288,226
Other non-current assets	36,546
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Total non-current assets	4,444,439
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## LETTER FROM REORIENT

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	<b>As at</b> <b>30 June</b> <b>2016</b> (Unaudited) <i>HK\$'000</i>
<b>Current assets</b>	
Inventories	3,385,771
Trade receivables	5,081,619
Factored trade receivables	195,574
Notes receivable	13,393
Prepayments, deposits and other receivables	1,167,303
Due from related companies	515,506
Tax recoverable	17,083
Derivative financial instruments	67,184
Pledged deposits	695,883
Cash and cash equivalents	586,645
	11,725,961
<b>Total current assets</b>	<b>11,725,961</b>
<b>Total assets</b>	<b>16,170,400</b>
<b>Current liabilities</b>	
Interest-bearing bank borrowings	2,303,271
Trade and notes payables	4,820,203
Bank advances on factored trade receivables	195,574
Other payables and accruals	3,447,926
Derivative financial instruments	208,983
Provision for warranties	358,859
Due to related companies	298,827
Tax payable	7,655
	11,641,298
<b>Total current liabilities</b>	<b>11,641,298</b>
<b>Non-current liabilities</b>	
Retirement indemnities	5,290
Long service medals	2,081
Interest-bearing bank borrowings	155,172
Due to a related company	20,806
Deferred tax liabilities	18,612
Other non-current liabilities	276,152
	478,113
<b>Total non-current liabilities</b>	<b>478,113</b>
<b>Total liabilities</b>	<b>12,119,411</b>
<b>Net assets</b>	<b>4,050,989</b>

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## LETTER FROM REORIENT

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The Group's total assets amounted to approximately HK\$16,170 million and the total liabilities amounted to approximately HK\$12,119 million, resulting in net assets of approximately HK\$4,051 million as at 30 June 2016.

Among the total assets of the Group as at 30 June 2016 were inventories, trade receivables and prepayments, deposits and other receivables totalling approximately HK\$9,635 million, property, plant and equipment totalling approximately HK\$1,643 million, other intangible assets totalling approximately HK\$1,499 million, and pledged deposits and cash and cash equivalents totalling approximately HK\$1,283 million. The other intangible assets consisted of deferred development costs, alcatel brand license and other intangible assets such as intellectual properties as at 30 June 2016. Among the total liabilities of the Group as at 30 June 2016 were trade, notes payables, and other payables and accruals totalling approximately HK\$8,268 million, and bank borrowings and bank advances on factored trade receivables totalling approximately HK\$2,654 million.

As at 30 June 2016, the current ratio of the Group stood at approximately 101% and the gearing ratio (being interest-bearing borrowings divided by total assets) was approximately 16%.

### *Prospects*

According to a press release of 28 July 2016 by International Data Corporation (IDC), a provider of market intelligence in the information technology sector, growth in worldwide smartphone volume remained flat for the second quarter of 2016, up only 0.3% from the corresponding period last year. As reported by the Company in the Interim Results Announcement, Chinese handset manufacturers' active overseas expansion and the rise of local brands have intensified competition in the global smartphone market. Given the aforesaid factors and coupled with uncertain global economy, the business environment facing the Group remains challenging.

As stated in the Interim Results Announcement, the Group will further enhance its core competences and continue to improve technological innovation capability and international management ability. The Group will 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. We have discussed with the management of the Company and understand that the Group has been aiming to establish a smart ecosystem anchored on "Smart Devices + Cloud-Based Platform + Internet Services". Such smart ecosystem, which is in the preliminary stage of development, is under TCL Corporation's "Double +" business transformation strategy involving TCL Corporation (the holding company of the Offeror), TCL Multimedia Technology Holdings Limited (a fellow subsidiary of the Company) and the Group. The "Smart Devices" involves the control and automation of lighting, air conditioning and home appliances by mobile phones, tablet computers or a web interface; the "Cloud-Based Platform" involves, among others, providing cloud conferencing platform which supports connection of equipment (including fixed phones and mobile phones) to conference system; and the "Internet Services" involves providing internet application service operation platform covering mobile internet, smart TV and smart household appliances.

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## LETTER FROM REORIENT

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### Evaluation of the Cancellation Price

The Cancellation Price of HK\$7.50 per Scheme Share represents:

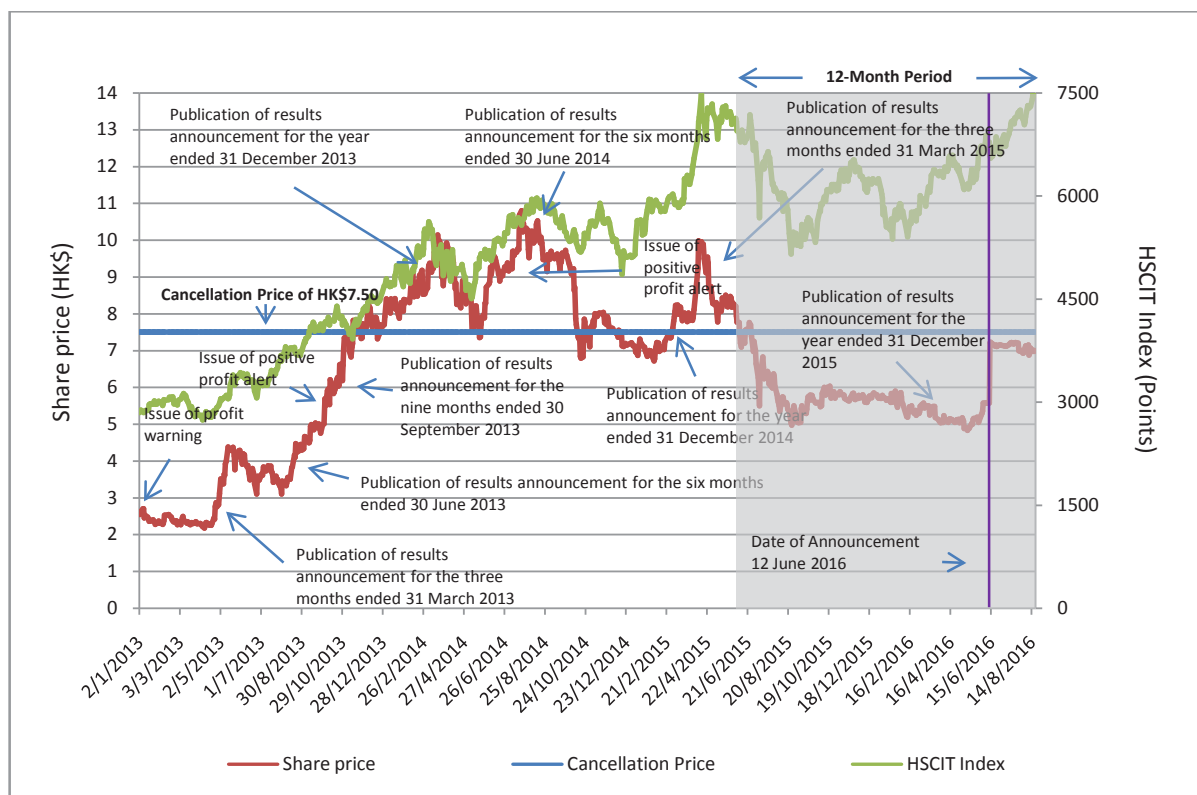
- (i) a premium of approximately 34.65% over the closing price of HK\$5.57 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 43.13% over the average closing price of HK\$5.24 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 47.06% over the average closing price of HK\$5.10 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 7.30% over the closing price of HK\$6.99 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (v) a premium of approximately 135.11% over the audited consolidated net asset value per Share attributable to Shareholders of approximately HK\$3.19 as at 31 December 2015; and
- (vi) a premium of approximately 135.85% over the unaudited consolidated net asset value per Share attributable to Shareholders of approximately HK\$3.18 as at 30 June 2016.



## LETTER FROM REORIENT

### Share price performance of the Shares

Set out below is a chart showing the daily closing price of the Shares as quoted on the Stock Exchange against Hang Seng Composite Information Technology Index (“HSCIT Index”) from 1 January 2013 up to and including the Latest Practicable Date (the “Review Period”):



Source: Bloomberg

HSCIT Index is a market-cap index and sub-index of Hang Seng Composite Index which measures the stock performance in the information technology hardware industry.

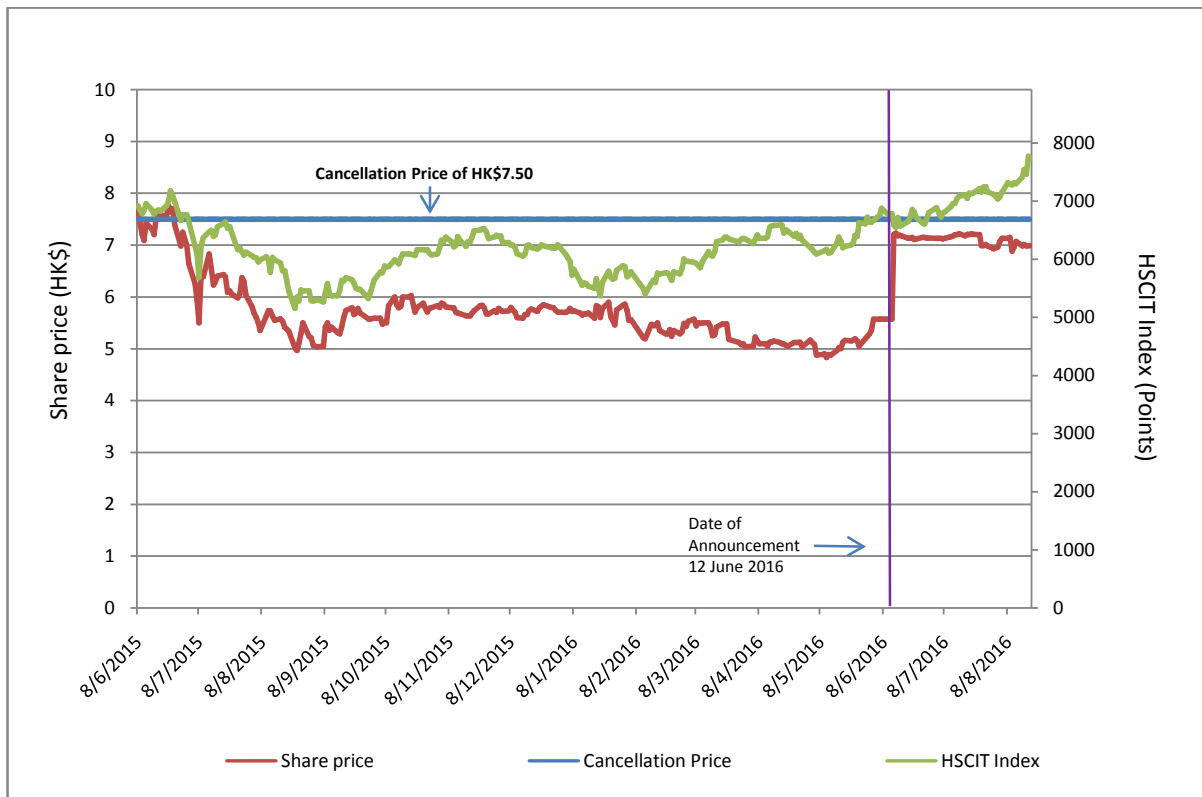
Since the first quarterly results announcement for the three months ended 31 March 2013 on 24 April 2013, the closing price of the Shares was on an upward trend until it reached HK\$4.29 on 30 May 2013. During the period from 31 May 2013 to 13 August 2013, the closing price of the Shares dropped by approximately 18.4% which is roughly in line with the downward trend of the HSCIT Index during the same period. The closing price of the Shares commenced its rising trend from mid-August 2013 around the publication of the interim results announcement for the six months ended 30 June 2013 up to HK\$10.14 on 19 March 2014. After that, the closing price of the Shares gradually decreased to HK\$7.35 on 20 May 2014 and then rebounded to HK\$10.80 on 21 July 2014, the highest closing price during the Review Period, near the publication of the interim results announcement for the six months ended 30 June 2014.

## LETTER FROM REORIENT

Subsequent to 18 July 2014, the closing price of the Shares has been up and down which is roughly in line with the movements of HSCIT Index during the same period. The closing price of the Shares since the second half of 2015 up to the Last Trading Day is relatively stable, roughly ranging between approximately HK\$5 to approximately HK\$6.

During the Review Period, the closing price of Shares fluctuated within the range between HK\$2.18 per Share and HK\$10.80 per Share. The daily average and median closing prices per Share during the Review Period were approximately HK\$6.47 and approximately HK\$6.90, respectively. The Cancellation Price represents a premium of approximately 15.9% and approximately 8.7% over the daily average and median closing prices per Share, respectively, during the Review Period.

Set out below is a chart showing the daily closing price of the Shares as quoted on the Stock Exchange against HSCIT Index for the 12-month period prior to the date of the Proposal up to and including the Latest Practicable Date (the “12-Month Period”):



Source: Bloomberg

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## LETTER FROM REORIENT

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For the 12-Month Period, apart from the closing prices of the Shares of HK\$7.76 on 8 June 2015, between HK\$7.50 and HK\$7.70 during 17 June 2015 to 25 June 2015, the Shares closed below the Cancellation Price of HK\$7.50 and apart from HK\$6 on 12 October 2015, 16 October 2015 and 19 October 2015 and HK\$6.03 on 20 October 2015, the Shares closed below HK\$6 since 3 August 2015 up to the Last Trading Day. The daily average and median closing prices per Share during the 12-Month Period were approximately HK\$5.92 and approximately HK\$5.70, respectively. The Cancellation Price represents a premium of approximately 26.7% and approximately 31.6% over the daily average and median closing prices per Share, respectively, during the 12-Month Period.

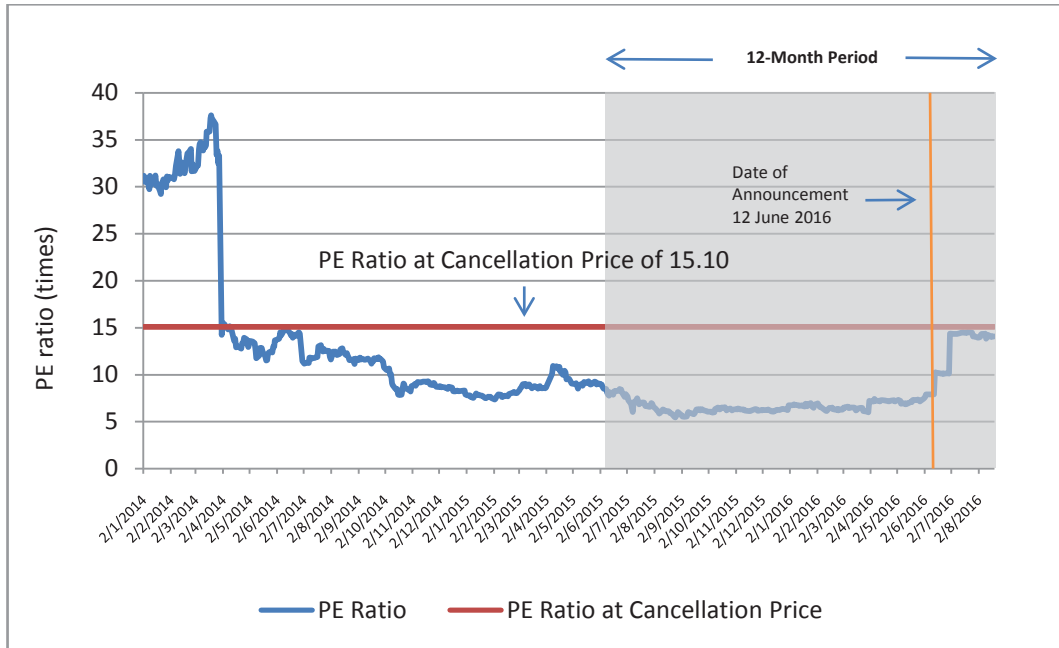
The Announcement regarding the Proposal and the Scheme was released on 12 June 2016. Following the Announcement, the Share price closed between HK\$6.88 and HK\$7.23 from the date of the Announcement to the Latest Practicable Date, which were significantly above most of the Share prices during the 12-Month Period. The Shares closed at HK\$6.99 on the Latest Practicable Date. However, Independent Shareholders should note that there is no assurance that the Share price will remain at the current level if the Proposal and the Scheme lapse.

During the period from 1 January 2013 up to the second half of 2015, the movements of the Share price are roughly in the line with those of the HSCIT Index. During the period from October 2015 to January 2016, the Share price was relatively stable while the HSCIT Index was on an upward trend from October 2015 to November 2015 and then a downward trend from December 2015 to January 2016. Since January 2016, the Share price was on a downward trend from approximately HK\$6 per Share to approximately HK\$5 per Share around a short period of time before the Last Trading Day; whereas the HSCIT Index was on an upward trend up to April 2016 and then has been up and down before the Last Trading Day. Overall, from 1 January 2013 up to the Last Trading Day, the Share prices had been underperformed as compared with HSCIT Index during which the Share price was up by approximately 119.3% while HSCIT index increased more by approximately 134.3%. From the 12 months prior to the date of the Proposal up to the Last Trading Day, the Share price was down by approximately 28.2% while HSCIT index only declined by approximately 3.6%.

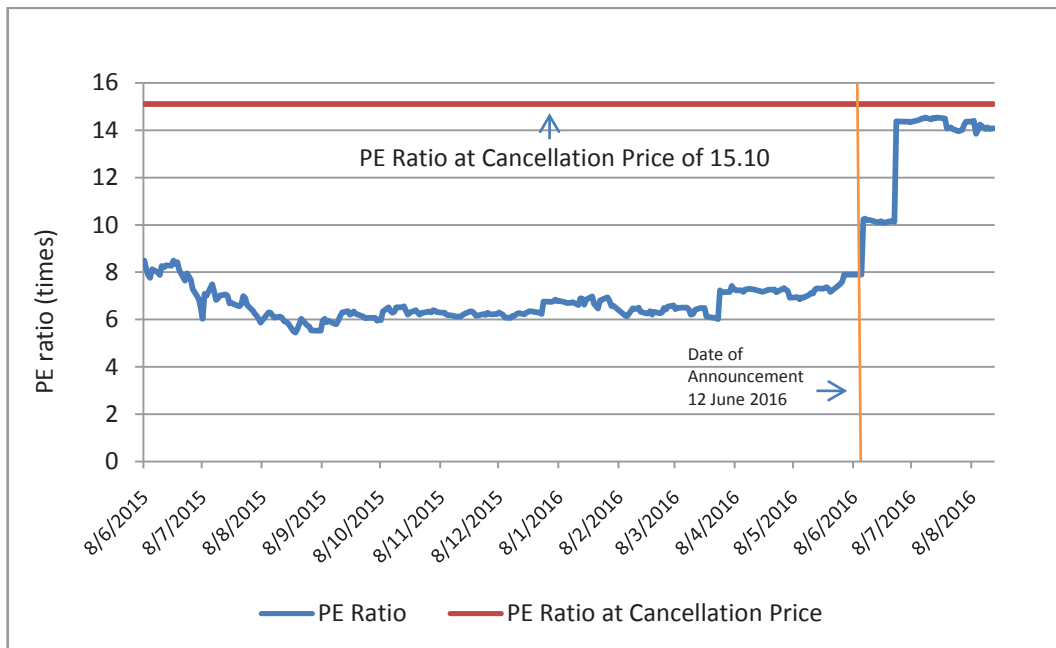
During the Review Period, between 14 November 2013 and 25 June 2015, the Share price fluctuated between HK\$6.72 per Share and HK\$10.8 per Share staying above the Cancellation Price most of the time while during the 12-Month Period, apart from the closing prices of the Shares of HK\$7.76 on 8 June 2015, between HK\$7.50 and HK\$7.70 during 17 June 2015 to 25 June 2015, the Share price stayed below the Cancellation Price. Given that the Share price was below the Cancellation Price most of the time during the 12-Month Period, we consider that the Cancellation Price represents a reasonable premium over the prevailing market value of the Shares.

## LETTER FROM REORIENT

Set out below is a chart showing the price-to-earnings ratio (“**PE Ratio**”) of the Company during the Review Period and in particular the 12-Month Period:



Source: Bloomberg



Source: Bloomberg

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## LETTER FROM REORIENT

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The Group recorded a net loss for the year ended 31 December 2012. As such, Bloomberg has not provided the PE Ratio of the Company for the year ended 31 December 2013. The PE Ratio provided by Bloomberg is calculated based on the earnings per share of the immediate last 12 month period. The Group publishes its results quarterly, thus the earnings per share of the Company for the purpose of calculating the PE Ratio of the Company is updated by Bloomberg around every three months. The sudden drop and increase of the PE Ratio of the Company around end of March 2014 and June 2016 respectively are caused by the updating of the earnings per share of the Company around those times.

Since April 2014 up to the Latest Practicable Date, apart from the PE Ratios of the Company of approximately 15.15 times to approximately 15.54 times between 1 April 2014 to 4 April 2014 and approximately 15.15 times on 9 April 2014, the PE Ratio as implied by the Cancellation Price of 15.10 times had been higher than the PE Ratios of the Company, which are within the range of approximately 5 times to approximately 15 times.

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## LETTER FROM REORIENT

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### *Trading volume of the Shares*

The table below sets out the monthly total trading volumes of the Shares, the average daily trading volumes of the Shares, and the percentages of the average daily trading volume to the total issued Shares and public float of the Company during the Review Period:

<b>Month</b>	<b>Monthly total trading volume of Shares</b>	<b>Average daily trading volume of Shares</b> <i>(Note 1)</i>	<b>Percentage of average daily trading volume of Shares to total issued Shares</b> <i>(Note 2)</i>	<b>Percentage of average daily trading volume of Shares to public float of the Company</b> <i>(Note 3)</i>
<b>2013</b>				
January	113,321,233	5,150,965	0.46%	1.30%
February	43,087,973	2,534,587	0.22%	0.64%
March	31,687,777	1,584,389	0.14%	0.40%
April	122,979,715	6,148,986	0.54%	1.56%
May	227,786,510	10,846,977	0.95%	2.75%
June	91,316,226	4,806,117	0.42%	1.22%
July	53,495,009	2,431,591	0.21%	0.62%
August	107,181,971	5,103,903	0.45%	1.29%
September	77,894,994	3,894,750	0.34%	0.99%
October	163,037,906	7,763,710	0.68%	1.97%
November	126,754,593	6,035,933	0.52%	1.53%
December	99,282,313	4,964,116	0.43%	1.26%
<b>2014</b>				
January	108,499,535	5,166,645	0.44%	1.31%
February	135,831,946	7,149,050	0.61%	1.81%
March	105,947,290	5,045,109	0.42%	1.28%
April	76,702,305	3,835,115	0.32%	0.97%
May	148,969,912	7,448,496	0.62%	1.89%
June	82,837,955	4,141,898	0.34%	1.05%
July	88,745,570	4,033,890	0.33%	1.02%
August	66,331,644	3,158,650	0.26%	0.80%
September	67,489,060	3,213,765	0.26%	0.81%
October	228,024,357	10,858,303	0.89%	2.75%
November	108,398,755	5,419,938	0.44%	1.37%
December	90,221,609	4,296,267	0.35%	1.09%

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## LETTER FROM REORIENT

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Month	Monthly total trading volume of Shares	Average daily trading volume of Shares <i>(Note 1)</i>	Percentage of average daily trading volume of Shares to total issued Shares <i>(Note 2)</i>	Percentage of average daily trading volume of Shares to public float of the Company <i>(Note 3)</i>
<b>2015</b>				
January	53,122,984	2,529,666	0.21%	0.64%
February	55,767,675	3,098,204	0.25%	0.78%
March	203,508,487	9,250,386	0.75%	2.34%
April	230,112,300	12,111,174	0.97%	3.07%
May	95,486,438	5,025,602	0.40%	1.27%
June	80,774,423	3,671,565	0.29%	0.93%
July	94,906,866	4,313,948	0.34%	1.09%
August	97,936,838	4,663,659	0.37%	1.18%
September	34,990,598	1,749,530	0.14%	0.44%
October	41,383,386	2,069,169	0.16%	0.52%
November	19,434,544	925,454	0.07%	0.23%
December	12,359,510	561,796	0.04%	0.14%
<b>2016</b>				
January	34,747,564	1,737,378	0.14%	0.44%
February	19,928,347	1,107,130	0.09%	0.28%
March	29,047,953	1,383,236	0.11%	0.35%
April	37,003,156	1,850,158	0.15%	0.47%
May	24,676,937	1,175,092	0.09%	0.30%
June	76,061,475	4,474,204	0.35%	1.13%
July	30,647,390	1,532,370	0.12%	0.39%
August (up to the Latest Practicable Date)	30,287,989	2,163,428	0.17%	0.55%

*Source: Bloomberg*

*Notes:*

- (1) Average daily trading volume is calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.
- (2) The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month or as at the Latest Practicable Date, as applicable.
- (3) The total number of Shares held by the public is calculated based on the number of total issued Shares excluding those held by the Offeror and the Directors.

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## LETTER FROM REORIENT

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The average daily trading volume of the Shares as a percentage of the total issued Shares ranged from approximately 0.04% to approximately 0.97%, and the average daily trading volume of the Shares as a percentage of public float of the Company ranged from approximately 0.14% to approximately 3.07% during the Review Period. The relatively high level of average daily trading volume in June 2016 subsequent to the Announcement may not be sustainable if the Proposal and the Scheme lapse.

Based on the above, the trading in the Shares was uneven during the Review Period and recorded an average daily trading volume of Shares to total issued Shares as low as approximately 0.04% in December 2015. Given such, the Scheme Shareholders might not be able to dispose of a significant number of the Shares without causing a downward pressure on the market price of the Shares. The Proposal and the Scheme offer an opportunity for the Independent Shareholders to dispose of their shareholdings, especially for those holding a large block of the Shares, at the Cancellation Price.

### *Comparable companies*

The Group has been profit-making for each of the years ended 31 December 2013, 2014 and 2015, we have compared the PE Ratio and the price-to-book ratio (“**PB Ratio**”) represented by the Cancellation Price against the PE Ratio and the PB Ratio of other comparable listed companies (the “**Comparable Companies**”). Given that majority of the Group’s revenue is derived from the sale of mobile phones under the Group’s brands, the Comparable Companies are selected on the basis that they derive majority of their revenue from the sale of mobile phones under their brands in the latest financial year. We have conducted research on Bloomberg on a best effort basis for all listed companies (i) which are under the industry of “Communication Equipment” as classified by the Bloomberg Industry Classification System; and (ii) which derived majority of their revenue from the sale of mobile phones under their brands in the latest financial year. We have identified three Comparable Companies based on the said criteria and which are considered to be an exhaustive list of the Comparable Companies.



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## LETTER FROM REORIENT

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Set out below is an analysis of the PE Ratio, the PB Ratio and the dividend yield of the three Comparable Companies as compared to the PE Ratio, the PB Ratio and the dividend yield implied by the Cancellation Price:

Company	Principal business	Market capitalisation <i>(Note 1)</i> HK\$ million	PE Ratio <i>(Note 2)</i> times	PB Ratio <i>(Note 3)</i> times	Dividend yield <i>(Note 4)</i> %
Coolpad Group Limited (2369.HK)	Production and sale of smartphones and provision of wireless application service	7,840	2.89	0.93	–
HTC Corporation (2498.TT)	Designs, manufactures, assembles, processes, and sells smart mobile devices, and provides after-sales services worldwide	19,515	–	1.36	–
			Maximum <i>(Note 8)</i>	2.89	1.36
			Minimum <i>(Note 8)</i>	2.89	0.93
			Average <i>(Note 8)</i>	2.89	1.15
<b>The Group at the Cancellation Price</b>			<b>15.10</b>	<b>2.37</b>	<b>4.51</b>
			<i>(Note 5)</i>	<i>(Note 6)</i>	<i>(Note 7)</i>
<b>The Group</b>		<b>8,938</b>			
<u>Outlier</u>					
Apple Inc (AAPL.US)	Designs, manufactures, and markets, among others, mobile communication devices and related software, services, peripherals, and networking solutions.	4,557,168	12.81	4.65	2.1

Sources: Bloomberg, [www.hkex.com.hk](http://www.hkex.com.hk) and latest annual, interim and/or quarterly reports of the Company and the respective Comparable Companies

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## LETTER FROM REORIENT

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*Notes:*

- (1) The market capitalisation as at the Latest Practicable Date extracted from Bloomberg.
- (2) PE Ratio is calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date divided by the net profit attributable to shareholders of the respective Comparable Companies during the last rolling 12 months as extracted from Bloomberg.
- (3) PB Ratio is calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date divided by the latest published net assets attributable to shareholders of the respective Comparable Companies as extracted from their respective latest interim or quarterly reports (as the case may be).
- (4) Dividend yield is calculated based on the annual dividends declared by the respective Comparable Companies for the most recent full financial year as extracted from their respective annual report divided by the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date.
- (5) The PE Ratio implied by the Cancellation Price is calculated by dividing the Cancellation Price of HK\$7.50 per Scheme Share by the earnings per share of the Company of approximately HK\$0.4968 extracted from Bloomberg.
- (6) The PB Ratio implied by the Cancellation Price is calculated by multiplying the Cancellation Price of HK\$7.50 per Scheme Share by the total number of issued Shares as at the Latest Practicable Date, then divided by the net assets attributable to Shareholders of the Group as at 30 June 2016 of approximately HK\$4,051 million.
- (7) The dividend yield implied by the Cancellation Price is calculated by the annual dividends declared by the Company for the year ended 31 December 2015 divided by the Cancellation Price of HK\$7.50 per Scheme Share.
- (8) Given that Apple Inc is substantially larger than the Company as reflected in the market capitalisation of Apple Inc of approximately HK\$4,557 billion compared with the Company's market capitalisation of approximately HK\$8.9 billion, Apple Inc is not included in the calculation of maximum, minimum and average of PE Ratio, PB Ratio and dividend yield of the Comparable Companies.

Apple Inc is considered an outlier in the comparison given its substantially larger size than that of the Group. HTC Corporation recorded loss in the latest reported 12 months; only one Comparable Company, namely Coolpad Group Limited, has PE Ratio. The implied PE Ratio of the Cancellation Price of approximately 15.10 times falls well above the PE Ratio of Coolpad Group Limited of approximately 2.89 times. After excluding Apple Inc, the PB Ratios of the Comparable Companies ranged from approximately 0.93 times to approximately 1.36 times. The implied PB Ratio of the Cancellation Price of approximately 2.37 times falls above such PB Ratios. After excluding Apple Inc, other Comparable Companies did not pay any dividends in respect of the latest financial year.

The PE Ratio and the PB Ratio of a company are affected by many company specific factors, as well as industry and market factors. In addition, after excluding Apple Inc, there is only one Comparable Company for the PE Ratio comparison and only two Comparable Companies for PB Ratio comparison; the sample size of the Comparable Companies may not be sufficiently representative. The result of the above comparison may still be of reference value providing meaningful indication on how the PE Ratio and the PB Ratio as implied by the Cancellation Price compare with the limited number of Comparable Companies. However, the comparison should be viewed with caution and should not form a material basis in assessing the fairness of the Cancellation Price.

## LETTER FROM REORIENT

### *Successful privatisation precedents*

Below is a comparison of the Proposal to other privatisation proposals of companies listed on the Stock Exchange announced since 1 January 2014 up to the Latest Practicable Date, excluding privatisation proposals which were not approved (the “**Privatisation Precedents**”), which represents an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange’s website. The table below illustrates the premiums over the relevant last trading day, 30 days, 90 days, 120 days and 180 days average share prices at which such privatisation proposals have been priced:

Date of initial announcement	Company	Principal activities	Last trading day	Premium of offer/cancellation price over the share price prior to the announcement of privatisation proposals			
				30 days average share price	90 days average share price	120 days average share price	180 days average share price
4 February 2016	Dongpeng Holdings Company Limited (stock code: 3386)	Design, develop, produce, market and sell a wide variety of ceramic tile products and bathroom products	31.8%	47.1%	54.5%	50.1%	35.6%
6 January 2016	New World China Land Limited (stock code: 917)	Property development and investment in the PRC	25.6%	40.8%	54.0%	57.7%	57.0%
20 October 2015	Wumart Stores, Inc. (stock code: 1025)	Operation of superstores and minimarts in the PRC	90.2%	68.8%	31.8%	18.8%	15.4%
13 August 2015	Jingwei Textile Machinery Company Limited (stock code: 350) (Note 1)	Manufacturing and sale of textile machinery and the provision of trust and fiduciary services in the PRC	22.7%	14.0%	7.4%	12.1%	19.2%
27 May 2015	Dorsett Hospitality International Limited (stock code: 2266)	Hotel development, ownership and management	32.4%	41.3%	42.4%	39.7%	34.3%
26 February 2015	econtext Asia Limited (stock code: 1390)	Provision of online payment services, advertising related services and other e-commerce solutions	41.0%	59.9%	51.3%	49.9%	43.2%
11 December 2014	Hunan Nonferrous Metals Corporation Limited (stock code: 2626)	Metals and mining industry of non-ferrous metals	68.7%	55.8%	58.4%	64.4%	70.2%
8 May 2014	Regent Manner International Holdings Limited (stock code: 1997)	Provision of integrated surface-mount technology production solutions	32.4%	37.5%	38.5%	37.3%	35.3%
1 April 2014	OCBC Wing Hang Bank, Limited (stock code: 302) (Note 2)	Provision of banking and related financial services	49.2%	59.2%	67.3%	63.6%	59.4%
		Maximum	90.2%	68.8%	67.3%	64.4%	70.2%
		Minimum	22.7%	14.0%	7.4%	12.1%	15.4%
		Average	43.8%	47.2%	45.1%	43.7%	41.1%
		Median	32.4%	47.1%	51.3%	49.9%	35.6%
	<b>The Proposal and the Scheme</b>		<b>34.7%</b>	<b>47.1%</b>	<b>42.1%</b>	<b>39.1%</b>	<b>36.4%</b>

Sources: Bloomberg and www.hkex.com

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## LETTER FROM REORIENT

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*Notes:*

- (1) The premiums were calculated based on the offer price of the privatisation proposal over the share price of Jingwei Textile Machinery Company Limited (“**Jingwei**”) prior to the announcement of Jingwei dated 28 July 2015 in respect of the possible offer to acquire all the issued H shares of Jingwei.
- (2) The premiums were calculated based on the offer price of the privatisation proposal over the share price of OCBC Wing Hang Bank, Limited (“**WHB**”) prior to the announcement of WHB dated 16 September 2013 in response to media reports regarding a possible disposal of interests in WHB.

As indicated above, the premiums of the Cancellation Price over the Last Trading Day, 30 days, 90 days, 120 days and 180 days (i) fall within the ranges of the premiums of offer/cancellation prices for the Privatisation Precedents over such benchmarked days; and (ii) near and comparable to the average or median of the aforesaid premiums for the Privatisation Precedents. It shows that the premiums as offered by the Cancellation Price are in line with the premiums as offered by other privatisation proposals in the market.

### RECOMMENDATION

Having considered the above principal factors and reasons as summarised below, we consider that the terms of the Proposal and the Scheme are fair and reasonable as far as the Independent Shareholders are concerned:

- the Group’s revenue for the 2016H1 decreased substantially by approximately 17% when compared with the same period last year and the Group’s net profit decreased substantially to approximately HK\$11.3 million for the 2016H1 from approximately HK\$453.6 million for the same period last year. The Group’s profitability deteriorated substantially and the business environment facing the Group remains challenging;
- the Cancellation Price represents reasonable premiums to the prevailing market prices of the Shares in particular during the 12 months prior to the date of the Proposal up to and including the Latest Practicable Date;
- the Cancellation Price represents a substantial premium of 135.85% over the unaudited consolidated net asset value per Share attributable to Shareholders as at 30 June 2016;
- the trading in the Shares was uneven during the Review Period and recorded an average daily trading volume of Shares to total issued Shares as low as approximately 0.04% in December 2015. Given such, the Scheme Shareholders might not be able to dispose of a significant number of the Shares without causing a downward pressure on the market price of the Shares. The Proposal and the Scheme offer an opportunity for the Independent Shareholders to dispose of their shareholdings, especially for those holding a large block of the Shares, at the Cancellation Price; and
- the Cancellation Price offers premiums in line with the premiums as offered by other privatisation proposals in the market.

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## LETTER FROM REORIENT

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Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Scheme. Nevertheless, the Scheme Shareholders who wish to sell all or some of their Shares should consider selling in the market if such Scheme Shareholders believe that the Share price may fall back to the levels seen prior to the Last Trading Day, following any lapse of the Scheme when the conditions of the Scheme have not been satisfied or applicably waived.

Having considered the above factors and given that the Option Cancellation Price represents (i) where the exercise price of such outstanding Share Options is below the Cancellation Price, an amount equal to the “see-through” price, being the Cancellation Price minus the exercise price of the Share Options; or (ii) where the exercise price of such outstanding Share Options is equal to or exceeds the Cancellation Price, a nominal amount of HK\$0.01 for each outstanding Share Option held, we consider the terms of the Option Offer to be fair and reasonable in relation to the Trustee so far as the interest of the grantees of the relevant Unallocated Awarded Shares are concerned. Having considered the above factors and given that the Share Award Offer Price equals the Cancellation Price, we consider the terms of the Share Award Offer to be fair and reasonable so far as the Trustee is concerned. We advise the Independent Board Committee to recommend the Optionholders to accept the Option Offer and the Trustee to accept the Share Award Offer.

Yours faithfully,  
For and on behalf of  
**REORIENT Financial Markets Limited**  
**Allen Tze**  
*Managing Director*

*Mr. Allen Tze is a licensed person registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and has over 18 years of experience in corporate finance industry.*

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## **EXPLANATORY STATEMENT**

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This Explanatory Statement constitutes the memorandum required under Order 102, rule 20(4) (e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

**SCHEME OF ARRANGEMENT  
TO CANCEL ALL THE SCHEME SHARES  
IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY  
THE CANCELLATION PRICE FOR EACH SCHEME SHARE,  
THE OPTION OFFER AND THE SHARE AWARD OFFER**

### **1. INTRODUCTION**

On 5 June 2016, the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of scheme.

The Proposal will be implemented by way of a scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the new Shares will be issued and credited as fully paid to the Offeror.

The Offeror is making the Option Offer to the Optionholders to cancel all outstanding Share Options. The Option Offer will be conditional on the Scheme becoming effective.

The Offeror is also making the Share Award Offer to the Trustee (in respect of the relevant grantees of the Unallotted Awarded Shares to cancel all outstanding Unallotted Awarded Shares). The Share Award Offer will also be conditional on the Scheme becoming effective.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal, which are to be implemented by the Scheme, and to provide the Scheme Shareholders, the Optionholders and the Trustee with other relevant information in relation to the Scheme (including the Option Offer and the Share Award Offer) and, in particular, to provide the intentions of the Offeror with regard to the Group and the shareholding structure of the Company before and after the Scheme.

The particular attention of the Scheme Shareholders, the Optionholders and the Trustee is drawn to the following sections of this Scheme Document: (i) a letter from the Board set out on pages 19 to 30 of this Scheme Document; (ii) a letter from the Independent Board Committee set out on pages 31 to 32 of this Scheme Document; (iii) a letter from REORIENT, the Independent Financial Adviser to the Independent Board Committee, set out on pages 33 to 59 of this Scheme Document; and (iv) the Appendices to this Scheme Document, including the Scheme of Arrangement as set out on pages 209 to 216 of this Scheme Document.

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## EXPLANATORY STATEMENT

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### 2. TERMS OF THE PROPOSAL

#### Scheme of Arrangement

The Scheme will provide that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$7.50 in cash for each Scheme Share.

The Cancellation Price of HK\$7.50 per Scheme Share represents:

- a premium of approximately 34.65% over the closing price of HK\$5.57 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 43.13% over the average closing price of approximately HK\$5.24 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 47.06% over the average closing price of approximately HK\$5.10 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 45.07% over the average closing price of approximately HK\$5.17 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 36.36% over the average closing price of approximately HK\$5.50 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 135.11% over the audited consolidated net asset value per Share of approximately HK\$3.19 as at 31 December 2015; and
- a premium of approximately 7.30% over the closing price of HK\$6.99 per Share as at the Latest Practicable Date.

During the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$7.23 per Share on 14 June 2016 and HK\$4.83 per Share on 11 May 2016, respectively.

As disclosed in the announcement of the Company dated 18 May 2016, the Company declared a final dividend of 21.00 HK cents per Share to be paid out of the share premium account of the Company to the Shareholders whose names appeared on the register of members of the Company on 29 July 2016, which is before the Effective Date. Such declaration of a final dividend to be paid out of the share premium account of the Company was approved by the Shareholders on 18 May 2016.

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## EXPLANATORY STATEMENT

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As at the Latest Practicable Date, there were (i) 1,278,641,356 Shares in issue; (ii) 34,044,505 outstanding Share Options granted under the Share Option Schemes, each relating to one Share, of which 26,846,899 outstanding Share Options are exercisable; and (iii) 7,253,383 Unallotted Awarded Shares. Save as disclosed in this paragraph, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

### **The Option Offer**

As at the Latest Practicable Date, there are 34,044,505 outstanding Share Options granted under the Share Option Schemes, each relating to one Share, of which 26,846,899 outstanding Share Options are exercisable as at the Latest Practicable Date. The exercise of the 26,846,899 Share Options that are exercisable as at the Latest Practicable Date in full would result in the issue of 26,846,899 new Shares, representing approximately 2.10% of the issued share capital of the Company as at the Latest Practicable Date and approximately 2.06% of the issued share capital of the Company as enlarged by the issue of such new Shares.

Prior to the Share Option Schemes Amendments being implemented, pursuant to the respective rules of the Pre-IPO Share Option Scheme and the Share Option Scheme, if a general offer is made to Shareholders and such general offer becomes or is declared unconditional prior to the expiry of the Share Options, the grantee shall be entitled to exercise the Share Options in full (to the extent which has become exercisable and not already lapsed or exercised) at any time within 14 days or 21 business days (as applicable) after the date on which such general offer becomes or is declared unconditional.



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## EXPLANATORY STATEMENT

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The Company implemented certain amendments to the rules of the Share Option Schemes, in accordance with the respective rules of the the Share Option Schemes and the applicable Listing Rules, so that if the Scheme is formally proposed to the Shareholders prior to the expiry of the Share Options, the Optionholders shall be entitled to exercise their respective Share Options (to the extent not exercised) to its full extent or to the extent specified in the Optionholders' notice to the Company in exercise of their respective Share Options at any time thereafter and up to 3:00 p.m. on the Record Date; and the Share Options (to the extent not exercised) will lapse automatically on the date on which the Option Offer closes. The Share Option Schemes Amendments became effective (i.e. being approved by the Shareholders and consent in writing by Optionholders who together hold Share Options in respect of not less than three-fourths in nominal value of all Shares to be issued on exercise of the Share Options granted under the each of the Pre-IPO Share Option Scheme and the Share Option Scheme) on 9 August 2016, as such, for holder(s) of Share Options who has/have not exercised their Share Options prior to 3:00 p.m. on the Record Date, they would only be entitled to accept the Option Offer.

To the extent the outstanding Share Options, vested and unvested, and regardless of whether they are exercisable on, before or after the Option Offer Record Date, have not otherwise lapsed, been cancelled or exercised, the Offeror is procuring to be made on its behalf the Option Offer to holders of such Share Options to cancel every vested and unvested Share Option in accordance with Rule 13 of the Takeovers Code. Such Option Offer is conditional only upon the Scheme becoming effective. Under the Option Offer, (i) for Share Options with exercise price below the Cancellation Price, the Offeror will offer the Optionholders cash equal to the "see-through" price (being the Cancellation Price minus the exercise price of the Share Options) for each outstanding Share Option that they hold; and (ii) for Share Options with exercise price equal to or exceeding the Cancellation Price, the Offeror will offer the Optionholders a nominal amount of HK\$0.01 for each outstanding Share Option that they hold. The following table sets out the exercise prices for all the outstanding Share Options and their respective "see-through" prices or nominal amounts (as the case may be) under the Option Offer:

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## EXPLANATORY STATEMENT

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Exercise price (HK\$)	“See-through” price/ Nominal amount (HK\$)	Exercisable period (DD/MM/YYYY)	Total number of outstanding Shares Options to be exercisable as at the Latest Practicable Date	Total accumulative number of outstanding Shares Options to be exercisable from 31 December 2016	Total accumulative number of outstanding Shares Options to be exercisable from 31 December 2017	Total accumulative number of outstanding Share Options (vested and unvested)
7.614	(Note) 0.01	03/02/2012 – 02/05/2017	5,814,764	5,814,764	5,814,764	<b>5,814,764</b>
6.472	1.028	09/05/2012 – 08/08/2017	368,800	368,800	368,800	<b>368,800</b>
2.740	4.760	04/03/2013 – 03/06/2018	7,263,139	7,263,139	7,263,139	<b>7,263,139</b>
3.790	3.710	12/04/2014 – 11/07/2019	10,178,344	10,178,344	10,178,344	<b>10,178,344</b>
8.390	(Note) 0.01	31/12/2015 – 20/05/2021	575,703	1,151,406	1,727,107	<b>1,727,107</b>
5.800	1.700	31/12/2015 – 02/11/2021	2,646,149	5,668,970	8,692,351	<b>8,692,351</b>

*Note:* If the exercise price of the Share Option equals to or exceeds HK\$7.50, the “see-through” price is zero and a cash offer of a nominal amount of HK\$0.01 per Share Option will be made.

The last day for acceptance of the Option Offer shall be 14 days after the Effective Date.

The Offeror will hold the entire issued share capital of the Company after (a) the Scheme has become effective, and (b) the withdrawal of the listing of the Shares on the Stock Exchange has taken place.

### ***Payment of Option Cancellation Price***

Each Optionholder as at the Option Offer Record Date who accepts the Option Offer and lodges a completed Option Form of Acceptance by the prescribed deadline will be entitled to receive the Option Cancellation Price as set out in their respective Option Offer Letters that are sent to each Optionholder individually. Under the Option Offer, (i) for Share Options with exercise price below the Cancellation Price, the Option Cancellation Price equals to the “see-through” price (being the Cancellation Price minus the exercise price of the Share Options) for each outstanding Share Option that they hold; and (ii) for Share Options with exercise price equal to or exceeding the Cancellation Price, the Option Cancellation Price equals a nominal amount of HK\$0.01 for each outstanding Share Option that they hold.

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## EXPLANATORY STATEMENT

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The cheques for payment of the Option Cancellation Price under the Option Offer will be despatched within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of a valid acceptance. Please refer to the expected timetable as set out on pages 15 to 18 of this Scheme Document for details.

All payments in respect of the Option Cancellation Price will be made in Hong Kong dollars. Settlement of the Option Cancellation Price to which Optionholders are entitled to the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled against any such Optionholder.

### *Option Offer Letter*

The Option Offer Letter setting out the terms and conditions of the Option Offer is being despatched separately to the Optionholders and is substantially in the form set out in Appendix VI to this Scheme Document.

### **The Share Award Offer**

Under the Share Award Scheme, at the discretion of the Board, the Awarded Shares may be constituted either by (i) new Shares allotted and issued by the Company at par for the relevant selected participant under the Share Award Scheme, (ii) existing Shares purchased by the Trustee from the market, or (iii) existing Shares being Awarded Shares which were referable to certain selected participants under the Share Award Scheme but which have not been previously accepted or vested or have been forfeited in accordance with the rules of the Share Award Scheme. As at the Latest Practicable Date, there were 7,820,051 outstanding Awarded Shares awarded under the Share Award Scheme which remain unvested. Such Awarded Shares shall, upon vesting, be satisfied either by utilising the Trustee Held Allotted Awarded Shares, being existing issued Shares held by the Trustee, or by the Unallotted Awarded Shares, which will involve the subscription of new Shares by, and the allotment and issue of new Shares to, the Trustee.

As at the Latest Practicable Date, there were 1,672,768 Trustee Held Shares in aggregate, of which (i) 566,668 Trustee Held Allotted Awarded Shares were held by the Trustee for selected and designated grantees until vesting of such Awarded Shares pursuant to the rules of the Share Award Scheme and the relevant terms of the grants; (ii) 331,109 Trustee Held Pool Shares were held by the Trustee for satisfying future grants of Awarded Shares; and (iii) 774,991 Trustee Held Nominee Shares, being existing Awarded Shares which have been vested in and which are to be transferred to the relevant grantees of Awarded Shares but which were held by the Trustee as nominee on behalf of such grantees. All of the Trustee Held Shares shall form part of the Scheme Shares and be cancelled upon the Scheme becoming effective. Conditional upon the Scheme becoming effective, the Offeror shall pay to the Trustee an amount equivalent to the Cancellation Price times the number of the Trustee Held Shares, which (i) in respect of the Trustee Held Allotted Awarded Shares and the Trustee Held Nominee Shares, shall be held on trust by the Trustee for the relevant designated grantees of Awarded Shares and shall be paid by the Trustee to such grantees of the Awarded Shares by reference to the number of Awarded Shares attributable to such

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## EXPLANATORY STATEMENT

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grantees on the Share Award Offer Record Date as soon as practicable after the Trustee receives such amount from the Offeror under the Scheme; and (ii) in respect of the Trustee Held Pool Shares, the amount shall be held on trust by the Trustee for and on behalf of the Company and shall be paid by the Trustee to the Company in accordance with the rules of the Share Award Scheme. Such arrangement shall form part of the Scheme, but not as part of the Share Award Offer.

As at the Latest Practicable Date there were 7,253,383 Unallotted Awarded Shares, i.e. the shortfall between the total number of Awarded Shares and the Trustee Held Allotted Awarded Shares. The Offeror is procuring to be made on its behalf the Share Award Offer to cancel such Unallotted Awarded Shares, to the extent they have not otherwise lapsed or been cancelled, in return for providing the Share Award Offer Price for each Unallotted Awarded Share. Conditional upon the Scheme becoming effective, the Share Award Offer will become unconditional and the Offeror shall pay to the Trustee the Share Award Amount, being an amount equivalent to the Share Award Offer Price times the number of the Unallotted Awarded Shares as at the Share Award Offer Record Date, which shall be held on trust by the Trustee for such grantees of the Awarded Shares and shall be paid by the Trustee to such grantees of the Awarded Shares by reference to the number of Awarded Shares attributable to such grantees on the Share Award Offer Record Date as soon as practicable after the Trustee receives such amount from the Offeror under the Share Award Offer.

In order to enable the Trustee to hold on trust the Share Award Amount for the grantees of the Unallotted Awarded Shares and pay such grantees of the Unallotted Awarded Shares the Share Award Offer Price by reference to the number of Awarded Shares attributable to such grantees on the Share Award Offer Record Date, the Company implemented the Share Award Scheme Amendments so that, among other matters, the Trustee will be able to pay the Cancellation Price for the Trustee Held Allotted Awarded Shares and the Share Award Amount to the grantees of the Awarded Shares. The Share Award Scheme Amendments became effective on 9 August 2016, which resulted in the fulfilment of one of the Conditions.

### *Payment of Share Award Amount*

In accordance with the rules of the Share Award Scheme, the Trustee shall accept the Share Award Offer upon the Scheme and Share Award Offer becoming unconditional and lodge a completed Award Form of Acceptance by the prescribed deadline. The Trustee will receive the Share Award Amount, being an amount equivalent to the Share Award Offer Price times the number of Unallotted Awarded Shares as at the Share Award Offer Record Date.

The cheque for payment of the Share Award Amount under the Share Award Offer will be despatched within seven Business Days following the later of the date that the Share Award Offer becomes unconditional and the date of receipt of the valid acceptance from the Trustee. Please refer to the expected timetable as set out on pages 15 to 18 of this Scheme Document for details.

All payments in respect of the Share Award Amount will be made in Hong Kong dollars. Settlement of the Share Award Amount to the Trustee will be implemented in full in accordance with the terms of the Share Award Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled against the Trustee.

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## EXPLANATORY STATEMENT

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### *Share Award Offer Letter*

The Share Award Offer Letter setting out the terms and conditions of the Share Award Offer will be despatched separately to the Trustee and is substantially in the form set out in Appendix VII to this Scheme Document.

### **3. TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES**

On the basis of the Cancellation Price of HK\$7.50 per Scheme Share and 449,285,356 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$3,369.64 million. As at the Latest Practicable Date, there are 34,044,505 outstanding Share Options granted under the Share Option Schemes each relating to one Share, of which 26,846,899 outstanding Share Options are exercisable as at the Latest Practicable Date. As at the Latest Practicable Date, there were 7,820,051 outstanding Awarded Shares awarded under the Share Award Scheme which remain unvested, of which (i) 566,668 Awarded Shares will be satisfied by the Trustee Held Allotted Awarded Shares which shall form part of the Scheme Shares; and (ii) 7,253,383 Awarded Shares will be satisfied by the Unallotted Awarded Shares which will involve the subscription of new Shares. Except for the outstanding Share Options and the Unallotted Awarded Shares, there are no other outstanding options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

On the assumption that no outstanding Share Options are exercised, cancelled or lapsed on or before 3:00 p.m. on the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required for the Proposal (before taking into account the Option Offer and the Share Award Offer to be made) would be approximately HK\$3,369.64 million. On the assumption that no outstanding Share Options are exercised, cancelled or lapsed on or before 3:00 p.m. on the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required to implement the Proposal in full (including the Option Amount and the Share Award Amount) would be approximately HK\$3,511.61 million, of which approximately HK\$3,369.64 million would be for the Proposal, approximately HK\$87.57 million would be for the Option Offer, and approximately HK\$54.40 million would be for the Share Award Offer.

On the assumption that all exercisable outstanding Share Options are exercised on or before 3:00 p.m. on the Record Date, that no unexercisable Share Options are cancelled or lapsed on or before the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required for the Proposal (before taking into account the Option Offer and the Share Award Offer to be made) would be approximately HK\$3,570.99 million. On the assumption that all exercisable outstanding Share Options are exercised on or before 3:00 p.m. on the Record Date, that no unexercisable Share Options are cancelled or lapsed on or before the Record Date and that no outstanding Awarded Shares are vested, cancelled or lapsed on or before the Record Date, the amount of cash required to implement the Proposal in full (including the Option Amount and the Share Award Amount) would be approximately HK\$3,635.68 million, of which approximately HK\$3,570.99 million would be for the Scheme, approximately HK\$10.29 million would be for the Option Offer, and approximately HK\$54.40 million would be for the Share Award Offer.

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## EXPLANATORY STATEMENT

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The Offeror intended to finance the cash required for the Proposal, the Scheme, the Option Offer and the Share Award Offer from a combination of its internal financial resources and a banking facility granted by Bank of China (Hong Kong) Limited in the amount of the lower of HK\$2.3 billion or 60% of the cash required to implement the Proposal in full, which may be used by the Offeror to finance the Proposal, the Scheme, the Option Offer and the Share Award Offer, if necessary. BNP, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal, the Scheme, the Option Offer and the Share Award Offer.

#### 4. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Independent Shareholders representing not less than 75% in value of the Scheme Shares held by the Independent Shareholders present and voting either in person or by proxy at the Court Meeting provided that:
  - (i) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% in value of the Scheme Shares held by the Independent Shareholders that are present and voting either in person or by proxy at the Court Meeting; and
  - (ii) the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders;
- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; (ii) the passing of a special resolution by the Shareholders at the EGM to approve the withdrawal of the listing of the Shares on the Stock Exchange following the Effective Date; and (iii) the passing of an ordinary resolution by the Shareholders at the EGM to immediately after the Reduction increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror;
- (c) the Grand Court's sanction of the Scheme and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;

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## EXPLANATORY STATEMENT

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- (d) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;
- (e) the implementation of the Share Award Scheme Amendments;
- (f) the approval by the directors and/or shareholders of TCL Corp., as applicable and where necessary, for the Scheme and any agreement(s) or contract(s) ancillary thereto;
- (g) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals (if any) in connection with the Proposal or the Scheme having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (h) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal or the Scheme remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal, the Scheme or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (i) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme;
- (j) since the Announcement Date, there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal); and
- (k) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets or undertakings of any member of the Group up to the date immediately preceding the Effective Date, in each case which is material and adverse in the context of the Group taken as a whole.

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## EXPLANATORY STATEMENT

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With reference to Condition (f) above, in accordance to the advice of the PRC legal advisers to TCL Corp., shareholders of TCL Corp. are not required to approve the Scheme and any agreement(s) or contract(s) ancillary thereto. No shareholders meeting of TCL Corp. would be convened for approving the Scheme and any agreement(s) or contract(s) ancillary thereto.

With reference to Conditions (g) and (h) above, as at the Latest Practicable Date, the Company and the Offeror are not aware of and do not reasonably foresee any necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals required for the Proposal and the Scheme, save for the sanction of the Grand Court.

The Offeror reserves the right to waive any of Conditions (g) to (k), either in whole or in respect of any particular matter. Conditions (a) to (f) cannot be waived in any event. If any of the above Conditions cannot be fulfilled or waived (as applicable), the Scheme will not become effective, but no break fees will be payable by any party.

As at the Latest Practicable Date, save and except for Conditions (e), (f), (g) and (h) above, none of the Conditions above have been fulfilled.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Offeror, the Company and all the Scheme Shareholders. Assuming that the Conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme may become effective on 29 September 2016 (Cayman Islands time) (i.e. 30 September 2016 (Hong Kong time)).

Please refer to the paragraph headed “20. Actions to be taken” in the Explanatory Statement for details of the actions to be taken by the Shareholders, the Optionholders and the Trustee.

**Shareholders and investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived (as applicable). Therefore, the Proposal may or may not become effective. Shareholders and investors are advised to exercise caution when dealing in the Shares.**

### **5. IRREVOCABLE UNDERTAKINGS IN RESPECT OF VOTING AT THE COURT MEETING OR THE EGM REGARDING THE PROPOSAL**

As at the Latest Practicable Date, none of the Offeror and persons acting in concert with it has received any irrevocable commitment from the Independent Shareholders in respect of voting at the Court Meeting or the EGM.

### **6. IRREVOCABLE UNDERTAKINGS NOT TO EXERCISE THE OUTSTANDING SHARE OPTIONS**

As at the Latest Practicable Date, 804 out of 831 Optionholders, which held 33,183,161 outstanding Share Options, have given an irrevocable undertaking to the Company not to exercise any of his/her outstanding Share Options commencing from 1 September 2016 to the close of the Option Offer or, where applicable, the lapse of the Scheme (both dates inclusive) and that they will accept the Option Offer.



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## **EXPLANATORY STATEMENT**

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### **7. SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND THE COURT MEETING**

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be held in such manner as the Grand Court directs.

### **8. ADDITIONAL REQUIREMENTS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE**

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at a duly convened meeting of the Independent Shareholders; and
- (b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders.

For the purpose of this vote, Independent Shareholders comprise all Shareholders (including BOCI-Prudential in respect of 774,991 Trustee Held Nominee Shares) as at the Meeting Record Date other than the Offeror, the Offeror Concert Parties, the Trustee in respect of the Trustee Held Allotted Shares and the Trustee Held Pool Shares and any other persons acting in concert with the Offeror. Scheme Shareholder that is not Independent Shareholder will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code. BOCI-Prudential would only be entitled to vote on behalf of the holders of these Trustee Held Nominee Shares in the Court Meeting and the EGM after receiving voting instructions from the relevant owners of these Trustee Held Nominees Shares.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 395,003,949 Scheme Shares. On that basis, 10% of the votes attached to the Scheme Shares held by all the Independent Shareholders represent approximately 39,500,394 Shares as at the Latest Practicable Date.

### **9. BINDING EFFECT OF THE SCHEME**

If the Scheme becomes effective under the Companies Law, it will be binding on the Company and all the Scheme Shareholders, irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.

## EXPLANATORY STATEMENT

### 10. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, there were 1,278,641,356 Shares in issue. The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately following the completion of the Proposal, on the basis that there will be no change to the shareholding structure:

	As at the Latest Practicable Date		Upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
<b>Shareholders</b>				
Offeror <sup>1</sup>	829,356,000	64.86	1,278,641,356	100.00
<b>Offeror Concert Parties</b>				
(Shares held subject to the Scheme)				
Li Dongsheng <sup>2</sup>	50,932,050	3.98	–	–
Guo Aiping <sup>3</sup>	2,359,280	0.18	–	–
Huang Xubin <sup>4</sup>	21,474	0.00	–	–
Bo Lianming <sup>5</sup>	65,700	0.01	–	–
Du Yuanhua <sup>6</sup>	5,126	0.00	–	–
<b>Aggregate number of Shares held by the Offeror and the Offeror Concert Parties</b>	882,739,630	69.04	–	–
Trustee <sup>7</sup>	897,777	0.07	–	–
<b>Aggregate no. of Shares not voting on the Scheme</b>	883,637,407	69.11	–	–
BOCI-Prudential <sup>8</sup>	774,991	0.06	–	–
Nicolas Daniel Bernard Zibell <sup>9</sup>	629,535	0.05	–	–
Liao Qian <sup>9</sup>	5,774	0.00	–	–
Lau Siu Ki <sup>9</sup>	447,800	0.04	–	–
Look Andrew <sup>9</sup>	3,623	0.00	–	–
Kwok Hoi Sing <sup>9</sup>	3,623	0.00	–	–
Other public Shareholders <sup>10</sup>	393,138,603	30.75	–	–
<b>Total no. of Independent Shareholders</b>	395,003,949	30.89	–	–
Total	<u>1,278,641,356</u>	<u>100.00</u>	<u>1,278,641,356</u>	<u>100.00</u>
Total Number of Scheme Shares <sup>11</sup>	449,285,356	35.14		

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## EXPLANATORY STATEMENT

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*Notes:*

1. As described in the paragraph headed “13. Information on the Offeror and the Offeror Concert Parties” below, the Offeror is wholly owned by TCL Corp.. The Shares in which the Offeror is interested will not form part of the Scheme Shares and will not be cancelled.
2. Mr. Li Dongsheng, an executive Director and the chairman, executive director, chief executive officer and founder of TCL Corp. and also a director of the Offeror, is acting in concert with the Offeror in relation to the Company. Among the 50,932,050 Shares which were deemed to be interested by Mr. Li, 47,144,850 Shares were held by Mr. Li whereas 3,787,200 Shares were held by his spouse. Mr. Li was therefore deemed to be interested in the Shares which his spouse was interested under the SFO.
3. Mr. Guo Aiping, an executive Director and an executive director and a senior vice president of TCL Corp., is acting in concert with the Offeror in relation to the Company.
4. Mr. Huang Xubin, a non-executive Director and an executive director, chief financial officer and a member of the strategy committee and audit committee of TCL Corp. and also a director of the Offeror, is acting in concert with the Offeror in relation to the Company.
5. Mr. Bo Lianming, an executive director and president of TCL Corp., is acting in concert with the Offeror in relation to the Company.
6. Mr. Du Yuanhua, a director of the Offeror, is acting in concert with the Offeror in relation to the Company.
7. Such Shares held by the Trustee comprise (i) 566,668 Trustee Held Allotted Awarded Shares; and (ii) 331,109 Trustee Held Pool Shares. Pursuant to the rules of the Share Award Scheme, the Trustee shall not exercise any voting rights in respect of any Shares held by it as nominee or under the trust constituted by the Trust Deed. Accordingly, the Trustee will not vote on the Scheme in the Court Meeting and in the EGM in respect of such Shares held under the Share Award Scheme.
8. These are the 774,991 Trustee Held Nominee Shares, being existing Awarded Shares which have been vested in and which are to be transferred to the relevant grantees of Awarded Shares but which for administrative reason and as consented by the relevant grantees, were held by BOCI-Prudential as nominee (and not in the capacity as Trustee of the Share Award Scheme) on behalf of such grantees. BOCI-Prudential would be only entitled to vote on behalf of the owners of these Trustee Held Nominee Shares in the Court Meeting and the EGM after receiving voting instructions from the relevant owners of these Trustee Held Nominee Shares. None of these Trustee Held Nominee Shares are beneficially owned by the Offeror or any Offeror Concert Parties.
9. The Independent Shareholders include Mr. Nicolas Daniel Bernard Zibell, an executive Director, Mr. Liao Qian, a non-executive Director, and Mr. Lau Siu Ki, Mr. Look Andrew and Mr. Kwok Hoi Sing, each an independent non-executive Director, who are the direct and beneficial owners of 629,535 Shares, 5,774 Shares, 447,800 Shares, 3,623 Shares and 3,623 Shares respectively, as at the Latest Practicable Date.
10. Includes 2,220 Shares held by BNP Paribas Arbitrage SNC, an associate of BNP, in its capacity as an exempt principal trader.
11. The total number of Shares (assuming no outstanding Options are exercised before the Effective Date and there is no other change in shareholding structure before completion of the Proposal) minus the number of Shares held by the Offeror equals the total number of Scheme Shares.
12. All percentages in the above table are approximations. This table is prepared on the assumption that no outstanding Share Options are exercised.

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## EXPLANATORY STATEMENT

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Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, the Offeror will beneficially hold 100% of the issued share capital of the Company.

As at the Latest Practicable Date, there are 1,278,641,356 Shares in issue and the Scheme Shareholders are interested in 449,285,356, representing approximately 35.14% of the issued share capital of the Company.

As at the Latest Practicable Date, the Offeror beneficially held 829,356,000 Shares, representing approximately 64.86% of the issued share capital of the Company. Such Shares will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting. As at the Latest Practicable Date, the Offeror Concert Parties legally and/or beneficially held in aggregate 53,383,630 Shares, representing approximately 4.18% of the issued share capital of the Company. The Shares legally and/or beneficially held by the Offeror Concert Parties will form part of the Scheme Shares, but will not be voted on the Scheme at the Court Meeting. Only Independent Shareholders will be entitled to vote on the Scheme at the Court Meeting.

Save for 14,168,285 outstanding Share Options and 558,168 Unallotted Awarded Shares, there were no options, warrants or convertible securities in respect of the Shares held by the Offeror and the Offeror Concert Parties or outstanding derivatives in respect of the Shares entered into by the Offeror or the Offeror Concert Parties. As at the Latest Practicable Date, save for 34,044,505 outstanding Share Options and 7,253,383 Unallotted Awarded Shares, the Company did not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into the Shares as at the Latest Practicable Date.

### **11. REASONS FOR AND BENEFITS OF THE PROPOSAL**

The Directors are of the view that the terms of the Proposal are attractive to the Scheme Shareholders, the Optionholders and grantees of the relevant Unallotted Awarded Shares and that the Proposal will be beneficial to the Scheme Shareholders, the Optionholders and grantees of the relevant Unallotted Awarded Shares for reasons stated below:

- (a) As a result of the challenging business environment in which the Group operates and the recent global economic condition, the Directors anticipate there may be a period of fluctuation in the sales of mobile device products. The outlook for the retail market of mobile device products in the foreseeable future is anticipated to remain challenging, which may negatively affect the stock price of the Shares. Following the implementation of the Proposal, the Offeror and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.
- (b) The Company's share price performance has not been satisfactory since 2015. This limits the ability of the Group to attract investors' interests and enhance its market image. The Offeror considers that the underperformance of share price has had an adverse impact on the Company's reputation with customers, and therefore on its business and employee morale. The implementation of the Proposal could eliminate this adverse impact.

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## EXPLANATORY STATEMENT

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- (c) The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 3.65 million Shares per day, representing only approximately 0.29% of the issued Shares and approximately 0.95% of the issued Shares held by public Shareholders as at the Announcement Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

In addition, given the low liquidity of Shares, the Offeror Board believes that the Company's ability to raise funds from the public equity markets is currently limited and it is unlikely to expect any significant improvement in the liquidity of the Shares in the foreseeable future.

- (d) The Proposal, the Option Offer and the Share Award Offer are intended to provide the Scheme Shareholders, the Optionholders and grantees of the relevant Unallotted Awarded Shares with an opportunity to realise their investment in the Company for cash at a premium to the market price. For reference purpose, the Cancellation Price of HK\$7.50 represents a premium of approximately 34.65% over the closing price of the Shares on the Last Trading Day, a premium of approximately 43.13% over the average closing price of Shares for the 10 trading days up to and including the Last Trading Day, or a premium of approximately 47.06% over the average closing price of Shares for the 30 trading days up to and including the Last Trading Day.
- (e) The Proposal will simplify the structure of the group of TCL Corp. and will enable TCL Corp. to eliminate the listing of the Company. The Offeror Directors consider the delisting of the Company would reduce the costs and management resources associated with the maintenance of the Company's listing on the Stock Exchange and its publicly listed status, and, therefore the delisting of the Company is expected to result in a more efficient and cost-effective group structure for TCL Corp. and create more flexibility for TCL Corp. to manage the Group's business in an efficient and sustainable manner.

On the basis of the foregoing, the Directors (including the members of the Independent Board Committee) have decided to put forward to the Scheme Shareholders for their consideration, and if approved and all conditions of the Schemes have been satisfied or applicably waived, proceed with, the Proposal.

## 12. INFORMATION OF THE GROUP

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 27 September 2004. The Group is principally engaged in the research and development, manufacture and sale of mobile and Internet products and provision of services.

As at the Latest Practicable Date, the Company is solvent and is not unable to pay its debts as they fall due and will not become unable to do so immediately after the Announcement Date.

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## EXPLANATORY STATEMENT

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Set out below is a summary of the (i) audited consolidated results of the Company for financial years ended 31 December 2014 and 31 December 2015 as extracted from the Company's annual report for the year ended 31 December 2015; and (ii) unaudited consolidated results of the Company for the six months ended 30 June 2016 as extracted from the Interim Results Announcement:

	<b>Year ended 31 December</b>		<b>Six months</b>
	<b>2014</b>	<b>2015</b>	<b>ended 30 June</b>
	<b>(restated) <sup>Note 1</sup></b>		<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>(Unaudited)</b>
			<i>HK\$'000</i>
Revenue	30,691,054	28,557,585	10,931,795
Profit before tax	1,149,016	1,112,818	13,423
Profit for the period/year attributable to:			
owners of the Company			
– owners of the parent	1,092,507	1,056,991	22,360
– non-controlling interests	15,033	493	(11,022)
	1,107,540	1,057,484	11,338
Earnings per Share attributable to ordinary equity holders of the parent			
Basic	91.58 HK cents	84.60 HK cents	1.76 HK cents
Diluted	88.25 HK cents	83.25 HK cents	1.74 HK cents

*Note:*

1. Due to the implementation of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) during the year ended 31 December 2015, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the presentation and disclosures for the year ended 31 December 2015.

The audited consolidated net assets of the Company attributable to owners of the Company as at 31 December 2014 and 2015 were approximately HK\$4,179.08 million and HK\$4,038.34 million, respectively. The unaudited consolidated net assets of the Company attributable to owners of the Company as at 30 June 2016 was approximately HK\$4,050.99 million.

### 13. INFORMATION ON THE OFFEROR AND THE OFFEROR CONCERT PARTIES

The Offeror is a private limited company incorporated in Hong Kong on 16 July 1996. It is an investment holding company and has not been engaged in any other business activities since its incorporation.

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## **EXPLANATORY STATEMENT**

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The Offeror is wholly owned by TCL Corp., a limited liability company registered in the PRC and the shares of which have been listed on the Shenzhen Stock Exchange (stock code: 000100) since 2004. The group of TCL Corp. is principally engaged in the design, development, manufacturing and sale of electrical appliances and electric products and provision of Internet services.

Mr. Li Dongsheng, the chairman of the Board and an executive Director, is also the chairman, executive director, chief executive officer and founder of TCL Corp.. As at the Latest Practicable Date, Mr. Li Dongsheng is deemed to be interested in (a) 638,273,688 shares of TCL Corp. held by him personally, representing approximately 5.23% of the issued shares of TCL Corp.; and (b) 408,899,521 shares of TCL Corp. held by partnership enterprises ultimately controlled by him, representing approximately 3.35% of the issued shares of TCL Corp.. Mr. Huang Xubin, a non-executive Director, is an executive director, chief financial officer and a member of the strategy and audit committee of TCL Corp.. As at the Latest Practicable Date, Mr. Huang Xubin is interested in 3,383,380 shares of TCL Corp, representing approximately 0.03% of the issued shares of TCL Corp. held by him personally. Mr. Guo Aiping, an executive Director, is an executive director and a senior vice president of TCL Corp..

### **14. OFFEROR'S INTENTION REGARDING THE COMPANY**

It is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company.

The Offeror has no plan, in the event that the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group.

On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate.

The Board has considered the Offeror's intentions as set out in this section and is of the view that, based on the Offeror's plans, there will be no material change to the existing businesses of the Group and the employees of the Group. The Independent Board Committee has taken the Offeror's intentions into account in making its recommendations as set out on pages 31 to 32 of this Scheme Document.

### **15. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS**

The making of the (i) Proposal to and acceptance of the Proposal by Scheme Shareholders; and (ii) Option Offer to the Optionholders, who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such Scheme Shareholders or Optionholders respectively are located. Such Scheme Shareholders or Optionholders should inform themselves about and observe any applicable legal, tax or regulatory requirements of their own jurisdictions.

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## **EXPLANATORY STATEMENT**

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It is the responsibility of any overseas Scheme Shareholders or Optionholders wishing to accept the Proposal or the Option Offer (as the case may be) to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with such acceptance (including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due by such overseas Scheme Shareholder or Optionholders in any such jurisdiction).

As at the Latest Practicable Date, there were no overseas Scheme Shareholders or Optionholders.

### **16. SHARE CERTIFICATES, DEALINGS AND WITHDRAWAL OF LISTING**

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as document or evidence of title, and the register of members of the Company will be updated to reflect the same. The Company does not intend to retain its listing on the Stock Exchange and will apply for the withdrawal of listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from the date on which the Scheme becomes effective. The Scheme Shareholders will be notified by way of an announcement of the exact dates of (i) the Effective Date, and (ii) the withdrawal of the listing of the Shares becoming effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Thursday, 22 September 2016, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 4:00 p.m. on Friday, 30 September 2016. Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

### **17. IF THE SCHEME IS NOT APPROVED OR LAPSES**

The Scheme will lapse if any of the Conditions has not been fulfilled or waived (as applicable) on or before the Long Stop Date. If the Scheme is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

If the Scheme is not approved or otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

### **18. TAXATION, EFFECTS AND LIABILITIES**

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.



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## EXPLANATORY STATEMENT

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It is emphasised that none of the Company, the Offeror, the Offeror Concert Parties, BNP, REORIENT and any of their respective directors or associates or any other person involved in the Proposal and Scheme accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal. If you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

### 19. COURT MEETING AND EGM

In accordance with the direction of the Grand Court, the Court Meeting will be held at 10:00 a.m. on Wednesday, 14 September 2016 at Rooms 1-2, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme. All the Independent Shareholders (who are also Scheme Shareholders) will be entitled to vote at the Court Meeting. Cayman Islands law requires the resolution to approve the Scheme to be passed by a majority in number representing not less than 75% in value of the Scheme Shares present and voting either in person or by proxy at the Court Meeting.

In addition, the Scheme will, in compliance with Rule 2.10 of the Takeovers Code, only be implemented if: (i) the Scheme is approved (by way of a poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are voted at the Court Meeting (either in person or by proxy); and (ii) the number of votes cast (by way of a poll) against the resolution to approve the Scheme at the Court Meeting (either in person or by proxy) is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held in aggregate 449,285,356 Scheme Shares. On that basis, 10% of the votes attached to the Scheme Shares held by all the Independent Shareholders represent approximately 44,928,535 Shares as at the Latest Practicable Date.

The EGM will be held at 11:30 a.m. on Wednesday, 14 September 2016 or as soon thereafter as the Court Meeting convened for the same date and place has been concluded or adjourned. All Shareholders shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to: (i) the special resolution to approve the Reduction resulting from the cancellation of the Scheme Shares; (ii) the special resolution to approve the withdrawal of the listing of the Shares on the Stock Exchange following the Effective Date; and (iii) the ordinary resolution to approve the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled. The special resolutions described under (i) and (ii) above will be passed if not less than 75% of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM are in favour of each of the special resolutions. The ordinary resolution described under (iii) above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders present and voting, in person or by proxy, at the EGM.

Notice of the Court Meeting is set out on pages 217 to 219 of this Scheme Document. A pink form of proxy for the Court Meeting is enclosed with this Scheme Document.

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## EXPLANATORY STATEMENT

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Notice of the EGM is set out on pages 220 to 222 of this Scheme Document. A white form of proxy for the EGM is enclosed with this Scheme Document.

Voting at the Court Meeting and at the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Scheme will take effect when the Court Order has been delivered to the Registrar of Companies for registration pursuant to Section 86(3) of the Companies Law. If the Scheme becomes effective under the Companies Law, it will be binding on the Company and all Scheme Shareholders irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement.

**It is important that as many votes as possible are cast at the Court Meeting so that the Grand Court may be satisfied that there is a fair and reasonable representation of opinion of the Scheme Shareholders. You are therefore strongly urged to complete and return your pink form of proxy for the Court Meeting as soon as possible.**

### 20. ACTIONS TO BE TAKEN

#### Shareholders

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the EGM have been enclosed with this Scheme Document that has been sent to the Registered Owners of the Shares. Subsequent purchasers of the Scheme Shares will need to obtain proxy forms from the transferor. Whether or not you are able to attend the Court Meeting and/or the EGM, if you are an Independent Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Monday, 12 September 2016 or be handed to the chairman of the Court Meeting at the Court Meeting if, in accordance with the Grand Court, it is not so deposited and the chairman of the Court Meeting shall have absolute discretion as to whether or not to accept it, and the white form of proxy for use at the EGM should be lodged not later than 11:30 a.m. on Monday, 12 September 2016. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the terms of the Scheme should it be sanctioned by the Grand Court and become effective. You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

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## EXPLANATORY STATEMENT

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For the purpose of determining the entitlements of Independent Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 12 September 2016 to Wednesday, 14 September 2016 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 9 September 2016.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Court Hearing of the petition to sanction the Scheme by the Grand Court and, if the Scheme is sanctioned, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

### **Holders through trusts or CCASS**

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, an Other CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

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## EXPLANATORY STATEMENT

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HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS participants. The number of votes cast in favour of the Scheme and the number of CCASS participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS participants on whose instructions they are cast may be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

### Optionholders

The Option Offer Letter is being sent to each Optionholder, together with this Scheme Document and an Option Form of Acceptance. If you are an Optionholder and you will wish to accept the Option Offer, you must complete and return the duly completed and executed Option Form of Acceptance so as to reach the Offeror at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Offeror Board and marked "TCL Communication Technology Holdings Limited – Option Offer" by no later than 4:00 p.m. on 14 October 2016 (or such later date and time as may be notified to you by the Company, the Offeror or BNP). No acknowledgement of receipt of any Option Form of Acceptance or other document evidencing the grant of Share Options or any other document will be given. Under the Option Offer, (i) for Share Options with exercise price below the Cancellation Price, the Offeror will pay the Option Cancellation Price equals to the "see-through" price (being the Cancellation Price minus the exercise price of the Share Options) for each outstanding Share Option that they hold; and (ii) for Share Options with exercise price equal to or exceeding the Cancellation Price, the Offeror will pay the Option Cancellation Price equals a nominal amount of HK\$0.01 for each outstanding Share Option that they hold. If you are an Optionholder and do not complete an Option Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your relevant Share Options (to the extent not exercised) will lapse automatically on the date on which the Option Offer closes.

**ALL OPTIONHOLDERS SHOULD NOTE THAT PURSUANT TO THE IMPLEMENTED SHARE OPTION SCHEMES AMENDMENTS, ALL OUTSTANDING SHARE OPTIONS CAN ONLY BE EXERCISED AT ANY TIME UP TO 3:00 P.M. ON THE RECORD DATE AND THE SHARE OPTIONS (TO THE EXTENT NOT EXERCISED) WILL LAPSE AUTOMATICALLY ON THE DATE ON WHICH THE OPTION OFFER CLOSES. IF YOU ARE AN OPTIONHOLDER AND WISHES TO BE QUALIFIED FOR ENTITLEMENTS UNDER THE SCHEME, YOU SHOULD LODGE NOTICES OF EXERCISE OF YOUR EXERCISABLE SHARE OPTIONS BY 3:00 P.M. ON 29 SEPTEMBER 2016. OR ELSE YOU WILL ONLY BE ENTITLED TO ACCEPT THE OPTION OFFER. IF YOU NEITHER EXERCISE YOUR OUTSTANDING EXERCISABLE SHARE OPTIONS BY 3:00 P.M. ON 29 SEPTEMBER 2016 NOR ACCEPT THE OPTION OFFER, YOU WILL RECEIVE NEITHER THE CANCELLATION PRICE NOR THE OPTION CANCELLATION PRICE FROM THE OFFEROR.**

### The Trustee

The Share Award Offer Letter is being sent to the Trustee, together with the Scheme Document and the Award Form of Acceptance. If you are the Trustee, you must accept the Share Award Offer in accordance with the rules of the Share Award Scheme, you must complete and return the duly completed and executed Award Form of Acceptance so as to reach the Offeror at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Offeror Board and marked "TCL Communication Technology Holdings Limited – Share Award Offer" by no later than 4:00 p.m. on 14 October 2016 (or such later date and time may be notified to you by the Company, the Offeror or BNP). No acknowledgement of receipt of any Award Form of Acceptance or any other document will be given.

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## EXPLANATORY STATEMENT

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Under the Share Award Offer, the Offeror is procuring to be made on its behalf the Share Award Offer to cancel the Unallotted Awarded Shares, i.e. the shortfall between the total number of Awarded Shares and the Trustee Held Allotted Awarded Shares, to the extent they have not otherwise lapsed or been cancelled, in return for providing the Share Award Offer Price for each Unallotted Awarded Share. The Offeror shall pay to you, if you are the Trustee, the Share Award Amount, being an amount equivalent to the Share Award Offer Price times the number of the Unallotted Awarded Shares as at the Share Award Offer Record Date, which shall be held on trust by you for such grantees of the Awarded Shares and shall be paid by you to such grantees of the Awarded Shares by reference to the number of Awarded Shares attributable to such grantees on the Share Award Offer Record Date as soon as practicable after you receive such amount from the Offeror under the Share Award Offer.

### **21. REGISTRATION AND PAYMENT**

Assuming that the Record Date falls on 29 September 2016, it is proposed that the register of members of the Company will be closed from 28 September 2016 (or such other date as the Shareholders may be notified by way of an announcement) onwards in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, the Shareholders should ensure that their Shares are lodged with the Hong Kong branch share registrar of the Company for registrations in their names or in the names of their nominees before 4:30 p.m. on 27 September 2016.

#### **Payment of Cancellation Price to Scheme Shareholders**

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Record Date. On the basis that the Scheme becomes effective on 29 September 2016 (Cayman Islands time) (i.e. 30 September 2016 (Hong Kong time)), cheques for payment of the Cancellation Price payable under the Scheme are expected to be despatched on or before 12 October 2016. In the absence of any specific instructions to the contrary received in writing by Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, cheques will be sent by ordinary post to the persons entitled thereto at their respective registered addresses. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Company, the Offeror, BNP or any of them will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheques which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date, make payments therefrom of the sums to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligations to make any payments under the Scheme.

Assuming the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on 29 September 2016 (Cayman Islands time) (i.e. 30 September 2016 (Hong Kong time)).

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## EXPLANATORY STATEMENT

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Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

### **Payment of Option Cancellation Price to Optionholders**

On the basis that the latest time to accept the Option Offer and closing date of the Option Offer fall on 14 October 2016, cheques for payment of the Option Cancellation Price payable under the Option Offer are expected to be despatched within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of a validly completed and executed Option Form of Acceptance. Please refer to the expected timetable as set out in the section headed “Expected timetable” of this Scheme Document for details. Cheques will be sent by posting the same in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Company, the Offeror, BNP or any of them will be responsible for any loss or delay in despatch. Payment in respect of the Option Cancellation Price will be made in accordance with the terms of the Option Offer.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheques which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Offeror’s name with a licensed bank in Hong Kong selected by the Company.

The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date, make payments therefrom of the sums to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligations to make any payments under the Option Offer.

Settlement of the Option Cancellation Price to which the Optionholders are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Optionholder.

### **Payment of Share Award Amount to the Trustee**

On the basis that the latest time to accept the Share Award Offer and closing date of the Share Award Offer fall on 14 October 2016, cheques for payment of the Share Award Amount under the Share Award Offer are expected to be despatched within seven Business Days following the later of the date that the Share Award Offer becomes unconditional and the date of receipt of the validly completed and executed Award Form of Acceptance. Cheques will be sent by posting the same in postage pre-paid envelopes addressed to the Trustee at its registered address. The cheque will be sent at the risk of the Trustee and none of the Company, the Offeror, BNP or any of them will be responsible for any loss or delay in despatch. Payment in respect of the Share Award Amount will be made in accordance with the terms of the Share Award Offer.

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## **EXPLANATORY STATEMENT**

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On or after the day being six calendar months after the posting of the cheque (if applicable), the Offeror shall have the right to cancel or countermand payment of the cheque if it has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date, make payments therefrom of the sums to person(s) who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligations to make any payments under the Share Award Offer.

Settlement of the Share Award Amount to which the Trustee under the Share Award Offer will be implemented in full in accordance with the terms of the Share Award Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against the Trustee.

### **22. COSTS OF THE SCHEME**

If the Independent Board Committee or the Independent Financial Adviser to the Independent Board Committee do not recommend the Proposal, the Scheme, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Offeror in accordance with Rule 2.3 of the Takeovers Code.

The costs of the Scheme and of its implementation incurred by the Company are expected to amount to approximately HK\$7 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

### **23. RECOMMENDATION**

Your attention is drawn to the following:

- (a) paragraph headed "13. Recommendation" in the "Letter from the Board" of this Scheme Document;
- (b) the letter from the Independent Board Committee set out on pages 31 to 32 of this Scheme Document; and
- (c) the letter from REORIENT, the Independent Financial Adviser to the Independent Board Committee, set out on pages 33 to 59 of this Scheme Document.

### **24. FURTHER INFORMATION**

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Statement.

## 1. FINANCIAL SUMMARY

The following summary financial information for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 is extracted from the audited consolidated financial statements of the Group as set forth in the annual reports of the Company for the years ended 31 December 2013, 2014 and 2015 and the interim results announcement of the Company for the six months ended 30 June 2016. The auditor's reports issued by Ernst & Young in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2013, 2014 and 2015 did not contain any qualifications.

**Consolidated income statement**

	Year ended 31 December			Six months ended
	2013	2014	2015	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)
<b>Revenue</b>	19,362,061	30,691,054	28,557,585	10,931,795
<b>Profit before tax</b>	298,380	1,149,016	1,112,818	13,423
<b>Income tax expense</b>	17,798	(41,476)	(55,334)	(2,085)
<b>Profit for the year</b>	316,178	1,107,540	1,057,484	11,338
<b>Profit and total comprehensive income for the period/year attributable to owners of the Company:</b>				
– Owners of the parent	313,422	1,092,507	1,056,991	22,360
– Non-controlling interests	2,756	15,033	493	(11,022)
	<u>316,178</u>	<u>1,107,540</u>	<u>1,057,484</u>	<u>11,338</u>
<b>Earnings per Share attributable to ordinary equity holders of the Company</b>				
Basic (HK cents)	27.50	91.58	84.60	1.76
Diluted (HK cents)	26.56	88.25	83.25	1.74
<b>Dividend</b>				
Interim	–	154,980	161,218	–
Final	117,141	318,358	266,395	N/A
	<u>117,141</u>	<u>473,338</u>	<u>427,613</u>	<u>–</u>
<b>Dividends per Share (HK cents)</b>	<u>10.00</u>	<u>26.00</u>	<u>21.00</u>	<u>–</u>

There are no exception items because of size, nature or incidence that are required to be disclosed in the financial statements of the Group for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.



## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The following financial information has been derived from the audited consolidated of the Company for the year ended 31 December 2015 as set out in the annual report of the Company for the year ended 31 December 2015.

### Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2015

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
REVENUE	8	28,557,585	30,691,054
Cost of sales		<u>(22,525,437)</u>	<u>(24,773,502)</u>
Gross profit		6,032,148	5,917,552
Other income and gains	8	804,334	582,122
Research and development costs		(1,746,017)	(1,479,149)
Selling and distribution expenses		(2,076,656)	(2,420,176)
Administrative expenses		(1,547,989)	(1,246,383)
Other expenses		(189,478)	(105,073)
Finance costs	10	(140,834)	(99,513)
Share of profits and losses of associates		(13,499)	(364)
Share of losses of joint ventures		<u>(9,191)</u>	<u>–</u>
PROFIT BEFORE TAX	9	1,112,818	1,149,016
Income tax expense	12	<u>(55,334)</u>	<u>(41,476)</u>
PROFIT FOR THE YEAR		<u>1,057,484</u>	<u>1,107,540</u>
Attributable to:			
Owners of the parent		1,056,991	1,092,507
Non-controlling interests		<u>493</u>	<u>15,033</u>
		<u>1,057,484</u>	<u>1,107,540</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		<u>84.60 HK cents</u>	<u>91.58 HK cents</u>
Diluted		<u>83.25 HK cents</u>	<u>88.25 HK cents</u>

**Consolidated Statement of Comprehensive Income***Year ended 31 December 2015*

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
PROFIT FOR THE YEAR		1,057,484	1,107,540
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income of joint ventures	21	25	–
Changes in fair value of available-for-sale investments	22	122,107	(5,938)
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	31	(50,328)	402,784
Reclassification adjustments for gains included in the consolidated statement of profit or loss	31	(318,136)	(178,280)
Income tax effect	31	33,153	18,939
		(335,311)	243,443
Exchange differences on translation of foreign operations		(680,237)	(155,910)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(893,416)	81,595
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		(893,416)	81,595
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>164,068</u>	<u>1,189,135</u>
Attributable to:			
Owners of the parent		163,575	1,174,102
Non-controlling interests		493	15,033
		<u>164,068</u>	<u>1,189,135</u>

**Consolidated statement of financial position***As at 31 December 2015*

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i> (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	1,724,658	1,439,029
Investment properties	16	104,114	43,117
Prepaid land lease payments	17	106,353	116,086
Other intangible assets	18	1,463,537	1,260,093
Goodwill	19	253,954	253,954
Investments in associates	20	35,813	52,925
Investments in joint ventures	21	26,321	–
Available-for-sale investments	22	352,591	227,738
Deferred tax assets	35	276,479	297,641
Other non-current assets		20,446	–
Total non-current assets		<u>4,364,266</u>	<u>3,690,583</u>
<b>CURRENT ASSETS</b>			
Inventories	23	2,541,199	3,293,292
Trade receivables	24	5,824,206	7,872,681
Factored trade receivables	25	271,167	371,380
Notes receivable		17,492	95,546
Prepayments, deposits and other receivables	26	1,600,323	1,492,170
Due from related companies	42(d)	296,680	62,382
Tax recoverable		3,734	11,111
Derivative financial instruments	31	93,873	419,240
Pledged deposits	27	1,028,340	1,914,380
Cash and cash equivalents	27	565,707	473,391
Total current assets		<u>12,242,721</u>	<u>16,005,573</u>
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	28	2,803,213	3,940,791
Trade and notes payables	29	4,789,906	5,166,744
Bank advances on factored trade receivables	25	271,167	371,380
Other payables and accruals	30	3,283,900	4,953,416
Derivative financial instruments	31	269,776	49,391
Provision for warranties	32	422,912	462,500
Due to related companies	42(d)	143,978	416,086
Tax payable		32,833	47,717
Total current liabilities		<u>12,017,685</u>	<u>15,408,025</u>
NET CURRENT ASSETS		<u>225,036</u>	<u>597,548</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,589,302</u>	<u>4,288,131</u>

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i> (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,589,302	4,288,131
NON-CURRENT LIABILITIES			
Retirement indemnities	33	5,197	4,827
Long service medals	34	2,044	2,017
Interest-bearing bank borrowings	28	178,268	–
Due to a related company	42(d)	63,677	–
Deferred tax liabilities	35	18,096	102,205
Other non-current liabilities		283,683	–
Total non-current liabilities		550,965	109,049
Net assets		4,038,337	4,179,082
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Share capital	36	1,267,799	1,220,766
Shares held for Share Award Scheme	38	(6,512)	(9,629)
Reserves	39	2,691,327	2,877,711
		3,952,614	4,088,848
Non-controlling interests		85,723	90,234
Total equity		4,038,337	4,179,082

**Consolidated statement of changes in equity***For the year ended 31 December 2015*

	Attributable to owners of the parent														
	Share capital	Share premium account <sup>#</sup>	Share Award Scheme	Awarded share reserve	Share option reserve	Hedging reserve	Contributed surplus	Statutory revaluation reserve	Available-for-sale investment reserve	Exchange fluctuation reserve	Other retained profits <sup>†</sup>	Non-controlling interests	Total equity		
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
	(note 36)	(note 36)	(note 38)	(note 38)	(note 37)	(note 31)	(note 39)	(note 39)	(note 22)	(note 39)					
At 1 January 2014	1,162,460	417,664	(65,786)	38,137	115,744	(17,435)	232,555	293,075	-	(130,232)	362,349	500,866	2,909,397	3,657	2,913,054
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	1,092,507	1,092,507	15,033	1,107,540
Other comprehensive income/(loss) for the year:															
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	-	-	(5,938)	-	-	-	(5,938)	-	(5,938)
Cash flow hedges, net of tax	-	-	-	-	-	243,443	-	-	-	-	-	-	243,443	-	243,443
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	(155,910)	-	(155,910)	-	(155,910)
Total comprehensive income for the year	-	-	-	-	-	243,443	-	-	(5,938)	-	(155,910)	1,092,507	1,174,102	15,033	1,189,135
Exercise of share options	51,440	173,433	-	-	(63,687)	-	-	-	-	-	-	-	161,186	-	161,186
Issue of new shares under Share Award Scheme	6,866	14,749	-	(21,615)	-	-	-	-	-	-	-	-	-	-	-
Reclassification of lapsed share options	-	636	-	-	(636)	-	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	35,499	-	-	-	-	-	-	-	35,499	-	35,499
Share Award Scheme arrangements	-	-	-	82,583	-	-	-	-	-	-	-	-	82,583	-	82,583
Reclassification of vested awarded shares	-	24,494	56,157	(80,651)	-	-	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,846)	(26,846)
Addition of non-controlling interests	-	-	-	-	-	-	-	-	-	244	-	-	244	98,390	98,634
Transfer from retained profits	-	-	-	-	-	-	-	69,574	-	-	(69,574)	-	-	-	-
Final 2013 dividend	-	-	-	-	-	-	-	-	-	-	-	(119,183)	(119,183)	-	(119,183)
Interim 2014 dividend	-	-	-	-	-	-	-	-	-	-	-	(154,980)	(154,980)	-	(154,980)
At 31 December 2014	1,220,766	630,976*	(9,629)	18,454*	86,920*	226,008*	232,555*	362,649*	(5,938)*	(129,988)*	206,439*	1,249,636*	4,088,848	90,234	4,179,082

\* Retained profits and share premium account have been adjusted for the proposed final 2014 dividend in accordance with current year's presentation, which is described in note 5 to the financial statements.

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	Attributable to owners of the parent														
	Shares held for					Available-for-sale investment					Non-controlling				
	Share premium	Share Award Scheme	Awarded share reserve	Share option reserve	Share	Hedging reserve	Contributed surplus	Statutory reserve	revaluation reserve	Exchange fluctuation	Retained profits	Total	interests	Total equity	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(note 36)	(note 36)	(note 38)	(note 38)	(note 37)	(note 31)	(note 39)	(note 39)	(note 22)	(note 39)					
At 1 January 2015	1,220,766	630,976	(9,629)	18,454	86,920	226,008	232,555	362,649	(5,938)	(129,988)	206,439	1,249,636	4,088,848	90,234	4,179,082
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	1,056,991	1,056,991	493	1,057,484
Other comprehensive income/(loss) for the year:															
Share of other comprehensive income of joint ventures	-	-	-	-	-	-	-	-	-	25	-	-	25	-	25
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	-	-	122,107	-	-	-	122,107	-	122,107
Cash flow hedges, net of tax	-	-	-	-	-	(335,311)	-	-	-	-	-	-	(335,311)	-	(335,311)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	(680,237)	-	(680,237)	-	(680,237)
Total comprehensive income for the year	-	-	-	-	-	(335,311)	-	-	122,107	25	(680,237)	1,056,991	163,575	493	164,068
Exercise of share options	37,869	157,675	-	-	(54,425)	-	-	-	-	-	-	-	141,119	-	141,119
Issue of new shares under Share															
Award Scheme	9,164	27,455	-	(36,619)	-	-	-	-	-	-	-	-	-	-	-
Reclassification of lapsed share options	-	165	-	-	(165)	-	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	21,044	-	-	-	-	-	-	-	21,044	-	21,044
Share Award Scheme arrangements	-	-	-	30,083	-	-	-	-	-	-	-	-	30,083	-	30,083
Reclassification of vested awarded shares	-	(3,474)	8,833	(5,359)	-	-	-	-	-	-	-	-	-	-	-
Repurchase of shares for Share															
Award Scheme	-	-	(5,716)	-	-	-	-	-	-	-	-	-	(5,716)	-	(5,716)
Deemed disposal of investment in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(572)	(572)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,432)	(4,432)
Transfer from retained profits	-	-	-	-	-	-	-	9,904	-	-	-	(9,904)	-	-	-
Final 2014 dividend	-	(91,467)	-	-	-	-	-	-	-	-	-	(233,654)	(325,121)	-	(325,121)
Interim 2015 dividend	-	(161,218)	-	-	-	-	-	-	-	-	-	-	(161,218)	-	(161,218)
At 31 December 2015	1,267,799	560,112*	(6,512)	6,559*	53,374*	(109,303)*	232,555*	372,553*	116,169*	(129,963)*	(473,798)*	2,063,069*	3,952,614	85,723	4,038,337

\* These reserve accounts comprise the consolidated reserves of HK\$2,691,327,000 (31 December 2014: HK\$2,877,711,000) in the consolidated statement of financial position.

**Consolidated statement of cash flows***For the year ended 31 December 2015*

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		1,112,818	1,149,016
Adjustments for:			
Share of losses of joint ventures	21	9,191	–
Share of profits and losses of associates	20	13,499	364
Bank interest income	8	(61,847)	(68,833)
Dividend income from available-for-sale investments	8	(731)	(9,149)
Depreciation of property, plant and equipment	9	252,047	185,218
Depreciation of investment properties	9	2,235	1,677
Recognition of prepaid land lease payments	9	2,059	2,106
Amortisation of computer software, intellectual property and ALCATEL brand license	9	64,458	48,437
Amortisation of deferred development costs	9	1,400,960	1,117,146
(Gain)/loss on disposal of items of property, plant and equipment	9	(2,333)	589
Equity-settled share option expense	9	13,665	17,808
Equity-settled Share Award Scheme expense	9	17,831	32,367
Gain on deemed disposal of investment in an associate	9	–	(1,755)
Finance costs	10	140,834	99,513
Gain on deemed disposal of investment in a subsidiary	9	(13,270)	–
		2,951,416	2,574,504
Decrease/(increase) in inventories		547,763	(749,957)
Decrease/(increase) in trade receivables		1,473,805	(2,910,061)
Decrease in factored trade receivables		100,213	113,476
Decrease/(increase) in notes receivable		78,054	(61,302)
Increase in prepayments, deposits and other receivables		(104,954)	(266,173)
Decrease/(increase) in derivative financial instruments, net		178,550	(143,956)
Increase in amounts due from related companies		(238,479)	(10,861)
(Decrease)/increase in trade and notes payables		(129,668)	1,710,849
(Decrease)/increase in other payables and accruals		(1,607,531)	1,735,431
(Decrease)/increase in provision for warranties		(14,740)	184,022
(Decrease)/increase in amounts due to related companies		(360,517)	80,838
Increase/(decrease) in retirement indemnities	33	878	(254)
Increase/(decrease) in long service medals		238	(158)
Increase in other non-current liabilities		283,683	–
		3,158,711	2,256,398
Cash generated from operations		3,158,711	2,256,398
Tax paid		(108,736)	(83,027)
Interest paid		(147,835)	(90,146)
		2,902,140	2,083,225
Net cash flows from operating activities		2,902,140	2,083,225

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Net cash flows from operating activities		2,902,140	2,083,225
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(584,070)	(683,958)
Additions to other intangible assets		(1,759,694)	(1,470,579)
Proceeds from disposal of prepaid land lease payments and affiliated buildings		–	1,306
Proceeds from disposal of items of property, plant and equipment		7,886	590
Proceeds from disposal of other intangible assets		3,758	309
Purchase of available-for-sale investments		(11,636)	(131,364)
Investment in an associate		–	(46,532)
Investments in joint ventures		(18,791)	–
Dividends received from available-for-sale investments		4,912	4,975
Interest received		77,021	60,976
Net cash flows used in investing activities		(2,280,614)	(2,264,277)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		141,119	161,186
Addition of non-controlling interests		–	98,634
Acquisition of non-controlling interests		–	(636)
Decrease/(increase) in pledged deposits		886,040	(216,352)
Purchase of shares held for Share Award Scheme		(5,716)	–
Decrease in bank advances on factored trade receivables		(100,213)	(113,476)
New bank loans		8,039,741	10,356,809
Repayments of bank loans		(8,999,058)	(8,817,058)
Repayments of loans from related companies		–	(761,193)
Dividends paid to non-controlling shareholders		(4,432)	–
Dividends paid		(486,335)	(274,161)
Net cash flows (used in)/from financing activities		(528,854)	433,753
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		473,391	142,008
Effect of foreign exchange rate changes, net		(356)	78,682
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>565,707</b>	<b>473,391</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents as stated in the consolidated statement of financial position	27	565,707	473,391



## Notes to the consolidated financial statements

For the year ended 31 December 2015

### 1. CORPORATE AND GROUP INFORMATION

TCL Communication Technology Holdings Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 26 February 2004 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal office of the Company is located at Rooms 1910-12A, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in the research and development, manufacture and sale of mobile phones and other products and rendering of services.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company are T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong, and TCL Corporation, a limited liability company registered in the People’s Republic of China (the “**PRC**”) and listed on the Shenzhen Stock Exchange, respectively.

#### Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
TCL Mobile Communication (HK) Company Limited	Hong Kong	HK\$5,000,000	–	100%	Distribution of mobile handsets and components
Huizhou TCL Mobile Communication Co., Limited (“ <b>Huizhou TCL Mobile</b> ”) <i>(note (i))</i>	The PRC/ Mainland China	US\$199,600,000	–	100%	Manufacture and distribution of mobile handsets and rendering of services
TCT Mobile Europe SAS (“ <b>TCT SAS</b> ”)	France	EUR23,031,072	–	100%	Development and distribution of mobile handsets
TCT Mobile SA DE CV	Mexico	MX\$1,299,103,498	–	100%	Distribution of mobile handsets
TCT Mobile International Limited	Hong Kong	HK\$5,000,000	–	100%	Development and distribution of mobile handsets
JRD Communication (Shenzhen) Limited <i>(note (i))</i>	The PRC/ Mainland China	US\$10,000,000	–	100%	Software development for mobile handsets
“TMC Rus” Limited Liability Company	Russia	RUB10,000	–	100%	Distribution of mobile handsets
JRD Communication Technology (Shanghai) Limited <i>(note (i))</i>	The PRC/ Mainland China	US\$10,000,000	–	100%	Software development for mobile handsets

Name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
TCL Communication Technology (Chengdu) Limited <i>(note (i))</i>	The PRC/ Mainland China	US\$12,000,000	–	100%	Software development for mobile handsets
TCL Communication (Ningbo) Limited <i>(note (i))</i>	The PRC/ Mainland China	US\$3,000,000	–	100%	Software development for mobile handsets
TCT Mobile-Telefones LTDA.	Brazil	BRL104,088,757	–	100%	Distribution of mobile handsets
TCT Mobile (US) Inc.	United States	US\$1	–	100%	Distribution of mobile handsets
Huizhou TCL Communication Electronic Limited	The PRC/ Mainland China	RMB30,000,000	–	100%	Development, manufacture and distribution of fixed line telephone products
TCT Mobile Overseas Limited	Hong Kong	HK\$1	–	100%	Distribution of mobile handsets
TCL Mobile Communication Technology (Ningbo) Limited <i>(note (i))</i>	The PRC/ Mainland China	US\$5,000,000	–	100%	Software development for mobile handsets
Honpe Technology (Shenzhen) Co. Ltd <i>(note (i))</i>	The PRC/ Mainland China	HK\$7,525,198	–	51%	Development and distribution of moulds for mobile handsets and other products
Shenzhen TCL Cloud Technology Co Ltd (“Shenzhen TCL Cloud”)	The PRC/ Mainland China	RMB60,000,000	–	100%	Software development for mobile handsets
Huizhou TCL Cloud Technology Co Ltd (“Huizhou TCL Cloud”)	The PRC/ Mainland China	RMB40,000,000	–	100%	Software development for mobile handsets
JRD Technology (Beijing) Ltd	The PRC/ Mainland China	RMB30,000,000	–	100%	Software development for mobile handsets

*Note:*

- (i) These are wholly-foreign-owned enterprises under the PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 2. BASIS OF PREPARATION

These 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\$**” or “**HKD**”) and all values are rounded to the nearest thousand except when otherwise indicated.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries and a trust (“**the Share Award Scheme Trust**”), a controlled structured entity, are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

The board of directors (“**Board**”) has approved and further amended a share award scheme (the “**Share Award Scheme**”) to provide incentives to employees, advisers, consultants, agents, contractors, clients or suppliers of the Group and employees or officers of any affiliated company (“**New Expanded Scope of Participants**”) and to retain and encourage New Expanded Scope of Participants to contribute to the continual operation and development of the Group. Pursuant to the rules of the Share Award Scheme, the Group has set up the Share Award Scheme Trust for the purpose of administering the Share Award Scheme and holding the awarded shares before they vest. As the Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and derives benefits from the contributions of the New Expanded Scope of Participants who have been awarded the awarded shares through their continued relationship with the Group, the Group is required to consolidate the Share Award Scheme Trust under HKFRS 10 *Consolidated Financial Statements*.

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19 <i>Annual Improvements to HKFRSs</i> <i>2010-2012 Cycle</i>	<i>Defined Benefit Plans: Employee Contributions</i>
<i>Annual Improvements to HKFRSs</i> <i>2011-2013 Cycle</i>	

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

- (a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the defined benefit plan the Group operates is not independent of the number of years of employee service.
- (b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
- *HKFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.
  - *HKAS 16 Property, Plant and Equipment* and *HKAS 38 Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.
  - *HKAS 24 Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.
- (c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
- *HKFRS 3 Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangements during the year.
  - *HKFRS 13 Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

- *HKAS 40 Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as there was no acquisition of investment properties during the year.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

#### 4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	<i>Financial Instruments</i> <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>1</sup>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>1</sup>
HKFRS 14	<i>Regulatory Deferral Accounts</i> <sup>3</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
Amendments to HKAS 1	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>1</sup>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> <sup>1</sup>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

<sup>4</sup> No mandatory effective date determined but available for adoption

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group’s financial assets.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are to be applied prospectively.

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 are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements 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 Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

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 to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation or amortisation of its non-current assets.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

#### **Business combinations (other than business combinations of entities under common control) and goodwill**

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

#### **Business combinations of entities under common control**

Business combinations of entities under common control are accounted for using the pooling of interests method with no restatement of financial information in the consolidated financial statements for periods prior to the completion of the combination under common control. Under the pooling of interests method, the assets and liabilities of the combining entities are reflected at their existing carrying values at the date of combination. No amount is recognised in respect of goodwill. The excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, which, instead, is recorded as part of equity.

#### **Fair value measurement**

The Group measures forward currency contracts, interest rate swaps and listed equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- |         |   |   |
|---------|---|---|
| Level 1 | – | based on quoted prices (unadjusted) in active markets for identical assets or liabilities   |
| Level 2 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable                              |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and other non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.



An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### **Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

#### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.4% to 9.0%
Plant and machinery	9.0% to 18.0%
Furniture, fixtures, office equipment and research and development equipment	18.0% to 50.0%
Motor vehicles	15.0% to 22.5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### **Investment properties**

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured and stated at cost, including transaction costs, less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.4% to 9.0%
Prepaid land lease payments	1.4% to 2.0%

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

#### **Intangible assets (other than goodwill)**

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

*Research and development costs*

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised on a systematic basis with reference to projected sales volume, upon future sales volume of related products.

*Computer software*

Purchased computer software is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful lives of 1-2 years.

*Intellectual property*

Purchased intellectual property with finite useful life is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful lives of 6-11 years.

Purchased intellectual property with indefinite useful life is stated at cost, less any identified impairment losses.

*Golf club membership*

Golf club membership has an indefinite useful life and is stated at cost, less any identified impairment losses.

*ALCATEL brand license*

ALCATEL brand license is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its contracted useful life of 20 years.

**Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

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

**Investments and other financial assets***Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Subsequent measurement*

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

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as other income and gains or other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is recognised in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss.

#### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income and gains, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other income and gains. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income and gains in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

#### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### **Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

If there is objective evidence that an impairment loss has been incurred on an unquoted available-for-sale financial investment that is not carried at fair value because its fair value cannot be reliably measured the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

**Financial liabilities***Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and notes payables, bank advances on factored trade receivables, other payables, amounts due to related companies, derivative financial instruments and interest-bearing bank borrowings.

*Subsequent measurement*

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

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Derivative financial instruments and hedge accounting

#### *Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

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

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

#### *Fair value hedges*

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as other income and gains or other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other income and gains or other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

#### *Cash flow hedges*

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



Amounts recognised in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the statement of profit or loss in the same period or periods during which the asset acquired or liability assumed affects the statement of profit or loss.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

#### *Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average or standard costing basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

#### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

**Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, upon provision of the relevant services;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (d) dividend income, when the shareholders' right to receive payment has been established; and
- (e) rental income, on a time proportion basis over the lease terms.

#### **Employee benefits**

##### *Share-based payments*

The Company operates the Share Option Scheme and the Share Award Scheme (as defined in note 37 and note 38 to the financial statement) for the purpose of providing incentives and rewards to eligible participants (including employees) who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value of share options is determined by an external valuer using a binomial model, further details of which are given in note 37 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options and awarded shares is reflected as additional share dilution in the computation of earnings per share.

#### *Shares held for the Share Award Scheme*

As disclosed in note 38 to the financial statements, the Group has set up the Share Award Scheme Trust for the Share Award Scheme, where the Share Award Scheme Trust purchases shares issued by the Company, the consideration paid by the Company, including any directly attributable incremental costs, is presented as “shares held for Share Award Scheme” and deducted from the Group’s equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments.

#### *Central pension scheme*

Subsidiaries operating in Mainland China have participated in the central pension scheme (the “CPS”) operated by the PRC government for all of their employees. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the statement of profit or loss as they become payable in accordance with the rules of the CPS.

#### *Mandatory Provident Fund*

The Company’s subsidiaries, incorporated in Hong Kong, operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the MPF Scheme except for the employer voluntary contributions, which are refunded to the Company’s subsidiaries which are incorporated in Hong Kong when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

#### *Retirement indemnities*

TCT SAS, a subsidiary of the Company incorporated in France, operates a defined contribution plan and a defined benefit pension plan (the “Pension Plan”). For the defined contribution plan, TCT SAS is not liable for any legal or constructive obligations under the contribution plan beyond the contributions paid, and no provision as such is made. For the pension plan, corresponding to retirement indemnities relating to TCT SAS’s employees, liabilities and prepaid expenses are determined as follows:

- using the projected unit credit method, with the projected final salary, which takes into consideration each period of service giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Actuarial assumptions comprise mortality, rates of employee turnover and projection of future salary levels; and
- actuarial gains and losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains and losses for the pension plan at the end of the previous period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining service periods of the employees participating in the pension plan.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Dividends**

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of share premium account or retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

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

**Foreign currencies**

These financial statements are presented in HKD, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the HKD. As at the end of the reporting period, the assets and liabilities of these entities are translated into HKD at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HKD at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into HKD at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries, which arise throughout the year are translated into HKD at the weighted average exchange rates for the year.

## 6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### **Judgements**

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

#### *Operating lease commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

#### *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Warranty provisions*

The Group generally offers warranties for its products for 12 to 24 months. Management estimates the related provisions for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years. As at 31 December 2015, the carrying amount of warranty provisions was HK\$422,912,000 (31 December 2014: HK\$462,500,000). Further details are included in note 32 to the financial statements.

#### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 and 31 December 2014 was HK\$253,954,000. Further details are given in note 19 to the financial statements.

#### *Provision against obsolete and slow-moving inventories*

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

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories at 31 December 2015 was HK\$2,541,199,000 (31 December 2014: HK\$3,293,292,000). Further details are given in note 23 to the financial statements.

#### *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the unused tax losses and other deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 December 2015 was HK\$276,479,000 (31 December 2014: HK\$297,641,000). The amount of unrecognised tax losses at 31 December 2015 was HK\$1,709,666,000 (31 December 2014: HK\$2,241,653,000). Further details are included in note 35 to the financial statements.

#### *Development costs*

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 5 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2015, the best estimate of the carrying amount of deferred development costs was HK\$1,028,894,000 (31 December 2014: HK\$885,379,000). Further details are included in note 18 to the financial statements.

#### *Impairment of available-for-sale investments*

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2015, the carrying amount of available-for-sale investments was HK\$352,591,000 (31 December 2014: HK\$227,738,000). Further details are included in note 22 to the financial statements.

## 7. OPERATING SEGMENT INFORMATION

For management purposes, the management considers that 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 are of a similar nature and subject to similar risks and returns.

Geographical information*(a) Revenue from external customers*

	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Latin America	8,974,946	10,076,276
Europe	7,246,034	6,795,507
North America	6,688,945	5,793,985
Middle East and Africa	2,959,486	2,935,996
China	1,804,382	2,889,572
Asia Pacific	883,792	2,199,718
	<u>28,557,585</u>	<u>30,691,054</u>

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.

Information about major customers

For the year ended 31 December 2015, no revenue from a single customer accounted for 10% or more of the total revenue of the Group.

For the year ended 31 December 2014, revenue of HK\$3,895,969,000 was derived from a single customer in North America, which accounted for more than 10% of the total revenue of the Group.



## 8. REVENUE, OTHER INCOME AND GAINS

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

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
<b>Revenue</b>		
Sale of mobile phones and other products and rendering of services	28,557,585	30,691,054
<b>Other income and gains</b>		
Bank interest income	61,847	68,833
Gross rental income	15,607	10,068
Subsidy income*	94,437	84,451
Value-added tax ("VAT") refunds**	350,155	353,507
Processing income	–	11,728
Exchange gain, net	225,074	–
Gain on deemed disposal of investment in an associate ( <i>note 9</i> )	–	1,755
Gain on deemed disposal of investment in a subsidiary ( <i>note 9</i> )	13,270	–
Gain on disposal of items of property, plant and equipment	2,333	–
Dividend income from available-for-sale investments	731	9,149
Others	40,880	42,631
	<u>804,334</u>	<u>582,122</u>

\* Subsidy income represented 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 years ended 31 December 2015 and 2014, 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%.

## 9. PROFIT BEFORE TAX

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

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Cost of inventories sold		22,525,437	24,773,502
Depreciation of property, plant and equipment	15	252,047	185,218
Depreciation of investment properties	16	2,235	1,677
Recognition of prepaid land lease payments	17	2,059	2,106
Amortisation of computer software, intellectual property and ALCATEL brand license	18	64,458	48,437
Research and development costs:			
Deferred expenditure amortised	18	1,400,960	1,117,146
Current year expenditure		345,057	362,003
		<u>1,746,017</u>	<u>1,479,149</u>
TCL brand management fee	42(a)	20,672	43,415
Minimum lease payments under operating leases		176,716	110,653
Auditors' remuneration		8,483	8,468
Employee benefit expense (including directors' and chief executive's remuneration in note 11)*:			
Salaries and wages		2,041,174	1,944,067
Equity-settled expenses:			
Share options		13,665	17,808
Share Award Scheme		17,831	32,367
Pension scheme contributions (including the Pension Plan in note 33)		229,844	191,163
		<u>2,302,514</u>	<u>2,185,405</u>
Exchange (gain)/loss, net**		(225,074)	23,999
Including: Exchange gain on non-hedging derivative financial instruments	31	(2,890)	(233,875)
Ineffectiveness of cash flow hedges	31	(126,909)	(103,675)
Finance costs of loans hedged by interest rate swaps	31	1,605	3,607
Impairment of trade receivables	24	60,505	12,516
Impairment of other receivables recognised/(reversed)	26	8,720	(1,985)
Product warranty provisions	32	525,235	666,775
(Gain)/loss on disposal of items of property, plant and equipment		(2,333)	589
Gain on deemed disposal of investment in an associate	8	–	(1,755)
Gain on deemed disposal of investment in a subsidiary	8	(13,270)	–
Write-down of inventories to net realisable value		90,071	41,248
		<u><u>90,071</u></u>	<u><u>41,248</u></u>

\* Including employee benefit expense charged to direct labour costs, overhead expenses and research and development costs.

\*\* Included in "other income and gains" and "other expenses" in the consolidated statement of profit or loss.

## 10. FINANCE COSTS

An analysis of finance costs is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest on loans	123,311	87,779
Interest on discounted notes and factored trade receivables	17,523	11,734
	<u>140,834</u>	<u>99,513</u>

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383 (1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Fees	981	1,290
Other emoluments:		
Salaries, allowances and benefits in kind	5,906	3,333
Share-based payment benefit expenses	7,632	4,218
Pension scheme contributions	227	151
	<u>14,746</u>	<u>8,992</u>

During the years ended 31 December 2015 and 2014, certain directors and the chief executive were granted share options (the "Share Options") and awarded shares (the "Awarded Shares") of the Company. The grant of Share Options and Awarded Shares was in respect of their services to the Group, its further details are disclosed in the "Share Option Scheme" and "Share Award Scheme" set out in notes 37 and 38 to the financial statements respectively. The fair value of such Share Options and Awarded Shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

## (a) Independent non-executive directors

2015	Fees <i>HK\$'000</i>	Share-based payment benefit expenses <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Mr. LAU Siu Ki	207	82	289
Mr. LOOK Andrew	207	82	289
Mr. KWOK Hoi Sing	207	82	289
	<u>621</u>	<u>246</u>	<u>867</u>

2014	Share-based		Total remuneration HK\$'000
	Fees HK\$'000	payment benefit expenses HK\$'000	
Mr. LAU Siu Ki	180	21	201
Mr. LOOK Andrew	180	21	201
Mr. KWOK Hoi Sing	180	21	201
	540	63	603
	540	63	603

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

(b) Executive directors, non-executive directors, the chief executive and five highest paid employees

2015	Salaries, allowances and benefits		Share-based payment benefit expenses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
	Fees HK\$'000	in kind HK\$'000			
<i>Executive directors:</i>					
Mr. LI Dongsheng	60	–	1,821	3	1,884
Mr. GUO Aiping (dual appointment as chief executive)	60	2,316	3,449	18	5,843
Mr. WANG Jiyang	60	1,550	1,393	60	3,063
Mr. Nicolas Daniel Bernard ZIBELL* (appointed on 15 July 2015)	–	2,040	24	146	2,210
<i>Non-executive directors:</i>					
Mr. HUANG Xubin	60	–	542	–	602
Mr. YAN Xiaolin (resigned on 15 July 2015)	60	–	124	–	184
Ms. XU Fang (resigned on 21 May 2015)	47	–	10	–	57
Mr. LIAO Qian** (appointed on 21 May 2015)	13	–	23	–	36
	360	5,906	7,386	227	13,879
	360	5,906	7,386	227	13,879

\* The remuneration for Mr. Nicolas Daniel Bernard ZIBELL as disclosed here cover the period from 15 July 2015 to 31 December 2015.

\*\* The remuneration for Mr. LIAO Qian as disclosed here cover the period from 21 May 2015 to 31 December 2015.

2014

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Share-based payment benefits expenses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<i>Executive directors:</i>					
Mr. LI Dongsheng	130	–	738	6	874
Mr. GUO Aiping (dual appointment as chief executive)	130	2,060	1,476	33	3,699
Mr. WANG Jiyang	130	1,273	1,530	112	3,045
<i>Non-executive directors:</i>					
Mr. HUANG Xubin	120	–	172	–	292
Mr. YAN Xiaolin	120	–	67	–	187
Ms. XU Fang	120	–	172	–	292
	<u>750</u>	<u>3,333</u>	<u>4,155</u>	<u>151</u>	<u>8,389</u>

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

During the year, three (2014: two) directors including the chief executive were counted in the five highest paid employees, details of whose remuneration are set out above.

Details of the remuneration for the year of the remaining two (2014: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Salaries, allowances and benefits in kind	3,157	6,362
Share-based payment benefit expenses	1,543	3,457
Pension scheme contributions	1,177	1,276
	<u>5,877</u>	<u>11,095</u>

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

	<b>Number of employees</b>	
	<b>2015</b>	<b>2014</b>
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$5,500,001 to HK\$6,000,000	–	1
	<u>2</u>	<u>3</u>

During the year, Awarded Shares were granted to Nil (2014: two) non-director and non-chief executive highest paid employees in respect of their services to the Group. The fair values of Awarded Shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

## 12. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided (2014: Nil) since no assessable profit arose in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current		
Charge for the year:		
PRC	57,360	36,781
France	11,351	14,895
Mexico	9,806	22,551
Russia	5,467	4,115
Italy	2,854	827
The United States	20,721	21,134
(Overprovision)/underprovision in prior years	(5,265)	19,849
	<u>102,294</u>	<u>120,152</u>
Deferred ( <i>note 35</i> )	(46,960)	(78,676)
	<u>(46,960)</u>	<u>(78,676)</u>
Tax charge for the year	<u><u>55,334</u></u>	<u><u>41,476</u></u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2015		2014	
	HK\$'000	%	HK\$'000	%
Profit before tax	<u>1,112,818</u>		<u>1,149,016</u>	
Tax at the statutory tax rates	100,255	9.0	331,527	28.9
Lower tax rates for specific provinces or enacted by local authorities	(154,748)	(13.9)	(274,599)	(23.9)
Effect on opening deferred tax of increase in rates	–	–	(16,410)	(1.4)
Adjustment in respect of current tax of previous periods	(5,264)	(0.5)	19,849	1.7
Income not subject to tax	(140,007)	(12.6)	(77,612)	(6.8)
Expenses not deductible for tax	270,668	24.3	103,687	9.0
Tax effect of expenses that are entitled to additional deduction	(79,509)	(7.1)	(41,926)	(3.6)
Tax losses utilised from previous periods	(174,535)	(15.7)	(95,996)	(8.4)
Tax losses not recognised	246,379	22.2	101,374	8.8
Others*	(7,905)	(0.7)	(8,418)	(0.7)
Tax charge at the Group's effective rates	<u>55,334</u>	<u>5.0</u>	<u>41,476</u>	<u>3.6</u>

\* Representing deferred tax asset recognised from unused tax losses arising from a subsidiary in France as management considered the subsidiary had commenced profit-making for some time to the extent that it is probable that taxable profit will be available against which such tax losses can be utilised.

### 13. DIVIDENDS

	2015	2014
	HK\$'000	HK\$'000
Interim – 12.8 HK cents (2014: 12.8 HK cents) per ordinary share	161,218	154,980
Proposed final – 21.0 HK cents (2014: 26.0 HK cents) per ordinary share	<u>266,395</u>	<u>318,358</u>
	<u>427,613</u>	<u>473,338</u>

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

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,249,373,402 (2014: 1,192,937,333) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, 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:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>1,056,991</u>	<u>1,092,507</u>
	<b>Number of shares</b>	
<b>Shares</b>	<b>2015</b>	<b>2014</b>
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,249,373,402	1,192,937,333
Effect of dilution – weighted average number of ordinary shares:		
Share Options	16,918,000	39,437,792
Awarded Shares	<u>3,314,183</u>	<u>5,646,830</u>
	<u>20,232,183</u>	<u>45,084,622</u>
	<u>1,269,605,585</u>	<u>1,238,021,955</u>



## 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, office equipment and research and development equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>31 December 2015</b>						
At 31 December 2014 and at 1 January 2015:						
Cost	546,944	1,392,615	471,636	17,042	27,432	2,455,669
Accumulated depreciation and impairment	(37,235)	(673,077)	(293,834)	(12,494)	–	(1,016,640)
Net carrying amount	<u>509,709</u>	<u>719,538</u>	<u>177,802</u>	<u>4,548</u>	<u>27,432</u>	<u>1,439,029</u>
At 1 January 2015, net of accumulated depreciation and impairment	509,709	719,538	177,802	4,548	27,432	1,439,029
Additions	224,329	155,654	117,746	236	216,165	714,130
Disposals	–	(1,520)	(3,836)	(198)	–	(5,554)
Depreciation provided during the year (note 9)	(21,813)	(148,318)	(80,391)	(1,525)	–	(252,047)
Transfers	(43,293)	30,956	20,244	10	(75,805)	(67,888)
Exchange realignment	(35,632)	(43,683)	(16,283)	(241)	(7,173)	(103,012)
At 31 December 2015, net of accumulated depreciation and impairment	<u>633,300</u>	<u>712,627</u>	<u>215,282</u>	<u>2,830</u>	<u>160,619</u>	<u>1,724,658</u>
At 31 December 2015:						
Cost	689,590	1,500,146	498,612	15,059	160,619	2,864,026
Accumulated depreciation and impairment	(56,290)	(787,519)	(283,330)	(12,229)	–	(1,139,368)
Net carrying amount	<u>633,300</u>	<u>712,627</u>	<u>215,282</u>	<u>2,830</u>	<u>160,619</u>	<u>1,724,658</u>

	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, office equipment and research and development equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2014						
At 1 January 2014:						
Cost	260,843	1,012,775	366,274	16,410	172,613	1,828,915
Accumulated depreciation and impairment	(23,225)	(612,443)	(242,518)	(10,130)	–	(888,316)
Net carrying amount	<u>237,618</u>	<u>400,332</u>	<u>123,756</u>	<u>6,280</u>	<u>172,613</u>	<u>940,599</u>
At 1 January 2014, net of accumulated depreciation and impairment	237,618	400,332	123,756	6,280	172,613	940,599
Additions	878	393,137	105,859	1,028	222,336	723,238
Disposals	–	(160)	(865)	(154)	–	(1,179)
Depreciation provided during the year (note 9)	(14,079)	(99,661)	(68,935)	(2,543)	–	(185,218)
Transfers	284,813	26,141	21,050	–	(366,324)	(34,320)
Exchange realignment	479	(251)	(3,063)	(63)	(1,193)	(4,091)
At 31 December 2014, net of accumulated depreciation and impairment	<u>509,709</u>	<u>719,538</u>	<u>177,802</u>	<u>4,548</u>	<u>27,432</u>	<u>1,439,029</u>
At 31 December 2014:						
Cost	546,944	1,392,615	471,636	17,042	27,432	2,455,669
Accumulated depreciation and impairment	(37,235)	(673,077)	(293,834)	(12,494)	–	(1,016,640)
Net carrying amount	<u>509,709</u>	<u>719,538</u>	<u>177,802</u>	<u>4,548</u>	<u>27,432</u>	<u>1,439,029</u>

At 31 December 2015, certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying amount of HK\$555,346,000 (31 December 2014: HK\$417,976,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining these certificates.

There was no machinery pledged for interest-bearing bank borrowings at 31 December 2015. Certain of the Group's machinery with a net carrying amount of HK\$2,179,000 was pledged for interest-bearing bank borrowings of HK\$654,000 at 31 December 2014 (note 28).

## 16. INVESTMENT PROPERTIES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
At 1 January:		
Cost	60,254	–
Accumulated depreciation	(17,137)	–
	<u>43,117</u>	<u>–</u>
Net carrying amount	<u>43,117</u>	<u>–</u>
At 1 January,		
net of accumulated depreciation	43,117	–
Transferred from owner-occupied property	68,906	44,601
Depreciation provided during the year ( <i>note 9</i> )	(2,235)	(1,677)
Exchange realignment	(5,674)	193
	<u>104,114</u>	<u>43,117</u>
At 31 December, net of accumulated depreciation	<u>104,114</u>	<u>43,117</u>
At 31 December:		
Cost	122,723	60,254
Accumulated depreciation	(18,609)	(17,137)
	<u>104,114</u>	<u>43,117</u>
Net carrying amount	<u>104,114</u>	<u>43,117</u>

The Group's investment properties consist of land and buildings situated in Mainland China.

The investment properties are leased to third parties and certain related companies of the Company under operating leases, further summary details of which are included in note 40(a) and 42(a) to the financial statements.

The fair value of the investment properties cannot be reliably measured because the probabilities of the various estimates within the range of reasonable fair value estimates cannot be reasonably assessed and used in estimating fair value.

## 17. PREPAID LAND LEASE PAYMENTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Carrying amount at 1 January	116,086	128,933
Transfers	(1,018)	(10,281)
Recognised during the year ( <i>note 9</i> )	(2,059)	(2,106)
Exchange realignment	(6,656)	(460)
	<u>106,353</u>	<u>116,086</u>
Carrying amount at 31 December	<u>106,353</u>	<u>116,086</u>

## 18. OTHER INTANGIBLE ASSETS

	Deferred development costs <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Intellectual property <i>HK\$'000</i>	Golf club membership <i>HK\$'000</i>	ALCATEL brand license <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2015</b>						
Cost at 1 January 2015, net of accumulated amortisation	885,379	41,422	96,887	5,549	230,856	1,260,093
Additions	1,607,418	22,548	109,282	–	–	1,739,248
Retirements and disposals	–	(3,758)	–	–	–	(3,758)
Amortisation provided during the year ( <i>note 9</i> )	(1,400,960)	(17,037)*	(23,944)*	–	(23,477)*	(1,465,418)
Exchange realignment	(62,943)	(2,255)	(1,092)	(338)	–	(66,628)
At 31 December 2015	<u>1,028,894</u>	<u>40,920</u>	<u>181,133</u>	<u>5,211</u>	<u>207,379</u>	<u>1,463,537</u>
At 31 December 2015:						
Cost	5,600,795	95,879	249,671	5,211	311,824	6,263,380
Accumulated amortisation	(4,571,901)	(54,959)	(68,538)	–	(104,445)	(4,799,843)
Net carrying amount	<u>1,028,894</u>	<u>40,920</u>	<u>181,133</u>	<u>5,211</u>	<u>207,379</u>	<u>1,463,537</u>
	Deferred development costs <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Intellectual property <i>HK\$'000</i>	Golf club membership <i>HK\$'000</i>	ALCATEL brand license <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2014</b>						
Cost at 1 January 2014, net of accumulated amortisation	617,981	28,394	49,562	5,551	254,333	955,821
Additions	1,384,777	23,760	62,042	–	–	1,470,579
Retirements and disposals	–	(309)	–	–	–	(309)
Amortisation provided during the year ( <i>note 9</i> )	(1,117,146)	(10,375)*	(14,585)*	–	(23,477)*	(1,165,583)
Exchange realignment	(233)	(48)	(132)	(2)	–	(415)
At 31 December 2014	<u>885,379</u>	<u>41,422</u>	<u>96,887</u>	<u>5,549</u>	<u>230,856</u>	<u>1,260,093</u>
At 31 December 2014:						
Cost	3,993,377	94,490	143,074	5,549	311,824	4,548,314
Accumulated amortisation	(3,107,998)	(53,068)	(46,187)	–	(80,968)	(3,288,221)
Net carrying amount	<u>885,379</u>	<u>41,422</u>	<u>96,887</u>	<u>5,549</u>	<u>230,856</u>	<u>1,260,093</u>

\* Being the amortisation of computer software, intellectual property and ALCATEL brand license charged to the consolidated statement of profit or loss of HK\$64,458,000 (2014: HK\$48,437,000) (note 9) during the year.

## 19. GOODWILL

	2015 HK\$'000	2014 HK\$'000
At 1 January and 31 December:		
Cost and net carrying amount	253,954	253,954

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Research and development of mobile handsets cash-generating unit; and
- Research and development, manufacture and sale of mobile handsets and other products and rendering of services cash-generating unit.

*Research and development of mobile handsets cash-generating unit*

The recoverable amount of the research and development of mobile handsets cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18% (2014: 18%) and cash flows within the five-year period are extrapolated using growth rates of sales volume of 5%-12% from 2016 to 2020.

*Research and development, manufacture and sale of mobile handsets and other products and rendering of services cash-generating unit*

The recoverable amount of the research and development, manufacture and sale of mobile handsets and other products and rendering of services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 22% (2014: 23%) and cash flows within the five-year period are extrapolated using growth rates of sales volume of 5%-12% from 2016 to 2020.

In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	<b>Research and development of mobile handsets</b>		<b>Research and development, manufacture and sale of mobile handsets and other products and rendering of services</b>	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Carrying amount of goodwill	146,927	146,927	107,027	107,027

Assumptions were used in the value in use calculation of the research and development of mobile handsets cash-generating unit and the research and development, manufacture and sale of mobile handsets and other products and rendering of services cash-generating unit for 31 December 2015 and 31 December 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, adjusted for expected efficiency improvements, and the expectation for market development.

*Discount rates* – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The value assigned to the key assumptions on market development and discount rates are consistent with external information sources.

## 20. INVESTMENTS IN ASSOCIATES

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Share of net assets	35,813	52,925
Goodwill on acquisition	1,607	1,188
	<u>37,420</u>	<u>54,113</u>
Provision for impairment	(1,607)	(1,188)
	<u>35,813</u>	<u>52,925</u>

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Share of the associates' profits and losses and total comprehensive income and losses for the year	(13,499)	(364)
Aggregate carrying amount of the Group's investments in the associates	<u>35,813</u>	<u>52,925</u>

## 21. INVESTMENTS IN JOINT VENTURES

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Share of net assets	13,051	–
Goodwill on acquisition	13,270	–
	<u>26,321</u>	<u>–</u>

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Share of the joint ventures' losses for the year	(9,191)	–
Share of the joint ventures' other comprehensive income for the year	<u>25</u>	<u>–</u>
Share of the joint ventures' total comprehensive losses for the year	<u>(9,166)</u>	<u>–</u>
Aggregate carrying amount of the Group's investments in joint ventures	<u><u>26,321</u></u>	<u><u>–</u></u>

## 22. AVAILABLE-FOR-SALE INVESTMENTS

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Listed equity investments, at fair value	151,414	17,550
Unlisted equity investments, at cost	<u>201,177</u>	<u>210,188</u>
	<u><u>352,591</u></u>	<u><u>227,738</u></u>

During the year, the gross gain in respect of the Group's listed entity investments recognised in other comprehensive income amounted to HK\$122,107,000 (2014: loss of HK\$5,938,000).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date and coupon rate.

The unlisted equity investments with a carrying amount of HK\$201,177,000 (31 December 2014: HK\$210,188,000) are stated at cost less any impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

## 23. INVENTORIES

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Raw materials	1,049,077	1,461,551
Work in progress	21,006	10,816
Finished goods	<u>1,690,102</u>	<u>1,986,898</u>
	2,760,185	3,459,265
Provision against obsolete and slow-moving inventories	<u>(218,986)</u>	<u>(165,973)</u>
	<u><u>2,541,199</u></u>	<u><u>3,293,292</u></u>

## 24. TRADE RECEIVABLES

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Trade receivables	5,881,819	7,893,040
Impairment	(57,613)	(20,359)
	<u>5,824,206</u>	<u>7,872,681</u>

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.

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

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Within 3 months	5,025,842	6,497,374
4 to 12 months	792,822	1,360,026
Over 12 months	63,155	35,640
	<u>5,881,819</u>	<u>7,893,040</u>
Impairment	(57,613)	(20,359)
	<u>5,824,206</u>	<u>7,872,681</u>

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

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
At 1 January	20,359	23,080
Impairment losses recognised ( <i>note 9</i> )	60,505	12,516
Amount written off as uncollectible	(22,958)	(15,120)
Exchange realignment	(293)	(117)
	<u>57,613</u>	<u>20,359</u>

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$57,613,000 (31 December 2014: HK\$20,359,000) with a carrying amount before provision of HK\$149,447,000 (31 December 2014: HK\$100,361,000). The individually impaired trade receivables relate to customers that were in financial difficulties.



The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Neither past due nor impaired	4,430,352	5,423,664
Less than 1 month past due	908,659	1,709,803
1 to 3 months past due	348,177	517,968
4 to 12 months past due	35,499	140,874
Over 12 months past due	9,685	370
	<u>5,732,372</u>	<u>7,792,679</u>

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The illustrative disclosures for transfers of financial assets relating to factoring arrangements of trade receivable are provided in note 44 to the financial statements.

## 25. FACTORED TRADE RECEIVABLES AND BANK ADVANCES ON FACTORED TRADE RECEIVABLES

During the years ended 31 December 2015 and 2014, the Group factored trade receivables to various banks for cash. As the Group retained substantially all risks and rewards of the factored trade receivables or the Group neither retained nor transferred substantially all of the risks and rewards of the factored trade receivables due to the retention of slow payment risk (the risk that the receivables pay later than the due date), the Group continued to recognise the full factored trade receivables or to the extent of its continuing involvement according to HKAS 39.

As at 31 December 2015, the assets and the associated liabilities representing the extent of the Group's continuing involvement in the factored trade receivables of which the Group neither retained nor transferred substantially all of the risks and rewards, amounted to HK\$14,354,000 (31 December 2014: HK\$3,255,000).

As at 31 December 2015, the factored trade receivables of which the Group retained substantially all risks and rewards, and the associated liabilities which were the bank advances from the factored trade receivables, amounted to HK\$256,813,000 (31 December 2014: HK\$368,125,000). Together with the continuing involvement as mentioned above, the balance of factored trade receivables and bank advances on factored trade receivables amounted to HK\$271,167,000 (31 December 2014: HK\$371,380,000) as at 31 December 2015.

No impairment is made on the factored trade receivables. The aged analysis of the factored trade receivables that are not individually nor collectively considered to be impaired is as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Neither past due nor impaired	229,990	278,122
Less than 3 months past due	41,177	83,164
4 to 12 months past due	–	10,094
	<u>271,167</u>	<u>371,380</u>

The details of the transferred financial assets that are not derecognised in their entirety are included in note 44(i) and 44(ii) to the financial statements.

## 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Note</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Prepayments		195,278	186,433
Deposits and other receivables		1,420,535	1,312,928
		<u>1,615,813</u>	<u>1,499,361</u>
Impairment	(a)	(15,490)	(7,191)
		<u><u>1,600,323</u></u>	<u><u>1,492,170</u></u>

*Note:*

- (a) The movements in provision for individually impaired prepayments, deposits and other receivables are as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
At 1 January	7,191	10,773
Impairment losses recognised/(reversed) ( <i>note 9</i> )	8,720	(1,985)
Amount written off as uncollectible	–	(1,547)
Exchange realignment	(421)	(50)
	<u>15,490</u>	<u>7,191</u>
At 31 December	<u><u>15,490</u></u>	<u><u>7,191</u></u>

The individually impaired prepayments, deposits and other receivables relate to debtors that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over the balances.

The aged analysis of prepayments, deposits and other receivables that are not individually nor collectively considered to be impaired is as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Neither past due nor impaired	<u><u>1,591,604</u></u>	<u><u>1,492,170</u></u>

Prepayments, deposits and other receivables that were neither past due nor impaired relate to a large number of diversified debtors for whom there was no recent history of default.

## 27. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Cash and bank balances	565,707	473,391
Pledged deposits	1,028,340	1,914,380
	<u>1,594,047</u>	<u>2,387,771</u>
Less: Pledged deposits:		
– for factored trade receivables	32,625	56,370
– for interest-bearing bank borrowings, banking facilities and other financial instruments	995,715	1,858,010
	<u>995,715</u>	<u>1,858,010</u>
Cash and cash equivalents	<u><u>565,707</u></u>	<u><u>473,391</u></u>

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in Renminbi (“RMB”) amounted to HK\$1,190,007,000 (31 December 2014: HK\$2,014,328,000). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in the Group’s cash and bank balances and pledged deposits are deposits of HK\$466,340,000 (31 December 2014: HK\$311,035,000) placed with TCL Finance Co., Ltd., a fellow subsidiary of the Company, which is a financial institution approved by the People’s Bank of China. The effective interest rate for these deposits was 0.15%-3.12% (2014: 0.15%-3.12%) per annum, being the savings rate offered by the People’s Bank of China.

## 28. INTEREST-BEARING BANK BORROWINGS

	2015		2014	
	Maturity (Year)	HK\$'000	Maturity (Year)	HK\$'000
<b>Current</b>				
Bank borrowings – unsecured	2016	1,325,871	2015	1,021,391
Bank borrowings – secured*	2016	1,477,342	2015	2,919,400
		<u>2,803,213</u>		<u>3,940,791</u>
<b>Non-current</b>				
Bank borrowings – secured*	2018	178,268		–
		<u>2,981,481</u>		<u>3,940,791</u>
			<b>2015</b>	<b>2014</b>
			HK\$'000	HK\$'000
Analysed into:				
Within one year or on demand		2,803,213	3,940,791	
In the second year		–	–	
In the third to fifth years, inclusive		<u>178,268</u>	–	
		<u>2,981,481</u>	<u>3,940,791</u>	

\* The Group's secured interest-bearing bank borrowings are bank advances comprising (i) bank borrowings of HK\$469,656,000 (31 December 2014: HK\$1,530,506,000) which are secured by the pledge of certain of the Group's time deposits amounting to HK\$651,839,000 (31 December 2014: HK\$1,689,187,000); (ii) bank borrowings of HK\$1,185,954,000 (31 December 2014: HK\$1,388,240,000) which are guaranteed by the ultimate holding company (note 42(b)); (iii) There was no bank borrowing secured by machinery at 31 December 2015. Bank borrowings of HK\$654,000 were secured by certain of the Group's machinery with net carrying amount to HK\$2,179,000 at 31 December 2014 (note 15).

The effects of interest rate swaps in the Group's secured interest-bearing bank borrowings are further detailed in note 31 to the financial statements.

The effective contractual interest rates for the bank borrowings ranged from 0.73% to 15.76% (2014: 0.53% to 12.99%) per annum.

The Group's interest-bearing bank borrowings of HK\$469,656,000 (31 December 2014: HK\$321,101,000) and HK\$22,699,000 (31 December 2014: HK\$13,667,000) are denominated in Brazilian real ("BRL") and Canadian dollars, respectively. No interest-bearing bank borrowings was denominated in RMB (31 December 2014: HK\$654,000) and EUR (31 December 2014: HK\$35,035,000). The other loans are denominated in United States dollars.

**29. 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:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Within 6 months	4,732,916	5,130,897
7 to 12 months	23,730	20,721
Over 12 months	33,260	15,126
	<u>4,789,906</u>	<u>5,166,744</u>

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

**30. OTHER PAYABLES AND ACCRUALS**

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Advances from customers	66,790	97,961
Payroll and employee benefits payable	323,649	464,128
Interest payable	9,238	16,572
Other payables and accruals	2,884,223	4,374,755
	<u>3,283,900</u>	<u>4,953,416</u>

Other payables are non-interest-bearing and have an average term within 1 year.

**31. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>2015</b>		<b>2014</b>	
	<b>Assets</b> <i>HK\$'000</i>	<b>Liabilities</b> <i>HK\$'000</i>	<b>Assets</b> <i>HK\$'000</i>	<b>Liabilities</b> <i>HK\$'000</i>
Forward currency contracts	92,560	269,776	418,444	48,917
Interest rate swaps	1,313	–	796	474
	<u>93,873</u>	<u>269,776</u>	<u>419,240</u>	<u>49,391</u>

**Forward currency contracts – cash flow hedges**

Some forward currency contracts are designated as hedging instruments in respect of forecast future sales to customers in Asia, Europe and Americas to which the Group has firm commitments. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

The terms of the forward currency contracts match the terms of the commitments. The cash flow hedges relating to expected future sales monthly from January to December of 2016 were assessed to be highly effective and net losses of HK\$335,625,000 (2014: net gains of HK\$243,885,000) were included in the hedging reserve as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Total fair value (losses)/gains included in the hedging reserve*	(49,037)	406,833
Deferred tax on changes in fair value**	38,328	13,020
Reclassification from other comprehensive income and recognised in the consolidated statement of profit or loss***	(319,741)	(181,887)
Deferred tax on reclassification to profit or loss**	(5,175)	5,919
	<u>          </u>	<u>          </u>
Net (losses)/gains on cash flow hedges	<u><u>(335,625)</u></u>	<u><u>243,885</u></u>

#### Interest rate swaps – cash flow hedges

At 31 December 2015, the Group held interest rate swaps designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Total fair value losses included in the hedging reserve*	(1,291)	(4,049)
Reclassification from other comprehensive income and recognised in the consolidated statement of profit or loss (note 9)***	1,605	3,607
	<u>          </u>	<u>          </u>
Net gains/(losses) on cash flow hedges	<u><u>314</u></u>	<u><u>(442)</u></u>

\* The net effective portion of changes in fair value of hedging instruments arising during the year amounted to a debit of HK\$50,328,000 (2014: a credit of HK\$402,784,000).

\*\* The net deferred tax on changes in fair value amounted to a credit of HK\$33,153,000 during the year (2014: HK\$18,939,000).

\*\*\* The total net gains on cash flow hedges reclassified from other comprehensive income amounted to HK\$318,136,000 during the year (2014: HK\$178,280,000).

During the year, the ineffective portion of the net gains on the forward currency contracts of HK\$126,909,000 (2014: HK\$103,675,000) (note 9) were recognised in the consolidated statements of profit or loss.

#### For non-hedging currency derivatives

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The net realised gains and the net unrealised losses on changes in the fair value of non-hedging currency derivatives amounted to HK\$180,740,000 (2014: HK\$89,018,000) and HK\$177,850,000 (2014: net unrealised gains of HK\$144,857,000) respectively, resulting in net gains of HK\$2,890,000 (2014: HK\$233,875,000) (note 9) recognised in the consolidated statement of profit or loss during the year. The maturity dates of derivative financial instruments are within one year.

**32. PROVISION FOR WARRANTIES**

The movements in the provision for warranties are summarised as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
At 1 January	462,500	306,663
Additional provision ( <i>note 9</i> )	525,235	666,775
Amounts utilised during the year	(539,975)	(482,753)
Exchange realignment	(24,848)	(28,185)
	<u>422,912</u>	<u>462,500</u>
At 31 December	<u><u>422,912</u></u>	<u><u>462,500</u></u>

The Group generally provides warranties of 12 to 24 months to its customers on products, under which faulty products are repaired or replaced. The amount of the provision for warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision for warranties was not discounted, as the effect of discounting was not material.

**33. RETIREMENT INDEMNITIES**

Retirement indemnities in respect of the pension plan are as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Retirement indemnities:		
Present value of fund obligation	<u>5,197</u>	<u>4,827</u>

Movements in retirement indemnities are as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
At 1 January	4,827	5,740
Recognised/(reversed) during the year	878	(254)
Exchange realignment	(508)	(659)
	<u>5,197</u>	<u>4,827</u>
At 31 December	<u><u>5,197</u></u>	<u><u>4,827</u></u>

The Group does not have any unfunded obligations.

The main assumptions used in the retirement indemnity computation for the pension plan are as follows:

	<b>2015</b>	<b>2014</b>
Discount rate	2.25%	2.25%
Future salary increase rate per annum	<u>3.00%</u>	<u>3.00%</u>

## 34. LONG SERVICE MEDALS

TCT SAS, a subsidiary of the Company incorporated in France, provides for the probable future long service medals expected to be made to employees. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to TCT SAS to the end of the reporting period.

## 35. DEFERRED TAX

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

## Deferred tax assets

	Tax losses	Promotion and accruals	Deferred income	Product warranty	Bad debt provision	Provision against inventories	Unrealised profit	Impairment of non-current assets	Amortisation in excess of allowance	Cash flow hedges	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	83,803	16,737	33,617	13,918	382	33,597	30,989	1,689	74,642	8,267	297,641
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	7,905	11,443	(1,467)	(6,030)	957	17,300	7,372	-	(74,642)	-	(37,162)*
Deferred tax credited to the consolidated statement of comprehensive income during the year	-	-	-	-	-	-	-	-	-	33,153	33,153
Exchange realignment	(8,568)	(4,344)	(1,935)	(676)	(21)	(2,351)	(1)	(99)	-	842	(17,153)
Gross deferred tax assets at 31 December 2015	<u>83,140</u>	<u>23,836</u>	<u>30,215</u>	<u>7,212</u>	<u>1,318</u>	<u>48,546</u>	<u>38,360</u>	<u>1,590</u>	<u>-</u>	<u>42,262</u>	<u>276,479</u>
	Tax losses	Promotion and accruals	Deferred income	Product warranty	Bad debt provision	Provision against inventories	Unrealised profit	Impairment of non-current assets	Amortisation in excess of allowance	Cash flow hedges	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	86,543	7,869	-	4,836	1,221	21,381	19,922	1,215	52,353	-	195,340
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	8,418	10,540	33,554	9,089	(834)	12,260	11,067	477	22,289	-	106,860*
Deferred tax credited to the consolidated statement of comprehensive income during the year	-	-	-	-	-	-	-	-	-	8,222	8,222
Exchange realignment	(11,158)	(1,672)	63	(7)	(5)	(44)	-	(3)	-	45	(12,781)
Gross deferred tax assets at 31 December 2014	<u>83,803</u>	<u>16,737</u>	<u>33,617</u>	<u>13,918</u>	<u>382</u>	<u>33,597</u>	<u>30,989</u>	<u>1,689</u>	<u>74,642</u>	<u>8,267</u>	<u>297,641</u>



Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of HK\$79,997,000 (31 December 2014: HK\$30,275,000), expiring in five years after occurrence, which were related to the subsidiaries in Mainland China and HK\$1,629,669,000 (31 December 2014: HK\$2,211,378,000) with infinite expiration, which were related to overseas subsidiaries as at 31 December 2015 carried forward for offsetting against future taxable profits of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax loss can be utilised.

**Deferred tax liabilities**

	Deferred development costs <i>HK\$'000</i>	Income not subject to tax <i>HK\$'000</i>	Depreciation allowance in excess of related depreciation <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	94,890	5,802	1,513	102,205
Deferred tax (credited)/charged to the consolidated statement of profit or loss during the year	(94,890)	1,794	8,974	(84,122)*
Exchange realignment	–	–	13	13
	<u>–</u>	<u>–</u>	<u>13</u>	<u>13</u>
Gross deferred tax liabilities at 31 December 2015	<u>–</u>	<u>7,596</u>	<u>10,500</u>	<u>18,096</u>

	Deferred development costs <i>HK\$'000</i>	Income not subject to tax <i>HK\$'000</i>	Cash flow hedges <i>HK\$'000</i>	Depreciation allowance in excess of related depreciation <i>HK\$'000</i>	Changes in fair value of derivative financial instruments <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014	63,151	8,587	10,520	1,513	1,073	84,844
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year	31,739	(2,785)	–	–	(770)	28,184*
Deferred tax credited to the consolidated statement of comprehensive income during the year	–	–	(10,717)	–	–	(10,717)
Exchange realignment	–	–	197	–	(303)	(106)
	<u>–</u>	<u>–</u>	<u>197</u>	<u>–</u>	<u>(303)</u>	<u>(106)</u>
Gross deferred tax liabilities at 31 December 2014	<u>94,890</u>	<u>5,802</u>	<u>–</u>	<u>1,513</u>	<u>–</u>	<u>102,205</u>

\* Being the total deferred tax credit of HK\$46,960,000 (2014: HK\$78,676,000) (note 12) to the consolidated statement of profit or loss during the year.

At 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$5,460,329,000 (31 December 2014: HK\$4,524,032,000).

### 36. SHARE CAPITAL

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>
Authorised:			
Ordinary shares of par value HK\$1 each at 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
At 1 January 2014	1,162,460,227	1,162,460	417,664
Exercise of Share Options	51,439,915	51,440	173,433
Issue of new shares under Share Award Scheme	6,866,266	6,866	14,749
Reclassification of lapsed Share Options	–	–	636
Reclassification of vested Awarded Shares	–	–	24,494
At 31 December 2014 and 1 January 2015	1,220,766,408	1,220,766	630,976
Exercise of Share Options* ( <i>note 37</i> )	37,867,818	37,869	157,675
Issue of new shares under Share Award Scheme** ( <i>note 38</i> )	9,164,290	9,164	27,455
Reclassification of lapsed Share Options	–	–	165
Reclassification of vested Awarded Shares	–	–	(3,474)
Final 2014 dividend	–	–	(91,467)
Interim 2015 dividend	–	–	(161,218)
At 31 December 2015	1,267,798,516	1,267,799	560,112

\* During the year, 37,867,818 Share Options were exercised at subscription prices ranging from HK\$2.740 to HK\$7.614 per share, resulting in the issue of 37,867,818 ordinary shares of par value of HK\$1 each for a total cash consideration of approximately HK\$141,119,000.

\*\* During the year, under the Share Award Scheme, 9,164,290 ordinary shares of par value HK\$1 each were issued at no consideration.

## 37. SHARE OPTION SCHEME

The Company adopts two share option schemes to grant Share Options as incentive and rewards for their contribution to the success of the Group's operations as well as a way to attract and retain participants to eligible participants include employees (including executive directors, non-executive directors and independent non-executive directors), advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the Board, in its sole discretion, considers have contributed or may contribute to the Group (collectively referred to as the "Participants"). The old share option scheme (the "Old Share Option Scheme"), which was adopted 13 September 2004, and would expire on 12 September 2014. In order to enable the Group to continuously grant Share Options to Participants, the directors recommended to the Shareholders at the annual general meeting of the Company (the "AGM") held on 28 April 2014 to adopt the new share option scheme (the "New Share Option Scheme") and to simultaneously terminate the operation of the Old Share Option Scheme in advance, such termination being effective from the conclusion of the AGM held on 28 April 2014. On 28 April 2014, the adoption of the New Share Option Scheme and the termination of the Old Share Option Scheme were both approved by the Shareholders. The Share Options granted under the Old Share Option Scheme prior to its termination would continue to be valid and exercisable in accordance with the rules of the Old Share Option Scheme. The New Share Option Scheme will remain in force for a period of 10 years commencing from 28 April 2014.

The maximum number of unexercised Share Options currently permitted to be granted under the New Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the Shares in issue as at 28 April 2014 when the New Share Option Scheme was adopted (i.e., up to 119,166,767 shares). The maximum number of Shares issuable regarding Share Options granted to each Participant under the New Share Option Scheme within any 12-month period up to and including the date of such grant is limited to 1% of the Shares in issue at any time. Any further grant of Share Options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share Options granted to directors, chief executive or substantial Shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any Share Options granted to a substantial Shareholder or independent non-executive directors, or to any of their respective associates, in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of grant) in excess of HK\$5 million, within any 12-month period up to and including the date of such grant, are subject to Shareholders' approval in advance in a general meeting.

The exercise price of Share Options is determinable by the Board, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant of the Share Options, (ii) the average of the closing prices of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant and, (iii) the nominal value of the Share.

Share Options do not confer rights on the holders to receive dividends or to vote at general meetings.

There is no minimum period which a Share Option must be held before it can be exercised. The Board may in its absolute discretion determine the period within which the Share Option must be exercised, save that such period shall not be more than 10 years from the date of grant of the Share Option.

The total number of the Shares that could be issued upon exercise of (i) all outstanding Share Options; and (ii) all Share Options that could be granted under the then available scheme mandate limit as at 31 December 2015 and 31 December 2014 was 153,099,299 Shares and 191,135,953 Shares, respectively, which represented about 12.08% and 15.66% of the issued Shares as at 31 December 2015 and 31 December 2014, respectively.

As at 31 December 2015, the Company had a total of 45,755,564 Share Options outstanding under the Old Share Option Scheme and the New Share Option Scheme (collectively referred to as the "Share Options Schemes"). The exercise in full of the outstanding Share Options would, under the present capital structure of the Company, result in the issue of 45,755,564 additional ordinary shares of the Company. Total funds raised from exercise of the outstanding Share Options would be approximately HK\$215,987,000 which represents additional share capital of approximately HK\$45,756,000 and share premium of approximately HK\$170,231,000 (before issue expenses). No Share Options were cancelled during the year ended 31 December 2015.

At the date of approval of these financial statements, the Company has 44,503,741 Share Options outstanding under the Share Options Schemes, which represented approximately 3.51% of the Company's shares in issue as at that date.

Further details of the Share Options Schemes are as follows:

37.1 As at 31 December 2015, the following Share Options were outstanding under the Schemes of the Company during the year:

Date of grant	Number of Share Options					As at 31 December 2015	Exercise period (both dates inclusive) (Note a)	Exercise price per share (HK\$)
	As at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year			
11 March 2010	2,913,334	-	(2,478,000)	-	-	435,334	11 December 2010 to 10 March 2016	3.020
25 May 2010	4,700,000	-	(4,121,900)	-	-	578,100	25 February 2011 to 24 May 2016	3.462
3 May 2011	6,126,764	-	(212,000)	(50,000)	-	5,864,764	3 February 2012 to 2 May 2017	7.614
9 August 2011	4,732,637	-	(4,348,837)	-	-	383,800	9 May 2012 to 8 August 2017	6.472
4 June 2012	19,890,436	-	(11,062,758)	(10,668)	-	8,817,010	4 March 2013 to 3 June 2018	2.740
12 July 2013	33,606,015	-	(15,644,323)	(102,006)	-	17,859,686	12 April 2014 to 11 July 2019	3.790
21 May 2015	-	1,987,576	-	-	-	1,987,576	31 December 2015 to 20 May 2021	8.390
3 November 2015	-	9,835,456	-	(6,162)	-	9,829,294	31 December 2015 to 2 November 2021	5.800
Total	<u>71,969,186</u>	<u>11,823,032</u>	<u>(37,867,818)</u>	<u>(168,836)</u>	<u>-</u>	<u>45,755,564</u>		

37.2 As at 31 December 2015, the outstanding Share Options granted to the Participants are as follows:

	Number of Share Options					Date of grant	Exercise period (both dates inclusive) (Note a)	Exercise price per share (HK\$)	
	As at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Re- classified				As at 31 December 2015
<b>Executive directors</b>									
<b>Mr. LI Dongsheng</b> (Note c)	2,400,000	-	(2,400,000)	-	-	25 May 2010	25 February 2011 to 24 May 2016	3.462	
	1,547,368	-	-	-	-	3 May 2011	3 February 2012 to 2 May 2017	7.614	
	4,454,545	-	(4,454,545)	-	-	4 June 2012	4 March 2013 to 3 June 2018	2.740	
	840,000	-	-	-	-	12 July 2013	12 April 2014 to 11 July 2019	3.790	
	-	532,545	-	-	-	21 May 2015	31 December 2015 to 20 May 2021	8.390	
	-	211,587	-	-	-	3 November 2015	31 December 2015 to 2 November 2021	5.800	
	9,241,913	744,132	(6,854,545)	-	-			3,131,500	
<b>Mr. GUO Aiping</b>	3,094,737	-	-	-	-	3 May 2011	3 February 2012 to 2 May 2017	7.614	
	3,970,091	-	-	-	-	4 June 2012	4 March 2013 to 3 June 2018	2.740	
	1,680,000	-	-	-	-	12 July 2013	12 April 2014 to 11 July 2019	3.790	
	-	686,800	-	-	-	21 May 2015	31 December 2015 to 20 May 2021	8.390	
	-	333,257	-	-	-	3 November 2015	31 December 2015 to 2 November 2021	5.800	
		8,744,828	1,020,057	-	-	-			9,764,885
<b>Mr. WANG Jiyang</b>	2,136,498	-	(2,136,498)	-	-	4 June 2012	4 March 2013 to 3 June 2018	2.740	
	1,124,000	-	(1,124,000)	-	-	12 July 2013	12 April 2014 to 11 July 2019	3.790	
	-	260,469	-	-	-	21 May 2015	31 December 2015 to 20 May 2021	8.390	
	-	126,388	-	-	-	3 November 2015	31 December 2015 to 2 November 2021	5.800	
		3,260,498	386,857	(3,260,498)	-	-			386,857
	<b>Mr. Nicolas Daniel Bernard ZIBELL</b> (Note d)	-	-	-	-	2,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
-		-	-	-	441,000	12 July 2013	12 April 2014 to 11 July 2019	3.790	
-		-	-	-	443,000			443,000	
<b>Non-executive directors</b>									
<b>Mr. HUANG Xubin</b>	806,035	-	-	-	-	4 June 2012	4 March 2013 to 3 June 2018	2.740	
	210,000	-	-	-	-	12 July 2013	12 April 2014 to 11 July 2019	3.790	
	-	121,230	-	-	-	21 May 2015	31 December 2015 to 20 May 2021	8.390	
	-	28,816	-	-	-	3 November 2015	31 December 2015 to 2 November 2021	5.800	
		1,016,035	150,046	-	-	-			1,166,081
<b>Mr. YAN Xiaolin</b> (Note e)	167,200	-	(167,000)	-	(200)	9 August 2011	9 May 2012 to 8 August 2017	6.472	
	210,000	-	(140,000)	-	(70,000)	12 July 2013	12 April 2014 to 11 July 2019	3.790	
	-	115,933	-	-	(115,933)	21 May 2015	31 December 2015 to 20 May 2021	8.390	
		377,200	115,933	(307,000)	-	(186,133)			-
<b>Ms. XU Fang</b> (Note f)	1,000,000	-	(721,900)	-	(278,100)	25 May 2010	25 February 2011 to 24 May 2016	3.462	
	418,100	-	(418,100)	-	-	9 August 2011	9 May 2012 to 8 August 2017	6.472	
	1,000,000	-	-	-	(1,000,000)	4 June 2012	4 March 2013 to 3 June 2018	2.740	
	210,000	-	-	-	(210,000)	12 July 2013	12 April 2014 to 11 July 2019	3.790	
	-	77,088	-	-	(77,088)	21 May 2015	31 December 2015 to 20 May 2021	8.390	
		2,628,100	77,088	(1,140,000)	-	(1,565,188)			-
<b>Mr. LIAO Qian</b> (Note g)	-	32,601	-	-	-	21 May 2015	31 December 2015 to 20 May 2021	8.390	
	-	7,749	-	-	-	3 November 2015	31 December 2015 to 2 November 2021	5.800	
		40,350	-	-	-			40,350	

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	Number of Share Options					As at 31 December 2015	Date of grant	Exercise period (both dates inclusive) (Note a)	Exercise price per share (HK\$)
	As at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Re- classified				
<b>Independent Non-executive directors</b>									
Mr. LAU Siu Ki	300,000	-	-	-	-	300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	200,000	-	-	-	-	200,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	-	17,045	-	-	-	17,045	21 May 2015	31 December 2015 to 20 May 2021	8.390
	-	8,271	-	-	-	8,271	3 November 2015	31 December 2015 to 2 November 2021	5.800
	500,000	25,316	-	-	-	525,316			
Mr. LOOK Andrew	-	17,045	-	-	-	17,045	21 May 2015	31 December 2015 to 20 May 2021	8.390
	-	8,271	-	-	-	8,271	3 November 2015	31 December 2015 to 2 November 2021	5.800
	-	25,316	-	-	-	25,316			
Mr. KWOK Hoi Sing	300,000	-	-	-	-	300,000	9 August 2011	9 May 2012 to 8 August 2017	6.472
	200,000	-	-	-	-	200,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	-	17,045	-	-	-	17,045	21 May 2015	31 December 2015 to 20 May 2021	8.390
	-	8,271	-	-	-	8,271	3 November 2015	31 December 2015 to 2 November 2021	5.800
	500,000	25,316	-	-	-	525,316			
<b>Directors (included their associates)</b>									
-	-	-	-	-	2,000	2,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
3,700,000	-	(3,121,900)	-	(278,100)	300,000	300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
4,642,105	-	-	-	-	4,642,105	4,642,105	3 May 2011	3 February 2012 to 2 May 2017	7.614
885,300	-	(585,100)	-	(200)	300,000	300,000	9 August 2011	9 May 2012 to 8 August 2017	6.472
12,767,169	-	(6,591,043)	-	(1,000,000)	5,176,126	5,176,126	4 June 2012	4 March 2013 to 3 June 2018	2.740
4,274,000	-	(1,264,000)	-	161,000	3,171,000	3,171,000	12 July 2013	12 April 2014 to 11 July 2019	3.790
-	1,877,801	-	-	(193,021)	1,684,780	1,684,780	21 May 2015	31 December 2015 to 20 May 2021	8.390
-	732,610	-	-	-	732,610	732,610	3 November 2015	31 December 2015 to 2 November 2021	5.800
<b>Sub-total</b>	<b>26,268,574</b>	<b>2,610,411</b>	<b>(11,562,043)</b>	<b>-</b>	<b>(1,308,321)</b>	<b>16,008,621</b>			
<b>Participants (excluded directors and their associates)</b>									
2,913,334	-	(2,478,000)	-	(2,000)	433,334	433,334	11 March 2010	11 December 2010 to 10 March 2016	3.020
1,000,000	-	(1,000,000)	-	278,100	278,100	278,100	25 May 2010	25 February 2011 to 24 May 2016	3.462
1,484,659	-	(212,000)	(50,000)	-	1,222,659	1,222,659	3 May 2011	3 February 2012 to 2 May 2017	7.614
3,847,337	-	(3,763,737)	-	200	83,800	83,800	9 August 2011	9 May 2012 to 8 August 2017	6.472
7,123,267	-	(4,471,715)	(10,668)	1,000,000	3,640,884	3,640,884	4 June 2012	4 March 2013 to 3 June 2018	2.740
29,332,015	-	(14,380,323)	(102,006)	(161,000)	14,688,686	14,688,686	12 July 2013	12 April 2014 to 11 July 2019	3.790
-	109,775	-	-	193,021	302,796	302,796	21 May 2015	31 December 2015 to 20 May 2021	8.390
-	9,102,846	-	(6,162)	-	9,096,684	9,096,684	3 November 2015	31 December 2015 to 2 November 2021	5.800
<b>Sub-total</b>	<b>45,700,612</b>	<b>9,212,621</b>	<b>(26,305,775)</b>	<b>(168,836)</b>	<b>1,308,321</b>	<b>29,746,943</b>			
<b>Total</b>	<b>71,969,186</b>	<b>11,823,032</b>	<b>(37,867,818)</b>	<b>(168,836)</b>	<b>-</b>	<b>45,755,564</b>			

Notes:

- a. During the year, the following Share Options continued to be effective under the Share Options Schemes of the Company:

	<b>Date of grant</b>	<b>Exercise price per share (HK\$)</b>	<b>Exercise period</b>	<b>Remarks</b>
(i)	11 March 2010	3.020	11 December 2010 to 10 March 2016: one third of these Share Options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	The said Share Options were expired on 10 March 2016.
(ii)	25 May 2010	3.462	25 February 2011 to 24 May 2016: the first tranche of these Share Options are exercisable after the expiry of 9 months from the date of grant, the second tranche are exercisable after the expiry of 18 months from the date of grant, and the third tranche are exercisable after the expiry of 27 months from the date of grant.	The said Share Options will be expired on 24 May 2016.
(iii)	3 May 2011	7.614	3 February 2012 to 2 May 2017: one-third of the said Share Options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	N/A
(iv)	9 August 2011	6.472	9 May 2012 to 8 August 2017: one-third of the said Share Options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	N/A

	<b>Date of grant</b>	<b>Exercise price per share (HK\$)</b>	<b>Exercise period</b>	<b>Remarks</b>
(v)	4 June 2012	2.740	4 March 2013 to 3 June 2018: one-third of these Share Options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	A maximum of 75,000,000 Share Options under the Old Share Option Scheme were offered by the Company, subject to acceptance of the grantees. A total of 49,000,000 Share Options were accepted by and granted to the grantees, among which a total of 24,220,134 Share Options were granted to the directors of the Company. Further details of the said Share Options were set out in the announcement of the Company dated 4 June 2012.
(vi)	12 July 2013	3.790	12 April 2014 to 11 July 2019: one-third of these Share Options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.	A maximum of 48,503,700 Share Options under the Old Share Option Scheme were offered by the Company, subject to acceptance of the grantees. A total of 42,286,000 Share Options were accepted by and granted to the grantees, among which a total of 4,830,000 Share Options were granted to the directors of the Company. Further details of the said Share Options were set out in the announcement of the Company dated 12 July 2013.



	Date of grant	Exercise price per share (HK\$)	Exercise period	Remarks
(vii)	21 May 2015	8.390	31 December 2015 to 20 May 2021: one-third of these Share Options are exercisable from 31 December 2015; a further one-third are exercisable from 31 December 2016, and the remaining one-third are exercisable from 31 December 2017.	A maximum of 17,000,000 Share Options under the New Share Option Scheme were offered by the Company, where the grantees were offered Share Options and subject to the acceptance of the grantees. A total of 1,987,576 Share Options were granted to accepted by the grantees, among which a total of 1,877,801 Share Options were granted to the directors, former directors and their associates. Further details of the said Share Options were set out in the announcements of the Company dated 21 May 2015, 26 May 2015 and 15 July 2015 respectively.
(viii)	3 November 2015	5.800	31 December 2015 to 2 November 2021: one-third of these Share Options are exercisable from 31 December 2015; a further one-third are exercisable from 31 December 2016, and the remaining one-third are exercisable from 31 December 2017.	A maximum of 13,000,000 Share Options under the New Share Option Scheme were offered by the Company, subject to the acceptance of the grantees. A total of 9,835,456 Share Options were granted to accepted by the grantees, among which a total of 732,610 Share Options were granted to the directors and their associates. Further details of the said Share Options were set out in the announcement of the Company dated 3 November 2015.

- b. The weighted average share price at the date of exercise for Share Options exercised during the year was HK\$7.94 (year ended 31 December 2014: HK\$8.98) per share.
- c. These number of outstanding Share Options held by Mr. LI Dongsheng contains the number of outstanding Share Options held by his spouse.
- d. Mr. Nicolas Daniel Bernard ZIBELL was appointed on 15 July 2015 as an executive director of the Company.
- e. Mr. YAN Xiaolin has resigned on 15 July 2015 as a non-executive director of the Company.
- f. Ms. XU Fang has resigned on 21 May 2015 as a non-executive director of the Company, and was granted by the Company with Share Options to subscribe for a total of 77,088 Shares on the same day.
- g. Mr. LIAO Qian was appointed on 21 May 2015 as a non-executive director of the Company.
- h. The following assumptions were used to derive the fair value, using the binomial model:

**Options granted on 11 March 2010**

	<u>At grant date</u>
(i) Exercise period	11 December 2010 to 10 March 2016
(ii) Expected volatility	69.69% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.98% per annum
(v) Early exercise assumption	When the share price is at least 150% of the exercise price
(vi) Expected dividend yield	0% per annum
(vii) Estimated rate of leaving service	0% per annum

**Options granted on 25 May 2010**

	<u>At grant date</u>
(i) Exercise period	25 February 2011 to 24 May 2016
(ii) Expected volatility	70.05% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.82% per annum
(v) Early exercise assumption	When the share price is at least 150% of the exercise price
(vi) Expected dividend yield	0% per annum
(vii) Estimated rate of leaving service	0% per annum

**Options granted on 3 May 2011**

	<u>At grant date</u>
(i) Exercise period	3 February 2012 to 2 May 2017
(ii) Expected volatility	71.49% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.96% per annum
(v) Early exercise assumption	When the share price is at least 180% of the exercise price
(vi) Expected dividend yield	3.99% per annum
(vii) Estimated rate of leaving service	0% per annum

**Options granted on 9 August 2011**

	<u>At grant date</u>
(i) Exercise period	9 May 2012 to 8 August 2017
(ii) Expected volatility	69.559% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.105% per annum
(v) Early exercise assumption	When the share price is at least 180% of the exercise price
(vi) Expected dividend yield	4.313% per annum
(vii) Estimated rate of leaving service	0% per annum

**Options granted on 4 June 2012**

	<u>At grant date</u>
(i) Exercise period	4 March 2013 to 3 June 2018
(ii) Expected volatility	70.841% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	0.514% per annum
(v) Early exercise assumption	When the share price is at least 180% of the exercise price
(vi) Expected dividend yield	7.811% per annum
(vii) Estimated rate of leaving service	0% per annum

**Options granted on 12 July 2013**

	<u>At grant date</u>
(i) Exercise period	12 April 2014 to 11 July 2019
(ii) Expected volatility	72.30% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.468% per annum
(v) Early exercise assumption	When the share price is at least 180% of the exercise price
(vi) Expected dividend yield	8.06% per annum
(vii) Estimated rate of leaving service	0% per annum

**Options granted on 21 May 2015**

	<u>At grant date</u>
(i) Exercise period	31 December 2015 to 20 May 2021
(ii) Expected volatility	61.22% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.351% per annum
(v) Early exercise assumption	When the share price is at least 250% of the exercise price
(vi) Expected dividend yield	3.44% per annum
(vii) Estimated rate of leaving service	0% per annum

**Options granted on 3 November 2015**

	<u>At grant date</u>
(i) Exercise period	31 December 2015 to 2 November 2021
(ii) Expected volatility	60.76% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.132% per annum
(v) Early exercise assumption	When the share price is at least 251% of the exercise price
(vi) Expected dividend yield	4.34% per annum
(vii) Estimated rate of leaving service	0% per annum

The volatility rate of the share price of the Company was determined with reference to the historical volatilities of the share prices of the Company as extracted from Bloomberg.

**38. SHARE AWARD SCHEME**

Share award scheme A (the “**Share Award Scheme A**”) adopted by the Company on 3 July 2007 was terminated on 23 October 2009, and the Board on 11 March 2008 resolved to adopt another share award scheme (the “**Share Award Scheme B**”) (collectively referred to as the “**Share Award Schemes**”). Share Award Scheme B aims at providing incentives to employees and to retain and encourage employees to contribute to the continual operation and development of the Group, pursuant to which existing Shares will be purchased by the trustee from the market out of cash contributed by the Group and be held in the Share Award Schemes Trust for the relevant selected employees until such shares vest with the relevant selected employees in accordance with the provisions of Share Award Schemes. On 17 March 2011, Share Award Scheme B was amended by the Group, pursuant to which, as an alternative to purchase of Shares on the market for any awards made under Share Award Scheme B, the Board may allot and issue Shares as Awarded Shares and has the discretion to decide whether the Awarded Shares are to be purchased or subscribed. On 21 May 2015, Share Award Scheme B was further amended by the Group, pursuant to which, the scope of its eligible participants was broadened from employees to include not only employees (including executive directors, non-executive director and independent non-executive director) but also advisers, consultants, agents, contractors, clients or suppliers of any member of the Group or any other person whom any committee or sub-committee or person(s) delegated with the power and authorised by the Board to administer Share Award Scheme B (the “**Scheme Board**”) in its sole discretion considers may contribute or have contributed to the Group (the “**May expanded Scope of Participants**”). Subsequently, the Board proposed to further amend Share Award Scheme B, to revise the May Expanded Scope of Participants to employees (including executive directors, non-executive directors and independent non-executive directors), advisers, consultants, agents, contractors, clients or suppliers of any member of the Group and employees or officers of any affiliated company whom the Scheme Board in its sole discretion considers may contribute or have contributed to the Group (the “**New Expanded Scope of Participants**”), which has been approved by Shareholders in the extraordinary general meeting of the Company dated 24 December 2015.

The Company has appointed BOCI-Prudential Trustee Limited as the trustee (the “**Trustee**”) for the administration of Share Award Schemes. To the knowledge and belief of the Company, the Trustee is an independent third party to the Company. No one, including the Trustee, may exercise any voting rights in respect of the Awarded Shares held by the Trustee.

As at 31 December 2015, 58,361,031 further Awarded Shares might be granted to the New Expanded Scope of Participants of Share Award Scheme B, which represented about 4.60% of the issued Shares as at 31 December 2015.

The Trustee purchased 105,898,000 Shares at a total cost (including related transaction costs) of HK\$33,469,000 during the year ended 31 December 2008, 15,778,000 Shares at a total cost (including related transaction costs) of HK\$71,256,000 during the year ended 31 December 2011, and 1,000,000 Shares at a total cost (including related transaction costs) of HK\$5,716,000 during the year ended 31 December 2015.

Under Share Award Scheme B, Shares would be transferred to the grantees by the Trustee or through allotment and issuance of Shares at nil consideration upon vesting. During the year, a total of 11,120,034 Awarded Shares were vested, in which a total of 9,164,290 Awarded Shares were vested through new issuance of Shares and the remaining 1,955,744 Awarded Shares were vested through purchased Shares by the Trustee on the market under Share Award Scheme B. The total cost of the related vested Shares was HK\$8,833,000. As at 31 December 2015, the carrying amount of Shares held for Share Award Scheme B was HK\$6,512,000 (31 December 2014: HK\$9,629,000).

38.1 As at 31 December 2015, the following Awarded Shares were outstanding under Share Award Scheme B:

Date of grant	Number of Awarded Shares				As at 31 December 2015	Remaining vesting period (both dates inclusive) (Note b)	Fair value per share (HK\$)
	As at 1 January 2015	Granted during the year	Vested during the year (Note a)	Lapsed during the year			
4 June 2012	7,672,574	–	(7,556,902)	(115,672)	–	N/A	2.74
21 May 2015	–	874,533	(291,510)	–	583,023	1 January 2016 to 31 December 2017	8.20
3 November 2015	–	8,640,235	(2,823,458)	(169,146)	5,647,631	1 January 2016 to 31 December 2017	5.80
14 December 2015	–	1,344,500	(448,164)	–	896,336	1 January 2016 to 31 December 2017	5.59
14 December 2015	–	966,500	–	–	966,500	1 January 2016 to 3 August 2017	5.59
14 December 2015	–	330,000	–	–	330,000	1 January 2016 to 1 November 2017	5.59
14 December 2015	–	600,000	–	–	600,000	1 January 2016 to 3 December 2018	5.59
Total	<u>7,672,574</u>	<u>12,755,768</u>	<u>(11,120,034)</u>	<u>(284,818)</u>	<u>9,023,490</u>		

38.2 As at 31 December 2015, the outstanding Awarded Shares of the New Expanded Scope of Participants are as follows:

	Number of Awarded Shares					Date of grant	Remaining vesting period (both dates inclusive) (Note b)	Fair value per share (HK\$)	
	As at 1 January 2015	Granted during the year	Vested during the year (Note a)	Lapsed during the year	Re- classified				As at 31 December 2015
<b>Executive directors</b>									
<b>Mr. LI Dongsheng</b> (Note c)	-	234,319	(78,106)	-	-	156,213	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	85,173	(28,391)	-	-	56,782	3 November 2015	1 January 2016 to 31 December 2017	5.80
	-	319,492	(106,497)	-	-	212,995			
<b>Mr. GUO Aiping</b>	-	302,192	(100,731)	-	-	201,461	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	135,767	(45,256)	-	-	90,511	3 November 2015	1 January 2016 to 31 December 2017	5.80
	-	437,959	(145,987)	-	-	291,972			
<b>Mr. WANG Jiyang</b>	-	114,606	(38,202)	-	-	76,404	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	51,490	(17,163)	-	-	34,327	3 November 2015	1 January 2016 to 31 December 2017	5.80
	-	166,096	(55,365)	-	-	110,731			
<b>Non-executive directors</b>									
<b>Mr. HUANG Xubin</b>	-	53,341	(17,780)	-	-	35,561	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	11,081	(3,694)	-	-	7,387	3 November 2015	1 January 2016 to 31 December 2017	5.80
	-	64,422	(21,474)	-	-	42,948			
<b>Mr. YAN Xiaolin</b> (Note d)	-	51,011	-	-	(51,011)	-	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	51,011	-	-	(51,011)	-			
<b>Ms. XU Fang</b> (Note e)	-	33,919	-	-	(33,919)	-	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	33,919	-	-	(33,919)	-			
<b>Mr. LIAO Qian</b> (Note f)	-	14,344	(4,781)	-	-	9,563	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	2,980	(993)	-	-	1,987	3 November 2015	1 January 2016 to 31 December 2017	5.80
	-	17,324	(5,774)	-	-	11,550			

	Number of Awarded Shares					As at 31 December 2015	Date of grant	Remaining vesting period (both dates inclusive) (Note b)	Fair value per share (HK\$)
	As at 1 January 2015	Granted during the year	Vested during the year (Note a)	Lapsed during the year	Re- classified				
<b>Independent non-executive director</b>									
Mr. LAU Siu Ki	-	7,500	(2,500)	-	-	5,000	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	3,370	(1,123)	-	-	2,247	3 November 2015	1 January 2016 to 31 December 2017	5.80
		10,870	(3,623)			7,247			
Mr. LOOK Andrew	-	7,500	(2,500)	-	-	5,000	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	3,370	(1,123)	-	-	2,247	3 November 2015	1 January 2016 to 31 December 2017	5.80
		10,870	(3,623)			7,247			
Mr. KWOK Hoi Sing	-	7,500	(2,500)	-	-	5,000	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	3,370	(1,123)	-	-	2,247	3 November 2015	1 January 2016 to 31 December 2017	5.80
		10,870	(3,623)			7,247			
Sub-total	-	826,232	(247,100)	-	(84,930)	494,202	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	296,601	(98,866)	-	-	197,735	3 November 2015	1 January 2016 to 31 December 2017	5.80
	-	1,122,833	(345,966)	-	(84,930)	691,937			
<b>New Expanded Scope of Participants</b>									
(excluded directors and their associates)	7,672,574	-	(7,556,902)	(115,672)	-	-	4 June 2012	N/A	2.74
	-	48,301	(44,410)	-	84,930	88,821	21 May 2015	1 January 2016 to 31 December 2017	8.20
	-	8,343,634	(2,724,592)	(169,146)	-	5,449,896	3 November 2015	1 January 2016 to 31 December 2017	5.80
	-	1,344,500	(448,164)	-	-	896,336	14 December 2015	1 January 2016 to 31 December 2017	5.59
	-	966,500	-	-	-	966,500	14 December 2015	1 January 2016 to 3 August 2017	5.59
	-	330,000	-	-	-	330,000	14 December 2015	1 January 2016 to 1 November 2017	5.59
	-	600,000	-	-	-	600,000	14 December 2015	1 January 2016 to 31 December 2018	5.59
Sub-total	7,672,574	11,632,935	(10,774,068)	(284,818)	84,930	8,331,553			
Total	7,672,574	12,755,768	(11,120,034)	(284,818)	-	9,023,490			

**Notes:**

- a. During the year, a total of 11,120,034 Awarded Shares were vested, in which a total of 9,164,290 Awarded Shares were vested through new issuance of Shares and the remaining 1,955,744 Awarded Shares were vested through purchased Shares by the Trustee on the market.



- b. During the year, the following Awarded Shares continued to be effective under Share Award Scheme B of the Company:

Date of grant	Number of Awarded Shares granted	Vesting period	Remarks
4 June 2012	A maximum of 40,000,000 Awarded Shares offered by the Company to be awarded to selected employees, among which a total of 27,000,000 Awarded Shares were accepted by the awardees.	4 June 2012 to 4 June 2015: one-third of the said Awarded Shares would be vested after the expiry of 1 year from the date of grant, a further one-third would be vested after the expiry of 2 years from the date of grant, and the remaining one-third would be vested after the expiry of 3 years from the date of grant.	Further details of the said Awarded Shares were set out in the announcement of the Company dated 4 June 2012.
21 May 2015	A maximum of 16,000,000 Awarded Shares offered by the Company to be awarded to selected employees, among which a total of 874,533 Awarded Shares were accepted by the awardees.	21 May 2015 to 31 December 2017: one-third of these Awarded Shares will be vested on 31 December 2015, a further one-third will be vested on 31 December 2016, and the remaining one-third will be vested on 31 December 2017.	Further details of the said Awarded Shares were set out in the announcements of the Company dated 21 May 2015, 26 May 2015, 15 July 2015, 3 November 2015 and 24 December 2015, and circular dated 9 December 2015 respectively.
3 November 2015	A maximum of 8,726,805 Awarded Shares offered by the Company to be awarded to the New Expanded Scope of Participants, among which a total of 8,640,235 Awarded Shares were accepted by the awardees.	3 November 2015 to 31 December 2017: one-third of these Awarded Shares will be vested on 31 December 2015, a further one-third will be vested on 31 December 2016, and the remaining one-third will be vested on 31 December 2017.	Further details of the said Awarded Shares were set out in the announcements of the Company dated 3 November 2015 and 24 December 2015, and circular dated 9 December 2015 respectively.
14 December 2015	A maximum of 3,441,000 Awarded Shares offered by the Company to be awarded to the New Expanded Scope of Participants, among which a total of 3,241,000 Awarded Shares were accepted by the awardees.	14 December 2015 to 31 December 2017 for 1,344,500 Awarded Shares: one-third of these Awarded Shares will be vested on 31 December 2015, a further one-third will be vested on 31 December 2016, and the remaining one-third will be vested on 31 December 2017.  14 December 2015 to 3 August 2017 for 966,500 Awarded Shares: one-third of these Awarded Shares will be vested on 3 February 2016, a further one-third will be vested on 3 November 2016, and the remaining one-third will be vested on 3 August 2017.  14 December 2015 to 1 November 2017 for 330,000 Awarded Shares: one-third of these Awarded Shares will be vested on 1 May 2016, a further one-third will be vested on 1 February 2017, and the remaining one-third will be vested on 1 November 2017.  14 December 2015 to 3 December 2018 for 600,000 Awarded Shares: one-third of these Awarded Shares will be vested on 3 December 2016, a further one-third will be vested on 3 December 2017, and the remaining one-third will be vested on 3 December 2018.	The said Awarded Shares were further approved by the Scheme Board to be granted to New Expanded Scope of Participants.

- c. These number of unvested Awarded Shares held by Mr. LI Dongsheng contain the number of unvested Awarded Shares held by his spouse;
- d. Mr. YAN Xiaolin has resigned on 15 July 2015 as a non-executive director of the Company;
- e. Ms. XU Fang has resigned on 21 May 2015 as a non-executive director of the Company; and
- f. Mr. LIAO Qian was appointed on 21 May 2015 as a non-executive director of the Company.

**39. RESERVES**

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

The Group's contributed surplus represents the excess of the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group's reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations in the PRC and some overseas countries, certain portion of the profits of the Group's subsidiaries established in the PRC and some overseas countries should be transferred to the statutory reserve which is restricted as to use.

The Group's other reserve includes the excess of the consideration over the carrying amount of net assets acquired in business combinations under common control of HK\$130,232,000 (31 December 2014: HK\$130,232,000) charged to the reserve, the gain on changes in ownership of a subsidiary without loss of control of HK\$244,000 (31 December 2014: HK\$244,000) and share of other comprehensive income of joint ventures of HK\$25,000 (31 December 2014: Nil).

**40. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to six years.

At 31 December 2015 and 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Within one year	10,946	11,645
In the second to fifth years, inclusive	11,199	4,027
Over five years	—	26
	<u>22,145</u>	<u>15,698</u>

**(b) As lessee**

The Group leases certain of its office premises, warehouses and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to ten years.

At 31 December 2015 and 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Within one year	61,450	122,055
In the second to fifth years, inclusive	120,320	133,582
Over five years	100,142	130,116
	<u>281,912</u>	<u>385,753</u>

## 41. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments at the end of the reporting period:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Contracted, but not provided for:		
Property, plant and equipment	4,528	7,103
Capital contribution payable to an associate	77,508	77,576
Capital contribution payable to a joint venture	28,646	45,641
	<u>110,682</u>	<u>130,320</u>

## 42. RELATED PARTY TRANSACTIONS

## (a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Transactions with the ultimate holding company:		
TCL brand management fee* ( <i>note 9</i> )	20,672	43,415
Interest expenses	–	5,791
Interest income	2	–
Purchases of raw materials**	760	25,632
Administration fee for purchases of raw materials**	3	103
Technology service expense	1,221	1,120
Sales of products**	–	6
Purchases of products**	64	222
Rental charges**	3,127	31
Service expenses**	144	3,057
Research and development expenses**	49,702	52,882
Transactions with fellow subsidiaries:		
Purchases of raw materials**	1,444,626	1,798,085
Administration fee for purchases of raw materials**	5	4,772
Interest income	12,257	8,352
Rental charges**	46,988	34,304
Rental income**	14,856	7,535
Fees and commission	473	892
Sales of raw materials**	6,714	7,201
Sales of products and spare parts**	197,797	144,357
Purchases of products**	4,919	7,591
Purchases of property, plant and equipment**	317	118
Service expenses**	623	4,074
Service income**	1,389	45
Transactions with an associate:		
Service expenses**	4,443	–
Sales of products**	24	–

- \* TCL brand management fee was charged on a certain percentage of sales of products with “TCL” brand. The percentage was mutually agreed between the two parties.
- \*\* The sales, purchases, administration fee for purchases of raw materials, leasehold transactions, research and development expenses, service expenses and service income with the related parties were made according to prices mutually agreed between the two parties after arm’s length negotiations on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties.

**(b) Other transactions with related parties**

- i. The Company’s ultimate holding company has guaranteed certain bank loans made to the Group of up to HK\$1,185,954,000 (31 December 2014: HK\$1,388,240,000) (note 28) as at the end of the reporting period.
- ii. On 21 May 2015, Shenzhen TCL Cloud entered into a club membership acquisition agreement with Shenzhen TCL Optoelectronics Tech Co. Ltd (“**Shenzhen TCL Optoelectronics**”, a fellow subsidiary of the Company), to acquire club membership interests at a total consideration of RMB284,526,000 (equivalent to HK\$347,500,000) from Shenzhen TCL Optoelectronics. During the year, the amount paid under the club membership acquisition agreement was RMB160,046,000 (equivalent to HK\$198,921,000). The remaining consideration of RMB124,480,000 (equivalent to HK\$148,579,000) will be paid in form of cash in monthly instalments from January 2016 to September 2017.

**(c) Commitments with related parties**

- i. On 9 August 2012, 17 December 2012 and 26 March 2013, Huizhou TCL Mobile entered into construction management agreements with a term ended in April 2014, October 2014 and December 2015 respectively, with a fellow subsidiary of the Company, TCL Real Estate (Huizhou) Co., Ltd. (“**TCL Real Estate**”), pursuant to which Huizhou TCL Mobile appointed TCL Real Estate to provide construction management services for its two construction projects. On 6 January 2014, a supplemental agreement was entered into among Huizhou TCL Mobile, TCL Real Estate and TCL Industrial Park Property Management (Huizhou) Ltd. (“**TCL Property Management (Huizhou)**”, a fellow subsidiary of the Company), pursuant to which the parties agreed, with effect from 6 January 2014 to 31 December 2015, TCL Property Management (Huizhou) replaced TCL Real Estate and became one of the contract parties of the construction management agreement, continued to fulfill the responsibilities and obligations, also was entitled to enjoy relevant rights and interests. During the year, the amount of service fees under the construction management agreements was RMB301,000 (equivalent to HK\$374,000). The total amount of service fees under the construction management agreements in future is estimated not to exceed RMB27,971,000 (equivalent to HK\$33,386,000). The service fees are determined on normal commercial terms and are reached after arm’s length negotiation.
- ii. On 26 June 2013, a strategic cooperation framework agreement was entered into between the Company and TCL Corporation which is effective from 1 July 2013 to 31 December 2015, pursuant to which TCL Corporation shall provide research and development service to the Company. During the year, the amount of research and development service fees under the agreement was RMB39,989,000 (equivalent to HK\$49,702,000). Since the strategic cooperation framework agreement was expired on 31 December 2015, the Company and TCL Corporation have on 24 December 2015 entered into the R&D fund framework (renewal 2015) agreement to continue the relevant continuing connected transactions, which is effective from 1 January 2016 to 31 December 2018. The total amount of research and development service fees under the R&D fund framework (renewal 2015) agreement in future is estimated not to exceed HK\$437,000,000. The service fees are determined on normal commercial terms and are reached after arm’s length negotiation.

- iii. On 9 October 2014, Best Status Enterprises Limited (a wholly-owned subsidiary of the Company) entered into a shareholder agreement to inject a total amount of US\$16,000,000 (equivalent to HK\$124,508,000) to Reachfull Investment Limited (a fellow subsidiary of the Company, which is for the purpose of developing the public enterprise cloud services platform with Cisco Systems (Switzerland) GmbH) for subscription of 25% of its equity interests by 3 tranches. There was no subscription under the shareholder agreement paid during the year and the total unpaid subscription of US\$10,000,000 (equivalent to HK\$77,508,000) will be paid in form of cash in the near future.
- iv. On 11 November 2014, Prosper Fortune Enterprises Limited (“Prosper Fortune”, a wholly-owned subsidiary of the Company), entered into a joint venture agreement, with two fellow subsidiaries of the Company, Sino Leader (Hong Kong) Limited and Crown Capital Enterprises Limited, to inject a total amount of RMB36,000,000 (equivalent to HK\$43,561,000) to TCL Smart Home Technologies Co., Limited which was for the purpose of developing the business of smart home products and services for subscription of 40% of its equity interests by two tranches. During the year, the amount of capital injected by Prosper Fortune under the joint venture agreement was RMB12,000,000 (equivalent to HK\$14,915,000). The remaining subscription of RMB24,000,000 (equivalent to HK\$28,646,000) will be paid in form of cash in the near future.
- v. Huizhou TCL Cloud has entered into a leasehold contract with TCL Corporation, to lease certain premises from TCL Corporation for the Group’s operation. Details of the rental commitment related to the leasehold contract are as follows:

Contract date	Lessor	Ending date of contract	Expected	Expected rental
			rental expenses within one year HK\$’000	expenses in the second to fifth years, inclusive HK\$’000
1 September 2014	TCL Corporation	31 August 2017	3,098	2,066

## (d) Outstanding balances with related parties

	Due from related companies		Due to related companies	
	2015 HK\$’000	2014 HK\$’000	2015 HK\$’000	2014 HK\$’000
<b>Current:</b>				
The ultimate holding company	2,644	522	3,360	345
Fellow subsidiaries	285,070	61,860	140,618	415,741
Joint ventures	8,966	–	–	–
	<u>296,680</u>	<u>62,382</u>	<u>143,978</u>	<u>416,086</u>
<b>Non-current:</b>				
A fellow subsidiary	–	–	63,677	–
	<u>–</u>	<u>–</u>	<u>63,677</u>	<u>–</u>
	<u>296,680</u>	<u>62,382</u>	<u>207,655</u>	<u>416,086</u>

The current balances are mainly trading balances which are unsecured, interest-free and have no fixed terms of repayment. The non-current balance is for purchase of property, plant and equipment which is unsecured, interest-free and is payable in monthly instalments from January 2017 to September 2017.

## (e) Compensation of key management personnel of the Group

	2015 HK\$'000	2014 HK\$'000
Short-term employee benefits	13,952	11,753
Pension scheme contributions	1,657	2,370
Share-based payment benefit expenses	7,331	6,989
	<hr/>	<hr/>
Total compensation paid to key management personnel	<u>22,940</u>	<u>21,112</u>

Further details of directors' and the chief executive's emoluments are included in note 11 to the financial statements.

During the year, except for the transactions of acceptance of service and sale of products with an associate with a total amount of HK\$4,467,000 (2014: Nil), the transactions with related parties above also constitute continuing connected transactions or connected transactions as defined in Chapter 14A of the Listing Rules and all the applicable requirements under Chapter 14A of the Listing Rules have been complied with.

## 43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

## 2015

## Financial assets

	Financial assets at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Available-for-sale investments (note 22)	–	–	352,591	352,591
Trade receivables (note 24)	–	5,824,206	–	5,824,206
Factored trade receivables (note 25)	–	271,167	–	271,167
Notes receivable	–	17,492	–	17,492
Financial assets included in prepayments, deposits and other receivables	–	1,030,971	–	1,030,971
Due from related companies (note 42(d))	–	296,680	–	296,680
Derivative financial instruments (note 31)	93,873	–	–	93,873
Pledged deposits (note 27)	–	1,028,340	–	1,028,340
Cash and cash equivalents (note 27)	–	565,707	–	565,707
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>93,873</u>	<u>9,034,563</u>	<u>352,591</u>	<u>9,481,027</u>

## 2015

## Financial liabilities

	Financial liabilities at fair value through profit or loss HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Interest-bearing bank borrowings (note 28)	–	2,981,481	2,981,481
Trade and notes payables (note 29)	–	4,789,906	4,789,906
Bank advances on factored trade receivables (note 25)	–	271,167	271,167
Derivative financial instruments (note 31)	269,776	–	269,776
Financial liabilities included in other payables and accruals	–	1,696,838	1,696,838
Due to related companies (note 42(d))	–	207,655	207,655
	269,776	9,947,047	10,216,823
	269,776	9,947,047	10,216,823

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

## 2014

## Financial assets

	Financial assets at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Available-for-sale investments (note 22)	–	–	227,738	227,738
Trade receivables (note 24)	–	7,872,681	–	7,872,681
Factored trade receivables (note 25)	–	371,380	–	371,380
Notes receivable	–	95,546	–	95,546
Financial assets included in prepayments, deposits and other receivables	–	591,577	–	591,577
Due from related companies (note 42(d))	–	62,382	–	62,382
Derivative financial instruments (note 31)	419,240	–	–	419,240
Pledged deposits (note 27)	–	1,914,380	–	1,914,380
Cash and cash equivalents (note 27)	–	473,391	–	473,391
	419,240	11,381,337	227,738	12,028,315
	419,240	11,381,337	227,738	12,028,315

2014

Financial liabilities

	<b>Financial liabilities at fair value through profit or loss HK\$'000</b>	<b>Financial liabilities at amortised cost HK\$'000</b>	<b>Total HK\$'000</b>
Interest-bearing bank borrowings (note 28)	–	3,940,791	3,940,791
Trade and notes payables (note 29)	–	5,166,744	5,166,744
Bank advances on factored trade receivables (note 25)	–	371,380	371,380
Derivative financial instruments (note 31)	49,391	–	49,391
Financial liabilities included in other payables and accruals	–	1,870,975	1,870,975
Due to related companies (note 42(d))	–	416,086	416,086
	<u>49,391</u>	<u>11,765,976</u>	<u>11,815,367</u>

**44. TRANSFERS OF FINANCIAL ASSETS***Transferred financial assets that are not derecognised in their entirety*

- i. As part of its normal business, the Group factored trade receivables to banks on a recourse basis for cash. In the opinion of the directors, as the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. The Group continued to recognise the full carrying amounts of the factored trade receivables, and accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated statement of financial position. The aggregate carrying amount of trade receivables factored as at 31 December 2015 amounted to HK\$368,719,000 (31 December 2014: HK\$502,772,000) and the carrying amount of factored trade receivables and bank advances on factored trade receivables as at 31 December 2015 amounted to HK\$256,813,000 (31 December 2014: HK\$368,125,000).
- ii. During the year ended 31 December 2015, the Group entered into trade receivable factoring arrangements and transferred certain trade receivables to banks. Under the arrangements, the Group was required to pay interest to the banks during the payment term of trade debtors or a certain period, using the less. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the arrangement that have not been settled as at 31 December 2015 amounted to HK\$1,103,320,000 (31 December 2014: HK\$1,254,722,000). The carrying amount of the assets that the Group continued to recognise and the associated liabilities as at 31 December 2015 amounted to HK\$14,354,000 (31 December 2014: HK\$3,255,000).

*Transferred financial assets that are derecognised in their entirety*

As part of its normal business, the Group factored trade receivables to banks on a non-recourse basis for cash. In the opinion of the directors, as the Group has transferred substantially all risks and rewards associated with the factored trade receivables, the financial asset derecognition conditions as stipulated in HKAS 39 have been fulfilled. Accordingly, the Group has derecognised the full carrying amounts of the trade receivables. The aggregate carrying amount of trade receivables transferred as at 31 December 2015 was HK\$754,024,000 (31 December 2014: HK\$765,822,000).



**45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

The carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, notes receivable, factored trade receivables, trade and notes payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, current portion of due from/to related companies, current portion of interest-bearing bank borrowings and bank advances on factored trade receivables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the management. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings and non-current portion of due to related companies have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of listed equity investments are based on quoted market prices.

At 31 December 2015, the unlisted available-for-sale investments of HK\$201,177,000 (31 December 2014: HK\$210,188,000) (note 22) were stated at cost less any impairment losses as the fair value cannot be reliably measured because the probabilities of the various estimates within the range of reasonable fair value estimates cannot be reasonably assessed and used in estimating fair value.

The Group enters into various forward currency contracts and interest rate swap transactions with international banks with A and B credit rating with Moody's and the biggest banks in Mainland China. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of these international banks, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

**Fair value hierarchy**

As at 31 December 2015, the listed equity investment and the derivative financial instruments measured at fair value held by the Group belong to hierarchy Level 1 and hierarchy Level 2 respectively, as disclosed in the accounting policy.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2014: Nil).

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate risk and foreign currency risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the year, the Group's policy that no trading in any high risk derivatives or leveraged foreign currency contracts.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 5 to the financial statements.

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group also held interest rate swap contracts designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

The following table demonstrates the sensitivity to a reasonably possible change in the United States dollar interest rate of the Group's bank loans and interest rate swaps, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	<b>Increase/ (decrease) in basis points</b>	<b>Increase/ (decrease) in profit before tax <i>HK\$'000</i></b>	<b>Increase/ (decrease) in equity* <i>HK\$'000</i></b>
<b>2015</b>			
<b>United States dollar</b>	25	(931)	–
<b>United States dollar</b>	(25)	931	–

\* Excluding retained profits.

There was no long term debt obligation and thus no significant interest rate risk in 2014.

**Foreign currency risk**

The Group has transactional foreign currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group uses forward currency contracts to reduce the foreign currency exposures.

It is the Group's policy to negotiate the terms of the hedging instruments to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities and non-hedging forward currency contracts) and the Group's equity (due to changes in the fair value of hedging forward currency contracts).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity* <i>HK\$'000</i>
<b>2015</b>			
If Euro strengthens against Hong Kong dollar	5%	5,469	(59,443)
If Euro weakens against Hong Kong dollar	(5%)	(5,469)	59,443
If United States dollar strengthens against RMB	5%	76,577	(232,892)
If United States dollar weakens against RMB	(5%)	(76,577)	232,892
<b>2014</b>			
If Euro strengthens against Hong Kong dollar	5%	(5,348)	(98,080)
If Euro weakens against Hong Kong dollar	(5%)	5,348	98,080
If United States dollar strengthens against RMB	5%	204,850	(258,799)
If United States dollar weakens against RMB	(5%)	(204,850)	258,799

\* Excluding retained profits.

#### Credit risk

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approval and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Besides, the Group also utilises factoring facilities and credit insurance to minimise credit risk. In this regard, the directors of the Company consider that the Group's credit risk is minimal.

Concentration of credit risk is analysed by customer/counterparty and by geographical region. There is no significant concentration of credit risk with the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in note 24 and note 26 to the financial statements respectively.

#### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. The maturity profiles of the Group's interest-bearing bank borrowings and derivative financial instruments are disclosed in notes 28 and 31 to the financial statements respectively.

As at 31 December 2015, other financial liabilities excluding interest-bearing bank borrowings and derivative financial instruments of HK\$56,990,000 (31 December 2014: HK\$35,847,000), HK\$6,844,899,000 (31 December 2014: HK\$7,789,338,000) and HK\$63,677,000 (31 December 2014: Nil) would be repayable on demand, mature within one year and mature in one to five years, respectively.

**Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise Shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio at an appropriate level. Net debt includes interest-bearing bank borrowings, trade and notes payables, bank advances on factored trade receivables, other payables and accruals, amounts due to related companies and other non-current liabilities, less cash and cash equivalents and pledged deposits. Adjusted capital includes equity attributable to owners of the parent less hedging reserve. The gearing ratios as at the end of the reporting periods were as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Total interest-bearing bank borrowings	2,981,481	3,940,791
Trade and notes payables	4,789,906	5,166,744
Bank advances on factored trade receivables	271,167	371,380
Other payables and accruals	3,283,900	4,953,416
Total due to related companies	207,655	416,086
Other non-current liabilities	283,683	–
Less: Cash and cash equivalents	565,707	473,391
Pledged deposits	1,028,340	1,914,380
	<u>10,223,745</u>	<u>12,460,646</u>
Net debt	10,223,745	12,460,646
Equity attributable to owners of the parent	3,952,614	4,088,848
Less: hedging reserve	(109,303)	226,008
	<u>4,061,917</u>	<u>3,862,840</u>
Adjusted capital	4,061,917	3,862,840
Capital and net debt	<u>14,285,662</u>	<u>16,323,486</u>
Gearing ratio	<u>72%</u>	<u>76%</u>

**47. EVENTS AFTER THE REPORTING PERIOD**

No significant events occurred after the end of the reporting period and up to the approval date of the financial statements.

**48. COMPARATIVE AMOUNTS**

As further explained in note 3 to the financial statements, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosures.

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i> (Restated)
<b>NON-CURRENT ASSETS</b>		
Other intangible assets	258,898	241,668
Investments in subsidiaries	1,866,689	1,840,070
Total non-current assets	<u>2,125,587</u>	<u>2,081,738</u>
<b>CURRENT ASSETS</b>		
Due from subsidiaries	1,898,828	1,606,646
Prepayments, deposits and other receivables	5,213	1,407
Cash and cash equivalents	3,556	558
Total current assets	<u>1,907,597</u>	<u>1,608,611</u>
<b>CURRENT LIABILITIES</b>		
Interest-bearing bank borrowings	15,502	194,018
Due to subsidiaries	1,332,411	643,179
Other payables and accruals	8,944	8,295
Total current liabilities	<u>1,356,857</u>	<u>845,492</u>
<b>NET CURRENT ASSETS</b>	<u>550,740</u>	<u>763,119</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>2,676,327</u>	<u>2,844,857</u>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank borrowings	178,268	–
Total non-current liabilities	<u>178,268</u>	<u>–</u>
Net assets	<u><u>2,498,059</u></u>	<u><u>2,844,857</u></u>
<b>EQUITY</b>		
Share capital	1,267,799	1,220,766
Shares held for Share Award Scheme	(6,512)	(9,629)
Reserves ( <i>note</i> )	1,236,772	1,633,720
Total equity	<u><u>2,498,059</u></u>	<u><u>2,844,857</u></u>

*Note:*

A summary of the Company's reserves is as follows:

	Contributed surplus <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Awarded share reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Retained profits/ (accumulated loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014	669,907	411,473	38,137	115,744	551,683	1,786,944
Total comprehensive loss for the year	-	-	-	-	(43,866)	(43,866)
Exercise of share options	-	173,433	-	(63,687)	-	109,746
Issue of shares under Share Award Scheme	-	14,749	(21,615)	-	-	(6,866)
Reclassification of lapsed share options	-	636	-	(636)	-	-
Equity-settled share option arrangements	-	-	-	35,499	-	35,499
Share Award Scheme arrangements	-	-	82,583	-	-	82,583
Reclassification of vested awarded shares	-	24,494	(80,651)	-	-	(56,157)
Final 2013 dividend	-	-	-	-	(119,183)	(119,183)
Interim 2014 dividend	-	-	-	-	(154,980)	(154,980)
At 31 December 2014	<u>669,907</u>	<u>624,785</u>	<u>18,454</u>	<u>86,920</u>	<u>233,654</u>	<u>1,633,720</u>
Total comprehensive loss for the year	-	-	-	-	(46,989)	(46,989)
Exercise of share options	-	157,675	-	(54,425)	-	103,250
Issue of shares under Share Award Scheme	-	27,455	(36,619)	-	-	(9,164)
Reclassification of lapsed share options	-	165	-	(165)	-	-
Equity-settled share option arrangements	-	-	-	21,044	-	21,044
Share Award Scheme arrangements	-	-	30,083	-	-	30,083
Reclassification of vested awarded shares	-	(3,474)	(5,359)	-	-	(8,833)
Final 2014 dividend	-	(91,467)	-	-	(233,654)	(325,121)
Interim 2015 dividend	-	(161,218)	-	-	-	(161,218)
At 31 December 2015	<u>669,907</u>	<u>553,921</u>	<u>6,559</u>	<u>53,374</u>	<u>(46,989)</u>	<u>1,236,772</u>

The Company's contributed surplus represents the excess of the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

The share option reserve and awarded share reserve comprises the fair value of Share Options and Awarded Shares granted which are yet to be exercised or vested, as further explained in the accounting policies for share-based payments in note 5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised and Awarded Shares are vested, or be transferred to accumulated loss or retained profits should the related options and awarded shares expire or be forfeited.

#### 50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 23 March 2016.

### 3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The following unaudited consolidated financial statements for the six months ended 30 June 2016 is extracted from the Interim Results Announcement of the Company.

#### Consolidated statement of profit or loss

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
REVENUE	3	10,931,795	13,226,923
Cost of sales		<u>(8,704,526)</u>	<u>(10,672,255)</u>
Gross profit		2,227,269	2,554,668
Other income and gains	3	490,629	381,646
Research and development costs		(778,180)	(812,744)
Selling and distribution expenses		(915,240)	(897,164)
Administrative expenses		(904,635)	(621,073)
Other expenses		(24,210)	(66,768)
Finance costs	4	(58,085)	(68,835)
Share of profits and losses of associates		(6,060)	(1,791)
Share of losses of joint ventures		<u>(18,065)</u>	<u>(636)</u>
PROFIT/(LOSS) BEFORE TAX	5	13,423	467,303
Income tax expense	6	<u>(2,085)</u>	<u>(13,718)</u>
PROFIT FOR THE PERIOD		<u>11,338</u>	<u>453,585</u>
Attributable to:			
Owners of the parent		22,360	452,667
Non-controlling interests		<u>(11,022)</u>	<u>918</u>
		<u>11,338</u>	<u>453,585</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT	7		
Basic		<u>1.76 HK cents</u>	<u>36.58 HK cents</u>
Diluted		<u>1.74 HK cents</u>	<u>36.01 HK cents</u>

**Consolidated statement of comprehensive income***For the six months ended 30 June 2016*

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
PROFIT FOR THE PERIOD	<b>11,338</b>	453,585
OTHER COMPREHENSIVE LOSS		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive income of an associate	<b>2,124</b>	–
Changes in fair value of available-for-sale investments, net of tax	<b>110,829</b>	4,958
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	<b>(68,771)</b>	157,153
Reclassification adjustment for losses/(gains) included in the consolidated statement of profit or loss	<b>105,773</b>	(308,879)
Income tax effect	–	(22,588)
	<b>37,002</b>	(174,314)
Exchange differences on translation of foreign operations	<b>(203,291)</b>	(61,663)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	<b>(53,336)</b>	(231,019)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<b>(53,336)</b>	(231,019)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<b>(41,998)</b>	222,566
Attributable to:		
Owners of the parent	<b>(30,976)</b>	221,648
Non-controlling interests	<b>(11,022)</b>	918
	<b>(41,998)</b>	222,566



**Consolidated statement of financial position***As at 30 June 2016*

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

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

**Notes to the consolidated financial statements***For the six months ended 30 June 2016***1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

These 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)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	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.
- (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.

## 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 (Unaudited) HK\$'000	2015 (Unaudited) 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	<b>10,931,795</b>	<b>13,226,923</b>

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.

### 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 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
<b>Revenue</b>		
Sale of mobile phones, other products and rendering of services	<u>10,931,795</u>	<u>13,226,923</u>
<b>Other income and gains</b>		
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	<u>26,399</u>	<u>23,415</u>
	<u>490,629</u>	<u>381,646</u>

\* 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%.

### 4. FINANCE COSTS

An analysis of finance costs is as follows:

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

## 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) HK\$'000	(Unaudited) 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
	<b>778,180</b>	<b>812,744</b>
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	-
	<b>778,180</b>	<b>812,744</b>

## 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) HK\$'000	(Unaudited) 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)
	<b>15,615</b>	<b>17,047</b>
Deferred	(13,530)	(3,329)
Tax charge for the period	<b>2,085</b>	<b>13,718</b>

## 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:

	<b>For the six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<b>22,360</b>	452,667
	<u><u>22,360</u></u>	<u><u>452,667</u></u>
	<b>Number of shares</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2016</b>	2015
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>1,268,646,378</b>	1,237,628,651
Effect of dilution - weighted average number of ordinary shares:		
Share options	<b>9,677,321</b>	18,459,817
Awarded shares	<b>5,296,933</b>	874,533
	<u>14,974,254</u>	<u>19,334,350</u>
	<u><u>1,283,620,632</u></u>	<u><u>1,256,963,001</u></u>

**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:

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

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

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



## 10. SHARE CAPITAL

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>
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.

#### 4. INDEBTEDNESS STATEMENT

The following table sets forth the Group's indebtedness as at the close of business on 31 May 2016 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document)

	<i>HK\$'000</i>
<b>Included in the Group's balance sheet as</b>	
<b>“Interest bearing bank and other borrowings”</b>	
Interest-bearing bank borrowings-unsecured	1,399,773
Interest-bearing bank borrowings-secured	1,666,636
Bank advances on factored trade receivables	310,248
Overdraft	37
	3,376,694
	3,376,694
<b>Included in the Group's contingent liability:</b>	
Bank guarantee	590
	590

Save for the above indebtedness and apart from intra-group liabilities, as at the close of business on 31 May 2016, the Group did not have any outstanding loan capital, bank overdrafts, loan, mortgage, charges or other similar indebtedness, or hire purchase of finance lease commitments, liabilities under acceptances or acceptance credits, guarantees or other material contingent liabilities.

#### 5. MATERIAL CHANGES

The Directors confirm that save and except for the Proposal and the information disclosed in the Interim Results Announcement as more particularly described below:

- the Group's revenue decreased from approximately HK\$13,226.9 million for the six months ended 30 June 2015 (“2015H1”) to approximately HK\$10,931.8 million for the six months ended 30 June 2016 (“2016H1”), representing a year-on-year decrease of approximately 17%. In 2016H1, consumer power and sentiment was affected by the slowdown of global economic growth and continuing currency fluctuation in emerging markets. Due to the downward trend of the industry and business restructuring of the Group's business regions to six major areas, the Group's smartphones sales continued to slow. During 2016H1, total sales volume of smart devices declined by 12% year-on-year to 17.4 million units. 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 of the Group's products declined to US\$42.6 in 2016H1 from US\$50.7 in the same period in 2015. The fluctuations in the Group's revenue of handsets and other products from various regions as set out in more detail in the sub-section headed “Regional Business Performance” on pages 18 and 19 of the Interim Results Announcement;

- the Group's gross profit decreased from approximately HK\$2,554.7 million for 2015H1 to approximately HK\$2,227.3 million for 2016H1, representing a year-on-year decrease of approximately 13%;
- the Group's net profit decreased from approximately HK\$453.6 million for 2015H1 to approximately HK\$11.3 million for 2016H1, representing a year-on-year decrease of approximately 98%; and
- the Group's available-for-sale investments increased from approximately HK\$352.6 million as at 31 December 2015 to approximately HK\$464.0 million as at 30 June 2016, representing an increase of approximately 32%, principally due to fair value changes,

there was no material change in the financial or trading position or outlook of the Company between 31 December 2015, being the date to which the latest audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date.

**1. RESPONSIBILITY STATEMENTS**

The information contained in this Scheme Document relating to the Group has been supplied by the Company. The issue of this Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror and the Offeror Concert Parties), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The information contained in this Scheme Document relating to the Offeror and the Offeror Concert Parties has been supplied by the Offeror and TCL Corp.. The issue of this Scheme Document has been approved by the Offeror Directors and the directors of TCL Corp., who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

**2. SHARE CAPITAL OF THE COMPANY**

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$2,000,000,000 divided into 2,000,000,000 Shares;
- (b) the issued share capital of the Company was HK\$1,278,641,356 divided into 1,278,641,356 Shares;
- (c) the Company has issued 10,427,345 new Shares pursuant to the exercise of 10,427,345 Share Options since 31 December 2015, being the end of the last financial year of the Company, up to the Latest Practicable Date;
- (d) the Company has issued 415,495 new Shares pursuant to the vesting of 415,495 Awarded Shares since 31 December 2015, being the end of the last financial year of the Company, up to the Latest Practicable Date;
- (e) all of the Shares rank pari passu in all respects as regards rights to capital, dividends and voting;

- (f) there were 34,044,505 outstanding Share Options granted under the Share Option Schemes each relating to one Share, of which 3,131,500, 9,764,885 and 1,166,081 Share Options are held by each of Mr. Li Dongsheng, Mr. Guo Aiping and Mr. Huang Xubin respectively, 105,819 Share Options are held by other Offeror Concert Parties (excluding Mr. Li Dongsheng, Mr. Guo Aiping and Mr. Huang Xubin), and the remaining 19,876,220 Share Options are held by other Optionholders;
- (g) there were 7,820,051 Awarded Shares awarded under the Share Award Scheme which remain unvested, of which the 556,668 Awarded Shares were granted to the Offeror Concert Parties and 7,253,383 Awarded Shares were granted to other grantees;
- (h) there were 1,672,768 Trustee Held Shares, which shall form part of the Scheme Shares and be subject to the Scheme, and among which 566,668 were Trustee Held Allotted Awarded Shares, 331,109 Trustee Held Pool Shares and 774,991 Trustee Held Nominees Shares, of which were held on behalf of grantees who are neither the Offeror nor Offeror Concert Parties.

The remaining outstanding Awarded Shares, being the shortfall between the total number of Awarded Shares and the number of Trustee Held Allotted Awarded Shares, shall be satisfied by the Unallotted Awarded Shares. As at the Latest Practicable Date, there were 7,253,383 Unallotted Awarded Shares. The Offeror is procuring to be made on its behalf the Share Award Offer to cancel the Unallotted Awarded Shares, to the extent they have not otherwise lapsed or been cancelled, in return for providing the Share Award Offer Price for each Unallotted Awarded Share. For the avoidance of doubt, the Share Award Offer will be made to the Trustee (for and on behalf of the relevant grantees of the Unallotted Awarded Shares to cancel all outstanding Unallotted Awarded Shares).

For further details on the Awarded Shares, please refer to the sub-paragraph headed “The Share Award Offer” under the paragraph headed “2. Terms of the Proposal” in the Explanatory Statement of this Scheme Document; and

- (i) other than disclosed in paragraphs (f) and (h) above, there are no other options, derivatives, warrants or other securities convertible or exchangeable into the Shares which were issued by the Company as at the Latest Practicable Date.

### 3. MARKET PRICES OF THE SHARES

The table below sets out the closing price of the Shares on the Stock Exchange on: (i) the last Business Day of each of the calendar months during the period commencing six months preceding the Announcement Date and, up to and including the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Dates	Closing price for each share (HK\$)
31 December 2015	5.71
29 January 2016	5.75
29 February 2016	5.29
31 March 2016	5.10
29 April 2016	5.04
31 May 2016	5.24
3 June 2016 (Last Trading Day)	5.57
30 June 2016	7.14
29 July 2016	6.98
19 August 2016 (Latest Practicable Date)	6.99

During the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$7.23 per Share on 14 June 2016 and HK\$4.83 per Share on 11 May 2016, respectively.

### 4. IRREVOCABLE UNDERTAKING

Your attention is drawn to the paragraph headed “6. Irrevocable undertakings not to exercise the outstanding Share Options” in the Explanatory Statement of this Scheme Document.

### 5. DISCLOSURE OF INTERESTS

For the purpose of this paragraph: (i) “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO; (ii) the “Offer Period” means the period from the Announcement Date (being the date on which the Company first announced the possible proposal for the privatisation of the Company) to the Effective Date, both dates inclusive; and (iii) the “Disclosure Period” means the period beginning from the date which is six months prior to the Announcement Date and ending on the Latest Practicable Date, both dates inclusive.

(a) **Interests in the securities of the Company**

- (i) As at the Latest Practicable Date, (1) the Offeror and the Offeror Concert Parties; (2) the Trustee in respect of the Trustee Held Allotted Awarded Shares and the Trustee Held Pool Shares (who will abstain from voting on the Scheme); and (3) the Directors not being an Offeror Concert Party had the following interests in the Shares:

Shareholders	Number of Share held	Approximate percentage of total issued share capital of the Company <sup>8</sup>
Offeror <sup>1</sup>	829,356,000	64.86
<b><i>Offeror Concert Parties</i></b>		
(Shares held subject to the Scheme)		
Li Dongsheng <sup>2</sup>	50,932,050	3.98
Guo Aiping <sup>3</sup>	2,359,280	0.18
Huang Xubin <sup>4</sup>	21,474	0.00
Bo Lianming <sup>5</sup>	65,700	0.01
Du Yuanhua <sup>6</sup>	5,126	0.00
Trustee <sup>7</sup>	897,777	0.07
<b><i>Directors not being an Offeror Concert Party</i></b>		
Nicolas Daniel Bernard Zibell <sup>9</sup>	629,535	0.05
Liao Qian <sup>9</sup>	5,774	0.00
Lau Siu Ki <sup>9</sup>	447,800	0.04
Look Andrew <sup>9</sup>	3,623	0.00
Kwok Hoi Sing <sup>9</sup>	3,623	0.00

*Notes:*

- (1) The Offeror is wholly owned by TCL Corp.. The Shares in which the Offeror is interested will not form part of the Scheme Shares and will not be cancelled.
- (2) Mr. Li Dongsheng, an executive Director and the chairman, executive director, chief executive officer and founder of TCL Corp. and also a director of the Offeror, is acting in concert with the Offeror in relation to the Company. Among the 50,932,050 Shares which were deemed to be interested by Mr. Li, 47,144,850 Shares were held by Mr. Li whereas 3,787,200 Shares were held by his spouse. Mr. Li was therefore deemed to be interested in the Shares which his spouse was interested under the SFO.
- (3) Mr. Guo Aiping, an executive Director and an executive director and a senior vice president of TCL Corp., is acting in concert with the Offeror in relation to the Company.
- (4) Mr. Huang Xubin, a non-executive Director and an executive director, chief financial officer and a member of the strategy committee and audit committee of TCL Corp. and also a director of the Offeror, is acting in concert with the Offeror in relation to the Company.
- (5) Mr. Bo Lianming, an executive director and president of TCL Corp., is acting in concert with the Offeror in relation to the Company.

- (6) Mr. Du Yuanhua, a director of the Offeror, is acting in concert with the Offeror in relation to the Company.
- (7) Such Shares held by the Trustee comprise (i) 566,668 Trustee Held Allotted Awarded Shares; and (ii) 331,109 Trustee Held Pool Shares. Pursuant to the rules of the Share Award Scheme, the Trustee shall not exercise any voting rights in respect of any Shares held by it as nominee or under the trust constituted by the Trust Deed. Accordingly, the Trustee will not vote on the Scheme in the Court Meeting and in the EGM in respect of such Shares held under the Share Award Scheme.
- (8) All percentages in the above table are approximations. This table is prepared on the assumption that no outstanding Share Options are exercised.
- (9) Mr. Nicolas Daniel Bernard Zibell, an executive Director, Mr. Liao Qian, a non-executive Director, and Mr. Lau Siu Ki, Mr. Look Andrew and Mr. Kwok Hoi Sing, each being an independent non-executive Director, are the direct and beneficial owners of 629,535 Shares, 5,774 Shares, 447,800 Shares, 3,623 Shares and 3,623 Shares, respectively.
- (ii) As at the Latest Practicable Date, there were 34,044,505 outstanding Share Options granted under the Share Option Schemes each relating to one Share, whereby the Optionholders, who are either an Offeror Concert Party or Director who is not an Offeror Concert Party, had the following interests in Share Options:

Optionholders	Number of Share Options	Exercise price (HK\$)	Exercise period	Date of grant
<i>Offeror Concert Parties</i>				
Li Dongsheng	1,547,368	7.614	3 February 2012 to 2 May 2017	3 May 2011
Li Dongsheng	840,000	3.79	12 April 2014 to 11 July 2019	12 July 2013
Li Dongsheng	532,545	8.39	31 December 2015 to 20 May 2021	21 May 2015
Li Dongsheng	211,587	5.80	31 December 2015 to 2 November 2021	3 November 2015



Optionholders	Number of Share Options	Exercise price (HK\$)	Exercise period	Date of grant
Guo Aiping	3,094,737	7.614	3 February 2012 to 2 May 2017	3 May 2011
Guo Aiping	3,970,091	2.74	4 March 2013 to 3 June 2018	4 June 2012
Guo Aiping	1,680,000	3.79	12 April 2014 to 11 July 2019	12 July 2013
Guo Aiping	686,800	8.39	31 December 2015 to 20 May 2021	21 May 2015
Guo Aiping	333,257	5.80	31 December 2015 to 2 November 2021	3 November 2015
Huang Xubin	806,035	2.74	4 March 2013 to 3 June 2018	4 June 2012
Huang Xubin	210,000	3.79	12 April 2014 to 11 July 2019	12 July 2013
Huang Xubin	121,230	8.39	31 December 2015 to 20 May 2021	21 May 2015
Huang Xubin	28,816	5.80	31 December 2015 to 2 November 2021	3 November 2015
Bo Lianming	70,000	3.79	12 April 2014 to 11 July 2019	12 July 2013
Du Yuanhua	35,819	5.80	31 December 2015 to 2 November 2021	3 November 2015

Optionholders	Number of Share Options	Exercise price (HK\$)	Exercise period	Date of grant
<i>Directors who are not Offeror Concert Parties</i>				
Nicolas Daniel Bernard Zibell	441,000	3.79	12 April 2014 to 11 July 2019	12 July 2013
Liao Qian	32,601	8.39	31 December 2015 to 20 May 2021	21 May 2015
Liao Qian	7,749	5.80	31 December 2015 to 2 November 2021	3 November 2015
Lau Siu Ki	200,000	2.74	4 March 2013 to 3 June 2018	4 June 2012
Lau Siu Ki	17,045	8.39	31 December 2015 to 20 May 2021	21 May 2015
Lau Siu Ki	8,271	5.80	31 December 2015 to 2 November 2021	3 November 2015
Look Andrew	17,045	8.39	31 December 2015 to 20 May 2021	21 May 2015
Look Andrew	8,271	5.80	31 December 2015 to 2 November 2021	3 November 2015
Kwok Hoi Sing	285,000	6.472	9 May 2012 to 8 August 2017	9 August 2011
Kwok Hoi Sing	200,000	2.74	4 March 2013 to 3 June 2018	4 June 2012
Kwok Hoi Sing	17,045	8.39	31 December 2015 to 20 May 2021	21 May 2015
Kwok Hoi Sing	8,271	5.80	31 December 2015 to 2 November 2021	3 November 2015

- (iii) The following table sets out the number of Awarded Shares granted to the Offeror Concert Parties as at the Latest Practicable Date:

<b>Grantees</b>	<b>Number of Awarded Shares</b>
<i>Offeror Concert Parties</i>	
Li Dongsheng	212,995
Guo Aiping	291,972
Huang Xubin	42,948
Du Yuanhua	10,253

- (iv) The following table sets out details of Unallotted Awarded Shares held by the Trustee for and on behalf of the Offeror Concert Parties who are grantees of the relevant Awarded Shares as at the Latest Practicable Date:

<b>Grantees</b>	<b>Number of Awarded Shares</b>
Li Dongsheng	212,995
Guo Aiping	291,972
Huang Xubin	42,948
Du Yuanhua	10,253
	<hr/>
Total	558,168
	<hr/> <hr/>

## (b) Dealings in the securities of the Company

- (i) Save as disclosed below, none of the Directors (save those Directors who are also the Offeror Concert Parties, details of which are set out in paragraph (ii) below) had conducted any dealings in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period:

Identity	Dealing	Trading date	Number of Shares bought/sold/vested	Unit price of Shares (HK\$)
Liao Qian	Vesting of Awarded Shares	31 December 2015	4,781	N/A
Liao Qian	Vesting of Awarded Shares	31 December 2015	993	N/A
Lau Siu Ki	Vesting of Awarded Shares	31 December 2015	2,500	N/A
Lau Siu Ki	Vesting of Awarded Shares	31 December 2015	1,123	N/A
Look Andrew	Vesting of Awarded Shares	31 December 2015	2,500	N/A
Look Andrew	Vesting of Awarded Shares	31 December 2015	1,123	N/A
Kwok Hoi Sing	Vesting of Awarded Shares	31 December 2015	2,500	N/A
Kwok Hoi Sing	Vesting of Awarded Shares	31 December 2015	1,123	N/A
Kwok Hoi Sing	Sale of Shares	5 July 2016	15,000	7.13

Identity	Date of grant	Dealing	Date of exercise/lapse/ expiry	Number of Share Options exercised/lapse/expire	Exercise price (HK\$)	Total Exercise price paid (HK\$)
Nicolas Daniel Bernard Zibell	11 March 2010	Share Options expired	10 March 2016	2,000	3.02	N/A
Lau Siu Ki	25 May 2010	Exercise of Share Options	17 May 2016	300,000	3.462	1,038,600
Kwok Hoi Sing	9 August 2011	Exercise of Share Options	5 July 2016	15,000	6.472	97,080

- (ii) Save as disclosed below, none of the Offeror, the Offeror Directors and the parties acting in concert with the Offeror had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period:

Identity	Dealing	Trading date	Number of Shares bought/sold/ vested	Unit price of Shares (HK\$)
Offeror	Buy	21 December 2015	46,000	5.77
Offeror	Buy	21 December 2015	18,000	5.78
Offeror	Buy	21 December 2015	148,000	5.70
Offeror	Buy	21 December 2015	25,000	5.76
Offeror	Buy	22 December 2015	117,000	5.80
Offeror	Buy	22 December 2015	118,000	5.79
Offeror	Buy	22 December 2015	19,000	5.70
Offeror	Buy	22 December 2015	1,000	5.71
Offeror	Buy	22 December 2015	7,000	5.72
Offeror	Buy	22 December 2015	4,000	5.73
Offeror	Buy	22 December 2015	90,000	5.74
Offeror	Buy	22 December 2015	35,000	5.76
Offeror	Buy	22 December 2015	26,000	5.78
Offeror	Buy	23 December 2015	20,000	5.74
Offeror	Buy	23 December 2015	56,000	5.80
Offeror	Buy	23 December 2015	40,000	5.79
Offeror	Buy	24 December 2015	112,000	5.84
Offeror	Buy	24 December 2015	27,000	5.83
Offeror	Buy	24 December 2015	23,000	5.82
Offeror	Buy	29 December 2015	54,000	5.79
Offeror	Buy	29 December 2015	22,000	5.78
Offeror	Buy	29 December 2015	27,000	5.75
Offeror	Buy	29 December 2015	10,000	5.80
Offeror	Buy	31 December 2015	280,000	5.75
Offeror	Buy	31 December 2015	46,000	5.70
Offeror	Buy	31 December 2015	33,000	5.79
Offeror	Buy	31 December 2015	4,000	5.78
Offeror	Buy	31 December 2015	10,000	5.80
Offeror	Buy	31 December 2015	11,000	5.72
Offeror	Buy	31 December 2015	29,000	5.73
Offeror	Buy	31 December 2015	14,000	5.74
Offeror	Buy	31 December 2015	31,000	5.77

Identity	Dealing	Trading date	Number of Shares bought/sold/ vested	Unit price of Shares (HK\$)
Offeror	Buy	31 December 2015	5,000	5.76
Offeror	Buy	31 December 2015	4,000	5.83
Offeror	Buy	5 January 2016	25,000	5.70
Offeror	Buy	5 January 2016	3,000	5.69
Offeror	Buy	5 January 2016	2,000	5.67
Offeror	Buy	5 January 2016	63,000	5.66
Offeror	Buy	5 January 2016	18,000	5.65
Offeror	Buy	6 January 2016	2,000	5.68
Offeror	Buy	6 January 2016	1,000	5.69
Offeror	Buy	6 January 2016	3,000	5.71
Offeror	Buy	6 January 2016	13,000	5.72
Offeror	Buy	6 January 2016	6,000	5.73
Offeror	Buy	6 January 2016	10,000	5.74
Offeror	Buy	6 January 2016	23,000	5.75
Offeror	Buy	6 January 2016	2,000	5.76
Offeror	Buy	6 January 2016	4,000	5.78
Offeror	Buy	6 January 2016	28,000	5.79
Offeror	Buy	6 January 2016	16,000	5.80
Offeror	Buy	6 January 2016	44,000	5.81
Offeror	Buy	6 January 2016	22,000	5.82
Offeror	Buy	6 January 2016	26,000	5.83
Offeror	Buy	7 January 2016	7,000	5.56
Offeror	Buy	7 January 2016	4,000	5.57
Offeror	Buy	7 January 2016	17,000	5.58
Offeror	Buy	7 January 2016	4,000	5.60
Offeror	Buy	7 January 2016	5,000	5.61
Offeror	Buy	7 January 2016	39,000	5.62
Offeror	Buy	7 January 2016	22,000	5.63
Offeror	Buy	7 January 2016	16,000	5.64
Offeror	Buy	7 January 2016	20,000	5.65
Offeror	Buy	7 January 2016	65,000	5.66
Offeror	Buy	7 January 2016	3,000	5.68
Offeror	Buy	7 January 2016	27,000	5.69
Offeror	Buy	7 January 2016	7,000	5.70
Offeror	Buy	11 January 2016	171,000	5.64
Offeror	Buy	11 January 2016	59,000	5.65
Offeror	Buy	11 January 2016	54,000	5.66
Offeror	Buy	11 January 2016	5,000	5.68

Identity	Dealing	Trading date	Number of Shares bought/sold/ vested	Unit price of Shares (HK\$)
Offeror	Buy	11 January 2016	69,000	5.69
Offeror	Buy	11 January 2016	331,000	5.70
Offeror	Buy	12 January 2016	5,000	5.64
Offeror	Buy	12 January 2016	75,000	5.65
Offeror	Buy	12 January 2016	25,000	5.66
Offeror	Buy	12 January 2016	20,000	5.67
Offeror	Buy	12 January 2016	68,000	5.68
Offeror	Buy	12 January 2016	63,000	5.69
Offeror	Buy	12 January 2016	37,000	5.70
Offeror	Buy	13 January 2016	1,000	5.66
Offeror	Buy	13 January 2016	30,000	5.67
Offeror	Buy	13 January 2016	49,000	5.68
Offeror	Buy	13 January 2016	59,000	5.69
Offeror	Buy	13 January 2016	2,000	5.70
Offeror	Buy	13 January 2016	5,000	5.71
Offeror	Buy	13 January 2016	5,000	5.72
Offeror	Buy	13 January 2016	26,000	5.73
Offeror	Buy	13 January 2016	46,000	5.74
Offeror	Buy	13 January 2016	1,000	5.75
Offeror	Buy	14 January 2016	5,000	5.58
Offeror	Buy	14 January 2016	8,000	5.59
Offeror	Buy	14 January 2016	204,000	5.60
Offeror	Buy	14 January 2016	63,000	5.61
Offeror	Buy	14 January 2016	14,000	5.62
Offeror	Buy	14 January 2016	68,000	5.63
Offeror	Buy	14 January 2016	29,000	5.65
Offeror	Buy	14 January 2016	24,000	5.66
Offeror	Buy	14 January 2016	88,000	5.67
Offeror	Buy	14 January 2016	71,000	5.68
Offeror	Buy	14 January 2016	135,000	5.69
Offeror	Buy	14 January 2016	291,000	5.70
Offeror	Buy	15 January 2016	61,000	5.62
Offeror	Buy	15 January 2016	48,000	5.65
Offeror	Buy	15 January 2016	50,000	5.59
Offeror	Buy	15 January 2016	356,000	5.60
Offeror	Buy	15 January 2016	300,000	5.69
Offeror	Buy	15 January 2016	69,000	5.61
Offeror	Buy	15 January 2016	16,000	5.64
Offeror	Buy	18 January 2016	9,000	5.56

Identity	Dealing	Trading date	Number of Shares bought/sold/ vested	Unit price of Shares (HK\$)
Offeror	Buy	18 January 2016	40,000	5.57
Offeror	Buy	18 January 2016	41,000	5.58
Offeror	Buy	18 January 2016	68,000	5.59
Offeror	Buy	18 January 2016	49,000	5.60
Offeror	Buy	18 January 2016	68,000	5.61
Offeror	Buy	18 January 2016	61,000	5.62
Offeror	Buy	18 January 2016	11,000	5.63
Offeror	Buy	19 January 2016	4,000	5.64
Offeror	Buy	19 January 2016	11,000	5.65
Offeror	Buy	19 January 2016	10,000	5.66
Offeror	Buy	19 January 2016	15,000	5.67
Offeror	Buy	19 January 2016	25,000	5.68
Offeror	Buy	19 January 2016	151,000	5.69
Offeror	Buy	19 January 2016	42,000	5.70
Offeror	Buy	19 January 2016	46,000	5.73
Offeror	Buy	19 January 2016	23,000	5.75
Offeror	Buy	20 January 2016	4,000	5.68
Offeror	Buy	20 January 2016	37,000	5.70
Offeror	Buy	20 January 2016	105,000	5.71
Offeror	Buy	20 January 2016	39,000	5.72
Offeror	Buy	20 January 2016	53,000	5.73
Offeror	Buy	20 January 2016	30,000	5.74
Offeror	Buy	20 January 2016	11,000	5.79
Offeror	Buy	20 January 2016	33,000	5.80
Offeror	Buy	20 January 2016	16,000	5.81
Offeror	Buy	20 January 2016	5,000	5.83
Offeror	Buy	20 January 2016	12,000	5.84
Offeror	Buy	20 January 2016	105,000	5.85
Offeror	Buy	29 March 2016	6,000	4.90
Offeror	Buy	29 March 2016	6,000	4.91
Offeror	Buy	29 March 2016	163,000	4.92
Offeror	Buy	29 March 2016	322,000	4.93
Offeror	Buy	29 March 2016	154,000	4.94
Offeror	Buy	29 March 2016	75,000	4.95
Offeror	Buy	29 March 2016	56,000	4.96
Offeror	Buy	29 March 2016	12,000	4.97
Offeror	Buy	29 March 2016	78,000	4.98



Identity	Dealing	Trading date	Number of Shares bought/sold/ vested	Unit price of Shares (HK\$)
Offeror	Buy	29 March 2016	125,000	4.99
Offeror	Buy	29 March 2016	271,000	5.00
Offeror	Buy	29 March 2016	61,000	5.01
Offeror	Buy	29 March 2016	22,000	5.02
Offeror	Buy	29 March 2016	79,000	5.03
Offeror	Buy	29 March 2016	59,000	5.04
Offeror	Buy	29 March 2016	135,000	5.05
Offeror	Buy	29 March 2016	37,000	5.06
Offeror	Buy	29 March 2016	191,000	5.07
Offeror	Buy	29 March 2016	63,000	5.08
Offeror	Buy	29 March 2016	11,000	5.09
Offeror	Buy	29 March 2016	50,000	5.10
Offeror	Buy	29 March 2016	42,000	5.11
Offeror	Buy	29 March 2016	281,000	5.12
Offeror	Buy	30 March 2016	31,000	4.97
Offeror	Buy	30 March 2016	26,000	4.98
Offeror	Buy	30 March 2016	64,000	4.99
Offeror	Buy	30 March 2016	142,000	5.00
Offeror	Buy	30 March 2016	259,000	5.01
Offeror	Buy	30 March 2016	263,000	5.02
Offeror	Buy	30 March 2016	91,000	5.03
Offeror	Buy	30 March 2016	251,000	5.04
Offeror	Buy	30 March 2016	145,000	5.05
Offeror	Buy	30 March 2016	148,000	5.06
Offeror	Buy	30 March 2016	160,000	5.07
Offeror	Buy	30 March 2016	140,000	5.08
Offeror	Buy	30 March 2016	185,000	5.09
Offeror	Buy	30 March 2016	42,000	5.10
Offeror	Buy	30 March 2016	9,000	5.11
Offeror	Buy	30 March 2016	30,000	5.12
Offeror	Buy	30 March 2016	10,000	5.13
Offeror	Buy	30 March 2016	1,000	5.14
Offeror	Buy	30 March 2016	5,000	5.16
Offeror	Buy	30 March 2016	5,000	5.18
Offeror	Buy	31 March 2016	4,000	5.06
Offeror	Buy	31 March 2016	28,000	5.07
Offeror	Buy	31 March 2016	92,000	5.08

Identity	Dealing	Trading date	Number of Shares bought/sold/ vested	Unit price of Shares (HK\$)
Offeror	Buy	31 March 2016	87,000	5.09
Offeror	Buy	31 March 2016	518,000	5.10
Du Yuanhua	Vesting of Awarded Shares	31 December 2015	5,126	N/A
Du Yuanhua	Sell	12 May 2016	106,667	4.79
Huang Xubin	Vesting of Awarded Shares	31 December 2015	17,780	N/A
Huang Xubin	Vesting of Awarded Shares	31 December 2015	3,694	N/A
Guo Aiping	Vesting of Awarded Shares	31 December 2015	100,731	N/A
Guo Aiping	Vesting of Awarded Shares	31 December 2015	45,256	N/A
Li Dongsheng	Vesting of Awarded Shares	31 December 2015	70,489	N/A
Li Dongsheng	Vesting of Awarded Shares	31 December 2015	26,808	N/A
Li Dongsheng	Sell	31 December 2015	2,178,000	0 <sup>Note 1</sup>
Ichikawa Yuki <sup>Note 2</sup>	Vesting of Awarded Shares	31 December 2015	7,617	N/A
Ichikawa Yuki <sup>Note 2</sup>	Vesting of Awarded Shares	31 December 2015	1,583	N/A
Ichikawa Yuki <sup>Note 2</sup>	Buy	31 December 2015	2,178,000	0 <sup>Note 1</sup>

<b>Identity</b>	<b>Date of grant</b>	<b>Dealing</b>	<b>Date of exercise</b>	<b>Number of Share Options exercised</b>	<b>Exercise price (HK\$)</b>	<b>Total Exercise price Paid (HK\$)</b>
Du Yuanhua	12 July 2013	Exercise of Share Options	12 May 2016	106,667	3.79	404,267.93

*Notes:*

1. Transfer as gift to Ms. Ichikawa Yuki.
2. Ms. Ichikawa Yuki is the spouse of Mr. Li Dongsheng.

- (iii) Save as disclosed in paragraph 5(b)(ii) of this section, none of the Offeror, the Offeror Directors and the Offeror Concert Parties, had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (iv) As at the Latest Practicable Date, no subsidiary of the Company or any pension fund the Company or adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than exempt principal traders) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares. During the Disclosure Period and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (v) Neither Company nor any of its associates by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person.
- (vi) As at the Latest Practicable Date, no person had any indemnity or other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company (or with its associates or any person acting in concert with any of them) and save as disclosed in paragraphs 5(a)(i), (ii), (iii) and (iv), 5(b)(i), (ii) and (iii) of this section, no such person owned or controlled any Share or dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (vii) As at the Latest Practicable Date, none of the Offeror, the Offeror Concert Parties (other than those members of BNP that is conducting as exempt principal traders), the Company or the Directors had borrowed or lent any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (viii) As at the Latest Practicable Date, none of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror, the Offeror Concert Parties, the Company or the Directors had borrowed or lent, save for any borrowed shares which have been either on-lent or sold by BNP as exempt principal traders.
- (ix) During the period commencing on the Announcement Date and up to the Latest Practicable Date, none of the discretionary fund managers connected with the Company had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares (other than exempt fund managers). As at the Latest Practicable Date, no such fund managers owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.

- (x) As at the Latest Practicable Date, none of the non-exempt discretionary fund managers and principal traders connected with the Offeror owned or controlled any Shares or dealt for value in any Shares or convertible securities, warranties, options or derivatives in respect of Shares during the Disclosure Period.
- (xi) As Mr. Li Dongsheng, Mr. Guo Aiping and Mr. Huang Xubin, are the Offeror Concert Parties, they will abstain from voting on the Scheme at the Court Meeting. Mr. Liao Qian, Mr. Look Andrew, Mr. Kwok Hoi Sing, Mr. Nicolas Daniel Bernard Zibell and Mr. Lau Siu Ki owned 5,774, 3,623, 3,623, 629,535 and 447,800 Shares as at the Latest Practicable Date, respectively, while Mr. Liao Qian, Mr. Look Andrew, Mr. Kwok Hoi Sing, Mr. Nicolas Daniel Bernard Zibell and Mr. Lau Siu Ki hold 40,350, 25,316, 510,316, 441,000 and 225,316 outstanding Share Options, respectively. Each of Mr. Liao Qian, Mr. Look Andrew, Mr. Kwok Hoi Sing, Mr. Nicolas Daniel Bernard Zibell and Mr. Lau Siu Ki, being entitled to vote at the Court Meeting, intends to vote in favour of the Scheme at the Court Meeting.
- (xii) Each of Mr. Li Dongsheng, Mr. Guo Aiping, Mr. Nicolas Daniel Bernard Zibell, Mr. Huang Xubin, Mr. Liao Qian, Mr. Lau Siu Ki, Mr. Look Andrew and Mr. Kwok Hoi Sing, as Optionholder, has irrevocably committed themselves to accept the Option Offer by signing an irrevocable undertaking.

**(c) Interests and dealings in the Offeror's shares**

The Offeror is wholly owned by TCL Corp., a limited liability company registered in the PRC and the shares of which have been listed on the Shenzhen Stock Exchange (stock code: 000100) since 2004.

None of the Directors or the Company had any interest in the Offeror's shares or convertible securities, warranties, options or derivatives in respect of the Offeror's shares as at the Latest Practicable Date. None of the Directors or the Company dealt for value in the Offeror's shares or convertible securities, warranties, options or derivatives in respect of the Offeror's shares during the Disclosure Period.

**(d) Arrangements with the Offeror and the Offeror Concert Parties in respect of the Proposal and the Scheme**

As at the Latest Practicable Date:

- (i) there were no indemnities or other arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code exist between the Offeror or any person acting in concert with the Offeror and any other person;
- (ii) there was no agreement or arrangement to which the Offeror or the Offeror Concert Parties is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal and the Scheme;
- (iii) there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares acquired pursuant to the Proposal and the Scheme; and
- (iv) the Offeror has no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Proposal and the Scheme to any other person, and has no agreement, arrangement or understanding with any third party to do so.

Only the Independent Shareholders will be entitled to vote at the Court Meeting. Scheme Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting for the purposes of Rule 2.10 of the Takeovers Code. Each of the Offeror, the Offeror Concert Parties and the Trustee (in respect of the Trustee Held Allotted Awarded Shares and the Trustee Held Pool Shares) is not an Independent Shareholder and will therefore be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

**(e) Other interests**

As at the Latest Practicable Date:

- (i) no benefit is or will be paid/given to any Directors as compensation for loss of office or otherwise in connection with the Proposal and the Scheme;
- (ii) save for the Proposal and the Scheme, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or parties acting in concert with it on the one hand and any of the Directors, recent Directors, Shareholders or recent Shareholders on the other hand; or between any Directors and any other person which is conditional on or dependent upon the outcome of the Proposal and the Scheme or otherwise in connection with the Proposal and the Scheme;
- (iii) no material contract has been entered into by the Offeror in which any Director has a material personal interest; and
- (iv) none of the Directors has a service contract with any member of the Group in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the Offer Period; or (ii) is continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract that has more than 12 months to run irrespective of the notice period.

## 6. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

## 7. MATERIAL CONTRACTS

No material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried or by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries after the date two years before the Offer Period up to and including the Latest Practicable Date.

## 8. EXPERTS

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

<b>Name</b>	<b>Qualification</b>
BNP	a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
REORIENT	a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities

## 9. CONSENTS

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

**10. MISCELLANEOUS**

- (a) The Directors are:

*Executive Directors:*

Mr. Li Dongsheng  
Mr. Guo Aiping  
Mr. Nicolas Daniel Bernard Zibell

*Non-executive Directors:*

Mr. Huang Xubin  
Mr. Liao Qian

*Independent non-executive Directors:*

Mr. Lau Siu Ki  
Mr. Look Andrew  
Mr. Kwok Hoi Sing

- (b) The Company Secretary of the Company is Ms. Choy Fung Yee.
- (c) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands.
- (d) The principal place of business of the Company in Hong Kong is at Rooms 1910-12A, 19/F, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.
- (e) The headquarters of the Company is situated at 15/F, Block B, TCL Tower, Gao Xin Nan Yi Road, Nanshan District, Shenzhen, Guangdong, the PRC.
- (f) The principal share registrar and transfer office of the Company is Royal Bank of Canada Trust Company (Cayman) Limited, 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, the Cayman Islands.
- (g) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (h) The Offeror Directors are Mr. Li Dongsheng, Mr. Du Yuanhua, Mr. Yuan Bing and Mr. Huang Xubin.
- (i) The registered office of the Offeror is 13/F, TCL Tower, 8 Tai Chung Road, Tsuen Wan, Hong Kong.



- (j) The registered office of TCL Corp. is No. 19 District, Zhong Kai High Tech Development Zone, Huizhou, Guangdong Province, the PRC.
- (k) The Offeror is a limited liability company incorporated in Hong Kong. Its shares are wholly owned by TCL Corp., a limited liability company registered in the PRC and the shares of which have been listed on the Shenzhen Stock Exchange (stock code: 000100) since 2004. The principal activity of the Offeror is investment holding. The group of TCL Corp. is principally engaged in the design, development, manufacturing and sale of electrical appliances and electric products and provision of Internet services. As at the Latest Practicable Date, the Offeror has no controlling parent companies holding more than 10% of its shares. As at the Latest Practicable Date, the executive directors of TCL Corp. are Mr. Li Dongsheng, Mr. Bo Lianming, Mr. Huang Xubin, Mr. Guo Aiping and Ms. Wu Shihong; the non-executive directors of TCL Corp are Mr. Liu Bin, Mr. He Jinlei and Mr. Zhao Weiguo; and the independent non-executive directors of TCL Corp. are Mr. Yan Yan, Ms. Lu Xin, Mr. Zhou Guofu and Mr. Wu Ying.
- (l) The address of each of Mr. Li Dongsheng, Mr. Guo Aiping, Mr. Huang Xubin, each being Offeror Concert Parties, is Rooms 1910-12A, 19/F, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong, the address of Mr. Du Yuanhua, also an Offeror Concert Party is 13/F, TCL Tower, 8 Tai Chung Road, Tsuen Wan, Hong Kong, while the address of Mr. Bo Lianming, also an Offeror Concert Party, is No. 19 District, Zhong Kai High Tech Development Zone, Huizhou, Guangdong Province, the PRC.
- (m) The registered office of BNP is 59/F-63/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company, Rooms 1910-12A, 19/F, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday and on the website of the Company at <http://tclcom.tcl.com> and the website of SFC at [www.sfc.hk](http://www.sfc.hk) from Monday, 22 August 2016 until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and articles of association of the Offeror;
- (b) the memorandum and articles of association of the Company;
- (c) the annual reports of the Company for the two financial years ended 31 December 2014 and 2015 respectively;
- (d) the letter from the Board, the text of which is set out on pages 19 to 30 of this Scheme Document;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 31 to 32 of this Scheme Document;

- (f) the letter from REORIENT, the text of which is set out on pages 33 to 59 of this Scheme Document;
- (g) written consents referred to in the paragraph headed “9. Consents” in Appendix II – General Information to this Scheme Document;
- (h) the interim results announcement of the Company for the six months ended 30 June 2016;
- (i) this Scheme Document;
- (j) the facility letter dated 24 June 2016 regarding banking facility granted by Bank of China (Hong Kong) Limited to the Offeror in the amount of the lower of HK\$2.3 billion or 60% of the cash required to implement the Proposal in full; and
- (k) irrevocable undertakings given by 804 Optionholders to the Company not to exercise any outstanding Share Options and to accept the Option Offer.

**IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION**

**Cause No. FSD 97 of 2016**

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**IN THE MATTER of sections 15 and 86 of the Companies Law (2013 Revision) (as amended)**

**AND IN THE MATTER of the Grand Court Rules 1995 Order 102**

**AND IN THE MATTER of**

**TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED**

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**SCHEME OF ARRANGEMENT**

**Between**

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

**and**

**THE SCHEME SHAREHOLDERS  
(as hereinafter defined)**

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(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

<b>“acting in concert”</b>	has the same meaning ascribed to it in the Takeovers Code
<b>“Business Day”</b>	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
<b>“Cash Consideration”</b>	the consideration payable under the terms of the Scheme of Arrangement by the Offeror to the Scheme Shareholders in an amount of HK\$7.50 in cash for every Scheme Share cancelled
<b>“Company”</b>	TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED (TCL 通訊科技控股有限公司), an exempted company incorporated in the Cayman Islands on 26 February 2004 with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange (stock code: 2618)

<b>“Companies Law”</b>	the Companies Law (2013 Revision) of the Cayman Islands (as amended)
<b>“Director”</b>	a director of the Company
<b>“Effective Date”</b>	the date on which the Scheme of Arrangement, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the Order of the Grand Court sanctioning the Scheme of Arrangement is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law
<b>“Executive”</b>	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate thereof
<b>“Grand Court”</b>	the Grand Court of the Cayman Islands
<b>“HK\$”</b>	Hong Kong dollar(s), the lawful currency of Hong Kong
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Independent Board Committee”</b>	the independent committee of the board of directors of the Company established by the board of directors of the Company to make a recommendation to the Scheme Shareholders in respect of, amongst other things, the Proposal, the Scheme of Arrangement and the Option Offer, comprising Mr. Lau Siu Ki, Mr. Look Andrew, Mr. Kwok Hoi Sing and Mr. Liao Qian
<b>“Independent Financial Adviser” or “REORIENT”</b>	the independent financial adviser to the Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to, amongst other things, the Proposal and the Option Offer, being a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
<b>“Latest Practicable Date”</b>	19 August 2016, being the latest practicable date prior to the printing of the composite scheme document containing the Scheme of Arrangement for ascertaining certain information contained herein

<b>“Offeror”</b>	T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED (T.C.L.實業控股(香港)有限公司), a company incorporated in Hong Kong with limited liability and directly wholly owned by the Parent
<b>“Offeror Concert Parties”</b>	Mr. Li Dongsheng, Mr. Guo Aiping, Mr. Huang Xubin, Mr. Du Yuanhua and Mr. Bo Lianming
<b>“Option Offer”</b>	the offer to the holders of options over the Shares for the cancellation of every vested and unvested option in accordance with the Takeovers Code
<b>“Parent”</b>	TCL Corp. (TCL集團股份有限公司), a company registered in the People’s Republic of China with its shares listed on the Shenzhen Stock Exchange
<b>“Proposal”</b>	the proposal for the privatisation of the Company by the Offeror by way of the Scheme of Arrangement
<b>“Record Date”</b>	14 September 2016 or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of the Scheme Shareholders to attend and vote at the Court Meeting
<b>“Register”</b>	the principal or branch register of members of the Company (as the case may be)
<b>“Scheme of Arrangement”</b>	the scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law (subject to any modification(s) or addition(s) or condition(s) approved or imposed by the Grand Court and agreed to by the Offeror) involving the cancellation of all the Scheme Shares and reduction of share capital and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares and reduction of share capital, on the terms and subject to the conditions set out in this Scheme of Arrangement
<b>“Scheme Record Date”</b>	29 September 2016 or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of the Scheme Shareholders to the Cash Consideration upon the Scheme of Arrangement becoming effective
<b>“Scheme Record Time”</b>	4:00 p.m. (Hong Kong time) on the Scheme Record Date
<b>“Scheme Share(s)”</b>	Share(s) other than those directly or indirectly held by the Offeror as at the Scheme Record Time on the Scheme Record Date
<b>“Scheme Shareholder(s)”</b>	the Shareholders other than the Offeror as at the Scheme Record Time on the Scheme Record Date

- |                         |   |
|-------------------------|---|
| <b>“SFO”</b>            | the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) |
| <b>“Share(s)”</b>       | ordinary share(s) of HK\$1.00 each in the share capital of the Company      |
| <b>“Shareholder(s)”</b> | registered holder(s) of Shares  |
| <b>“Takeovers Code”</b> | the Code on Takeovers and Mergers of Hong Kong                              |
- (B) The Company was incorporated as an exempted company on 26 February 2004 with limited liability in the Cayman Islands under the Companies Law.
- (C) The authorised share capital of the Company as at the Latest Practicable Date was HK\$2,000,000,000 divided into 2,000,000,000 Shares of par value HK\$1.00.
- (D) The Offeror, which is directly wholly owned by the Parent, has proposed the privatisation of the Company by way of the Scheme of Arrangement.
- (E) The primary purpose of the Scheme of Arrangement is to privatise the Company by cancelling and extinguishing all of the Scheme Shares in consideration for the Cash Consideration so that thereafter, the Offeror will own 100% of the Company. Simultaneously with the cancellation of the Scheme Shares, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror at par credited as fully paid such number of Shares as is equal to the number of Scheme Shares cancelled and extinguished at the Scheme Record Date.

- (F) As at the Latest Practicable Date, 882,739,630 Shares were legally and/or beneficially owned by the Offeror and the Offeror Concert Parties and registered as follows:

Shareholders	As at the Latest Practicable Date		Upon completion of the Scheme of Arrangement	
	Number of Shares	%	Number of Shares	%
Offeror	829,356,000	64.86	1,278,641,356	100.00
<b>Offeror Concert Parties</b>				
Li Dongsheng	50,932,050	3.98	0	0
Guo Aiping	2,359,280	0.18	0	0
Huang Xubin	21,474	0.00	0	0
Bo Lianming	65,700	0.01	0	0
Du Yuanhua	5,126	0.00	0	0
Trustee	897,777	0.07	0	0
<b>Subtotal</b>	883,637,407	69.11	1,278,641,356	100.00
<b>Independent Shareholders</b>	395,003,949	30.89	0	0
<b>Total Shares in issue</b>	1,278,641,356	100.00	1,278,641,356	100.00
<b>Total number of Scheme Shares (which represent all issued Shares except for those held by the Offeror)</b>	449,285,356	35.14	N/A	N/A

The Shares legally and/or beneficially owned by the Offeror Concert Parties will constitute part of the Scheme Shares.

- (G) Each of the parties acting in concert with the Offeror (which include the Offeror Concert Parties) and the Trustee (in respect of the Trustee Held Awarded Shares and the Trustee Held Pool Shares) will procure that any Shares in respect of which they are legally (in respect of the Trustee only) or beneficially interested will not be represented or voted at the meeting convened at the direction of the Grand Court for the purpose of considering and, if thought fit, approving the Scheme of Arrangement.
- (H) The Offeror and the Offeror Concert Parties have undertaken to the Grand Court to be bound by the Scheme of Arrangement and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable for the purpose of giving effect to and satisfying their respective obligations under the Scheme of Arrangement.

**SCHEME OF ARRANGEMENT**

**PART I**

**Cancellation of the Scheme Shares and issue of new Shares  
credited as fully paid at par to the Offeror**

- 1. On the Effective Date:
  - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares and the Scheme Shareholders shall cease to have any right with respect to the Scheme Shares except the right to receive the Cash Consideration;
  - (b) subject to and forthwith upon such reduction of capital taking effect, the issued share capital of the Company will be restored to its former amount by issuing to the Offeror the same number of Shares as is equal to the number of Scheme Shares cancelled and extinguished at the Scheme Record Date; and
  - (c) the Company shall apply the credit arising in its books of account as a result of the cancellation of the Scheme Shares by paying up in full at par such number of Shares as is equal to the number of Scheme Shares cancelled at the Scheme Record Date, which shall be allotted and issued and credited as fully paid at par to the Offeror as mentioned in paragraph (b) above.

**PART II**

**Consideration for the cancellation and extinguishment of the Scheme Shares**

- 2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay (or procure that there shall be paid) to each person who is a holder of the Scheme Shares (as appears in the Register at the Scheme Record Time on the Scheme Record Date);

**for each Scheme Share cancelled ..... HK\$7.50 in cash**

**PART III**

**General**

- 3. (a) As soon as possible and in any event not later than five (5) Business Days after the Effective Date, on request the Company shall issue share certificate(s) to the Offeror.
- (b) As soon as possible and in any event not later than seven (7) Business Days (as defined under the Takeovers Code) after the Effective Date, the Offeror shall send or cause to be sent to the Scheme Shareholders cheques representing the Cash Consideration.



- (c) Unless otherwise indicated in writing to the Hong Kong branch share registrar and transfer office of the Company, being Tricor Investor Services Limited, all cheques to be despatched to the Scheme Shareholders shall be sent by ordinary post to the Scheme Shareholders at their respective addresses as appearing in the Register at the Scheme Record Time on the Scheme Record Date.
- (d) Cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
- (e) Cheques shall be in favour of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheques shall be a good discharge to the Offeror for the monies represented thereby.
- (f) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies on trust for those entitled under the terms of the Scheme of Arrangement until the expiration of six years from the Effective Date and shall prior to such date pay out of such monies the sums payable pursuant to the Scheme of Arrangement to persons who satisfy the Offeror that they are entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been encashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme of Arrangement. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
- (g) On the expiration of six years from the Effective Date, the Offeror and the Company shall be released from any further obligation to make any payments under the Scheme of Arrangement.
- (h) Paragraph (g) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
- (i) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.

4. As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Scheme Shares shall cease to have effect as documents of title (and/or for any purpose as an instrument of transfer) and every Scheme Shareholder and every holder of such certificate shall be bound on the request of the Offeror to deliver up the same to the Offeror for cancellation thereof.
5. All mandates or relevant instructions to or by the Company in force at the Scheme Record Time on the Scheme Record Date relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.
6. The Scheme of Arrangement shall become effective as soon as a copy of the Order of the Grand Court sanctioning the Scheme of Arrangement has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law.
7. Unless the Scheme of Arrangement shall have become effective on or before 31 December 2016 or such later date, if any, as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and as the Grand Court on application of the Offeror or the Company may allow, the Scheme of Arrangement shall lapse and be no effect.
8. The Company and the Offeror may jointly consent for and on behalf of all concerned to any modification of or addition to the Scheme of Arrangement or to any condition which the Grand Court may think fit to approve or impose.
9. If the Independent Board Committee or the Independent Financial Adviser does not recommend, among others, the Proposal or the Scheme of Arrangement and the Scheme of Arrangement is not effective, all expenses incurred by the Company in connection therewith shall be borne by the Offeror in accordance with the Takeovers Code. If the Scheme of Arrangement has become effective, all costs, charges and expenses of the advisers and counsels appointed by the Company will be borne by the Company whereas all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of the Scheme of Arrangement will be shared between the Offeror and the Company equally.

Date 22 August 2016

IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

Cause No. FSD 97 of 2016

IN THE MATTER of sections 15 and 86 of the Companies Law (2013 Revision) (as amended)

AND IN THE MATTER of the Grand Court Rules 1995 Order 102

AND IN THE MATTER of **TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED (TCL 通訊科技控股有限公司)**

**NOTICE OF COURT MEETING**

**NOTICE IS HEREBY GIVEN** that, by an order dated 2 August 2016 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED (the “**Company**”) and the Scheme Shareholders and that the Court Meeting will be held at Rooms 1-2, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 14 September 2016 at 10:00 a.m. (Hong Kong time) at which place and time all Scheme Shareholders are invited to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory statement explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend, speak and vote in their stead. A pink form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 22 August 2016 despatched to members of the Company on 22 August 2016. Completion and return of the **pink** proxy form will not prevent a Scheme Shareholder from attending and voting at the Court Meeting, or any adjournment thereof, in person if he/she wishes to do so and in such event, the **pink** proxy form previously submitted shall be deemed to be revoked.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the Register of Members of the Company in respect of such joint holding, the first named shareholder being the senior.

It is requested that **pink** forms appointing proxies be deposited at the Hong Kong branch share registrar and transfer office of the Company in Hong Kong at Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 10:00 a.m. on Monday, 12 September 2016, but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll.

By the Order, the Court has appointed Liao Qian, a director of the Company, or failing him, Lau Siu Ki, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Court Meeting, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

On behalf of the Court  
**TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED**  
**LI Dongsheng**  
*Chairman*

Hong Kong, 22 August 2016

*Registered Office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business in Hong Kong:*

Rooms 1910-12A, 19/F., Tower 3  
China Hong Kong City  
33 Canton Road  
Tsimshatsui, Kowloon  
Hong Kong

*Notes:*

- (1) A Scheme Shareholder entitled to attend and vote at the Court Meeting is entitled to appoint one, and if such Scheme Shareholder is the holder of two or more shares, more than one proxy to attend and vote instead of him. A proxy need not be a Scheme Shareholder of the Company, but must attend the Court Meeting in person to represent him.
- (2) A **pink** form of proxy for use at the Court Meeting is enclosed with the composite document containing the Scheme of Arrangement dated 22 August 2016 despatched to Scheme Shareholder of the Company.
- (3) In order to be valid, the **pink** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the Court Meeting or any adjournment thereof but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll. Completion and return of the **pink** form of proxy will not preclude a Scheme Shareholder from attending the Court Meeting and voting in person if he so wishes. In the event that a Scheme Shareholder attends and votes at the Court Meeting after having lodged his **pink** form of proxy, his **pink** form of proxy will be revoked by operation of law.
- (4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.
- (5) Voting at the Court Meeting will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (6) The Register of Members of the Company will be closed from Monday, 12 September 2016 to Wednesday, 14 September 2016 (both days inclusive) and during such period no transfer of shares will be registered. In order to be entitled to attend and vote at the Court Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 9 September 2016.

**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)

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED (the “**Company**”) will be held at Rooms 1-2, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 14 September 2016 at 11:30 a.m. (Hong Kong time) (or as soon as after the conclusion or the adjournment of the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened at the direction of the Grand Court of the Cayman Islands for the same day and place), for the purpose of considering and, if thought fit, passing the following resolutions:

**SPECIAL RESOLUTIONS**1. “**THAT:**

- (a) pursuant to the scheme of arrangement dated 22 August 2016 (the “**Scheme of Arrangement**”) between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement); and
- (b) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of capital which the Grand Court of the Cayman Islands may see fit to impose.”

2. “**THAT:**

- (a) the withdrawal of the listing of the shares of the Company from The Stock Exchange of Hong Kong Limited be and is hereby approved; and
- (b) any one of the directors of the Company be and is hereby authorised to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the shares of the Company.”

**ORDINARY RESOLUTION**3. **“THAT:**

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the issued share capital of the Company be restored to its former amount by allotting and issuing to the Offeror (as defined in the Scheme of Arrangement), credited as fully paid at par, the same number of ordinary shares of HK\$1.00 each in the share capital of the Company as is equal to the number of Scheme Shares cancelled;
- (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) shall be applied by the Company in paying up in full at par the new ordinary shares allotted and issued to the Offeror, pursuant to resolution 3(a) above, and the directors of the Company be and are hereby authorised to allot and issue the same accordingly; and
- (c) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him/her to be necessary or desirable in connection with the implementation of the Scheme of Arrangement, including (without limitation) the giving of consent to any modification of, or addition to, the Scheme of Arrangement, which the Grand Court of the Cayman Islands may see fit to impose.”

On behalf of the board of  
**TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED**  
**LI Dongsheng**  
*Chairman*

Hong Kong, 22 August 2016

*Registered office:*

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business in Hong Kong:*

Rooms 1910-12A, 19/F., Tower 3  
China Hong Kong City  
33 Canton Road  
Tsimshatsui, Kowloon  
Hong Kong

*Notes:*

- (1) A member entitled to attend and vote at the EGM is entitled to appoint one, and if such member is the holder of two or more shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the EGM in person to represent him.
- (2) A **white** form of proxy for use at the EGM is enclosed with the composite document containing the Scheme of Arrangement dated 22 August 2016 despatched to members of the Company.
- (3) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the EGM or any adjournment thereof failing which the **white** form of proxy will not be valid. Completion and return of the **white** form of proxy will not preclude a member from attending the EGM and voting in person if he so wishes. In the event that a member attends and votes at the EGM after having lodged his **white** form of proxy, his **white** form of proxy will be revoked by operation of law.
- (4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.
- (5) Voting at the EGM will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (6) The Register of Members of the Company will be closed from Monday, 12 September 2016 to Wednesday, 14 September 2016 (both days inclusive) and during such period no transfer of shares will be registered. In order to be entitled to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 9 September 2016.



*The following is a sample of the Option Offer Letter being sent to the Optionholders in connection with the Option Offer.*

22 August 2016

*To the Optionholders*

Dear Sir or Madam,

**OPTION OFFER  
IN RELATION TO  
THE PROPOSED PRIVATISATION OF  
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED  
BY T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED  
BY WAY OF SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW)**

A composite scheme document (the “**Scheme Document**”) dated the same date as this letter issued jointly by T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED (the “**Offeror**”) and TCL Communication Technology Holdings Limited (the “**Company**”) is enclosed with this letter. Terms used but not defined herein shall have the same meanings and construction as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

The Company and the Offeror issued a joint announcement dated 12 June 2016 (the “**Announcement**”) which stated that, among other things, on 5 June 2016, the Offeror, a wholly-owned subsidiary of TCL Corp., had requested the Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of the Company by way of scheme of arrangement under section 86 of the Companies Law. As stated in the Announcement, as part of the Proposal, the Offeror would make an appropriate offer, namely the Option Offer, to the Optionholders for the cancellation of every exercisable and unexercisable Share Options in accordance with Rule 13 of the Takeovers Code. The Option Offer will be conditional upon the Scheme becoming effective.

This letter explains the actions you may take in relation to your outstanding Share Options. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the Share Option Schemes.

**TERM OF THE OPTION OFFER**

On behalf of the Offeror, we are making the Option Offer, which is conditional on the Scheme becoming effective, to you pursuant to the terms of the Share Option Schemes.

In respect of any outstanding Share Options, to the extent such outstanding Share Options have not otherwise lapsed, been cancelled or exercised, you may accept the Option Offer by lodging a completed form of acceptance in respect of the Option Offer (the “**Option Form(s) of Acceptance**”) by the prescribed deadline and if the Option Offer becomes unconditional, you will be entitled to the Option Cancellation Price.

Under the Option Offer, (i) for Share Options with exercise price below the Cancellation Price, the Option Cancellation Price equals to the “see-through” price (being the Cancellation Price minus the exercise price of the Share Options) for each Share Option held by the Optionholder; and (ii) for Share Options with exercise price equals to or exceeding the Cancellation Price, the Option Cancellation Price equals a nominal amount of HK\$0.01 for each outstanding Share Option that held by the Optionholder.

The Option Offer is conditional upon the Scheme becoming effective. The Conditions of the Scheme are set out in the paragraph headed “4. Conditions of the Proposal and the Scheme” in the section headed Explanatory Statement in the Scheme Document. In addition, all payments in respect of the Option Cancellation Price will be made by cheques in Hong Kong dollars.

You are further advised to refer to the paragraph headed “15. Overseas Shareholders and overseas Optionholders”, the paragraph headed “18. Taxation, effects and liabilities” and the paragraph headed “21. Registration and payment” in the section headed Explanatory Statement in the Scheme Document.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, the Optionholders, and in relation to the Trustee so far as the interest of the grantees of the relevant Unallotted Awarded Shares are concerned in the Scheme Document and the letter from REORIENT, the Independent Financial Adviser, in the Scheme Document, which contain the recommendation of the Independent Board Committee and of the Independent Financial Adviser, respectively, in relation to the Scheme, the Option Offer and the Share Award Offer.

#### **COURSES OF ACTION AVAILABLE TO OPTIONHOLDERS**

In summary, the choices available to you in respect of your outstanding Share Options are:

1. to the extent any of your outstanding Share Options are exercisable, you may exercise your Share Options at any time up to 3:00 p.m. on the Record Date and be qualified for entitlements under the Scheme;
2. to the extent any of your outstanding Share Options is not exercised on or prior to 3:00 p.m. on the Record Date, you may accept the Option Offer in accordance with its terms, as set out in this letter and in the Scheme Document, sign and return the completed Option Form of Acceptance enclosed, by no later than 4:00 p.m. (Hong Kong time) on 14 October 2016 (or such later time and/or date as may be notified to you through announcement(s)), and to receive the Option Cancellation Price if the Scheme becomes effective; or
3. do nothing, in which case, if the Scheme becomes effective, your unexercised outstanding Share Options (to the extent not exercised) will lapse automatically on the date on which the Option Offer closes and you will receive neither the Option Cancellation Price nor the Cancellation Price.

**YOU SHOULD NOTE THAT PURSUANT TO THE IMPLEMENTED SHARE OPTION SCHEMES AMENDMENTS, ALL OUTSTANDING SHARE OPTIONS CAN ONLY BE EXERCISED AT ANY TIME UP TO 3:00 P.M. ON THE RECORD DATE AND THE SHARE OPTIONS (TO THE EXTENT NOT EXERCISED) WILL LAPSE AUTOMATICALLY ON THE DATE ON WHICH THE OPTION OFFER CLOSES. IF YOU WISH TO BE QUALIFIED FOR ENTITLEMENTS UNDER THE SCHEME, YOU SHOULD LODGE NOTICES OF EXERCISE OF YOUR EXERCISABLE SHARE OPTIONS BY 3:00 P.M. ON 29 SEPTEMBER 2016. OR ELSE YOU WILL ONLY BE ENTITLED TO ACCEPT THE OPTION OFFER. IF YOU NEITHER EXERCISE YOUR OUTSTANDING EXERCISABLE SHARE OPTIONS BY 3:00 P.M. ON 29 SEPTEMBER 2016 NOR ACCEPT THE OPTION OFFER, YOU WILL RECEIVE NEITHER THE CANCELLATION PRICE NOR THE OPTION CANCELLATION PRICE FROM THE OFFEROR.**

Each outstanding Share Options you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document, the Option Form of Acceptance and the terms of the Share Option Schemes.

#### **OUTSTANDING SHARE OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE**

Information on the outstanding Share Options held by you as at the Latest Practicable Date is available from the company secretary of the Company. If there is any exercise of your outstanding Share Option after the Latest Practicable Date and up to the Record Date, you may accept the Option Offer only in respect of such outstanding Share Options which remain unexercised or unvested as at the Record Date.

#### **LAPSED SHARE OPTIONS**

Please note that nothing in this letter or the Scheme Document serves to extend the life of a Share Option which lapses, will lapse, or has already lapsed, under the terms of the Share Option Schemes. You cannot exercise or accept the Option Offer in respect of a Share Option which has lapsed in accordance with its terms.

#### **PROFESSIONAL ADVICE**

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt to any aspect of this letter, the Scheme Document or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**DECLARATION**

By signing and returning the completed Option Form of Acceptance, you thereby:

1. warrant and confirm that each of the Share Option in respect of which you accept the Option Offer is valid and subsisting, free from all liens, charges, mortgages and third party interests of any nature whatsoever and you acknowledge that any option certificate or documents in respect of such Share Option shall become void once that Share Option has been cancelled as a result of your acceptance of the Option Offer pursuant to the Option Form of Acceptance;
2. acknowledge and agree that you cease to have any rights and obligations, and waive all rights and claims against any party (including the Offeror and the Company), in respect of all Share Options held by you for which you accept the Option Offer, that all rights and obligations under all such Share Options will be cancelled;
3. confirm that the decisions which you have made on the Option Form of Acceptance cannot be withdrawn or altered;
4. authorise the Company, the Offeror, BNP and/or such person or persons as any of them may direct to do all acts and things and to complete, amend and execute any document on your behalf as may be necessary or desirable to give effect to or in connection with the acceptance you have made on the Option Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance;
5. undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney appointed by or pursuant to this letter and the Option Form of Acceptance; and
6. confirm that you have read, understood and agreed to the terms and conditions of the Option Offer (including, without limitation, those set out in the Scheme Document, this letter and the Option Form of Acceptance), and that you have received and read the Scheme Document and this letter.

**GENERAL**

1. All communications, notices, Option Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from the Optionholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of the Company, the Offeror or BNP accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.
2. The provisions set out in the Option Form of Acceptance form part of the terms of the Option Offer.
3. The Option Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

4. Due execution of the Option Form of Acceptance in respect of the Option Offer will constitute an authority to the Company, the Offeror, BNP or such person(s) as any of them may direct to complete and execute on behalf of the accepting Optionholder, the Option Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of cancelling, or vesting the Offeror or such person(s) as the Offeror shall direct, all rights of the Optionholders in respect of the outstanding Share options which are subject of such acceptance.
5. The delivery of the Option Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the Option Form of Acceptance and this letter, including the date specified for receipt.
6. By completing the Option Form of Acceptance in respect of a particular outstanding Share Options, you irrevocably and at your own risk elect to authorise the Company, the Offeror, BNP and/or their respective agent(s) to send to you, or procure the sending or transferring to you of, the payment to which you are entitled.

#### **ACTIONS TO BE TAKEN FOR ACCEPTING THE OPTION OFFER**

In order to accept the Option Offer, you must complete and return the duly completed and executed Option Form of Acceptance together with the relevant certificate(s) (if any) or any other document(s) evidencing the grant of outstanding Share Options to you or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Offeror at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Offeror Board and marked "TCL Communication Technology Holdings Limited – Option Offer" by no later than 4:00 p.m. (Hong Kong time) on 14 October 2016 (or such later time and/or date may be notified to you through announcement(s)). If you do not complete an Option Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your Share Options (to the extent not exercised) will lapse automatically on the date on which the Option Offer closes.

Before forwarding the Option Form of Acceptance to the Offeror Board, please ensure that you have signed the Option Form of Acceptance and that your signature has been witnessed.

Assuming the Option Offer will close on 14 October 2016, payment for the Option Cancellation Price are expected to be made within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of the duly completed Option Form of Acceptance by the Offeror.

No acknowledgment of receipt of any Option Form of Acceptance, the relevant certificate(s) (if any) or any other document(s) evidencing the grant of the outstanding Share Options or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

**RESPONSIBILITY STATEMENTS**

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this letter (other than that relating to the Offeror and the Offeror Concert Parties) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this letter (other than those expressed by the Offeror and the Offeror Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter misleading.

The Offeror Directors and the directors of TCL Corp jointly and severally accept full responsibility for the accuracy of the information contained in this letter (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this letter (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter misleading.

Yours faithfully,  
For and on behalf of  
**BNP Paribas Securities (Asia) Limited**  
**Isadora Li**  
*Managing Director*

*The following is a sample of the Share Award Offer Letter being sent to the Trustee in connection with the Share Award Offer.*

22 August 2016

*To the Trustee*

Dear Sir or Madam,

**SHARE AWARD OFFER  
IN RELATION TO  
THE PROPOSED PRIVATISATION OF  
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED  
BY T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED  
BY WAY OF SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW)**

A composite scheme document (the “**Scheme Document**”) dated the same date as this letter issued jointly by T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED (the “**Offeror**”) and TCL Communication Technology Holdings Limited (the “**Company**”) is enclosed with this letter. Terms used but not defined herein shall have the same meanings and construction as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

The Company and the Offeror issued a joint announcement dated 12 June 2016 (the “**Announcement**”) which stated that, among other things, on 5 June 2016, the Offeror, a wholly-owned subsidiary of TCL Corp., had requested the Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of the Company by way of scheme of arrangement under section 86 of the Companies Law. As stated in the Announcement, as part of the Proposal, the Offeror would make an appropriate offer, namely the Share Award Offer, in respect of the Unallotted Awarded Shares. The Share Award Offer will be conditional upon the Scheme becoming effective.

This letter explains the actions you must take in relation to the Unallotted Awarded Shares. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the Share Award Scheme.

**TERM OF THE SHARE AWARD OFFER**

On behalf of the Offeror, we are making the Share Award Offer, which is conditional on the Scheme becoming effective, to you pursuant to the terms of the Share Award Scheme.

The Offeror will procure to be made on its behalf the Share Award Offer to cancel the Unallotted Awarded Shares (being the shortfall between the total number of Awarded Shares and the Trustee Held Allotted Awarded Shares), to the extent they have not otherwise lapsed or been cancelled, in return for providing the Share Award Offer Price for each Unallotted Awarded Share. Conditional upon the Scheme becoming effective, the Offeror shall pay to you the Share Award Amount, being an amount equivalent to the Share Award Offer Price times the number of the Unallotted Awarded Shares as at the Share Award Offer Record Date, which shall be held on trust by you for such grantees of the Awarded Shares and shall be paid by you to such grantees of the Awarded Shares by reference to the number of Awarded Shares attributable to such grantees on the Share Award Offer Record Date as soon as practicable after you receives such amount from the Offeror under the Share Award Offer.

The Share Award Offer is conditional upon the Scheme becoming effective. The Conditions of the Scheme are set out in the paragraph headed “4. Conditions of the Proposal and the Scheme” in the section headed Explanatory Statement in the Scheme Document.

You are further advised to refer to the paragraph headed “15. Overseas Shareholders and overseas Optionholders”, the paragraph headed “18. Taxation, effects and liabilities” and the paragraph headed “21. Registration and payment” in the section headed Explanatory Statement in the Scheme Document.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, the Optionholders, and in relation to the Trustee so far as the interest of the grantees of the relevant Unallotted Awarded Shares are concerned in the Scheme Document and the letter from REORIENT, the Independent Financial Adviser, in the Scheme Document, which contain the recommendation of the Independent Board Committee and of the Independent Financial Adviser, respectively, in relation to the Scheme, the Proposal, the Option Offer and the Share Award Offer.

#### **LAPSED UNALLOTTED AWARDED SHARES**

Please note that nothing in this letter or the Scheme Document serves to extend the life of an Unallotted Awarded Share which lapses, will lapse, or has already lapsed, under the rules of the Share Award Scheme.

#### **PROFESSIONAL ADVICE**

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt to any aspect of this letter, the Scheme Document or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.



**DECLARATION**

By signing and returning the completed Award Form of Acceptance, you thereby:

1. warrant and confirm that each of the Unallotted Awarded Share in respect of which you accept the Share Award Offer is valid and subsisting, free from all liens, charges, mortgages and third party interests of any nature whatsoever;
2. confirm that the decisions which you have made on the Award Form of Acceptance cannot be withdrawn or altered;
3. authorise the Company, the Offeror, BNP and/or such person or persons as any of them may direct to do all acts and things and to complete, amend and execute any document on your behalf as may be necessary or desirable to give effect to or in connection with the acceptance you have made on the Award Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance;
4. undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney appointed by or pursuant to this letter and the Award Form of Acceptance; and
5. confirm that you have read, understood and agreed to the terms and conditions of the Share Award Offer (including, without limitation, those set out in the Scheme Document, this letter and the Award Form of Acceptance), and that you have received and read the Scheme Document and this letter.

**GENERAL**

1. All communications, notices, cheques, certificates and other documents of any nature to be delivered by or sent to you will be delivered by or sent to or from you, or your designated agent(s), at your risk, and none of the Company, the Offeror or BNP accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.
2. The provisions set out in the Award Form of Acceptance form part of the terms of the Share Award Offer.
3. The Share Award Offer and the acceptance will be governed by and construed in accordance with the laws of Hong Kong.
4. Due execution of the Award Form of Acceptance in respect of the Share Award Offer will constitute an authority to the Company, the Offeror, BNP or such person(s) as any of them may direct to complete and execute on behalf of you, the Award Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of cancelling, or vesting the Offeror or such person(s) as the Offeror shall direct, the Unallotted Awarded Shares which are subject of such acceptance.

5. By completing the Award Form of Acceptance in respect of the Unallotted Awarded Shares, you irrevocably and at your own risk elect to authorise the Company, the Offeror, BNP and/or their respective agent(s) to send to you, or procure the sending to you of, the payment to which you will receive on behalf of the grantees of the Unallotted Awarded Shares as at the Share Award Offer Record Date.

**ACTION TO BE TAKEN FOR ACCEPTING THE SHARE AWARD OFFER**

In order to accept the Share Award Offer, you must complete and return the duly completed and executed Award Form of Acceptance to the Offeror at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Offeror Board and marked "TCL Communication Technology Holdings Limited – Share Award Offer" by no later than 4:00 p.m. (Hong Kong time) on 14 October 2016 (or such later time and/or date may be notified to you through announcement(s)).

Before forwarding the Award Form of Acceptance to the Offeror Board, please ensure that you have signed the Award Form of Acceptance and that your signature has been witnessed.

Payment for the Share Award Amount is expected to be made within seven Business Days following the later of the date that the Share Award Offer becomes unconditional and the date of receipt of the duly completed Award Form of Acceptance by the Offeror.

No acknowledgment of receipt of any Award Form of Acceptance will be given.

**RESPONSIBILITY STATEMENTS**

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this letter (other than that relating to the Offeror and the Offeror Concert Parties) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this letter (other than those expressed by the Offeror and the Offeror Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter misleading.

The Offeror Directors and the directors of TCL Corp jointly and severally accept full responsibility for the accuracy of the information contained in this letter (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this letter (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter misleading.

Yours faithfully,  
For and on behalf of  
**BNP Paribas Securities (Asia) Limited**  
**Isadora Li**  
*Managing Director*