Interim Report 2010

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

Stock code: 02618

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The Creative Life

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

Interim Report 2010

Contents

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. LI Dongsheng *(Chairman)*
Mr. GUO Aiping
(Appointed as Chief Executive Officer on 11 January 2010)

NON-EXECUTIVE DIRECTORS

Mr. BO Lianming
Mr. HUANG Xubin
Ms. XU Fang
Mr. YANG Xinping, Charles
(Redesignated on 11 January 2010 and retired on 10 May 2010)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Siu Ki
Mr. SHI Cuiming
Mr. LIU Chung Laung

AUDIT COMMITTEE

Mr. LAU Siu Ki *(Chairman)*
Mr. SHI Cuiming
Mr. BO Lianming

REMUNERATION COMMITTEE

Mr. SHI Cuiming *(Chairman)*
Mr. LAU Siu Ki
Mr. BO Lianming

COMPANY SECRETARY

Ms. PANG Siu Yin

AUTHORISED REPRESENTATIVES

Mr. GUO Aiping
(Appointed on 28 January 2010)
Ms. PANG Siu Yin
Mr. YANG Charles Xinping
(Appointed on 12 May 2009 and resigned on 28 January 2010)

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
13/F, Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

Societe Generale
Level 38, 3 Pacific Place
1 Queen's Road East
Hong Kong

SOLICITORS

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

Corporate Information

AUDITORS
Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town, Grand Cayman
Cayman Islands

BRANCH SHARE REGISTRAR
Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG (effective from 12 July 2010)
Room 1910-12A, 19/F, Tower 3
China Hong Kong City
33 Canton Road
Tsimshatsui, Kowloon
Hong Kong

INVESTOR AND MEDIA RELATIONS (effective from 1 July 2010)
Brunswick Group Limited
22/F Onfem Tower
29 Wyndham Street, Central
Hong Kong

TICKER SYMBOL
Listed on The Stock Exchange of
Hong Kong Limited under
the share ticker number 02618

WEBSITE
http://tclcom.tcl.com

Interim Results

The Board of Directors (the "Board") of TCL Communication Technology Holdings Limited (the "Company") announced the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 June 2010, with comparative figures for the same period last year as follows and these condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee:

INTERIM CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2010

	Notes	**Six months ended 30 June 2010 (Unaudited) *HK$'000***	Six months ended 30 June 2009 (Unaudited) *HK$'000*	**Three months ended 30 June 2010 (Unaudited) *HK$'000***	Three months ended 30 June 2009 (Unaudited) *HK$'000*
REVENUE	3	**3,451,764**	1,327,474	**1,977,615**	712,925
Cost of sales		**(2,727,430)**	(1,130,156)	**(1,545,568)**	(601,126)
Gross profit		**724,334**	197,318	**432,047**	111,799
Other income and gains	3	**143,874**	136,935	**110,472**	75,438
Research and development costs		**(141,257)**	(110,384)	**(83,170)**	(59,087)
Selling and distribution costs		**(235,941)**	(121,317)	**(126,254)**	(59,438)
Administrative expenses		**(186,499)**	(114,596)	**(109,654)**	(56,604)
Other operating expenses		**(1,947)**	(808)	**(1,549)**	(336)
Finance costs excluding interest on convertible bonds	4	**(24,217)**	(25,672)	**(15,991)**	(8,534)
Share of losses of associates		**(633)**	(795)	**(250)**	(311)
Share of profit/(loss) of a jointly-controlled entity		**1,130**	(187)	**187**	(45)
		278,844	(39,506)	**205,838**	2,882
Changes in fair value of the derivative component of convertible bonds		**–**	(58,037)	**–**	(51,791)
Interest on convertible bonds	4	**–**	(6,839)	**–**	(2,122)
PROFIT/(LOSS) BEFORE TAX	5	**278,844**	(104,382)	**205,838**	(51,031)
Income tax expense	6	**(28,672)**	(28)	**(25,199)**	(25)
PROFIT/(LOSS) FOR THE PERIOD		**250,172**	(104,410)	**180,639**	(51,056)

Interim Results

INTERIM CONSOLIDATED INCOME STATEMENT (continued)

For the three months and six months ended 30 June 2010

	Notes	**Six months ended 30 June 2010 (Unaudited) *HK$'000***	Six months ended 30 June 2009 (Unaudited) *HK$'000*	**Three months ended 30 June 2010 (Unaudited) *HK$'000***	Three months ended 30 June 2009 (Unaudited) *HK$'000*
Attributable to:					
Owners of the parent		**250,172**	(104,410)	**180,639**	(51,056)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents) (as restated)	8				
Basic		**23.30**	(11.41)	**16.82**	(5.58)
Diluted		**22.79**	N/A	**16.45**	N/A

Details of dividends paid and proposed to ordinary equity holders of the Company are set out in note 7.

Interim Results

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2010 (Unaudited) *HK$'000*	Six months ended 30 June 2009 (Unaudited) *HK$'000*	**Three months ended 30 June 2010 (Unaudited) *HK$'000***	Three months ended 30 June 2009 (Unaudited) *HK$'000*
PROFIT/(LOSS) FOR THE PERIOD	**250,172**	(104,410)	**180,639**	(51,056)
OTHER COMPREHENSIVE INCOME/(LOSS)				
Cash flow hedges:				
Effective portion of changes in fair value of hedging instruments arising during the period	**72,763**	6,432	**72,763**	(17,437)
Reclassification adjustment for gains included in the consolidated income statement	**(15,096)**	(3,195)	**(15,096)**	(3,195)
	57,667	3,237	**57,667**	(20,632)
Exchange differences on translation of foreign operations	**(37,318)**	(9,032)	**(17,693)**	7,899
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**20,349**	(5,795)	**39,974**	(12,733)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**270,521**	(110,205)	**220,613**	(63,789)
Attributable to:				
Owners of the parent	**270,521**	(110,205)	**220,613**	(63,789)

Interim Results

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

	Notes	**30 June 2010 (Unaudited) *HK$'000***	31 December 2009 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**279,344**	220,211
Prepaid land lease payments		**15,305**	15,671
Intangible assets		**67,368**	54,876
Deferred tax assets		**17,490**	17,276
Goodwill		**146,856**	146,856
Available-for-sale investments		**20,245**	20,245
Interest in associates		**8,036**	8,801
Interest in a jointly-controlled entity		**5,119**	3,992
Other non-current assets		**–**	152
Total non-current assets		**559,763**	488,080
CURRENT ASSETS			
Inventories		**795,275**	448,181
Trade receivables	9	**1,405,224**	1,304,069
Factored trade receivables		**107,096**	224,223
Notes receivable		**7,356**	4,142
Prepayments, deposits and other receivables		**420,460**	282,496
Due from related companies	18(b)	**15,778**	14,289
Tax recoverable		**5,566**	4,272
Derivative financial instruments		**113,259**	34,593
Pledged deposits	10	**3,231,110**	1,187,336
Restricted deposits received from rights issue excess application		**–**	1,604,495
Cash and cash equivalents	10	**988,791**	1,169,750
Total current assets		**7,089,915**	6,277,846
CURRENT LIABILITIES			
Interest bearing bank and other borrowings	11	**3,397,908**	1,460,596
Trade and notes payables	12	**1,235,183**	1,073,764
Bank advances on factored trade receivables		**107,096**	224,223
Derivative financial instruments		**5,101**	7,723
Tax payable		**4,450**	425
Other payables and accruals		**927,295**	737,149
Other payable arising from rights issue excess application		**–**	1,604,495
Provision for warranties		**109,038**	63,390
Due to related companies	18(b)	**129,407**	138,246
Total current liabilities		**5,915,478**	5,310,011
NET CURRENT ASSETS		**1,174,437**	967,835
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,734,200**	1,455,915

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2010

	Notes	**30 June 2010 (Unaudited) *HK$'000***	31 December 2009 (Audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,734,200**	1,455,915
NON-CURRENT LIABILITIES			
Retirement indemnities		**1,154**	1,351
Long service medals		**793**	959
Other payable arising from rights issue		**–**	357,812
Interest bearing bank and other borrowings	11	**–**	1,092
Total non-current liabilities		**1,947**	361,214
Net assets		**1,732,253**	1,094,701
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	**1,085,699**	715,624
Shares held for Share Award Scheme		**(27,784)**	(27,784)
Reserves		**674,338**	369,291
Proposed final dividends		**–**	37,570
Total equity		**1,732,253**	1,094,701

Interim Results

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to owners of the parent										
	Issued share capital *HK$'000*	**Share premium account** *HK$'000* (Restated)	**Shares held for Share Award Scheme** *HK$'000*	**Awarded Shares reserve** *HK$'000*	**Share option reserve** *HK$'000*	**Hedging reserve** *HK$'000*	**Contributed surplus** *HK$'000*	**Statutory reserves** *HK$'000*	**Exchange fluctuation reserve** *HK$'000*	**Accumulated losses** *HK$'000* (Restated)	**Total equity** *HK$'000*
At 1 January 2009	715,050	1,575,709	(47,823)	6,608	68,607	(6,509)	232,555	119,951	101,464	(1,700,809)	1,064,803
Total comprehensive loss for the period	–	–	–	–	–	3,237	–	–	(9,032)	(104,410)	(110,205)
Equity-settled share option arrangements	–	–	–	–	3,052	–	–	–	–	–	3,052
Share Award Scheme	–	–	–	2,912	–	–	–	–	–	–	2,912
Reclassification of vested shares	–	(1,052)	5,675	(4,623)	–	–	–	–	–	–	–
At 30 June 2009	715,050	1,574,657*	(42,148)	4,897*	71,659*	(3,272)*	232,555*	119,951*	92,432*	(1,805,219) *	960,562

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2010

	Attributable to equity owners of the parent											
	Issued share capital HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded Shares reserve HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000	Statutory reserves HK$'000	Exchange fluctuation reserve HK$'000	Proposed final dividend HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 1 January 2010	715,624	1,551,001	(27,784)	388	50,759	–	232,555	119,951	92,441	37,570	(1,677,804)	1,094,701
Total comprehensive income for the period	–	–	–	–	–	57,667	–	–	(37,318)	–	250,172	270,521
Issue of shares and exercise of share options	370,075	25,213	–	–	(13,349)	–	–	–	–	–	–	381,939
Equity-settled share option arrangements	–	–	–	–	13,650	–	–	–	–	–	–	13,650
Share Award Scheme	–	–	–	9,417	–	–	–	–	–	–	–	9,417
Final 2009 dividend paid	–	(405)	–	–	–	–	–	–	–	(37,570)	–	(37,975)
At 30 June 2010	1,085,699	1,575,809*	(27,784)	9,805*	51,060*	57,667*	232,555*	119,951*	55,123*	–	(1,427,632)*	1,732,253

* These reserve accounts comprise the consolidated reserves of approximately HK$674,338,000 (30 June 2009: HK$287,660,000) in the consolidated statement of financial position.

Interim Results

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash inflow/(outflow) from operating activities	**96,080**	(22,257)
Net cash outflow used in investing activities	**(33,124)**	(42,693)
Net cash (outflow)/inflow from financing activities	**(229,698)**	17,257
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(166,742)**	(47,693)
Cash and cash equivalents at beginning of period	**1,169,750**	684,382
Effect of foreign exchange rate changes, net	**(14,217)**	(9,129)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**988,791**	627,560
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents as stated in the statement of financial position	**988,791**	627,560

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2009, except for the changes in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

Impact of new HKFRSs and HKASs

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendments	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments have no financial impact on the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*. The amendments did not have any significant implications on the Group's accounting for share-based payments.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Impact of new HKFRSs and HKASs (continued)

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. While the adoption of the revised standard may result in changes in certain accounting policies, the revised standard did not have any financial impact on the Group.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will not have any impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. As the Group has not undertaken such transactions, the adoption of revised standard has no financial impact on the Group.

The HKAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any such hedges, the amendment did not have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation did not have any material financial impact on the Group.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. As the Group currently has no such sale plan, the amendment did not have any financial impact on the Group.

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

Improvements to HKFRSs

In May 2009, the HKICPA issued its *Improvements to HKFRSs 2009* which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

(a) HKFRS 2 *Share-based Payment*: Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of HKFRS 2 even though it is outside the scope of HKFRS 3.

(b) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that (i) the disclosures required in respect of non-current assets (or a disposal group) classified as held for sale or a discontinued operation are those set out in HKFRS 5; (ii) the general requirements of HKAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other HKFRSs are not required unless:

(i) those HKFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

(ii) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of HKFRS 5 and disclosures are not disclosed elsewhere in the financial statements.

(c) HKFRS 8 *Operating Segments:* Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures those are used by the chief operating decision maker. Upon the adoption of the Amendment, the Group no longer discloses segment asset information as it is not currently reviewed by the chief operating decision maker.

(d) HKAS 1 *Presentation of Financial Statements:* States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

(e) HKAS 7 *Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

Improvements to HKFRSs (continued)

(f) HKAS 17 *Leases:* Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

(g) HKAS 36 *Impairment of Assets:* Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 *Operating Segments* before aggregation for financial reporting purposes.

(h) HKAS 38 *Intangible Assets:* Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(i) HKAS 39 *Financial Instruments: Recognition and Measurement:* Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Improvements to HKFRSs (continued)

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*

2. SEGMENT INFORMATION

The management considers the performance of the business in China and overseas segments. The reportable operating segments derive their revenue from research, development, manufacture and sale of mobile phones and related components. All of the Group's products are of a similar nature and subject to similar risk and returns.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) from operations except research and development costs, changes in fair value of the derivative component of convertible bonds and interest on convertible bonds.

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

2. SEGMENT INFORMATION (continued)

Six months ended 30 June 2010

	Overseas *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Segment revenue:			
External customers	**3,200,045**	**251,719**	**3,451,764**
Intersegment sales	**218,483**	**2,855,407**	**3,073,890**
	3,418,528	**3,107,126**	**6,525,654**
Reconciliation:			
Elimination of intersegment sales			**(3,073,890)**
Revenue from operations			**3,451,764**
Segment results	**409,871**	**10,230**	**420,101**
Reconciliation:			
Research and development costs			**(141,257)**
Profit before tax			**278,844**
Other segment information:			
Share of profit and loss of:			
Associates	**(12)**	**(621)**	**(633)**
A jointly-controlled entity	**–**	**1,130**	**1,130**
Impairment loss reversed in the income statement	**(1,352)**	**–**	**(1,352)**
Other non-cash expenses	**23,067**	**–**	**23,067**
Depreciation of property, plant and equipment	**25,058**	**1,644**	**26,702**
Amortisation of computer software and intellectual property	**1,534**	**38**	**1,572**
Prepaid land lease recognised	**338**	**28**	**366**

2. SEGMENT INFORMATION (continued)
Six months ended 30 June 2009

	Overseas *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Segment revenue:			
External customers	1,124,241	203,233	1,327,474
Intersegment sales	138,250	1,060,539	1,198,789
	1,262,491	1,263,772	2,526,263
Reconciliation:			
Elimination of intersegment sales			(1,198,789)
Revenue from operations			1,327,474
Segment results(as restated)	76,198	(5,320)	70,878
Reconciliation:			
Research and development costs			(110,384)
Changes in fair value of the derivative component of convertible bonds			(58,037)
Interest on convertible bonds			(6,839)
Loss before tax			(104,382)
Other segment information:			
Share of loss of:			
Associates	(13)	(782)	(795)
A jointly-controlled entity	–	(187)	(187)
Impairment loss reversed in the income statement	(5,372)	–	(5,372)
Other non-cash expenses	5,964	–	5,964
Depreciation of property, plant and equipment	28,591	3,641	32,232
Amortisation of computer software and intellectual property	2,008	166	2,174
Prepaid land lease recognised	309	57	366

The largest customer accounted for approximately 12% of the total revenue for the six months ended 30 June 2010 (six months ended 30 June 2009: 12%).

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of mobile phones and related components sold and services rendered during the period, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of mobile phones and related components	**3,451,764**	1,327,474
Other income and gains		
Interest income	**27,441**	24,304
Subsidy income	**3,661**	7,951
VAT refund*	**25,706**	14,224
Value-added service income	**638**	1,921
Exchange gain, net	**83,300**	40,959
Gain on disposal of items of property, plant and equipment	**540**	685
Gain on repurchase of convertible bonds	**–**	44,614
Others	**2,588**	2,277
Other income and gains	**143,874**	136,935

* During the six months ended 30 June 2010, JRD Communication (Shenzhen) Limited, being a designated software enterprise, was entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17%.

4. FINANCE COSTS

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans, and other loans wholly repayable within five years	**23,168**	20,216
Interest on discounted notes and factored trade receivables*	**1,049**	5,456
Finance costs excluding interest on convertible bonds	**24,217**	25,672
Interest on convertible bonds**	**–**	6,839
Total finance costs	**24,217**	32,511

* The effective interest rate of factored trade receivables is 0.16% per month (2009: 0.17%).

** According to HKAS 39 *Financial Instruments: Recognition and Measurement*, interest of convertible bonds is calculated based on effective interest rate. The effective interest rate of the convertible bonds is approximately 15% while the yield to maturity is 5.709%.

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**26,702**	32,232
Prepaid land lease recognised	**366**	366
Amortisation of computer software and intellectual property	**1,572**	2,174
Research and development costs:		
Deferred expenditure amortised	**34,677**	28,272
Current period expenditure	**106,580**	82,112
	141,257	110,384
Reversal of impairment loss of trade receivables	**(1,303)**	(2,796)
Reversal of impairment loss of other receivables	**(49)**	(2,576)
Gain on disposal of items of property, plant and equipment	**(540)**	(685)

6. INCOME TAX

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current:		
The PRC	**28,548**	28
Russia	**124**	–
Deferred:		
The PRC	**–**	–
Tax charge for the period	**28,672**	28

6. INCOME TAX (continued)

No Hong Kong profits tax has been provided (2009: Nil) since no assessable profits arose in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction of which the Group operates.

Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a subsidiary of the Company in the PRC, was given a high and new technology enterprise accreditation which expired on 28 May 2005. It was exempt from the national income tax in 2000 and 2001 and had been subject to a national income tax rate of 7.5% since 2002. The 7.5% income tax rate for TCL Mobile expired at the end of 2004. By the end of 2004, TCL Mobile obtained its advanced technology enterprise accreditation and hence was subject to a national income tax rate of 10% from 2005 to 2007. By the end of 2008, TCL Mobile obtained its high technology enterprise accreditation and hence was subject to a national income tax rate of 15% from 2008 to 2010.

According to the Income Tax Law of the PRC on the Enterprises with Foreign Investment and Foreign Enterprises, TCL Mobile Communication (Hohhot) Co., Ltd. ("Mobile Hohhot"), a subsidiary of the Company in the PRC, was entitled to exemption from the PRC corporate income tax for two years commencing from its first profit-making year and thereafter was entitled to a 50% reduction in its PRC corporate income tax for the subsequent three years. As Mobile Hohhot commenced to make profits in 2002, it was exempt from PRC corporate income tax in 2002 and 2003, and it was subject to the PRC corporate income tax rates from 2004 to 2006 at the rate of 7.5%. Mobile Hohhot was subject to the PRC corporate income tax rate of 15% in 2007 and 25% from year 2008 onwards.

According to the Income Tax Law of the PRC on the newly established high technology software enterprises, JRD Communication (Shenzhen) Limited ("JRD Shenzhen"), a subsidiary of the Company in the PRC, was eligible for "two-year exemption and three year half reduction" tax holiday starting from 2006 as being a newly established high technology software enterprise. The applicable PRC corporate income rate of JRD Shenzhen was 11% for the year 2010 (2009: 10%).

TCT Mobile Europe SAS, a subsidiary of the Company in France, was subject to a corporate income tax rate of 33.33% in 2010 and 2009. No France profit tax has been provided during the period (2009: Nil) since no assessable profits arose in France.

6. INCOME TAX (continued)

In 2007, TCT Mobile SA DE CV, a subsidiary of the Company in Mexico, was subject to tax on assets at a tax rate of 1.25% over its 2006 average specific assets balance. The Business Flat Tax Law ("LIETU") came into effect on 1 January 2008 which applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, less certain authorised deductions. LIETU payable is calculated by subtracting certain tax credits from the tax determined. Revenue, deductions and certain tax credits are determined based on cash flows generated starting from 1 January 2008. The tax rates are 16.5% for the year 2008, 17% for the year 2009, and 17.5% for the year 2010. The assets tax law was repealed upon enactment of LIETU. No Mexico business flat tax has been provided during the period (2009: Nil) since no assessable cash flows arose in Mexico.

In 2009 and 2010, TCT Mobile-Telefones LTDA, a subsidiary of the Company in Brazil, was subject to a corporate income tax rate of 25% and a social contribution tax rate of 9% on the same taxable income (except for certain specific adjustments), according to Articles 220 and 221 of Income Tax Regulation in Brazil. No Brazil profit tax has been provided (2009: Nil) since no assessable profits arose in Brazil.

TMC Rus Limited Liability Company, a new subsidiary of the Company set up in 2010 in Russia, is subject to a corporate income tax rate of 20% for the year 2010.

7. DIVIDENDS

(a) Proposed special dividends

	For the six months ended 30 June	
	2010	2009
Special dividend recommended after the interim period – per ordinary share	**HK$ 0.08**	N/A

The proposed special dividend, subject to the Company's shareholders' approval at the extraordinary general meeting (the "EGM") to be held on 20 September 2010, is to be paid out of the Company's share premium account to the shareholders whose names appear on the Company's register of member on 20 September 2010. The special dividend proposed after the reporting date has not been recognised as liability at the reporting date, and will be paid on or about 6 October 2010.

7. DIVIDENDS (continued)

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the period, of HK$ 0.035 per ordinary share (six months ended 30 June 2009: Nil)	**37,975**	–

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculations	**250,172**	(104,410)

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	Number of shares	
	2010	2009 (Restated)*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	**1,073,681,728**	914,843,216
Effect of dilution-weighted average number of ordinary shares: Assumed issuance upon the exercise of share options	**24,116,830**	–
Weighted average number of ordinary shares in issue during the period used in the diluted earnings/(loss) per share calculation	**1,097,798,558**	914,843,216

* The restatement takes into account the retrospective adjustment to the number of shares outstanding before the rights issue which completed on 4 January 2010 to reflect the bonus element inherent in the rights issue.

The calculation of the diluted earnings per share for the six months ended 30 June 2010 has taken into account the share options outstanding during the period. Since the exercise price of share options during the period was lower than the fair market value of the ordinary shares, the share options outstanding during the period had a dilutive effect on the Company.

9. TRADE RECEIVABLES

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

	30 June 2010 (Unaudited)	31 December 2009 (Audited)
	HK$'000	*HK$'000*
Within 3 months	**1,315,657**	1,140,539
From 4 to 12 months	**89,345**	145,671
Over 12 months	**19,814**	41,125
	1,424,816	1,327,335
Impairment loss of trade receivables	**(19,592)**	(23,266)
	1,405,224	1,304,069

10. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

As at 30 June 2010, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to approximately HK$3,603,235,000 (31 December 2009: HK$1,334,341,000). 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 are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Included in the Group's cash and bank balance are deposits of HK$69,836,000 (31 December 2009: HK$12,082,000) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.36% – 1.17% (2009: 0.36% – 1.17%) per annum, being the saving rate offered by the People's Bank of China.

11. INTEREST BEARING BANK AND OTHER BORROWINGS

	30 June 2010		31 December 2009	
	Maturity (Year)	***HK$'000***	Maturity (Year)	HK$'000
Current				
Finance lease payable	**2010-2011**	**3,310**	2010	4,185
Bank borrowings - secured*	**2010-2011**	**3,394,598**	2010	1,456,411
		3,397,908		1,460,596
Non-current				
Finance lease payable		**–**	2011	1,092
		3,397,908		1,461,688

* The Group's interest bearing bank borrowings are bank advance comprising bank borrowings of approximately HK$3,165,298,000 (31 December 2009: HK$1,035,500,000) which are secured by the pledge of certain of the Group's time deposits and bank borrowings of approximately HK$229,300,000 (31 December 2009: HK$420,911,000) which are guaranteed by the ultimate holding company.

12. TRADE AND NOTES PAYABLES

An aged analysis of the Group's trade and notes payables as at the end of the reporting period, based on invoice date, is analysed as follows:

	30 June 2010 (Unaudited) ***HK$'000***	31 December 2009 (Audited) *HK$'000*
Within 6 months	**1,228,714**	1,067,731
From 7 to 12 months	**859**	175
More than 1 year	**5,610**	5,858
	1,235,183	1,073,764

Trade and notes payables are non-interest-bearing and have an average term of three months.

As at 30 June 2010, no trade and notes payables are secured by the pledged deposits (31 December 2009: HK$3,565,000).

13. SHARE CAPITAL

	Number of shares	Issued share capital *HK$'000*
Authorised:		
Ordinary shares of HK$0.1 each as at 1 January 2009	20,000,000,000	2,000,000
Share consolidation	(18,000,000,000)	–
Ordinary shares of HK$1 each as at 31 December 2009 and 30 June 2010	2,000,000,000	2,000,000
Issued and fully paid or credited as fully paid:		
As at 1 January 2009	7,150,498,709	715,050
Share consolidation	(6,435,448,839)	–
Share options exercised	574,000	574
As at 31 December 2009 and at 1 January 2010	715,623,870	715,624
Share options exercised (a)	12,263,449	12,263
Shares allotted and issued pursuant to the completion of rights issue offer (b)	357,811,935	357,812
As at 30 June 2010	1,085,699,254	1,085,699

During the period, the following changes in the Company's share capital took place:

(a) 12,263,449 share options were exercised at subscription prices ranging from HK$1.648 to HK$2.973 per share, resulting in the issue of 12,263,449 shares of HK$1.00 each for a total cash consideration of HK$ 28,450,000.

(b) To meet the requirement of ODM business development and increase the Company's production capacity, on 3 November 2009, the Company proposed to issue no less than 357,524,935 new shares at the price of HK$1.00 per rights share and under the term of one rights share for every two existing shares. The rights issue was completed on 4 January 2010 and 357,811,935 shares were issued.

14. SHARE OPTION SCHEME

The Company has adopted the share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include employees (including executive and non-executive directors), advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the Board in its sole discretion considers has contributed or may contribute to the Group. The share option scheme became effective on 27 September 2004 (the "Share Option Scheme") and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Apart from the Share Option Scheme, the Company has no other share option scheme currently in force.

The maximum number of unexercised share options currently permitted to be granted under the share option scheme (as refreshed by shareholders' approval in the AGM dated 10 May 2010) is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 10 May 2010 (i.e. up to 108,500,152 shares). The maximum number of shares issuable under share options to each eligible participant in the share option scheme within any 12-month period is limited to 1% of the shares of the Company 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 a director, 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 an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the Company's shares on the date of the grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As a result of the Rights Issue, adjustments were made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options granted pursuant to the Share Option Scheme in accordance with the rules of the Share Option Scheme adopted by the Company and the supplementary guidance issued by the Stock Exchange. Further details of the said adjustments were set out in the announcement of the Company dated 6 January 2010.

14. SHARE OPTION SCHEME (continued)

During the review period, the Company granted a total of 23,600,000 and 14,700,000 share options of the Company under the Share Option Scheme adopted by the Company on 13 September 2004, to certain individuals on 11 March 2010 and 25 May 2010 respectively. Further details of the said granted share options were set out in the announcement of the Company dated 15 March 2010 and 25 May 2010 respectively.

At the end of the reporting period, the Company had 93,346,649 outstanding share options under the share option scheme. Further details of the share option scheme are as follows:

The following share options were outstanding under the share option scheme of the Company during the period:

	Number of share options										
Name or category of participant	At 1 January 2010	Rights Issue adjustment *(Note i)*	At 6 January 2010	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	At 30 June 2010	Date of grant	Exercise period (both dates inclusive) *(Notes iii, iv and v)*	Exercise price *(HK$)* *(Note i)*	Closing price immediately before the date of grant *(HK$)* *(Note ii)*
Directors											
Mr. LI Dongsheng	545,454	152,182	697,636	–	–	–	697,636	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.2
	500,000	139,500	639,500	–	–	–	639,500	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	500,001	139,499	639,500	–	–	–	639,500	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	1,105,749	308,503	1,414,252	–	–	–	1,414,252	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	5,000,000	–	–	5,000,000	25 May 2010	25 Feb 2011 to 24 May 2016	3.462	3.26
	2,651,204	739,684	3,390,888	5,000,000	–	–	8,390,888				
Mr. GUO Aiping	103,636	28,914	132,550	–	–	–	132,550	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.2
	355,000	99,045	454,045	–	–	–	454,045	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	650,000	181,350	831,350	–	–	–	831,350	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	965,018	269,240	1,234,258	–	–	–	1,234,258	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	1,980,000	–	–	1,980,000	11 Mar 2010	11 December 2010 to 10 March 2016	3.02	2.68
	2,073,654	578,549	2,652,203	1,980,000	–	–	4,632,203				

14. SHARE OPTION SCHEME (continued)

Name or category of participant	At 1 January 2010	Rights Issue adjustment *(Note i)*	At 6 January 2010	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	At 30 June 2010	Date of grant	Exercise period (both dates inclusive) *(Notes iii, iv and v)*	Exercise price (HK$) *(Note i)*	Closing price immediately before the date of grant (HK$) *(Note ii)*
	Number of share options										
Mr. BO Lianming	81,816	22,829	104,645	–	–	–	104,645	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.2
	562,932	157,055	719,987	–	–	–	719,987	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	1,000,000	–	–	1,000,000	25 May 2010	25 Feb 2011 to 24 May 2016	3.462	3.26
	644,748	179,884	824,632	1,000,000	–	–	1,824,632				
Mr. HUANG Xubin	65,454	18,261	83,715	–	–	–	83,715	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.2
	80,002	22,318	102,320	–	–	–	102,320	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	273,498	76,308	349,806	–	–	–	349,806	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	1,000,000	–	–	1,000,000	25 May 2010	25 Feb 2011 to 24 May 2016	3.462	3.26
	418,954	116,887	535,841	1,000,000	–	–	1,535,841				
Ms. XU Fang	8,727	2,434	11,161	–	–	–	11,161	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.2
	73,000	20,367	93,367	–	–	–	93,367	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	1,000,000	–	–	1,000,000	25 May 2010	25 Feb 2011 to 24 May 2016	3.462	3.26
	81,727	22,801	104,528	1,000,000	–	–	1,104,528				
Mr. Liu Chung Laung	–	–	–	300,000	–	–	300,000	25 May 2010	25 Feb 2011 to 24 May 2016	3.462	3.26
	–	–	–	300,000	–	–	300,000				

14. SHARE OPTION SCHEME (continued)

Name or category of participant	Number of share options: At 1 January 2010	Rights Issue adjustment (Note i)	At 6 January 2010	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	At 30 June 2010	Date of grant	Exercise period (both dates inclusive) (Notes iii, iv and v)	Exercise price (HK$) (Note i)	Closing price immediately before the date of grant (HK$) (Note ii)
Mr. LAU Siu Ki	32,727	9,130	41,857	–	(41,857)	–	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.2
	80,000	22,320	102,320	–	(102,320)	–	–	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	–	–	–	300,000	–	–	300,000	25 May 2010	25 Feb 2011 to 24 May 2016	3.462	3.26
	112,727	31,450	144,177	300,000	(144,177)	–	300,000				
Mr. SHI Cuiming	32,727	9,130	41,857	–	(41,857)	–	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.2
	–	–	–	300,000	–	–	300,000	25 May 2010	25 Feb 2011 to 24 May 2016	3.462	3.26
	32,727	9,130	41,857	300,000	(41,857)	–	300,000				
Sub-Total	6,015,741	1,678,385	7,694,126	10,880,000	(186,034)	–	18,388,092				
Employees and those who have contributed or may contribute to the Group	5,695,690	1,580,554	7,276,244	–	(2,313,910)	(470,898)	4,491,436	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.2
	6,236,900	1,740,092	7,976,992	–	(1,376,451)	(25,580)	6,574,961	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	10,633,800	2,966,828	13,600,628	–	(2,355,887)	(44,765)	11,199,976	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	25,084,180	6,894,942	31,979,122	–	(6,031,167)	(675,771)	25,272,184	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	21,620,000	–	–	21,620,000	11 Mar 2010	11 December 2010 to 10 March 2016	3.02	2.68
	–	–	–	5,800,000	–	–	5,800,000	25 May 2010	25 Feb 2011 to 24 May 2016	3.462	3.26
Sub-Total	47,650,570	13,182,416	60,832,986	27,420,000	(12,077,415)	(1,217,014)	74,958,557				
Total	53,666,311	14,860,801	68,527,112	38,300,000	(12,263,449)	(1,217,014)	93,346,649				

14. SHARE OPTION SCHEME (continued)

Notes:

i. As a result of the Company's Rights Issue, adjustments were made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options granted pursuant to the Share Option Scheme in accordance with the rules of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange. Further details of the said adjustments were set out in the announcement of the Company dated 6 January 2010.

ii. The respective closing price immediately before the date of grant was adjusted as a result of the Rights Issue.

iii. During the period under review, the directors of the Company have resolved to extend the option periods of the outstanding options granted by the Company on 31 May 2005, 16 January 2006, 30 June 2006 and 5 July 2007 to a period of 6 years from the option grant dates. As a result of this, the expiry dates of the said share options have been extended, and the new expiry dates are 30 May 2011, 15 January 2012, 30 June 2012, and 4 July 2013 respectively.

iv. On 11 March 2010, a total of 23,600,000 share options under the Share Option Scheme were granted by the Company with the exercise price as HK$3.02. The share options are exercisable from the commencement of the exercise period until the expiry date of the share options which is 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. Further details of the said share options were set out in the announcement of the Company dated 15 March 2010.

v. On 25 May 2010, a total of 14,700,000 share options under the Share Option Scheme were granted by the Company with the exercise price as HK$3.462. The share options are exercisable from the commencement of the exercise period until the expiry date of the share options which is 24 May 2016. Among the options granted above, a total of 8,900,000 shares options were granted to the Directors of the Company. 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. The remaining 5,800,000 share options were granted to "Employees and those who have contributed or may contribute to the Group", and will all be exercisable after the expiry of 9 months from the date of grant. Further details of the said share options were set out in the announcement of the Company dated 25 May 2010.

vi. BMI Appraisals Limited has been appointed to perform the valuation on the two batches of share options granted on 11 March 2010 and 25 May 2010.

15. SHARE AWARD SCHEME

After the adoption of the Share Award Scheme A by the Company on 3 July 2007, the Board resolved to adopt another share award scheme, the Share Award Scheme B, on 11 March 2008 as an incentive to retain and encourage the employees for 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 trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Share Award Scheme B. The Board further resolved to award 120 million shares to approximately 100 selected employees to recognise their contribution to the Group and as an incentive for retaining them.

On 24 December 2008, the Board approved the grant of 27,100,000 and 15,000,000 shares of the Company to be awarded under the Share Award Scheme B to designated employees on 25 December 2008 and 3 January 2009 respectively, which would be transferred to the employees by the trustee at nil consideration upon vesting between 3 October 2009 and 3 April 2011.

During the year 2008, the trustee purchased 105,898,000 shares at a total cost (including related transaction costs) of approximately HK$33,469,000.

During the year 2009, the trustee transferred a total of 30,450,000 shares (that is, 3,045,000 shares after the ten-to-one Share Consolidation effective on 23 January 2009) to the awardees upon vesting of those shares awarded under the Share Award Scheme B. The total cost of the related vested shares was HK$9,624,000.

As a result of the Share Consolidation, adjustments were made to the number of shares awarded under the relevant Share Award Scheme which would be transferred to the employees at nil consideration upon vesting in accordance with the rules of the Share Award Scheme B, and adjustments were also made to the fair value per share on the date of grant, which took effect on 23 January 2009.

During the period under review, the trustee transferred nil shares to the awardees upon vesting of those shares awarded under the Share Award Scheme B.

On 11 March 2010, the Board approved the grant of 6,300,000 shares of the Company to be awarded to designated employees under the Share Award Scheme B, which would be transferred to the employees by the trustee at nil consideration upon vesting between 10 September 2010 and 31 December 2012.

15. SHARE AWARD SCHEME (continued)

The movements in the number of shares of the Company and their related average fair value were as follows:

Share Award Scheme B

	30 June 2010 Number of awarded shares
For the shares granted on 3 January 2009	
Outstanding as at 1 January	1,000,000
Lapsed during the period	(1,000,000)
Outstanding as at 30 June	–
For the shares granted on 11 March 2010	
Outstanding as at 1 January	–
Granted on 11 March 2010	6,300,000
Outstanding as at 30 June	6,300,000

15. SHARE AWARD SCHEME (continued)

The remaining vesting period of the awarded shares outstanding as at 30 June 2010 is as follows:

	30 June 2010	
	Remaining vesting period (both dates inclusive)	**Number of awarded shares**
For the shares granted on 11 March 2010		
Fair value of HK$3.02 per share	1 July 2010 to 31 December 2012	6,300,000

16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (31 December 2009: Nil).

17. CAPITAL COMMITMENTS

As at 30 June 2010, the Group had no significant capital commitments contracted, but not provided for (31 December 2009: Nil).

18. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Transactions with the ultimate controlling shareholder		
Brand name management fee/TCL Brand Common Fund	**752**	523
Interest expenses	**721**	777
Purchase of raw materials*	**315,703**	237,892
Transactions with fellow subsidiaries		
Purchases of raw materials*	**124,414**	38,842
Interest expenses/(income)	**(638)**	1,773
Rental income	**–**	153
Rental charges	**3,795**	2,494
Provision of TD-SCDMA technology	**–**	1,502
Supply of raw materials	**219**	3,968
Purchase of products	**–**	3,836
Transactions with a jointly-controlled entity		
Sales of products	**10,331**	1,449

* The purchases of raw materials with the ultimate controlling shareholder and the fellow subsidiaries were made according to prices mutually agreed between two parties.

18. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

Particulars of the outstanding balances with related companies disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

	Due from related companies		Due to related companies	
	30 June 2010 (Unaudited) *HK$'000*	31 December 2009 (Audited) *HK$'000*	**30 June 2010 (Unaudited) *HK$'000***	31 December 2009 (Audited) *HK$'000*
Ultimate controlling shareholder	**11,465**	11,360	**39,102**	99,746
Fellow subsidiaries	**859**	944	**90,305**	38,500
Jointly-controlled entity	**3,454**	1,985	**–**	–
	15,778	14,289	**129,407**	138,246

The balances are mainly trading balances, and are unsecured, interest-free and have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Short term employee benefits	**8,942**	7,811
Post-employment benefits	**85**	59
Equity-settled share option expense	**12,591**	1,768
Total compensation paid to key management personnel	**21,618**	9,638

19. COMPARATIVE AMOUNTS

During the reporting period, certain comparative amounts have been adjusted to conform with the current period's presentation.

20. APPROVAL OF THE INTERIM FINANCIAL REPORT

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 26 August 2010.

Management Discussion and Analysis

INDUSTRY OVERVIEW

Global demand for handsets was strong in the first half of 2010 compared to 2009 as the market showed gradual recovery from the worldwide recession. Some 640 million handsets were sold to end users globally in the first half of 2010. While in mature markets such as Western Europe, sluggish spending was seen as the sovereign debt crises took hold, emerging markets were the bright spots, leading the industry higher with volumes surging in Latin America, Africa and Eastern Europe. Accordingly to global market research firm IDC's study, it is expected that worldwide handset shipment could reach a total of 1.3 billion units by the end of 2010, up 11% from the 1.1 billion units shipped in 2009.

The convergence of voice, video and data is flourishing as never before. The integration of traditional e-mail and instant messaging products with social-networking services reflect the most common way handset users communicate with each other in all markets. By combining information and entertainment, handsets become more than just about talking – they have evolved into all-purpose multimedia smart devices that deliver mobile infotainment.

Smart phones, which represent the hottest segment of the handset market, are the new focus of manufacturers seeking greater profit. During the reporting period, smart phones' share of the handset market grew further, up to 18% from 14% at the end of 2009. This was primarily due to replacement sales in mature markets and the pull from mobile applications. More and more smart phone models are being developed based on Android, Google's open source and customizable mobile platform. The new device sales have also gained momentum from the growing number of new customers in the emerging markets of Asia, Africa and Latin America. These regions present tremendous opportunities to different market players in the mobile handset value chain.

BUSINESS REVIEW

2010 has been a breakthrough year for the Group as the global economy continues on its road to recovery, albeit at a slower than expected pace. The Group closely monitors the markets and trends and has been well positioned to capitalize on opportunities as they emerge. During the first six months of the year, the Group saw record performance in virtually all aspects of its business in terms of sales and profit. It also welcomed a new CEO, Mr. Guo Aiping, a Stanford PhD and a senior industry professional, who brought new vitality to the Group.

The Group is one of the fastest growing handset manufacturers in the world, as named by telecommunications consultancy Strategy Analytics. TCL-Alcatel was also ranked among the top ten global brands in terms of handset and accessories shipments in the first quarter of 2010, according to the research of iSuppli, an international market research firm.

BUSINESS REVIEW (continued)

Improvements in the Group's performance were multi-faceted during the reporting period. Notably, the Group took its globalization strategy to a new level, reaching new users and geographies across the globe, in particular in emerging markets in Africa and Latin America. Continuous development in brand awareness and sales channels also enabled it to broaden its foothold in markets including Russia, India and some other Southeast Asian countries.

In the existing markets where the Group operates, strategic alliances were further deepened with major telecommunications operators globally and closer partnerships were established with distributors in the open market, leveraging enhanced product competitiveness on top of strengthened R&D and product design capabilities.

The Group continued to lead in its traditional market of low- to mid-end products, offering affordable phones that appeal to a wide range of consumers. Applications and features such as instant messaging, email access, Bluetooth and music players have become standard items in many of the handsets offered by the Group under the brand names of Alcatel and TCL, as well as other white-label products supplied on an ODM basis.

The Group's constant investment in and focus on R&D has paid off with terrific results. The Group has been able to adapt products quickly to the needs and tastes of local consumers around the world. It enjoys economies of scale and delivers competitively priced handsets, offering an even stronger mid- to high-end handset portfolio and producing an array of new handsets with a good balance of features, quality and price.

The increasingly important role that handsets play in people's lives, in addition to the growing mobile penetration rates worldwide, are positive indicators that the Group will have no shortage of new business opportunities in the future.

REVIEW OF OPERATIONS

Sales during the first six months of 2010 were exceptionally strong compared with the corresponding period last year on the back of a gradual economic recovery in most areas of the world. Sales volume of handsets and accessories reached 14.2 million units, an increase of 181% over the same period last year. Of this, total sales excluding the PRC reached 12.9 million units, soaring 226% from a year ago, while the PRC market grew 20% year-on-year.

REVIEW OF OPERATIONS (continued)

The Group's coordinated efforts to offer attractively priced products to targeted customer segments resulted in a 160% increase in revenue for the six months ended 30 June, 2010 to HK$3,452 million, and a net profit of HK$250 million. This represented a significant improvement compared to the first half of 2009, when it suffered a loss of HK$104 million. In view of this, the board of directors has recommended, subject to the Company's shareholders' approval, paying a special dividend of 8 HK cents per share.

In addition, the Group made a breakthrough in its ODM handset business, which now accounts for a significant portion of the total revenue. The ODM business helps the Group realize greater economies of scale in procurement and production cost reduction. As a result, the overall gross profit margin bounced back to 21% from 15% in the first half of 2009.

During the period under review, while the Alcatel brand was mainly available in overseas markets, most of the Group's products sold in the PRC market were TCL-branded.

SALES VOLUME BREAKDOWN BY LOCATION:

	Handsets and Accessories Unit Sales For the six months ended 30 June		
('000 units)	**2010**	2009	Change (%)
Overseas	**12,899**	3,955	+226%
The PRC	**1,329**	1,103	+20%
Total	**14,228**	5,058	+181%

Americas

Being one of the top handset providers in the Americas region, the Group's sales recorded in the first half of 2010 were very robust, reaching 6.9 million units, or up 335% over the same period in 2009. Mid- to high-end products, which included the OT-708, OT-800 and OT-880 series, accounted for approximately 32% of the region's total sales volume.

The markets of North America and northern Latin America were extraordinarily promising, with sales volumes seeing a three-fold increase during the period under review. The Group was able to capitalize on rapid growth of the market for mobile internet devices in Brazil and the US. The inclusion of a number of new operators and distributors, in both existing and new markets, further strengthened the Group's customer base and fuelled the growth.

Management Discussion and Analysis

Europe, Middle East and Africa ("EMEA")

Despite the sovereign debt crisis in Europe, sales volumes in the EMEA region were up 128% over the same period last year to 5 million units. This significant growth was attributable primarily to an improved product mix, as well as a further handset sales penetration beyond traditional telecommunications operators.

Alcatel OT-708 was the most popular model sold during the reporting period, while the sales of another leading product, OT-800, were also seen to increase in several countries since the fourth quarter of 2009.

During the period under review, Russia was a bright spot in terms of sales. The Group also successfully entered into new African countries and further built its presence in Poland, Turkey and South Africa, all of which offer promising sales prospects in the months to come.

Notwithstanding a weakening Euro during the first half of the year, the Group was comfortably protected with effective hedging instruments in place against material adverse foreign exchange effects.

The PRC & Asia Pacific ("APAC")

The Group made a fast turnaround in its performance in the PRC market, with shipments increasing a healthy 20% to 1.3 million units as its strategy to realign product and marketing mixes gained traction, and new technology, such as 3G, came to the mass market.

Sales volumes across the entire APAC region soared more than five-fold year-on-year to 1 million units, seeing that the Group expanded its presence in traditional markets, especially India, and grew its customer base in new territories such as Israel, Sri Lanka and the Philippines.

Successful expansion into new territories worldwide reduced the revenue proportion from the PRC market, notwithstanding a moderate increase in the absolute number of handsets sold in the Group's home country.

Mid-range products including Alcatel OT-800, TCL Q3, i880 and i802, accounted for nearly 52% of unit sales.

Management Discussion and Analysis

PRODUCT DEVELOPMENT

The Group is among the few companies in the world to own 2G, 2.5G, 2.75G and 3G patents and provide independent innovative solutions to networks ranging from GSM, GPRS, EDGE to CDMA, WCDMA and TD-SCDMA.

Staying at the forefront of the industry, the Group is fully aware that just adding a QWERTY keyboard or touch screen will not make a handset suit the communication habits of end users in today's world. The ability to integrate hardware, with attractive user interface and cloud and social networking services is the key to sustainable success.

In the first six months of 2010, 17 new GSM models were launched. OT-208, OT-305, and OT-105 dominated the sales with a total of 1.8 million units sold.

Competitively priced products such as QWERTY OT-800, with a fashionable design and equipped with full features, were some of the best selling products in 2009 and remained very popular with customers in the first half of this year.

Designed exclusively for female users, OT-808 is another product of the Group to have a full QWERTY keypad with a compact design. With its petite netbook look and feel, the model became the underlying force driving sales in Europe, Latin America, the PRC and India.

Having received very positive market feedback, the OT-880 slider handset, a crossover model with both a touch screen and a full QWERTY keyboard which create a unique fun and functional social networking experience for youngsters, will be modified and expanded in collaboration with Miss Sixty, the international fashion brand. More licensing projects in working with outside parties will be launched in the second half of 2010.

As the PRC embraces the 3G era, the Group also works in parallel to step up its R&D efforts in this respect, striving to capitalize on the emerging opportunities offered by this new technology. A series of products based on TD-SCDMA and WCDMA platforms have been developed and will be rolled out in the second half of this year.

PRODUCT DEVELOPMENT (continued)

At the same time, Android has continued to maintain momentum in 2010. This open source platform has created many new opportunities for handset manufacturers. To capture this growth, enhanced efforts were made to further product development. OT-980, a QWERTY touch screen slider type smart phone and the Group's first foray into the Android space, was unveiled at Mobile World Congress in Barcelona this February. It will be officially introduced into the countries of UK, France and Mexico in September this year. Going forward, the Group will continue to launch a series of 3G Android smart phones in 2011.

In addition to OT-980, more than 17 new models in the pipeline are targeted to be launched in the second half of 2010. These new products are expected to be the key driving force in generating sales and achieving sustainable revenue growth for the remainder of the year.

The Group has also rolled out a number of data card products in the first six months of 2010, which included six variants of the Sepang Series. The Group's ability to respond swiftly to constantly changing consumer demands and tastes earned it a favourable reputation among leading telecommunications operators across the globe.

OUTLOOK

As the world economy is continuing its cautious but steady recovery, with consumer confidence rising accordingly, almost all countries are growing and faring much better than last year. This is particularly true for emerging markets, from Latin America to Asia and Africa, which are expected to lead with solid growth this year and the next. The Group's sales in the second half of the year, as well as the full year 2010, are expected to fulfil and even exceed the target set for the year.

There is no doubt that the Group will continue to grow and strengthen its cooperation with major telecommunications operators across the globe, and enter into closer working relationships with distributors in the open market.

The Group's strategy to secure a strong foothold in the PRC and at the same time extend its reach to other continents in the world will enable it to capture opportunities offered by both the mature and emerging markets. Leveraging its R&D capability, the Group will work relentlessly to develop new products for the market. The Group's expansion into the mid- to high-end market segments will further increase customer base and drive profit margin.

OUTLOOK (continued)

The APAC region will remain the key marketplace for growth in the handset industry. The PRC's embrace of 3G technology, in particular, presents a great opportunity for growth. The Group will continue to focus its efforts on bringing to the market new handset models designed specifically for its home country's 3G network and catered for the specific tastes of local customers. The first 3G-enabled model will be rolled out this September. Unquestionably, there will be healthy growth in the PRC market. The Group has already lined up with three operators to pursue these promising market prospects.

The tri-networks integration in the PRC will enable the country's telecommunications, internet and broadcasting sectors to enter into each other's fields and provide services, making it faster and more convenient for consumers to use integrated multimedia devices that facilitate simultaneous text, voice, data, image and video transmission, and creating tremendous opportunities for product innovation for various players in the market.

Broadly speaking, the increasing popularity of home wireless devices is also a new trend worth watching. The Group is keen to further explore this area, including 7-inch Android-based mobile internet device. Hopefully, the Group will be able to offer more similar product choices in the foreseeable future.

Looking ahead, management is confident that the improving market environment, healthy sales pipeline and appealing product mix will enable the Group to achieve strong performance in the second half of 2010 and beyond.

FINANCIAL REVIEW

Results

For the six months ended 30 June 2010, the Group's unaudited consolidated revenue amounted to HK$3,452 million (same period in 2009: HK$1,327 million), representing a year-on-year increase of 160% as compared to the same period last year.

The Group's gross profit margin rose to 21% from 15% in the same period last year, despite the keen competition and general declining product prices.

EBITDA before effect of convertible bonds and profit attributable to owners of the parent were HK$304 million and HK$250 million respectively (same period in 2009: LBITDA before effect of convertible bonds[1] and loss attributable to equity holders of the parent were HK$4 million and HK$104 million respectively). Basic earnings per share were 23.30 HK cents (same period in 2009 (restated): basic loss per share were 11.41 HK cents).

Note1: The effects of convertible bonds included the changes in fair value of the derivative component of convertible bonds and interest.

Inventory

The Group's inventory (only included finished goods) turnover period was 18 days (same period in 2009: 21 days).

Trade Receivables

Credit period was 60-90 days on average and the trade receivables (including trade receivables and factored trade receivables) turnover was 79 days (same period in 2009 (restated): 87 days).

Significant Investments and Acquisitions

There was no significant investment and acquisition for the six months ended 30 June 2010.

Fund Raising

There was no fund raising for the six months ended 30 June 2010.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period under review. The Group's principal financial instruments comprise cash and cash equivalents, interest bearing bank and other borrowings and bank advances on factored trade receivables. The cash and cash equivalents balance as at 30 June 2010 amounted to HK$989 million, of which 41% were in Renminbi, 47% in United States dollars, 6% in Euro and 7% in Hong Kong dollars & other currencies. The Group's total interest-bearing borrowings as at 30 June 2010 were HK$3,505 million, in which the interest bearing bank and other borrowings were HK$3,398 million (which included those interest-bearing borrowing for RMB foreign exchange program amounting to HK$3,165 million) and bank advances on factored trade receivables were about HK$107 million. The Group's financial position remained healthy during the period under review, with total assets of HK$7,650 million. The Group had a gearing ratio of 46% at the end of the period under review (31 December 2009: 25%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets. Excluding the interest-bearing borrowing for RMB foreign exchange program, the gearing ratio was 8% (31 December 2009: 11%).

Pledge of Deposits

Deposit balance of approximately HK$3,231 million (31 December 2009: HK$1,187 million) represented the pledged deposit for interest bearing borrowings, banking facilities and other financial instruments of approximately HK$3,202 million and retention guarantee for factored trade receivables of approximately HK$29 million.

Capital Commitment and Contingent Liabilities

As at 30 June 2010, the Group had no significant capital commitments which were contracted, but not provided for (31 December 2009: Nil).

At the end of the reporting period, the Group had no significant contingent liabilities (31 December 2009: Nil).

Foreign Exchange Exposure

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

Employees and Remuneration Policy

The Group had approximately 6,290 employees as at 30 June 2010. Total staff costs for the period under review were approximately HK$264 million. The remuneration policy was reviewed in accordance with current legislations, market conditions and both individual and company performance.

Other Information

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

As at 30 June 2010, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held		Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company	*Notes*
	Personal interests	Family interests	*(Note (i))*			
LI Dongsheng	24,126,120	3,000,000	8,390,888	35,517,008	3.27%	
GUO Aiping	3,770,248	–	4,632,203	8,402,451	0.77%	
BO Lianming	65,700	–	1,824,632	1,890,332	0.17%	
HUANG Xubin	–	–	1,535,841	1,535,841	0.14%	
XU Fang	–	–	1,104,528	1,104,528	0.10%	
SHI Cuiming	41,857	–	300,000	341,857	0.03%	
LAU Siu Ki	144,177	–	300,000	444,177	0.04%	
LIU Chung Laung	–	–	300,000	300,000	0.03%	

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

TCL Corporation (Note ii)

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company
LI Dongsheng	160,662,400	–	–	160,662,400	5.47%
BO Lianming	534,894	–	–	534,894	0.02%
XU Fang	–	20,000	–	20,000	0.001%

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

TCL Multimedia (Note iii)

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company
LI Dongsheng	15,411,731	–	3,194,756	18,606,487	1.71%
BO Lianming	1,807	–	340,357	342,164	0.03%
HUANG Xubin	–	–	295,229	295,229	0.03%
XU Fang	–	–	147,210	147,210	0.01%

Notes:

i. *The further details of the outstanding share options under the share option scheme of the Company during the review period were set out in note 14 to the financial statements.*

ii. *TCL Corporation ("TCL Corp"), a company incorporated in the People's Republic of China, is the ultimate controlling shareholder of the Company.*

iii. *TCL Multimedia Technology Holdings Limited ("TCL Multimedia"), a company controlled by TCL Corp, is a subsidiary of TCL Corp.*

Other Information

Save as disclosed above, as at 30 June 2010, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, the interests and short positions of the persons other than a Director or chief executive of the Company in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	**Type of interest**	**Interest in shares and underlying shares held**	**Approximate percentage of the issued share capital**	*Notes*
TCL Corp	Interest of controlled corporation	516,221,544	47.55%	i
Mr. WONG Toe Yeung	Beneficial owner/ Interest of spouse/ Interest held jointly with another person/ Interest of controlled corporation	91,098,138	8.39%	ii
Ms. LEUNG Lai Bing	Beneficial owner/ Interest of spouse/ Interest held jointly with another person/ Interest of controlled corporation	91,098,138	8.39%	ii

Notes:

i. Under the SFO, TCL Corp was deemed to be interested in 516,221,544 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly-owned subsidiary of TCL Corp.

ii. Each of Mr. WONG Toe Yeung and Ms. LEUNG Lai Bing as husband and wife is deemed to be interested in 91,098,138 shares, comprising (a) 17,992,950 shares which are held by Norrell Overseas Invest Ltd. as beneficial owner for the benefit of the MAG Foundation in which Ms. LEUNG is interested; (b) 37,640,000 shares which are held by Ms. LEUNG; (c) 7,734,300 shares which are jointly held by Mr. Wong and Ms. Leung; (d) 3,390,888 shares which are held by Mr. WONG; (e) 19,340,000 shares which are held by Top Scale Company Limited, a company wholly owned by Mr. WONG; and (f) options held by Mr. WONG for subscribing for 5,000,000 shares.

Save as disclosed above, as at 30 June 2010, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the six months ended 30 June 2010, complied fully with the codes set out in the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the period under review.

Other Information

AUDIT COMMITTEE

The interim results have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code. The Audit Committee comprises three members including Mr. LAU Siu Ki (Chairman) and Mr. SHI Cuiming, independent non-executive Directors, and Mr. BO Lianming, a non-executive Director.

CHANGES OF PARTICULARS OF THE DIRECTORS

Certain particulars of the Directors have been changed in the following respects which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. LAU Siu Ki has resigned as an independent non-executive director of Greenfield Chemical Holdings Limited with effect from 11 June 2010 and has resigned as an independent director of Proview International Holdings Limited with effect from 24 August 2010.

SPECIAL DIVIDEND

The Board has resolved to declare the payment of a special dividend of 8 HK cents (2009: N/A) per ordinary share after the interim period. The special dividend will be paid to the shareholders whose names appear on the register of members of the Company (the "Register of Members") on 20 September 2010. The special dividend will be paid on or about 6 October 2010, subject to the Company's shareholders' approval at the extraordinary general meeting (the "EGM") to be held on 20 September 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 15 September 2010 to 20 September 2010, during which no transfer of shares of the Company will be effective. In order to qualify for the special dividend and voting at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Investor Services Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 14 September 2010, Tuesday.

On behalf of the Board
Li Dongsheng
Chairman

Hong Kong
26 August 2010